

Islam and Accounting

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Abstract

The current study is a part of the growing literature on Islamic accounting. The study has been carried out to explore the prevailing trends in Islamic accounting research. It traces down the accounting practices in the very early days of Islam, especially at the time of the Holy Prophet (P.B.U.H.) by looking into the original sources. Islam definitely encourages trade and business, gives a unique status to the business community and instigates the other business related activities. The current study asserts that Islam encouraged and promoted counting from the start and made it an integral part of a Muslim's life. It, later on, helped in understanding and applying the relatively complex accounting related issues. There was a steady development in accounting practices as the Islamic state progressed financially. The introduction of Zakat, the fundamental source of state income in the initial days of Islam, played a vital role in this regard. The complex ratio of Zakat on different items creates a unique and deep relationship between Zakat and accounting. Being an essential part of any Muslim society or Shari'ah based business; Zakat will always serve as a bridge between Islam and accounting.

Napier¹ is of the opinion that Western historians have mostly overlooked the development of accounting in Islamic world. Till very recently, there were few historical studies in English language that focused on the accounting history in Muslim countries². Napier further documents that the small amount of literature available on the issue was based on secondary sources. However, there has been a growing interest about this topic in the recent years. One basic reason for the interest and growth of Islamic literature on accounting has been the development of Islamic financial institutions³. This has been further enhanced by well-funded institutions focusing on spreading Islamic knowledge like International Islamic University of Malaysia (IIUM). The efforts put by Muslims in Islamization of

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knowledge also had a profound influence in this regard⁴. The Muslim scholars and researchers graduated from Western universities have also made a good contribution to it⁵.

Napier further documents that scholarly English literature on Islamic accounting dates back to 1981, with the work of Abdul Majid.⁶ This study by Majid could well be the foundation stone for the efforts put by those coming next. Nevertheless, Hameed,⁷ argues that there is a lack of empirical research in Islamic accounting and the standard of the present literature is not up to the mark. There is a lack of references to the original sources as well as there is a tendency to look into Islamic accounting from a Western perspective. However, we do have scholars among the Muslims who have changed the trends by producing valuable additions to the existing body of knowledge about Islamic accounting. The current study is also an effort to bridge this gap.

The development of scholarly literature on Islamic accounting has been asserted by Napier⁸. He documents that the gap identified has been filled by those researchers who have access to primary archive material and secondary sources in local languages scripts. Their efforts have strongly contributed in the Islamic Accounting literature, the prominent names includes:

- Omar Abdullah Zaid
- Prof. Kamal Attia and
- Dr. Sameer Kantakji.

Their emphasis on accounting history is really remarkable. Kantakji, for example, describes his objectives in one of his articles by focusing on “re-correcting the accounting history” and doing justice to the Muslims and Arabs by "showing their contribution” to the science of accounting. He asserts that instead of starting accounting history from the Italian Lucas Bashilio, one should not forget Muslim celebrities of this field such as:

- Al-Qalaqshandi,
- Al-Nuwayri,
- Al-Ghazali,
- Abu-Ja'afar Al-Demashqi,
- Al-Mawardi, and
- Al-Khawarizmi.

Throwing light on the nature of Islamic accounting, Kantakji argues that Islamic Sharī'ah has had the priority in inventing financial systems never used before. Likewise, Islam is equally responsible for implementing accounting practices in Muslim's lives. These statements show that a growing body of literature is available on the Islamic Accounting which is source of inspiration for the current study. The study will improve understanding and knowledge about Islamic accounting and will be a source of inspiration for all of us in the field of Accounting and Finance.

The literature available on Islamic accounting has tried to deal with some very basic concepts. Even the definition of "Islamic accounting" has been a point of debate for the researchers. Napier⁹ suggests that this term can be defined in three different senses; religious, which would mean the accounting principles given by Islam as a religion; spatial, which stands for accounting practices at specific geographical locations; and temporal, which means accounting principles and practices at specific periods of time. David et al¹⁰ also explain the term in religious and geographical terms. Therefore, it can mean the rules derived from Sharia about accounting procedures or it can stand for accounting practices in the countries where Islam has been the dominant religion. The geographical interpretation, however, leads to some problems, because it is difficult to find commonality between accounting of al Andalusia, Cairo and India in the 9th, 11th, and 17th century respectively.¹¹

