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Some of the Conventional Accounting Concepts That Are Not in Accordance With the Paradigm of Islamic Accounting

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This paper discusses some of the conventional accounting concepts, such as historical cost concept, conservatism concept, matching concept, objectivity concept, stable monetary unit assumption, and going-concern assumption, which are not in accordance with the Islamic accounting paradigm due to their divergence with some verses of the Holy Al-Qur'an, the Hadiths of the Prophet Muhammad, peace be upon him (pbuh), and the basic of *Zakat* calculation. This is a conceptual paper describing some of the conventional accounting concepts that are not in accordance with the paradigm of Islamic accounting. The paper concludes that the historical cost concept can be replaced by: current cash equivalent concept, historical cost and current value concepts (market selling price), current cost concept, historical cost concept in all (except for *Zakat* purposes) accounting calculations, current valuation concept, and fair value concept. Conservatism concept must be eliminated if historical cost concept is not used anymore. Matching concept can be replaced by asset-liability approach concept. Objectivity concept can be replaced by *Zakat* accountability concept. Stability of the monetary unit assumption can be replaced by gold or silver measurement, or Dirham currency, and going-concern assumption must be eliminated.

Keywords: conventional accounting concepts, paradigm of Islamic accounting, historical cost concept, conservatism concept, matching concept, objectivity concept, stable monetary unit assumption, going-concern assumption

Introduction

Most countries in the world including Indonesia adopt western economic system, including accounting system. According to Mulawarman (2011):

Indonesia has adapted the conventional (western) accounting without significant change. This can be seen from the education system, standards, and practices of accounting in the business environment. Consequently, accounting now becoming an ivory tower and hard to resolve the issue of locality. Accounting only accommodate the "market" and can't solve the problem of accounting for micro, small and medium enterprises that dominate the economy of Indonesia more than 90%. (pp. 17-18)

Further, Antonio (2001) stated, "People of western countries in general are adherents of the ideology of liberalism and narrow pragmatism. They consider that the financial and economic activity will increase and flourish when freed from normative values and divine signs" (p. 8). But the fact is far from the truth. The economic crisis that hit Indonesia and Asia in particular, and the recession and global economic imbalances in

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general, are proofs that the above assumption is completely wrong. This happens because of ignorance of divine values in financial and economic activities in most countries of the world, including Indonesia. Muhammad (2004) stated that:

Some of the concepts and values underlying the current conventional accounting are contradictory to suggest that conventional accounting concepts tend to only see the man as homo economicus, whereas in Islam, human beings is not seen only as homo economicus, but also as homo ethicus and homo religious. (p. 3)

On the other hand, A. U. F. Ahmad and A. B. R. Ahmad (2009) stated that, "Islamic finance has emerged in recent decades as one of the most important trends in the financial world. There has always been a demand among Muslims for financial products and services that conform to the principles of Islamic Shariah" (p. 1).

Mulawarman, Triyuwono, and Ludigdo (2006) argued that the accounting, as a product, is built and developed from the values developed in the community in which accounting and accounting systems are developed. Accounting and accounting education system bring the values of secularization that has a major characteristic of self-interest, emphasizing profit as a bottom-line, just recognizing the reality of quantitative, materialistic, and mechanistic (Mulawarwan, 2011). These characteristics undoubtedly were incompatible with the economic context of Islam, because Islam does not recognize the separation between the affairs of the world and the hereafter (secularization).

According to Safira (2011):

Islamic accounting by divine spirit is part of the Islamization of science and knowledge that departs from the failure of the paradigm of modern science and knowledge-based value-free so bring many negative impacts on the development of human civilization. This impact appears as a logical consequence of the basic philosophy of scientific metaphysical, epistemological, and axiological that are still massive and dry with the values of ethics and morals so that the level of axiological often negate the benefit of humans since the separation of religion and everything to do with the affairs of the world (secular). The attempt to give the "other color" in order to create validity of data and purposes finally appeared to give a religious color in economics, including accounting. Accounting Islamization is then known as the Islamic accounting. With Islamic accounting means accounting no longer value-free, but it turned out to be loaded with religious values (non-value-free). (pp. 8-9)

Thus, Islam does not recognize that the concept of secularization as the ultimate goal of mankind is very clear. Islam remarks that the ultimate goal of human life is to return to God (Triyuwono, 2011). This is in line with the concept of Oneness of God.

