

## Accounting History

# Defining Islamic accounting: current issues, past roots

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### **Abstract**

*The emergence of Islamic banks and other financial institutions since the 1970s has stimulated a modern literature that has identified itself as addressing "Islamic accounting". Much of this literature is prescriptive, though studies of actual practice, and of attitudes to proposed alternatives, are beginning to emerge. Historical research into Islamic accounting is still in a process of development, with a range of studies based on both primary archives and manuals of accounting providing growing insight into accounting in state and private contexts in the Middle East. Other parts of the Muslim world are also the focus of historical accounting research. There is still much to discover, however, before historians can determine the influence of Middle Eastern accounting ideas and practices in other parts of the world. Moreover, the term "Islamic accounting" may simply be a convenient label to group together quite disparate accounting practices and ideas across time and space.*

**Keywords:** *Accounting history; Arabic manuals of secretaryship; Islamic accounting; merdiban method of accounting; origins of double-entry*

## Introduction

Does it make sense to talk of “Islamic accounting”? And to what extent has a history of Islamic accounting emerged? Islam is the second largest religion in the world and dominates a swathe of African and Asian countries from Morocco to Indonesia, but western understandings of Islam are often underdeveloped or even distorted, with the core characteristics of Islam seen by some as “intolerance, militancy, backwardness” (Küing, 2007, p.5). For many years, however, western social, political and economic historians have been studying the development of the Islamic world.

Western accounting historians have, however, tended to overlook the development of accounting in the Islamic world. This is a counterpart of the predominant (though not exclusive) focus of attention on a relatively small set of privileged places and peoples. “Privileged places” include the USA, UK, Canada, Australia, New Zealand, and to a lesser extent continental European countries such as France, Spain and Italy. “Privileged peoples” are the inhabitants of these countries, though the “first nations” who lived there before the coming of European settlers are not so privileged. In total, the privileged places and peoples account for about 20 per cent of the world’s population. The rest of the world is not entirely ignored: there has been a long-standing interest in Japanese accounting history, Chinese accounting is beginning to be studied, and Sy and Tinker (2006) have recently called for study of African accounting. However, historical research into “Islamic accounting” is only beginning to emerge in English-language sources.

The main objective of this article is to explore the emerging historical literature about accounting in Islamic settings. However, before this exploration can be undertaken, it is necessary to consider the issue of definitions. Can we use the term “Islamic accounting” as if there is a coherent and homogeneous body of ideas and practices to which that term may be applied? The term is certainly used in modern practice to identify a rapidly growing contemporary literature, and this is reviewed briefly, to set the scene for a consideration of the extant English-language literature of Islamic accounting history. In the concluding section of the article, I explore the extent to which future historical studies will be able to help in developing a critical understanding of modern Islamic accounting.

## Exploring the concept of Islamic accounting

Nearly 30 years ago, the literary critic Edward Said published his seminal work *Orientalism* (Said, 2003). Said’s aim was to expose the extent to which western views of the Islamic world were shaped by the abstraction of “Orientalism”. To Said, the idea of Orientalism is largely about the West’s relations with the Middle

East, and it also helps us to understand Britain's relations with India. Although he notes how "Middle Eastern" is often equated with "Arab" and "Islamic", Said warns against slipping too easily between these terms. He is sceptical about the application of the label "Islamic" to different phenomena, such as warfare, art, and city planning (Said, 2003, p.305), asking whether there is a cohesive notion of, for example, Islamic warfare that is substantially distinctive from western warfare. This scepticism needs to be addressed in any discussion of Islamic accounting – is the term actually helpful in the sense that it describes, or potentially could describe, a sufficiently distinctive body of accounting ideas and practices?

First, "Islamic accounting" could be understood in a religious sense. What concepts of accountability are stated or implied in the authoritative sources of Islamic doctrine, the Qur'an (believed by Muslims to be the word of God revealed to the Prophet Muhammad – Ali & Leaman, 2008, p.108)<sup>1</sup> and the Sunnah (the acts and sayings of the Prophet, as transmitted through traditions known as hadith – Ali & Leaman, 2008, pp.45, 135)? Contemporary writers have claimed that accountability is fundamental to Islam. "Islam is an Arabic word meaning submission or surrender, understood to mean to the will of God specifically" (Ali & Leaman, 2008, p.56). This submission implies adherence to the religious requirements in all aspects of life. Baydoun and Willett (1997, p.6) suggest that this gives rise to a broader concept of accountability than that present in western societies. "Allah takes careful account of all things" (Qur'an, *sura al-nisa* 4:86): everyone is accountable to God on the Day of Judgement for their actions during their lives. The word *hisab* (account, reckoning) and its derivatives appears more than 80 times in different verses of the Qur'an (Askary & Clarke, 1997, p.142). The Judgement is described in terms of weighing one's good and evil deeds in a balance (Qur'an, *sura al-qari'ah* 101: 6–8), with the good and evil deeds being recorded in books or registers (Qur'an, *sura al-mutaffifin* 83: 7–21).<sup>2</sup> Moreover, God is regarded as the ultimate owner of everything. God has appointed humanity as God's vicegerent (*khalifa*) on earth and granted stewardship of God's possessions (Lewis, 2001, p.110). While this primary accountability to God does not preclude more secular accountabilities to the community, investors, employers and others, these would need to be assessed in terms of their ability to achieve the primary accountability to God. The word *muhasaba*, derived from *hisab*, is used to refer both to a personal spiritual reckoning of one's good and bad deeds, and to conventional accounting by individuals and organizations (Findley, 1993).