Theoretical Framework for Islamic Accounting

Developing a theoretical framework for Islamic accounting has been a major concern for majority of the researchers. They have adopted two major approaches. The first is deductive approach according to which principles and objectives for accounting are derived from the principles of Islam¹². It is also called constructive or normative approach¹³, which focuses on "what ought to be". This method looks into the sources of Sharia in order to find out the basis of accounting from its study. According to Napier, 2007 this approach has been followed by most of writers of this field including Omar Abdullah Zaid. Zaid¹⁴ has noted down the basic qualities that a Muslim accountant, known as *al-kātib* was supposed to have in the Middle Ages. He has noted down as many as ten qualities for a Muslim accountant. These qualities included:

- Islamic identity
- Manhood

- Citizenship
- Adulthood
- Equitability
- Eloquence
- Wisdom
- Knowledge of Islamic Sharī'ah
- Integrity
- Competence

In another attempt, Zaid¹⁵ has tried to trace the early accounting records in the Islamic history. He mentions as many as seven accounting systems that were developed by the early Islamic states. The early seven accounting systems include:

- Accounting for Livestock
- Construction Accounting
- Agricultural Accounting
- Warehouse Accounting
- Currency Accounting
- Sheep Grazing Accounting
- Treasury Accounting

However, Napier¹⁶ has noted that Omar has been “unclear” in his chronology of events and “speculative” in his claim of Islamic accounting's influence on Italian accounting.

The second approach towards the study of Islamic accounting is pragmatic, or empirical inductive that focuses on “what is?”¹⁷. It examines the current Western accounting practices in the light of the teachings of Islam. This approach is in accordance with the Islamic Judicial principle of *Ibā' fī a* (Permissibility). This is the pattern followed by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in establishing its well-known standards for Islamic audit and accounting. However, Hameed¹⁸ disagrees with this approach because it will still be insufficient to develop an accounting system which will lead to behavior consistent with Islamic norms.

In order to overcome the weaknesses of these two approaches, further alternatives have been suggested. For example, Hameed¹⁹ has prescribed a hybrid

approach. This is actually an effort to bridge the gap between the two earlier approaches. Sartini,²⁰ is still not satisfied with these approaches, and argues that these approaches do not cater “human behavior” which is a fundamental part of accounting. Therefore, she introduces a fourth “Strategic Work Plan Approach” for the Islamization of accounting. In fact, it is only a small aspect of the broader concept of Islamization of knowledge taken from Faruqi, 1989. In an attempt to summarize the existing literature on Islamic accounting, David et al²¹ have categorized this literature into five types;

- The history of accounting developments in early Islamic societies,
- Understanding Islamic accounting practices and objectives,
- The differences between Islamic and conventional accounting,
- Special issues in Islamic accounting standards and practices, and
- Trends in Islamic accounting research.

Trade and Business in early days of Islam

Accounting is primarily related to economic activities like trade and business. In order to have a good picture of the relationship between Islam and accounting, it is important to know the status of these activities in Islam. Perhaps no other religion has put so much emphasis on trade as has been done by Islam. Commerce and merchants have always enjoyed a high status in the Muslim societies. The Prophet himself undertook journeys of trade towards Syria before prophet hood. Many prominent figures among his companions such as ‘Uthman bin ‘Affan, ‘Abdur Rauf bin ‘Awf were well known for their prosperity. Furthermore, there are in hundreds if not in thousands statements in both Qur’an and Sunnah which deal with:

- Trade and business
- Kinds of business transaction
- Prohibitions relating to trade matters
- Reward of spending money on needy and deserving humans

In fact wealth has been referred as a blessing and gift of Allah in both Qur’an and Sunnah which shows the importance of wealth generating activities, like trade and business in Islam.

We can divide the life of the Prophet (P.B.U.H.) and, consequently, the Islamic traditions into two major parts; the first twelve years when the Prophet

Muhammad (P.B.U.H.) was in Makkah and the second phase of ten years when he migrated to Medina. In the former, we clearly see that the emphasis is on beliefs, especially Tawḥīd (the oneness of Allah). The Qur'ānic verses of this period mainly deal with the first three pillars of Islam, such as:

- The belief in Allah,
- The belief in Messengers
- Belief in the Day of Judgment.

Since it was a time of great hardships for the Muslims, they could hardly indulge themselves into any other activity, except making efforts for their survival. The second phase starts after the migration of the Muslims to Medina. It was the first time for the Muslim to start a free economic, political and social life. It is during this period that we find the details of the Islamic economic system, including writing down the business transactions, the prohibition of interest and different kinds of other transactions. Nevertheless, Islam let those practices go on which were not against its basic rulings like Muḥābala, Ijāra, and Salam etc.