Siwar and Hossain (2009) stated that, "Islamic worldview starts with the concept of Oneness of God, who dominates the heaven, earth, and inside the earth" (p. 1). Further, Hameed (2001) explained that:

The concept of Tawhid (Unity and Oneness of God) implies that since there is only one God who is the creator and sovereign of all (humans and non-humans), Islam (literally meaning submission) requires total submission to Him in all aspects of life. To be a Muslim is to make God the judge and sovereign from whom is derived all laws, values, and norms and to do all God has directed and for His sake according to His will (as revealed in the Qur'an). (p. 10)

As Haneef (1997) asserted that, "It is in this sense that even economics become part of the 'religion'" (p. 44). Further, Hameed (2001) stated that:

Tawhid has direct implications for politics and economy. The Qur'an enjoins consultative government (Shura'). However, it does not enjoin democracy in the sense that the people have the absolute right to make laws in accordance with their own whims and fancies. Sovereignty in Islam is to God alone, not to the ruler (even of an Islamic state) or the people. Hence, any laws whether social, economic or accounting cannot contradict the Qur'an, which serves as the

constitution of an Islamic state. There is also no separation of the Mosque from the state and hence Islam vehemently opposes the principle of secularisation. All areas of life including the political, economic, and social must be consistent with Islamic values. (pp. 10-11)

Thus, Islamic accounting must be based on Islamic values.

Basic Values in Islamic Accounting

Hameed (n.d.) stated that:

⁵ Islamic accounting can be defined as the “accounting process” which provides appropriate information (not necessarily limited to financial data) to stakeholders of an entity, which will enable them to ensure that the entity is continuously operating within the bounds of the Islamic *Shari'ah* and delivering on its socioeconomic objectives. Islamic accounting is also a tool which enables Muslims to evaluate their own accountabilities to God (in respect of inter-human/environmental transactions). (p. 1)

Islamic values in all aspects of life based on the Hadith of Prophet Muhammad (pbuh) ¹ narrated by Abu Hurairah which states that the Prophet Muhammad (pbuh) has been sent only for the purpose of perfecting good morals. So, the values that underlie all aspects of human life are ethical and moral issues, including values that underlie the economic aspect, particularly accounting. Siddiqi (2000) stated that:

Islam has legislated the minimum of morality necessary for human felicity, leaving for persuasion and voluntary compliance higher standards of morality which could make life better, more decent. Prohibition of *riba* (interest) and *maysir* (gambling) along with the strictures against telling lies, fraud, and deception and breach of contract are the most relevant provisions of *Shari'ah*, insofar as economic activity is concerned. Given these, helping behavior and regard for public interest could ensure good society so far as the economic aspect is concerned. (p. 4)

Siddiqi (1979) (as cited in Hameed & Yaya, 2005) noted that *'adala* (justice) and *ihsan* (benevolence) (Al-Qur'an 2:177; 5:8; 4:36) could be considered as the summary of the entire morals in the economic enterprise derived from the Qur'an. These values, in his opinion, are the basic values which offer guidance in almost every action in human life. Therefore, Islamic business should also be characterized with these manners. The following is an explanation of *'adala* (justice) and *ihsan* (benevolence).

According to Hameed and Yaya (2005):

Allah has commanded the maintenance ¹ justice under all circumstances and in all aspects of life (Al-Qur'an 6:152; 5:9). Meanwhile, the Prophet (pbuh) has also reiterated the maintenance of justice and has sternly warned against indulgence in injustice. The Qur'an commands Muslims to be just and truthful while bearing witness and while deciding a disputed matter, which is not only among them but also when dealing with their enemies. Muslims are, therefore, enjoined to cooperate with each other in the establishment of justice and righteousness. (pp. 3-4)

In other words, they are not allowed to exploit others and also may not let others exploit them (Ahmad, 1995; as cited in Hameed & Yaya, 2005). Hameed (2001) also discussed justice along with equity. Hameed (2001) stated that:

The concept of justice and equity also implies the objective of individual and social welfare and public benefit as the objective of an Islamic state. This is especially pertinent in an economic framework. Hence, not only productive and allocative efficiency but distributive equity as well is sought in an Islamic economic framework with the aim of achieving social welfare and stability. Hence, production of certain goods, which may be economically justified (in terms of good monetary returns), cannot be undertaken due to its effect on social welfare, for example, alcohol, interest-based financing, or gambling operations. (p. 12)

In the meantime, do with *ihsan*. Hameed and Yaya (2005) stated that:

Ihsan (benevolence) means good behavior or an act which benefits other persons without any obligation (Beekun, 1997). Siddiqi (1979) views *Ihsan* as being even more important in social life than justice. If justice is the corner stone of society, *Ihsan* is its beauty and perfection. If justice saves society from undesirable things and bitterness, *Ihsan* makes life sweet and pleasant (Siddiqi, 1979). In the realm of business, Ahmad (1995) outlines certain manners that would support the practice of *Ihsan*. They are: (1) leniency; (2) service motives; and (3) consciousness of Allah and of His prescribed priorities. According to Ahmad (1995), leniency is the foundation of *Ihsan*. It is a highly praised quality and encompasses every aspect of life. It is an attribute of Allah Himself and Muslims are encouraged to incorporate it in themselves. Leniency can be expressed in terms of leniteness, forgiveness, removing of other people's hardship, and providing help. Meanwhile, service motives means that Islamic business organizations should consider others' needs and interests, provide help and spend on others, recommend and support a good cause to others. Therefore, through his involvement in business activity, a Muslim should intend to provide a needed service to his community and humanity at large. Although the Qur'an has already declared business as lawful, yet a person's engagements should not become a hindrance to remembering Allah and complying with His commands (Al-Qur'an 24:37). A Muslim is required to be mindful of Allah either when he has success or failure in his business. God consciousness must be the driving force in determining his course of action. He must, for instance, interrupt his activity at the time of prayers. (p. 4)