While a general concept of accountability to God is also a feature of other religions (such as Christianity – see Aho, 2005), the existence of such a concept says nothing about specific forms or practices of accounting. Here, the Qur'an and Sunnah have little to contribute. The longest single verse in the Qur'an (*sura al-baq-arah* 2:282) goes into detail about how to record "transactions involving future obligations in a fixed period of time", but the verse does not specify what to

do with such records when the transactions are complete. However, the verse itself implies that the sorts of transaction that would need to be recorded would be single, self-liquidating ones rather than those based on the types of continuing relationship grounded in credit, partnership and agency that De Roover (1956) saw as the contexts within which double-entry bookkeeping developed in medieval Italy.

The term "Islamic accounting" can also have a temporal and spatial implication. It can be a form of shorthand meaning "accounting in parts of the world where Islam is the majority religion during periods when Islam has been dominant". Geographically, "Islamic accounting" would cover North Africa and a large part of sub-Saharan Africa, the Middle East, the territories of the Ottoman Empire, the Indian sub-continent, much of South-East Asia and Indonesia, as well as large parts of the former Soviet Union. Geographically, "Islamic accounting" would have to include much of Spain between the eighth and fifteenth centuries,<sup>3</sup> as well as areas of the Balkans. From a geographical perspective, the notion of a homogeneous "Islamic accounting" is problematic. Why should we expect there to be any degree of commonality between accounting in the Ummayyad caliphate of Al-Andalus around 950, in Cairo during the Fatimid caliphate around 1100, in the Mughal Empire in India around 1650 and in the coastal regions of Java or Sumatra around 1800? All of these could be labelled as Islamic societies in that Islam was the dominant religion,<sup>4</sup> but was Islam in itself a sufficient influence on accounting in these various locations at different times?

Yet the underdetermined nature of the term "Islamic accounting" does not prevent us from studying accounting in these different periods and locations. Indeed, there is a significant gap in English-language material on the history of accounting in North Africa, the Middle East, the Indian sub-continent and South-East Asia. This gap is beginning to be filled through the work of scholars who are able to make use of archival material and secondary sources in local languages and scripts, and we should celebrate the pioneering work of such scholars as forming a basis upon which future historical research into Islamic accounting may be founded. Before turning to the emerging historical research into Islamic accounting, some context may be provided by considering the literature on contemporary Islamic accounting.

### **A modern literature of Islamic accounting**

Most countries with a majority Muslim population were either occupied as colonies of western countries or were strongly under western influence until after the Second World War. To Muslims around the world, this led to a dilemma: should Islam change to accommodate the scientific, technological, political, social and economic advances associated with the West, or should it attempt to recover some "Golden Age" of Islam, if necessary through separating the Muslim community

from the cultures within which it was located? Reformers discussed notions such as the Islamic state and the Islamic economy, and the roots of modern Islamic accounting may be found in the social and economic discourse, and attempts to put this into practice, that they stimulated.

In the post-colonial period, although countries that had never been colonized regarded the relationship between religion and society in quite different ways, they tended to follow western accounting practices. In the nineteenth century, the Ottoman Empire had taken its Commercial Code from France and had later been influenced by German accounting practices (Toraman *et al.*, 2006a). Its twentieth century successor Turkey, which had adopted deliberately secular policies, looked to the West for its accounting practices (Orten, 2006; Orten & Bayirli, 2007). At the other extreme, Saudi Arabia, where the austere Wahhabi interpretation of Islam has dominated society, has also tended to take its accounting practices from the West (Naser & Nuseibeh, 2003). Some countries, such as Pakistan and Iran, have consciously identified themselves as “Islamic” republics and have aimed to adopt Islamic laws – the Shari’ah – for all aspects of human life including economic interaction. In addition to the intellectual justification provided by the different forms of “Islamism” emerging in the post-war period, the significant and persisting wealth transfers to the Middle East following the oil price rises of the early 1970s furnished economic underpinning for the creation of Islamic financial institutions.