But one must be aware of the fact that business practices of those days were different from the present scenario of the business world. Commenting on the nature of the market of that period, Mansoori²² argues that, the market of Medina in the days of Prophet (P.B.U.H.) was different from the present days' market. It was so limited that it could not ensure regular supplies at a given time. Perhaps this is why "Salam" (advance payment but deferred supply of good) was allowed by Islam to make sure that people did not fall in unnecessary hardships. Likewise, it is a well-known fact that barter system was commonly practiced in Islamic states. The use of currency, made of gold and silver was also there and it was also encouraged by Islam to use currency as a medium of exchange. It means the exchange of one commodity with other commodity was a well-known type of transactions in that era. Due to the existence of barter system, we have the famous tradition of the Prophet (P.B.U.H.) dealing with certain aspects of such a transaction for example making it compulsory that the commodities exchanged must be equal in weight and hand to hand if they are homogeneous. This tradition has been mentioned in many prominent books of aḥādīth including "Ḥaḥḥ al-Muslim". Keeping these facts in mind, it should not be a surprise if huge business transactions and corporate businesses were not found at that age, although business on individual and small partnership level did exist. During this period, the main source of expenditure was the wealth of those Muslims who

were wealthy and helped other Muslims. For instance, it was Uthmān bin 'Affān who bought a well from a Jew in Medina and made it waqf for all the Muslims.

The Concern of Islam for Counting; the Basis of Accounting

Counting is deeply embedded in Islamic commands. It was made an integral part of the Muslims' life from the start and was a part of their worshipping, as stated by Kantankji²³. There are numerous examples in Qur'ān which support this claim. For instance, Qur'ān orders the believers in its longest sūrah to record their business transaction which involves debt. Similarly, it stresses the importance of the days of pilgrimage and fasting: which must be remembered to perform these two. Qur'ān has mentioned the different periods of "idda" for the females who are divorced or whose husbands have died, described the days of breastfeeding for mothers and the duration of pregnancy as well as their own periods etc. Thus Islam has made obligatory, even for females to be well versed in counting and keeping record of the days for different purposes. Qur'ān also mentions as how inheritance is to be distributed among different heirs of the deceased in very detail. What these examples show is that Islam, from the very beginning, has special concern for counting and keeping record of different items. Both counting and recording either by memory or writing process have been inserted into a male and female Muslim's life as an integral part of worship.

Announcement of Zakat and Jihad and their Impact on the Economical Life of Muslim

One year after migration, the Muslims were allowed to fight Jihad against those who posed challenges to their existence. This also opened the ways for them to get prosperous because wars against enemies resulted in large amount of wealth (ghanimah) for them. The order of Zakat was also an important reason for their economic stability. In fact these were the two major sources of income for the new born Islamic state of Medina. This is why there is detailed description of these two in Qur'ān as how these should be spent or distributed which indicates the special concern of Islam for these two sources of income. As for Zakat, there are eight categories to which it could be allocated:

- The Needy
- The Poor

- The Collectors of Zakat
- Mu'allafat al Qul^l b
- The Slaves
- Those in Debt
- Those Who are in the way of Allah
- The Travelers

Just like Zakat, those who were allocated spoils of war (or ghan^l mah) are also mentioned in Qur'^l n in detail. In fact one S^l ra of the Holy Qur'^l n (Al Anf^l l) has been named for this kind of income.

Zakat and Accounting

Zakat is the third pillar of Islam which has been mentioned in Qur'^l n as many as eighty two times, either directly or indirectly. Apart from certain other aspects of Zakat, poverty alleviation and decentralization of wealth have been the most obvious one. According to Adnan and Abu Bakar,²⁴ the discussion about the relationship between Zakat and accounting has been spreading widely among the academicians these days.