Justice and benevolence are the apparent values of the types of financial reports as stated by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The AAOIFI (1998), established a complete set of financial statements that consist of: a statement of financial position (balance sheet), an income statement, a statement of cash flows, a statement of changes in owners' equity, a statement of changes in restricted investment, a statement of sources and uses of funds in the *Zakat* and charity fund, a statement of sources and uses of funds in the *qard* (charity) fund, notes to financial statements, and any statements, reports, and other data which assist in providing information required by users. Further, Triyuwono (2011) stated that:

The unique statements that are explicitly shaped by the *shari'ah* principle are a statement of sources and uses of funds in the *Zakat* and charity fund, a statement of sources and uses of funds in the *qard* fund. This is also an evidence that Islamic values take very important role in shaping *shari'ah* accounting. (p. 3)

Paradigm of Islamic Accounting

Basic values in Islamic accounting as explained above are one of the elements that make up the paradigm of Islamic accounting. The primary basis of Islamic accounting paradigm is Al-Qur'an, followed by the Hadith of Prophet Muhammad (pbuh). Arief (1985; as cited in Muhammad, 2003) suggested that Islamic accounting paradigm is considered in accordance with the needs of the community, especially the Muslim community in the work in the field of economy. Fundamental of Islamic paradigm is expressed in Figure 1.

According to Muhammad (2003), Figure 1 shows that the *Shari'ah* is derived from three sources, namely, Al-Qur'an, Hadith, and Fiqh (Islamic law). The sources in the hierarchy cannot precede the one against the other. The first source is always the Quran, followed by the Hadith, Fiqh, and so on. The main goal of *Shari'ah* is to educate every human, establishing justice and the realization of benefits for every human being in this world and in the hereafter (Kamali, 1989; as cited in Muhammad, 2003). *Shari'ah* regulates every aspect of Muslim life, whether political, economic, and social development with keeping faith, life, *aqal* (mind), and their wealth (Abdalati, 1975; as cited in Muhammad, 2003).

The main source of Islam, Al Qur'an, in its surah (Al Baqoroh verse 208) tells that as a Moslem, we must apply the Islamic values and Islamic principles in our lives as a whole (*kaaffah*; comprehensive). It means that we must try to become *kaaffah* Moslem. Although in our opinion, *kaaffah* is not only the status of being a

Moslem but it is also a process to be a Moslem; we opine that everything we do in this life must be done in the ground of fully Islamic effort, not only partially effort. Furthermore, with regard to the effort in developing conceptual framework of Islamic bank or Islamic financial institutions and to the effort in Islamizing accounting, we must adopt an effort which is fully Islamic, not only partially Islamic.