The emergence of a scholarly literature of Islamic accounting in the English language can be dated fairly precisely to 1981, in which year Abdel-Magid proposed a tentative theory for the accounting practices of Islamic banks, which were beginning to emerge at that time as a significant force. The author begins with a discussion of the Islamic Shari’ah system (the principles and rules derived from the Qur’an and the Sunnah). He then explains how the Shari’ah principles are applied through a range of Shari’ah-compliant banking transactions, and concludes by asserting the need for specific accounting treatments for these transactions. Overall, there is a sense that Islamic accounting needs to be different from western accounting:

[T]he environment of corporate reporting in Islamic countries will be characterised by political, social and economic forces different from the forces found in the Western business environment. Since political and economic forces are constraints on the objectives of corporate reporting and accounting standards, the emergence of an Islamic model of accounting is a real possibility. (Abdel-Magid, 1981, p.97)

Since that article, the Islamic accounting literature has tended to fall into three main groups. First, there are general discussions of the need for Islamic accounting, and what the broad principles of an Islamic accounting system might be. Some researchers provide a broad sweep of coverage and others focus more on specific aspects, such as particular accounting concepts. Most of the literature is

prescriptive or descriptive. The literature in English includes Hamid *et al.* (1993); Adnan and Gaffikin (1997); Baydoun and Willett (1997, 2000); Mirza and Baydoun (2000); Sulaiman (2000); Lewis (2001); and Haniffa and Hudaib (2002). Notable Arabic language contributions include Al-Qabani (1983); Shihadah (1987); Attiah (1989); and Zaid (1995). Some studies also attempt to explain the choice of accounting practices by Islamic financial institutions. An example of this is the study by Maali *et al.* (2006) of social reporting by Islamic banks. The article develops a prescriptive benchmark for high quality social disclosures that would be consistent with the Islamic basis of these banks, gathers data on actual social disclosures, and attempts some basic explanation of the data.<sup>5</sup>

The second main group considers accounting for Islamic financial products. Contributions range from general conceptual reviews, discussing whether Islamic financial products are substantively different from western banking transactions to justify different accounting treatments (for example, Al-Obji, 1989; Heikal, 1989; Archer & Karim, 2001), to examinations of specific transactions or issues. Examples of the latter class include the study by Al-Jalf (1996) of the accounting issues raised by the *murabahah* transaction (where a bank purchases items on behalf of a customer who takes immediate delivery but who reimburses the bank through future payments greater than the amount that the bank pays to the items' supplier), the examinations by Al-Obji (1996) and Hmoud (1996) of how Islamic banks should measure and distribute profits from *mudarabah* contracts (where a bank's customers invest in the bank through profit-sharing arrangements rather than interest-bearing deposits), and the review by Daoud (1996) of how Islamic banks ensure the religious propriety of their transactions through the use of Shari'ah supervisory boards and advisers.

The third main strand of research into Islamic accounting looks at issues of regulation. Islamic financial institutions often argue that bank regulators and supervisors need "to fully comprehend Islamic banking and finance, to correctly identify and recognise the various credit, operational and market risks as well as other risks that are inherent in the Islamic banking business" (Aziz, 2007, p.xvii). Much of this literature discusses the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), established in 1991, which issues standards on accounting, auditing and governance for Islamic banks, insurance and investment companies. Several articles by Rifaat Ahmed Abdel Karim, for many years secretary-general of AAOIFI (Karim, 1990a, b, 1995, 2001),<sup>6</sup> discuss the need for specific standards, against a background of increasing international harmonization of financial reporting, as well as addressing more general issues relating to the supervision of Islamic banks.

Karim provides an important personal link between research and practice. He took a master's degree at the University of Birmingham under Trevor Gambling and later a PhD at the University of Bath under Cyril Tomkins

(see Tomkins & Karim, 1987). Karim was greatly influenced by the emerging literature on social accounting, particularly Gambling's (1974) *Societal Accounting* (1974), and he collaborated with Gambling on an early study of Islamic accounting (Gambling & Karim, 1986), and a more detailed book-length study of Islamic business ethics (Gambling & Karim, 1991). In these publications, Gambling and Karim emphasized the need for an Islamic accounting to be grounded in Shari'ah, which implied a deductive approach to constructing an Islamic accounting theory. They identified and discussed factors affecting the Muslim community (the *ummah*), which they considered were likely to influence Muslim users' needs relating to financial reporting. Two key factors are the prohibition of *riba*, sometimes interpreted as usury but more usually as all forms of interest (Mulhem, 2002),<sup>7</sup> and the fundamental duty of all Muslims to pay the religious levy *zakah*.<sup>8</sup> The prohibition of *riba* is the main driving force behind the growth of Islamic banking, using a range of contracts and transactions that are considered to be Shari'ah-compliant to structure transactions that in traditional banking would involve some form of loan or interest-bearing instrument (El-Gamal, 2006; Ayub, 2007; Hassan & Lewis, 2007; Iqbal & Mirakhor, 2007).<sup>9</sup>

Gambling and Karim (1986) discussed the measurement principles underpinning *zakah*, which is a form of obligatory contribution to charity based on a Muslim's wealth. Only particular types of wealth are subject to *zakah*, and wealth is measured using current values. Gambling and Karim (1991) argue that historical costs would not provide information relevant to owners of businesses wanting to compute their liability for *zakah*, while assets should be classified in the balance sheet so as to identify what wealth is subject to *zakah*. Several other researchers have proposed *zakah* as a central motivation for Islamic accounting, and have tended to endorse the need for some form of current or exit valuation instead of historical cost. The studies by Hamid *et al.* (1993), Clarke *et al.* (1996) and Adnan and Gaffikin (1997) show the influence of Raymond Chambers' continuously contemporary accounting (co-authors were students or colleagues of Chambers).