Zakat has its own specific details which have been elaborated in different sources of Shar^l 'ah. We have already seen how Qur'^l n elaborates the people who should be given a share from Zakat. Similarly, other source of Shar^l 'ah elaborates the conditions for the owners, certain conditions in the wealth itself. Apart from gold, silver, and cash Zakat is applicable on different kinds of animals too, including camels which had a great importance for the Arabs of that time. Out of the many details about the Zakat of camels, it will be suffice to mention only one F^l ad^l th which deals with the ratio of Zakat on camels. This lengthy F^l ad^l th has been mentioned by the great Islamic scholar, Imam Abu 'Ubayd, in his famous book "*Kit^l b al Amw^l l*"²⁵. Instead of the original lengthy Arabic text, the detail mentioned in the F^l ad^l th is presented here in a diagrammatic form as follows:

TABLE 1
The Ratio of Zakat on Camels

S. No	Number of Camels owned by a Muslim	Kind Payable As Zakat	Age of the Payable	Total Number Payable
1	1 to 4	NA	NA	NA
2	5 to 9	Sheep	1 Year	1
3	10 to 14	Sheep	1 Year	2
4	15 to 19	Sheep	1 Year	3
5	20 to 24	Sheep	1 Year	4
6	25 to 35	Camel	1+ Years	1
7	36 to 45	Camel	2 +Years	1
8	46 to 60	Camel	3 +Years	1
9	61 to 75	Camel	4+ Years	1
10	76 to 90	Camel	2 +Years	2
11	91 to 120	Camel	3 +Years	2
12	120 to 129	Camel	3+Years	2
13	130 to 139	Camel	2+ Year 3+ Years	2 1
14	140 to 149	Camel	3+ Year 2+ Years	2 1

15	150 to 159	Camel	3+ Year	3
16	160 to 169	Camel	2+ Year	4
17	170 to 179	Camel	2+ Years 3 +Years	3 1
18	180 to 189	Camel	2+Years 3+Years	2 2
19	190 to 199	Camel	2+Years 3+Years	2 3
20	200 to 209	Camel	2+Years OR 3+ Years	5 4
21	210 to 219	Camel	2+Years 3+ Years	4 1
22	220 to 229	Camel	2+ Years 3+ Years	3 2
23	230 to 239	Camel	3+ Years 2+ Years	3 2
24	240 to 249	Camel	2+Years OR 3+ Years 2+ Years	6 OR 4 1
25	250 to 259	Camel	3+Years OR 2+ Years 3+ Years	5 OR 5 1
26	260 to 269	Camel	2+Years 3+Years	4 2

27	270 to 279	Camel	3+Years 2+Years	3 3
28	280 to 289	Camel	2+ Years OR 3+Years 2+Years	7 OR 4 2
29	290 to 299	Camel	2+Years 3+Years OR 3+Years 2+Years	6 1 OR 5 1
30	300	Camel	3+ Years OR 2+Years 3+Years	6 5 2

From the above mentioned table it is clear that the detail mentioned in the Hadith is sophisticated by nature, which any devoted Muslim was and is supposed to follow if he/she owns the number of camels mentioned here. In fact these practical aspects of Islam and the Muslims' life show deep relationship between Islam and accounting. Perhaps a diagram for the Islamic law of inheritance, as mentioned in Qur'an, would be equally interesting and would further justify our claim about this relationship. These aspects are mostly ignored in the recent research on Islamic accounting literature.

The Process of Collecting Zakat:

In order to collect Zakat, the Prophet (P.B.U.H) had appointed " $\text{أُمْلُ الْمِلْ$ " (collectors of Zakat) who performed all the duties relating to their job. Ibn Taymiyyah defines an ' أُمْلُ الْمِلْ ' as a person who collects Zakat, records it down and safeguards it (from being misused or wasted) and the like. According to him, The Prophet and the Caliphs would ensure accountability of these employees themselves. As an evidence of his statement, Ibn Taymiyyah mentions a $\text{فَادْلُ$ th (recorded by Bukhari and Muslim both). The $\text{فَادْلُ$ th states that once a ' أُمْلُ الْمِلْ ' returned from his duty. He presented whatever he had collected in two parts, saying: This is what I have collected as Zakat, while this (other part) has been gifted to me. The Prophet was not pleased with this statement and expressed his disapproval by saying that why don't the collectors receive gifts

when they are sitting back at their homes? It was an explicit principle for the collectors of Zakat not to receive anything from the owners as gift because it would be tantamount to taking bribery. It also shows how accountability of these collectors was strictly observed. Ibn Taymiyyah also observes that the Prophet (P.B.U.H) and his Caliphs (RAA) would themselves stand for the accountability of their collectors.

The collectors were also ordered to observe justice while collecting Zakat on different kinds of animals; i.e. neither to take the best of their animals nor the worst. On the other hand, the owners were also prohibited to hide facts about their wealth and to perform this religious duty by paying Zakat²⁶. It was to ensure that justice is done to both the wealthy or rich who paid Zakat and the poor ones who received it. The collectors of Zakat would be paid from the collected amount because they were state employees and belonged to one of those eight categories to whom Zakat can be paid.