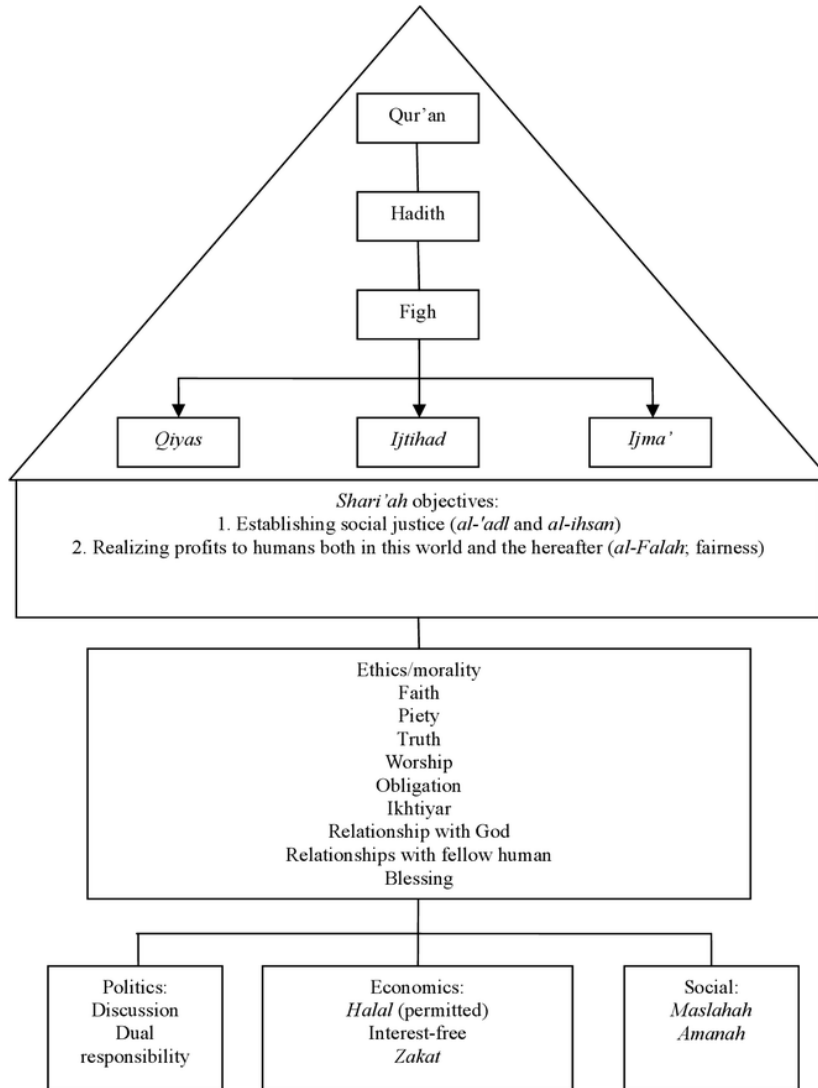


Figure 1. Islamic accounting paradigm. Source: Arief (1985; as cited in Muhammad, 2003).

Another main source of Islam, Hadith of the Prophet Muhammad, which had been recalled by Ahmad, Abu Dawud, and Tirmidzi, said that the sources of Islamic rules are: (1) The primary sources are Al Qur'an and Al Hadith; and (2) The secondary source, which is *ijtihad* (personal interpretation), includes *ijma'*

(conventions), *qiyas* (analogy), *'urf* (customary practice), *maslahah* (public interest), and *ihtisab* (presumption of permissibility). It means that all rules in Islam must be derived from those three main sources of Islam. So, regarding the conceptual framework of Islamic bank and Islamic financial institutions, which will be the rules of the operation of Islamic banks and Islamic financial institutions, it must be derived based on Al Qur'an, Al Hadith, and *Ijtihad*. Thus, the three are the main foundations of the established Islamic accounting paradigm.

Furthermore, Muhammad (2003) stated that *Shari'ah* paradigm in accounting will consider various paradigms by showing the existence of accounting ideological differences. Based on religious basis, there are three interrelated dimensions, namely: (1) seeking the pleasure of Allah as the ultimate goal in determining the socio-economic justice; (2) realization of benefits to the community, namely, the obligation to the community; and (3) pursuit of self-interest, namely, self-sufficient.

The fulfillment of these three parts form this activity continued Muhammad (2003) is included in worship. In other words, the accounting can be considered as an activity for a Muslim worship. The three dimensions are related to obligations to God, society, and individual rights, on the basis that *Shari'ah* principles can be observed. *Shari'ah* accounting purposes will achieve broader goals of socio-economic justice (*al-Falah*) and recognize a form of worship. These principles are demonstrated on both the technical and human aspects that should be derived from the *Shari'ah*. Technical aspects of the *Shari'ah* refer to accounting constructs associated with authority and implementation. Those constructs are associated with the measurement and disclosure of the following principles: *Zakat*, interest-free, and *halal* business transactions. Disclosure of accounting constructs needs to be pointed to any other obligations laid down with *Shari'ah* in connection with efforts to comply *Zakat* obligation, such as *sadaqah* (giving), while accounting constructs are related to the problem of authority and execution, based on principles such as piety, truth, and accountability. This is the basic foundation form that affects the values of Muslim accountants and Muslim managers in carrying out their activities. Therefore, the difference between conventional accounting and accounting *Shari'ah* is not only on the limits of the goal but also on the underlying principles. For example, the conceptual framework of financial reporting using the paradigm of *Shari'ah* is very uniquely derived from the law of "Heaven", rather than man-made law, and the implication is on the role of Muslim accountants which can be summarized as follows (Muhammad, 2003):

- (1) Inspired by the world view of unity, not anti-profit or anti-world, but a vision of success and failure included in the broader dimension of time, the world, and the hereafter;
- (2) Accountability, not only in leadership but accountable to God, because human being merely serves with a view to realizing socio-economic justice in the world and in the hereafter;
- (3) Relationship, which requires the creation of good relations between the leaders and the followers, and also the relationship with God by fulfilling all religious obligations;
- (4) Motivation, providing the best service in the accounting activities, such as trust, worship, pious charity, all of which are aimed at achieving victory (*al-Falah*) in this world and in the hereafter.