The modern Islamic accounting literature continues to thrive. The social focus of much of the more normative writing has begun to widen into environmental concerns (Kamla *et al.*, 2006). More rigorous empirical studies are beginning to emerge. For example, Sulaiman (1998) tested the claim of Baydoun and Willett (1997) that current value balance sheets and value added statements would serve the needs of Muslims to a greater extent than historical cost balance sheets and income statements. She found no difference in the perception of the usefulness of both current value balance sheets and value added statements between Muslims and non-Muslims. Sulaiman (2001) further tested the Baydoun and Willett (1997) position using an experimental approach, and again found no evidence of a religion effect. Idris (1996) tested perceptions of preparers of financial statements in both Islamic banks and commercial banks that provide "Islamic



windows" (separate departments offering transactions consistent with Islamic principles) regarding the items that should appear in the annual reports of Islamic banks. The respondents expressed the view that conventional statements like the balance sheet and income statements are the most important. Haniffa and Hudaib (2007), using a more extensive disclosure benchmark than Maali *et al.* (2006), examined how effective Islamic banks were in communicating their ethical identity as Islamic institutions through disclosures in their annual reports. Consistent with earlier research, they found a substantial gap between the ethical identities that Islamic banks were disclosing and what they considered to be the "ideal" ethical identities.

Maali (2005) combined research into contemporary accounting practices in Islamic institutions with a historical approach by investigating the impact of Islam on the accounting practices of Jordan Islamic Bank for the first 24 years of its operations. Maali found that, although the establishment of the Bank was clearly motivated by the desire to provide Shari'ah-compliant banking in Jordan, tensions between religious considerations and the need to develop a commercially viable bank able to compete with more traditional operations in Jordan arose from the beginning. Over time, although the bank has continued to offer Islamic financial products to both depositors/investors and customers, and to ensure that transactions are undertaken under the supervision of experienced Islamic scholars and jurists, the need to maintain the bank's competitive position has led to the use of Islamic forms of contract to create arrangements that echo more traditional western banking transactions. Maali's study provides an opportunity to study accounting change in an Islamic organization over a period of time, which is one of the main objectives of historical accounting research (Napier, 2006). The next section of the article considers other studies of Islamic accounting from a historical perspective.

### **Histories of Islamic accounting**

Relatively few historical studies covering accounting in Muslim countries have appeared in English-language journals, so it should not be a surprise that the writers of general histories of accounting have little if anything to say about accounting in these locations. For example, Ten Have (1976, p.11) refers briefly to the possibility that Arab accounting could have had an influence on the emergence of double-entry in medieval Italy, but he notes that this hypothesis has no evidential support (though the claim has subsequently been advanced by Zaid, 2000a), while Chatfield (1977) makes only passing references to accounting in ancient India (p.34, p.203), and ignores Arab accounting altogether.

Although this review is almost entirely limited to English-language material, it is important to remember that historical research relevant to Islamic accounting



is published in other languages. The most important body of such research focuses on accounting in the Ottoman Empire and Turkey, and until recently has been accessible only to readers of Turkish. Perhaps the central contribution to the Turkish literature is the four-volume history of Turkish governmental accounting, *Türk Devletleri Muhasebe Tarihi*, by Oktay Güvemli (1995, 2000a, b, 2001). Some of the historical research being undertaken by Turkish scholars is beginning to be available in English.

### Archival research

Historians in Turkey are fortunate in that a considerable amount of archival material has survived from the Ottoman Empire. One of the main problems for historians of Islamic accounting is the destruction of archives over the centuries: the sack of Baghdad by the Mongol invaders in 1258 was rivalled if not surpassed by the destruction of the National Library of Iraq in 2003 (Burkeman, 2003). Even when destruction is not deliberate, the climate in Islamic regions tends to be less conducive to the preservation of documents: Scorgie and Nandy (1992, p.91) describe how the way in which Indian account books of the eighteenth century were constructed provided “easy access for white ants and other insects”. In a review of sources for the economic history of the Middle East, Lewis (1970) sets out the problems that also apply to accounting historians:

The states of the medieval Middle East, with the exception of the Ottoman Empire, were destroyed, and their archives, ceasing to serve any practical purpose, were neglected, scattered and lost. Islam had no church, and the character of Islamic society did not favour the emergence of corporative bodies below government level, of such a type and of such duration as to produce and conserve records. (Lewis, 1970, p.81)