How did the Distribution of Zakat take place?

The duty of the distribution was performed by the Prophet himself, but according to the principles laid down through waḥy “revelation”. There are enough details of how the distribution took place during his time. For instance, one of the traditions tells that he would not leave anything to the next day; which means everything would be distributed on the same day. Once in his life, the Holy Prophet forgot to distribute a few coins and they were left at home. On remembering these, the Holy Prophet was much upset and he was only relieved when he had distributed them. It is stated in another tradition that during the last days of the Prophet's life, eight lakh *dirhams* (a coin made of silver) were brought from Bahrain which he distributed in one session²⁷. This is why there was no such thing as bayt al mṭl during his time. Furthermore, the income collected as Zakat is not always in cash form but can be in commodity form like camels, crops etc.²⁸, which had to be distributed as soon as possible because these may be very expensive if kept for a longer period. In addition to this, majority of the Muslims were not economically strong. The deserving Muslims dominated the rich and wealthy. So they had to be provided with basic necessities of life through revenue generated from different sources at that time.

The process of collecting and distributing income continued in this way during the initial stages of the Islamic state. There were absolutely no or very fewer changes in the above mentioned distribution system, during the period of the first caliph, Abu Bakr al-ṭiddī q (RAA). However, the situation changed when the

era of second caliph, 'Umar bin al-Khattab (RAA), started. There was vast expansion in the boundaries of the Islamic state during this era. As a result, there was a need to bring the essential changes in this process. Therefore, 'Umar bin al-Khattab (RAA) was the first who ordered for proper record keeping of the income. It was the time when Bayt al-Mal was established for the first time in Muslim history. He was also the one who took the initiative to establish diwans or registers. These contained the record of the Muslims of that time whose names were written down in it in different categories. Each of these categories was allocated its appropriate share from the income generated through different sources. In this regard, Ibn Taymiyyah concludes that there was no recording procedure for the income received during the era of the Prophet or Abu Bakr. Everything was distributed by them one by one. But when the era of Umar started, wealth was increased, the number of the people grew up and the boundaries of the state also spread. Therefore, 'Umar ordered for organizing and recording everything²⁹.

Conclusion

There are many important points to remember in what has been discussed so far. These can be summarized as follows:

- Accounting has a special link with Islam
- Counting, which is the basis for accounting, is an integral part of every Muslim's life, both for male and female
- The relationship between Islam and accounting is evident from Zakat
- In the early days of Islam, economy was rather simple. Income generation and expenditure was not complex as it had a limited scale
- Barter system was in vogue and the commodity market was very small
- The Holy Prophet would appoint people to collect income through Zakat etc. He would be responsible for the distribution of the income. He has also ensured the accountability of those involved in this process
- Therefore, it is right to state that Islam focuses on accountability to Allah and society, It was and is more important than mere keeping record of financial matters
- During the era of Umar, there were fundamental changes in this process. For the first time in his Era, Bait ul Maal was established due to an immense increase in state income. Income and expenses reorganization and recording started during his period.

End Notes

- ¹ Napier, 2007
- ² Napier, 2009
- ³ David, Diva & Paiusan, 2010
- ⁴ Hameed, 2000
- ⁵ Napier, 2007
- ⁶ Abdul Majid, 2009
- ⁷ Hameed, 2000
- ⁸ Napier, 2009)
- ⁹ Napier, 2007
- ¹⁰ David et al, 2010
- ¹¹ Napier, 2007
- ¹² Napier, 2007
- ¹³ Sartini, 2005
- ¹⁴ Zaid, 2000
- ¹⁵ Zaid, 2004
- ¹⁶ Napier, 2007
- ¹⁷ Sartini, 2005
- ¹⁸ Hameed, 2000
- ¹⁹ Hameed, 2000
- ²⁰ Sartini, 2005
- ²¹ David et al, 2010
- ²² 2011, p: 41
- ²³ Kantankji, 2009
- ²⁴ Abu Bakar, 2009
- ²⁵ Abu 'Ubayd, 1989, p: 456 to 458
- ²⁶ Al Q⁷ sim, p: 453, 466
- ²⁷ Al Jibri, 1989, p: 11
- ²⁸ Muhammad, 1988, p: 181

²⁹ Ibn Taymiyyah, p: 58

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