Zakat as a Basis of Measurement in the Islamic Accounting

Zakat is a purification of the property. It is believed to give the blessing of life both individual and company. Al-Qabani found and emphasized that the survival or immortality of a company's activities stems from *Zakat* they pay each year. As Allah says in the letter At-Tawbah: 103 that¹:

¹ Retrieved from <http://www.adistybintang.blogspot.com>.

... Take alms of their wealth, in order to cleanse and purify them, and pray for them. Verily your prayers (grow) for their peace of soul. God is all-hearing, all-knowing. So the continuity or conservation of a company rooted in *Zakat* they pay each year. This is quite in accordance with the principles and morals of *Shari'ah*.

Triyuwono (2000) suggested that Muslim organizations should be *Zakat*-oriented instead of profit-oriented as they are now. This means that the net profit is no longer used as a basis of performance measurement, as it is replaced by *Zakat*. Therefore, an enterprise is directed to the achievement of higher *Zakat* payment. To be *Zakat*-oriented, enterprises need to maintain a *Zakat*-oriented accounting system. Triyuwono (2000) believed that the use of *Zakat*-oriented accounting would result in a more Islamic organization, as it implies certain features. Firstly, it is the transformation from profit maximization to *Zakat* optimization. Therefore, profit is only regarded as an intermediary goal while *Zakat* is the primary goal. Secondly, since *Zakat* has been taken as the ultimate goal, any policy of the enterprises' activities must comply with the Islamic *Shari'ah*. Thirdly, it would inherently incorporate a balance between individual character and social character, whereas the *Zakat* concept encourages Muslims to make profits (under *Shari'ah* guidance), some of which would then be distributed as *Zakat* representing one's concern for social welfare. Fourthly, the enterprises would be encouraged to participate in releasing humans from the oppression of economic, social, and intellectual factors and releasing the environment from human exploitation. Lastly, it provides a bridge between the world and the hereafter, as *Zakat* raises human consciousness that any worldly activities are related with their destiny in the hereafter (Hameed & Yaya, 2005).

According to Hameed and Yaya (2005):

Most of Islamic accounting literature takes *Zakat* as a cornerstone of determining measurement tools. There are, at least, three reasons for taking *Zakat* as the main basis of measurement issues. Firstly, *Zakat* is a concept in Islam that deals specifically with the measurement of assets. This can be inferred from some verses in the Qur'an and Hadith of Prophet Muhammad (pbuh) regarding the timing and the way in which *Zakat* is calculated. Secondly, *Zakat* has been decreed in many verses directly after the ordinance of prayer and considered as one of the five pillars of Islam. This implies that Muslims are encouraged to establish instruments (including accounting instruments) in order to ensure this obligation can be fulfilled in accordance with the *Shari'ah* of Islam. Thirdly, the development of accounting in the early Muslim government are closely related with the practice of *Zakat*. (p. 14)

During that time, the Islamic State had already provided accounting books and reports for the determination and accountability of *Zakat* (Zaid, 1997; as cited in Hameed & Yaya, 2005).

Zakat as a primary objective and ultimate goal of Islamic accounting has an important role in the lives of Muslims, even mankind. Therefore, the concept of measurement in Islamic accounting must not conflict with the basic measurement of *Zakat*. The conventional accounting concepts following are considered incompatible with Islamic accounting paradigm, as opposed to some verses of Holy Al-Qur'an, the Hadith of the Prophet Muhammad, peace be upon him (pbuh), and the basic of *Zakat* calculation.

Some of the Conventional Accounting Concepts That are Not in Accordance With the Paradigm of Islamic Accounting and the Alternative Concepts

Based on the explanation above, the following are some of the conventional accounting concepts that are contrary to the paradigm of Islamic accounting.

Historical Cost Concept and Conservatism Concept

Hameed (n.d.) stated that, "Conventional accounting mainly uses historic cost (or lower) to measure and

values assets and liabilities” (p. 2). Adnan and Gaffikin (1997; as cited in Hameed & Yaya, 2005) pointed out that some accounting concepts are contradictory to Islamic principles. The concepts of historical cost and conservatism for instance, according to them, can be misleading and cannot guarantee the quality of justice and honesty within the information it carries. Therefore, they argued that such concepts have no room in the accounting for Islamic institutions (Adnan & Gaffikin, 1997; as cited in Hameed & Yaya, 2005). Meanwhile, the conservatism concept could also go against the Qur’an and *Sumah* (the Hadiths of the Prophet Muhammad, peace be upon him), as it would distort accounting data. They argued that the conservatively reported data are not only subjected to improper interpretation but also contradict the objective to disclose all relevant information related to the particular company (as cited in Hameed & Yaya, 2005). According to Muhammad (2003):

Conservatism concept means that if there is a possibility of any loss, it must be provided for, whereas if there is a doubt about any income, it must not be include in the profit. This rule is valid if all used to describe the condition of historical cost. (p. 14)

Muhammad (2003) stated that, “Gambling and Karim (1991) advocate that the assessment methods proposed by Chambers is a most appropriate to assess the assets within the framework of Islam (Chambers, 1966)” (p. 13). The method in question is known as the current cash equivalent. This method states that the assets of the company will be evaluated according to the cash or generalized purchasing power that could be obtained by selling each asset under conditions of orderly liquidation, which may be measured by quoted market prices for goods of a similar kind and condition (Hendriksen, 1990).