However, some researchers have found relevant archival material. Scorgie (1994b) was able to consider accounting in eleventh and twelfth century Cairo because of the serendipitous survival of documents and fragments in the store room (“geniza”) of a synagogue, retained because of an aversion to destroying writing that could include the name of God. Turkish scholars (for example, Çizakça, 1995; Orbay, 2005; Toraman *et al.*, 2007; Yayla, 2007a) have studied the records of *waqfs* (similar to charitable foundations),<sup>10</sup> which survived because these entities were established with perpetual endowments, and were subsequently (in many regions) taken over by the state. Ottoman archives have also preserved estate accounts of deceased persons, and Toraman *et al.* (2006b) have examined the form and content of these documents. Toraman *et al.* (2006a) have studied the accounts of a large Ottoman business, the Ereğli Coal Company, during the 1840s. They find that the company’s internal financial records were kept using the traditional Ottoman accounting system, which was quite different from the contemporary western single-entry and double-entry systems.

Two particular features of Ottoman accounting have been discussed in the English-language literature. The first of these is the “merdiban” (ladder) method of presenting accounting statements. Güvemli and Güvemli (2007) suggest that this approach can be found in the early years of the Abbasid caliphate in Baghdad, and they reproduce an example of an eighth century government document (possibly a tax budget). This presents information in the form of a table with overall totals at the top of the account and then more detailed breakdowns of these totals in parallel columns lower down. Because of the calligraphic device of elongating a medial or final letter in the Arabic headings to make the headings fill the width of the page or column, the various entries have the appearance of the rungs of a ladder. As Güvemli and Güvemli (2007) point out, the merdiban system of accounting was widely disseminated by manuals on accounting and administration during the period in which the Ilkhan rulers dominated the area now known as Iraq and Iran (approximately 1255–1350), and this dissemination continued into the Ottoman Empire.

The second feature of Ottoman accounting is the use of a specialized style of writing for the accounting records: *siyakat* (Yayla, 2007b).<sup>11</sup> This form of writing reflects the mixed linguistic influences on the Ottoman Empire, which took much of its administrative practice from earlier Middle Eastern ruling groups. *Siyakat* was consequently influenced by Persian and Arabic calligraphy, while it embodied its own special system of numbers. The use of *siyakat* in many historical accounting documents means that they can be read only by those who have studied this writing style and have some familiarity with different languages. There is evidence that documents in *siyakat* were prepared in areas as far apart as Hungary and the Balkans, while these areas were part of the Ottoman Empire (Fekete, 1955), and Mughal India. Scorgie and Nandy (1992) quote from Francis Gladwin’s, *A Compendious System of Bengal Revenue Accounts* (published in Calcutta in 1796), noting how, under the Mughal emperor Akbar, around 1600, accounts kept under the “Persian mode” began to replace accounts kept in Hindi:

[I]n the course of time the Persian mode has obtained so generally throughout Hindostan, that Siyak is now become an essential qualification for the merchant, as well as for the financier. The Mohammedans at that time had but little skill in Persian arithmetic and book-keeping, but their deficiency was soon made up by the Hindoos, who applied themselves with great assiduity to the study of Siyak, and are to this day the best accountants in the empire. (cited in Scorgie & Nandy, 1992, p.89)

### Accounting manuals

Most of the contributions to accounting history journals in the Islamic accounting field are based on a range of manuscript manuals of accounting, or references to accounting in more general works. For example, the historian Ibn Khaldun

(1332–1406), in his introduction to history known as the *Muqaddimah*, discusses the origins of state accounting in the early Islamic state under the second successor to Muhammad, the caliph Umar. Ibn Khaldun notes how Umar established a *diwan* (the Turkish equivalent is *divan*), a term whose meaning evolved from referring to a written record of receipts and payments (especially those due to soldiers), to the office where those responsible for maintaining the records were located. Ibn Khaldun (2005, pp.198–9) describes how the *diwan* in lands conquered by the Arabs in the years after the Prophet's death originally used local languages – Persian in the former territories of the Sassanid Persian empire and Greek in lands formerly under the control of the Byzantine empire. Arabic was introduced as the language in which records were kept by the Ummayyad caliph Abd al-Malik around 700. As Ibn Khaldun notes:

[The *diwan*] constitutes a large part of royal authority. In fact, it is the third of its basic pillars. Royal authority requires soldiers, money, and the means to communicate with those who are absent. The ruler, therefore, needs persons to help him in the matters concerned with “the sword”, “the pen”, and finances. Thus, the person who holds the office (of tax collections) has (a good) part of the royal authority for himself. (Ibn Khaldun, 2005, p.199)

Subsequent Arab and Persian writers to provide guidance on accounting include Abu Abdallah Muhammad Al-Khwarizmi, whose *Mafatih al-ulum* (“Keys of the Sciences”), written around 977, includes a chapter describing “the techniques and documents of central administration in the eastern Iranian world at [that] time” (Bosworth, 1963, p.104). This was the main source upon which Hamid *et al.* (1995) based their discussion of how the 10th century Islamic state controlled significant amounts of revenue and expenditure. Zaid (2000a) also draws on Al-Khwarizmi, as well as on the earlier administrative encyclopaedia of Qudama ibn Ja'far *Kitab al-kharaj wa-sina'at al-kitaba* (“Book on the land tax and methods of record-keeping”, written before 948; see also Heck, 2002).

