

# **International Accounting Standards: An Islamic Perspective**

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## **Abstract**

International accounting standards or western accounting system are different in many respects to fulfil the needs of the users from Islamic countries as the international accounting standards for various transactions occurring in the advanced countries may be totally irrelevant to the Islamic countries as these transactions have little chance of occurring or may be occurring in a fashion more specific to the context of the Islamic countries. The Islamic economics has created theoretical perceptions of Islamic Economy in various Muslim and non-Muslim countries in the form of Islamic banks, Takaful (Insurance companies) and setting up other economic institutions such as Zakat collection centre and relief organisations. Although there are many Islamic countries in the world, they are following mainly the western accounting system. The author argued that such adoption of western conventional accounting system do not coincide with the specific Islamic Objectives and hence, there is a need for a separate accounting system and/ or accounting standards based on Islamic Shariah and then incorporate the western accounting system where it does not contradict with the Islamic values. He suggested that the imposed accounting system or standards by the West must be modified by the Islamic countries keeping in mind Islamic Shariah, Islamic Economy, Islamic culture and its social, political and environmental needs.

**Key words:** Islamic Accounting, Islamic Accounting Standards, Islamic Economy, western accounting system,

# **International Accounting Standards: An Islamic Perspective**

Accounting standards are the norms of accounting policies and practices issued by the accounting bodies, national and international, for the guidance of their members regarding the treatment of the items which made the financial statements and their disclosure therein (Azizuddin, 1989). The IASC was formed in 1973 to bring about harmonisation in the accounting and reporting practices of individual countries. By the end of 1991 more than 100 accounting bodies representing some 80 countries had become members of the IASC. It has so far issued 41 IASs covering most important accounting issues. There are researchers who favour the adoption of IASs by developing countries (Hossain, 2002). Developing countries which are unable to mount their own standard-setting process can adopt IASs (Mason, 1978, p.124) and those developing countries having inadequate or weak professional accounting bodies or regulatory agencies and incapable of producing indigenous accounting standards can adopt IASC pronouncements at negligible costs (Peasnell, 1993). In addition, many developing countries do not have the economic and technological capacity and capability to develop their accounting and reporting standards. They have therefore, accounting standards issued by a developed country or the accounting standards issued by the UK, USA or IASC. In recent years, the hegemony of western accounting concepts in the development or underdevelopment of the developing countries has been recognised in the literature (Ibrahim, 2002). It can be argued that most of the Islamic countries' industrialisation, political institutions and cultures are largely influenced by the socio-political traditions and philosophy of the colonial powers by which they were ruled.

International accounting standards, which results from the internationalisation of accounting from the West, may be designed to assist users to make decisions at an international level, which may be for different from the needs of users from Islamic countries. It can be argued that the international accounting standards for various transactions occurring in the advanced countries may be totally irrelevant to the Islamic countries as these transactions have little chance of occurring or may be occurring in a fashion more specific to the context of the Islamic countries. The particular situation occurring in the Islamic countries call for specific and local standard setting for the Islamic countries based on Islamic Accounting System. Thus, it is evident that the International Accounting Standards failed to fulfil the needs of Islamic countries in preparing their accounting standards. To meet the needs the accounting

system of the Islamic countries, these IASs have to be revised and these IASs should be modified by the Islamic countries keeping in mind the economic, social, political and environmental needs of the Islamic countries.

The Islamic economics has created theoretical perceptions of Islamic Economy in various Muslim and non-Muslim countries in the form of Islamic banks, Takaful (Insurance companies) and setting up other economic institutions such as Zakat collection centre and relief organisations. However, it has been argued that this success is incomplete because in many cases the changes have been cosmetic in changing the technical terms of contract rather than an underlying change in the reality (e.g. the philosophy of life). Accounting has played a part in perpetuating the same reality by privileging profits and capital in its financial statements and there is a need Islamized accounting in order to redirect the emphasis from wealth accumulation to equitable distribution and to disclose information which will enable stakeholders and the Muslim people and governmental authorities to ensure the Islamic institutions set up are achieving their Islamic objectives of achieving social solidarity and socio-economic justice among the various sections of Muslim society (Ibrahim, 2002). The establishment of Islamic banks, Insurance companies, finance companies, relief organisations call for an Islamic accounting to meet their information of the Muslim societies in which they operate (Ali, 1997; Khan, 1994) and these organisations because of their different set up and goals have an interest to make their accounts more Islamic (Ibrahim, 2002).

Western Accounting system has been exported by the developed countries (e.g. UK and USA) to the developing countries whose cultures, religion and social and business and political environment are quite different and it is questionable to adopt the western conventional accounting principles, standards and their underlying philosophy without any or negligible modification (Briston and Kedsle, 1997). The Islamic Organisations and enterprises (i.e. Islamic financial and commercial corporations in Malaysia, Brunei, Jordan, Dubai, Egypt etc.) are for the most part using conventional accounting without much changes, although there have been developments in the establishment of Islamic Banking Standards and or Islamic Accounting Standards (Ibrahim, 2002). It may be argued that such adoption of western conventional accounting system do not coincide with the specific Islamic Objectives and hence, there is a need for a separate accounting system and/ or accounting standards based on Islamic Shariah and then incorporate the western accounting system where it does not contradict with the Islamic values. So, it can be argued that the imposed

accounting system or standards by the West must be modified by the Islamic countries keeping in mind Islamic Shariah, Islamic Economy, Islamic culture and its social, political and environmental needs.

The standards promulgated by the IASC are dealing with issues, which are expected to be of common concerns to all member countries. However, it is not possible for any international organisation to develop accounting standards appropriate to the local needs of each and every country and an international body can prescribe accounting standards covering only certain broad areas of financial reporting (Basu, 1986). This is also true in case of Islamic Accounting standards. Local conditions of the Islamic countries like Saudi Arabia or United Arab Emirates may not be similar to those of Western countries. In that case it may be argued that an Islamic accounting standard-setting body rather than international body can formulate standards necessary to serve the needs of the Islamic countries. However, the Islamic Organisation like OIC did not make any attempt to modify these accounting standards taking into consideration Islamic Shariah and Economy. It seems that the OIC is not aware of the very need for a separate accounting system and its requirements with special reference to the Islamic countries as a whole. This paper raises the following questions to the Islamic World:

Islamic Accounting is different from the traditional western accounting system in many respects. Although there are many Islamic countries in the world, they are following mainly the western accounting system. The main goal of International Accounting Standards is to have harmonized financial accounting and reporting system all over the world.

In recent years, the hegemony of western accounting concepts in the development or underdevelopment of the developing countries has been recognised in the literature.

Finally, the researcher raised two fundamental questions in this regard: What are the basic requirements of Islamic World in relation to the Western accounting standards? and, whether the accounting standards and or system imposed by the West fulfil the need or requirements of the Islamic countries?

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