The AAOIFI’s advice in connection with the replacement of historical cost still considers the historical cost concept. The AAOIFI (1996) recognized the current value concept of assets, liabilities, and restricted investments in its statement of accounting concepts. However, due to lack of adequate means, such a concept is not recommended. Instead of that, historical cost remains to be applied and the use of the current value financial statement is only regarded as supplementary information if the enterprise considers its importance for the potential investors and other users (Hameed & Yaya, 2005). Therefore, in practice, it is the historical cost that is applied by Islamic banks (Shihadeh, 1994; as cited in Hameed & Yaya, 2005). Mirza and Baydoun (2000; as cited in Hameed & Yaya, 2005) viewed this issue differently from the above views in that Islamic accounting is likely to use both historical cost and market selling prices. Therefore, an Islamic accounting system would have a dual system of asset valuation. This argument is based on the premise that an Islamic enterprise needs to adhere both to the contract and discharge its obligation on *Zakat*. Since a contract is based on past transaction and *Zakat* is based on current valuation, the measurement needs to conform to each purpose (Hameed & Yaya, 2005).

The majority of jurists (*Fuqaha*) appear to have concluded that the valuation of *Zakat* should be based on the selling prices prevailing at the time *Zakat* falls due (Al-Qardhawi, 1988). This implies that in accounting, Islamic business organizations should apply current cost rather than historical cost which is widely used at this time (Adnan & Gaffikin, 1997; Baydoun & Willet, 1997, 2000; Clarke et al., 1996; Haniffa & Hudaib, 2001; as cited in Hameed & Yaya, 2005). Besides that, some accounting principles related to the measurement also need to be redefined. For instance, Haniffa and Hudaib (2001; as cited in Hameed & Yaya, 2005) argued that what is meant in Islamic accounting by the conservatism principle is not the selection of the accounting techniques that have the least favorable impact on owners but more towards the selection of accounting techniques that have

the most favorable impact on society, i.e., better to overestimate funds for *Zakat* purposes (Hameed & Yaya, 2005).

Mirza and Baydoun's (2000; as cited in Hameed & Yaya, 2005) assertion on the application of historical cost in all (except for *Zakat* purposes) accounting calculations is based on the argument that historical cost is a highly reliable source of information about firms' assets, private debts, operation, and cash management. In their opinion, historical cost also fits well into the concept of stewardship, which they believe is the objective of Islamic accounting. The historical cost method could highlight the fiduciary responsibility of the managers and their stewardship function. This method is most appropriate, because contracts are written in historical cost numbers, and this has survived over the centuries and if there were a more efficient valuation method, it would have displaced the historical cost system long ago (Hameed & Yaya, 2005).

In this context, Hameed and Yaya (2005) argued that:

Unlike the current valuation method, historical cost has no *Shari'ah* basis to be applied in an Islamic enterprise. The contract fulfillment principle in Islam cannot be used as the basis for applying historical cost for measurement purposes as contract itself is a kind of past activity but for future realization. Therefore, at the time of measurement, it is the current valuation which should be used. In this case, the use of historical cost could corrupt the principles of disclosing the truth (Al-Qur'an 2:42) and forbidding withholding it (Al-Qur'an 83:7). These principles encourage every enterprise to disclose the truth as it is, with neither understatement nor overstatement. Meanwhile, the historical cost reflects a type of conservatism that would lead to the understated valuation. (p. 15)

Hameed (n.d.) stated that, "From an Islamic point of view, at least for the purpose of computation of *Zakat*, current valuation is obligatory (see for example, Clarke et al., 1996) prompting calls for a current value balance sheet (Baydoun & Willet, 2000)" (p. 3). Thus, the historical cost concept is actually not sufficient to be the basis of measurement, both in conventional accounting and in Islamic accounting.