Two encyclopaedias written for officials of the Mamluk rulers of Egypt and Syria have been studied for information on accounting practice. Albraiki (1994) makes use of the extensive manual *Nihayat al-arab fi funun al-adab* (“Objectives in classes of good conduct”), written by Shihab Al-Din Ahmad Al-Nuwayri (died c. 1332). Al-Nuwayri was a financial official and hence is highly likely to be writing about the actual accounting systems of the Mamluk rulers. Albraiki suggests that the system being described was double-entry in form, though it may have given such an appearance because many of the transactions that Albraiki describes involve taxpayers' discharging their liability by making payments ordered by the state to settle the state's obligations to third parties. Hence there were many transactions with an obvious “dual” nature.

The Egyptian writer Abu'l-Abbas Ahmad Al-Qalqashandi, a secretary in the chancery of the Mamluk rulers, was the author of the "monumental" (Bosworth, 1964, p.292) encyclopaedia of secretaryship *Subh al-a'sha fi sina'at al-insha* ("Dawn for the blind concerning the techniques of correspondence", completed around 1418).<sup>12</sup> In this work, Al-Qalqashandi considers the requirements for *al-katib*, literally the person of the book (*kitab*). As Bosworth (1964, p.293) notes, a somewhat earlier Arab writer, Al-Hariri (1054-1122), distinguishes between *al-katib al-insha* (the correspondence secretary, dealing with matters of state) and *al-katib al-hisab* (the accounting secretary, dealing with matters of finance). Zaid (2000b) summarizes Al-Qalqashandi's list of qualifications expected of those who aspired to take up the role of *al-katib*, which ensured that *al-katib* would be technically competent, well-versed in the Islamic Shari'ah law (particularly the law of commercial transactions - *fiqh mu'amalat*), and respectable and trustworthy. Although Zaid speculates that the Islamic *al-katib* was similar to the western accountant, attributing this to trade links between the European and Muslim worlds, the qualifications that he lists would appear more relevant to the "senior civil servant" that Al-Qalqashandi is probably discussing.

Several books written in Persian setting out governmental accounting systems are known from the period of the Ilkhans (during which time the Ottomans were beginning to emerge as their vassals). These have been reviewed by Remler (1985), and some have been edited by scholars working in the West. Among the most important of these manuals are the *Sa'adename* (1307) of Felek Ala-yi Tebrizi (edited by Nabipour, 1973; see also Erkan *et al.*, 2006, pp.5-6), and the *Risale-i Felekiyye* (1363) of Abdullah bin Muhammad bin Kiya Al-Mazandarani (edited by Hinz, 1952; see also Hinz, 1950; Erkan *et al.*, 2006, pp.7-8). The *Risale* is a major source of information about the Merdiban method of accounting (Erkan *et al.*, 2006; Güvemli & Güvemli, 2007), and it has formed the basis of several published contributions to the Islamic accounting history literature. In their pioneering contribution, Solas and Otari (1994) summarize Al-Mazandarani's accounting-related material. Although they describe the system set out in the *Risale* as "rudimentary double-entry" (Solas & Otari, 1994, p.134), it is more like a set of interlocking primary and subsidiary records, with detailed entries in the subsidiary books being carried over (perhaps in summarized or total form) into the primary records. Al-Mazandarani's treatise is used widely by political and economic historians as a source of information on government, tax policy, prices and other matters in the Middle East in the fourteenth century, so accounting researchers may safely take the *Risale*'s descriptions of accounting methods and documents as fairly representing contemporary practice.

#### **Islamic accounting, double-entry and diffusion**

Did the "Italian method" of double-entry, in the form both of surviving business and civic records and of books such as Pacioli's *Summa*, reflect the influence of

earlier, Eastern, accounting developments? At least one economic historian, Alfred Lieber, had claimed such an influence for more general business practices:

The merchants of Italy and other European countries obtained their first education in the use of sophisticated business methods from their counterparts on the opposite side of the Mediterranean, most of whom were Muslims, although a few were Jews or Christians. (Lieber, 1968, p.230).

The potential role of Jewish merchants trading in the Middle East in transmitting accounting methods has been discussed by Parker (1989) and Scorgie (1994a). Scorgie (1994b), using fragments of documents dating from the end of the eleventh and the beginning of the twelfth centuries, which had been found in a storeroom of a Cairo synagogue, identifies documents that can be read as early versions of a journal and a list of debits and credits. Many of the "Geniza" documents have been used as the basis of investigations into medieval Islamic commerce, credit and banking by economic and legal historians (for example, Goitein, 1966; Ray, 1997). The documents discussed by Scorgie (1994b) were written in Arabic, but were typically produced by Jews rather than Muslims. This raises an aspect of the definitional problem posed earlier in this article – do these documents actually count as examples of "Islamic accounting" at all? If the term is taken as referring to accounting undertaken solely by Muslims, then the Geniza documents would not qualify, but if the term is taken to refer more to a spatial and temporal location, then they fall under the description of "Islamic accounting". In any event, Jews, Christians and adherents of other religions constituted significant minorities and in some cases the majority of the population in many Muslim countries until well into the 20th century (Karabell, 2007), so their accounting practices cannot be ignored.

Although Scorgie (1994b) is careful not to make claims that the Geniza documents he reproduces are precursors of double-entry, Zaid (2000a) asks whether Islamic accounting methods influenced the "Italian" method of double-entry. Zaid points out parallels between practices and terminology found in Islamic accounting, such as the importance of the journal (in Arabic *jaridah*), and those seen in late-medieval Italian accounting, but his suggestions that Islamic accounting influenced Italian accounting are speculative. In a response, Nobes (2001) defends the Italian origin of double-entry, suggesting that the parallels that Zaid identifies between certain Islamic practices and Italian counterparts (the centrality of the journal, the use of "pious inscriptions" at the beginning of account books and statements) are not evidence of influence. Following Lieber (1968), the extensive trade links between Italy and the Middle East could have led to diffusion of business methods not only from traders located in Muslim states to their Italian counterparts, but vice versa.

Replying to Nobes, Zaid (2001, p.216) concedes the lack of archival evidence demonstrating Muslim influence on Italian bookkeeping practice, though he suggests that such influence “cannot be ruled out”. Zaid raises the question of what actually counts as “double-entry”, putting the expression “double-entry system” in quotation marks to indicate the instability of the term. Do we require full duality of entries, use of nominal accounts and periodic balancing, or would something more partial be accepted? Even if an acceptable “double-entry system” were found in an Islamic setting that predated such systems in Italy, this is not necessarily evidence of Muslim influence on Italy. Accounting historians must also be cautious about claims made by non-specialists. For example, the economic historian Subhi Labib asserts:

The double entry method was an important part of a merchant's skill. It allowed him to watch not only the flow of single values but also the circulation of the capital, and it enabled him to register quantitatively its change and transformation and to control the success and the development of the business. (Labib, 1969, p.92)

However, Labib admits that he has no actual archival evidence for this claim, and the accounting system he distils from secondary sources is not obviously double-entry in form.

Zaid returned to a study of Islamic accounting history in 2004, where he discussed the role of conquest and colonization as important factors in the spread of accounting, and suggested that this process could provide an explanation for the Bahi-Khata accounting systems found in India (Lall Nigam, 1986). Zaid (2004, p.150) endorsed the suggestion of Scorgie (1990) that accounting in India before British colonization was likely to reflect the influence of Islamic accounting through the Muslim Mughal invaders. The issue of how accounting methods were diffused by Muslim traders, soldiers and administrators to South and South-East Asia would be worth studying. Subrahmanyam (1992, p.357) has noted how Iranian merchants operating in south India in the seventeenth century sometimes took roles in government because of their commercial knowledge, including accounting (often involving a familiarity with *siyakat*). Sukoharsono (1998) has discussed the impact of Islam in Indonesia, and has considered fiscal administration in the Islamic states that were emerging from the fourteenth century. He has also studied the impact of Dutch colonial investment, using evidence from the Dutch East India Company (Sukoharsono, 1997), and the continuing Dutch influence on Indonesian accounting and the emerging accounting profession in more recent times (Sukoharsono & Gaffikin, 1993). At the other end of the Muslim world, El-Omari and Saboly (2005) have examined the emergence of an accounting profession in Morocco both during French colonial occupation and subsequently. There is certainly scope for a comparative study of the accounting profession in different parts of the Islamic world, perhaps considering the extent



to which the concept of the “profession” may be a western import rather than an indigenous Islamic idea.<sup>13</sup>

## Conclusions

The modern literature of “Islamic accounting” would suggest not only that there is a reasonably well articulated body of thought on how the precepts of Islam would be applied in order to generate a practical system of financial reporting, but also that the term “Islamic accounting” provides a convenient label for empirical and practice-related studies of accounting issues relating to entities identifying themselves as “Islamic.” The term is less convenient when applied to historical studies, where little of the surviving archival material so far examined presents a distinctively “Islamic” face. It is more useful as an indicator of place and period, but future research will need to investigate and tease out how far the solutions offered to problems of administration and commerce have an Islamic “signature” rather than simply being contingent practical responses.