Recently, the International Financial Reporting Standard (IFRS) encourages applying fair value accounting. Ben Hall and Niki Tait (2008; as adapted by Kieso, Weygandt, & Warfield, 2011) stated that:

No recent accounting issue better illustrates the economic consequences of accounting than the current debate over the use of fair value accounting for financial assets. Both the International Accounting Standard Board (IASB) and the Financial Accounting Standard Board (FASB) have long-standing standards requiring the use of fair value accounting for financial assets, such as investments and other financial instruments. Fair value provides the most relevant and reliable information for investors about these assets and liabilities. (p. 15)

Matching Concept and Objectivity Concept

In addition to accounting concepts outlined above, Adnan and Gaffikin (1997; as cited in Hameed & Yaya, 2005) asserted that some other accounting concepts in conventional accounting are irrelevant to Islamic accounting. The matching concept, for instance, is considered as irrelevant, because it leads to the preference for the revenue-expense approach rather than the asset-liability approach. In fact, if the objective of accounting in Islam is to uphold the accountability through *Zakat* as Adnan and Gaffikin (1997; as cited in Hameed & Yaya, 2005) proposed, the asset-liability approach needs to be applied (as cited in Hameed & Yaya, 2005). Besides the matching concept, the objectivity concept is also considered as irrelevant. Further, Adnan and Gaffikin (1997) argued that putting objectivity in the context of qualitative characteristics indicates that it is related more to the secondary objectives of accounting information, which is to facilitate accounting users in making legitimate economic decisions for their own interests. Therefore, since the primary objective of Islamic accounting is for *Zakat* accountability (as they proposed), the objectivity concept is basically not relevant to the

main concern of a primary objective in *Zakat* (Hameed & Yaya, 2005).

Stability of Monetary Unit Assumption

According to Hameed (n.d.), “The profession is well aware of the limitations of the *stable unit of measure* assumption of the monetary unit and to its credit has tried in the past in its inflation accounting initiatives” (p. 2). Ahmed (1994) wrote that in an inflationary environment, money as a unit of measure is questionable from Islamic point of view, for it implies that money is unable to serve as just and honest unit of account. It makes money an inequitable standard of deferred payments and an untrustworthy store of value, and it enables some people to be unfair to other, even though unknowingly. This contradicts to Islamic principle, such as “do not eat up your property among yourself for vanities” (Qur’an 4: 29²).

Meanwhile, the realization concept particularly for the Islamic bank would create a problem, as it does not realize fairness for withdrawing depositors. This concept suggests that the earning process for the revenues of the bank should be known and should be collectible with a reasonable degree, if not already collected. This means that if some of the depositors withdraw before the full liquidation of the project in which their funds have actually participated, they may lose a part of the profit that might be realized in the future (Abudlgader, 1994; as cited in Hameed & Yaya, 2005).

Adnan and Graffikin (1997; as cited in Hameed & Yaya, 2005) argued that the application of gold or silver, for instance, as a measuring unit or currency as was used in the age of the Prophet Muhammad (pbuh), is perhaps relatively resistant to inflationary effects³. Currency based on precious metals such as “Dirham” can also be used as the basis of measurement instead of stability monetary unit assumption.

Going-Concern Assumption

Mulawarman (2009)⁴ stated that:

The going concern is one of the important concepts of conventional accounting. Going concern at the core there is a balance sheet to reflect the company’s enterprise value to determine the existence and future. More detail, going concern is a condition in which the company can continue to operate in the next period, where it is influenced by financial and non-financial circumstances. Failure to maintain going concern could threaten any company, mainly caused by poor management, economic fraud, and changing macroeconomic conditions, such as falling currency exchange rates and inflation rising sharply due to high interest rates.

Further, Mulawarman (2009)⁵ said that:

In fact, going concern in accounting has become a postulate of accounting. As a postulate states that the going-concern accounting entity will continue to operate to carry out the project, commitment, and activity, which is running. Going concern assumes that the company is not expected to be liquidated in the future can be known from now on. So while the financial statements provide a view of the company’s financial situation and only a part of an ongoing series of reports for accounting depreciation, due to: 1. both present value and liquidation value of assets is not sufficient for assessment, and requested the use of historical cost for asset valuation. 2. fixed assets and intangible assets are amortized over the useful life, and not for a shorter period in the expectation of liquidation.

In connection with the going-concern assumption, Hameed and Yaya (2005) stated that, “The inappropriateness of conventional accounting is also viewed in terms of attitude before God” (p. 6). The

² Retrieved from <http://www.sartini.files.wordpress.com>, p. 7.

³ Retrieved from <http://www.sartini.files.wordpress.com>, p. 7.

⁴ Retrieved from <http://www.ajidedim.wordpress.com/2009/01/29/going-concern-dalam-akuntansi-masih-perlu-dipertahankan/>.

⁵ Retrieved from <http://www.ajidedim.wordpress.com/2009/01/29/going-concern-dalam-akuntansi-masih-perlu-dipertahankan/>.

going-concern concept for instance, according to Adnan and Gaffikin (1997; as cited in Hameed & Yaya, 2005, p. 6), would mean that there is something else other than God that will live continuously. In fact, in Islam, one of the characteristics of God is that He only lives indefinitely forever (Al-Qur'an 3:2; 2:255; 20:111; 25:58; 40:65; 53:27), and Muslims are prohibited to have such an attitude. Besides conflicting with verses of the Qur'an which states that only God is eternal, going-concern assumption is also contrary to the verses of the Qur'an which states that only God is omniscient about what will happen in the future as stated in the Holy Qur'an 31:34 as follows:

Verily Allah, only on the side alone is knowledge of the Judgment Day, and He who sends down rain, and knows what is in the womb. And no one can know (for sure) what will be earned tomorrow. And no one can know where on earth he was going to die. Surely, Allah is Knower, Aware.

In addition to the verse, there are other verses in the Qur'an which states either explicitly or implicitly that the future is known only to God, such as Al-Qur'an 24:64, 27:65-66, 64:4, and 72:26-27. In addition to the verses of the Qur'an, there are several hadiths that describe the same thing, such as the Hadith of Bukhari (Sunarto, 1993) as follows:

From Abdullah bin Umar r.a., Rasulullah SAW said: "The key to the supernatural that there are 5 cases, no one knows except Allah alone, no one knows what is in the womb but God, no one knows what happens tomorrow but God, no one knows for certain when it rains, but God, no one knows where on earth someone would die but God, and no one knows about the day of Judgment except Allah".

Based on the verses of Al-Quran and Hadith above, the author proposes to remove the going-concern assumption. In this context, Djuitaningsih (2012) said the following:

... The assumption of going concern should no longer be used in the preparation of financial statements, and consequently, no longer assets are stated at historical value. This is in line with the provisions of International Financial Reporting Standards (IFRS) in which the value of assets must be stated at fair value. (p. 13)

Conclusions

Based on the description above, it can be concluded that there was indeed a non-conforming conventional accounting concept with Islamic accounting paradigm. Discrepancy is substantively due to incompatibility with with some verses of the Qur'an and Hadith of Prophet Muhammad (pbuh) and is technically due to incompatibility with the concept of *Zakat* calculation.

The development of Islamic business organization, by itself, increases the demands on the existence of the accounting with Islamic paradigm. Thus, the accounting with Islamic paradigm is something that is not negotiable today, especially for Islamic business organizations. Islamic accounting paradigm is implemented in order to achieve the happiness of the world and the hereafter. Therefore, alternative concepts required in lieu of these concepts are considered as incompatible with the paradigm of Islamic accounting. Replacement concepts are accounting concepts that are considered in accordance with the paradigm of Islamic accounting.

Conventional accounting concepts that do not fit the paradigm of Islamic accounting are the historical cost concept, conservatism concept, the matching cost concept, the objectivity concept, the stability of monetary unit assumption, and the going-concern assumption. The replacement concepts are shown in Table 1.

Table 1

The Alternative Concepts That Are in Accordance With the Paradigm of Islamic Accounting

No.	The concepts that are not in accordance with the paradigm of Islamic accounting	Alternative concepts as substitutes	References	Notes
1.	The historical cost concept	Current cash equivalent	Chambers (1966) gambling and Karim (1991) as cited in Muhammad (2003)	
		Both historical cost and current value (market selling price)	The AAOIFI (1996) as cited in Hameed and Yaya (2005)	Historical cost remains to be applied, and the use of the current value financial statement is only regarded as supplementary information
		Current cost (market selling price)	Adnan and Gaffikin (1997); Baydoun and Willet (1997; 2000); Clarke et al. (1996); and Haniffa and Hudaib (2001) as cited in Hameed and Yaya (2005)	
		Historical cost in all (except for <i>Zakat</i> purposes) accounting calculations	Mirza and Baydoun's (2000) assertion as cited in Hameed and Yaya (2005)	
		Current valuation	Hameed and Yaya (2005)	
		Fair value	IFRS (as cited in Kieso et al., 2011)	
2.	The conservatism concept	Removed	Muhammad (2003)	If the historical cost concept is no longer used, then the conservatism concept is no longer needed by itself
3.	The matching concept	Asset liability approach	Adnan and Gaffikin (1997) as cited in Hameed and Yaya (2005)	
4.	The objectivity concept	Primary objective is <i>Zakat</i> accountability	Adnan and Gaffikin (1997) as cited in Hameed and Yaya (2005)	
5.	The stability monetary unit assumption	(1) The application of gold or silver, a measuring unit or currency as was used in the age of the Prophet Muhammad (pbuh) (2) Dirham currency	(1) Abudlgader (1994) as cited in Hameed an Yaya (2005) (2) Adnan and Gaffikin (1997) as retrieved from http://sartini.files.wordpress.com (3) Al-Qur'an 4:29	
6.	The going-concern assumption	The author proposes to remove the going-concern assumption	(1) Hameed and Yaya (2005) (2) Adnan and Gaffikin (1997) as cited in Hameed and Yaya (2005) (3) Al-Quran 3:2; 2:255; 20:111; 25:58; 40:65; 53:27; 31:34; 24:64; 27:65-66; 64:4; and 72:26-27 (4) Hadith of Bukhari and Muslim (5) Djuitaningsih (2012)	

Note. Sources: From various references.

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