With that caveat, the historical evidence on “Islamic accounting” is becoming increasingly accessible, and is reflecting research into the primary archives that have survived as well as the many treatises and other secondary material on accounting. Early claims about links between accounting in the Middle East and India and double-entry have been shown to have no basis in terms of surviving historical materials, and research, particularly into Ottoman sources, is increasingly taking the records on their own terms rather than attempting to impose inappropriate western models. The functional problems of recording transactions and safeguarding resources appear to have been basically the same for Islamic states and merchants as for their western counterparts, in which case it would not be surprising if similar solutions were found to these problems. But rather than beginning with a presumption of similarity, it may be more useful to ponder the extent to which differences in social, political, economic and more general cultural circumstances, not to mention religion, are likely to manifest themselves in differences in accounting. As Carnegie and Napier (2002, p.711) note: “There will be situations where what appear to be similar accounting approaches at a high level of generality may turn out to be quite different at a closer level of analysis.”

In this article I have looked at the issue of what could constitute “Islamic accounting” as a general concept, and reviewed some of the research that seeks to document accounting ideas and practices in the Muslim world of both the past and the present. Clearly, there is scope for much more research into accounting ideas and practices in countries with dominant Muslim populations in the pre-colonial, colonial and post-colonial periods, especially in areas geographically on the periphery such as Islamic Spain on one side and Malaysia and Indonesia on the other. This work could examine themes explored in other contexts within recent



historical accounting research, such as the use of accounting by states and governments, the characteristics of groups of people responsible for preparing accounts, and the roles of accounting in organizations. Literature-based studies could be used to investigate how a distinctive Islamic notion of accountability (assuming one exists) has developed through time. If “Western accounting” was imposed on Muslim societies as a by-product of colonialism, was there any resistance to this, and if so what forms did it take?

The contemporary literature of Islamic accounting has been an area of considerable growth in recent years, and offers extensive prescriptions for financial and management accounting consistent with Shari’ah principles. That these prescriptions seem to have less impact in practice may be due to the need for Islamic financial institutions to operate within a global financial market dominated by western accounting norms. Moreover, in our present state of historical knowledge, the modern Islamic accounting associated with Islamic banking and finance appears to be an innovation rather than representing continuity with ideas and practices of the past. In this, Islamic accounting may be similar to the body of knowledge labelled as “Islamic economics”. Despite the existence of early traces of economic thinking in a range of sources (for example, Ibn Khaldun), it has been suggested by Kuran (1997, p.301) that Islamic economics is essentially a “new doctrine”.

Islamic accounting history is only now beginning to emerge from the shadows of western accounting history. Further development in this area can be achieved as accounting historians become more aware of the use of accounting information by those outside the field, such as economic, social and political historians, and as the existing studies of the development of accounting in Islamic societies become familiar to an audience who lack the advantage of facility with languages such as Arabic and Turkish. If these conditions can be satisfied, then we shall be able to assess with more confidence whether there is now, or has been in the past, a coherent “Islamic accounting”.

## Notes

1. References to the Qur’an are based on the English translation of Abdullah Yusuf Ali (1999; first edition 1934).
2. “On the Day of Judgement We shall bring out for him a scroll, which he will see spread open. (It will be said to him:) ‘Read thine (own) record; sufficient is thy soul this day to make out an account against thee’” (Qur’an *sura al-isra* 17:13–14).
3. All references to years and centuries relate to the Common Era (CE) rather than to the *Hijra*.
4. Java and Sumatra were colonial possessions of the Dutch, with significant Hindu and animist populations away from the coast (Stark, 2001, p.86).

5. A more detailed analysis of social reporting in a larger sample of Islamic banks has been undertaken by Farook and Lanis (2005).
6. Karim is now Secretary General of the Islamic Financial Services Board.
7. The interpretation of *riba* is in practice more complex than merely interest (Saleh, 1992). El-Gamal (2006) argues that interpreting *riba* as usury (that is, excessive and unfair interest) would make Islamic banking largely redundant, as conventional banks, unlike moneylenders, do not normally consider the interest they charge to be excessive.
8. This Arabic word is sometimes transliterated as *zakat*.
9. The literature relating to accounting for Islamic banks has been reviewed at length by Maali and Napier (2007).
10. The Arabic plural is *awqaf*.
11. This is also transliterated as *siyaqat*.
12. This author's name is also transliterated as Al-Kalkashandy (for example Zaid, 2000b). He worked in the *Diwan al-insha*, the department of the Mamluk rulers' court responsible for correspondence, for over 20 years (Bosworth, 1964).
13. The recent study of the Syrian accountancy profession by Gallhofer *et al.* (2008) notes that Syria's professional accountancy body was modelled indirectly on the UK profession.

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*Acknowledgement:* This article is based on a plenary address at the fifth *Accounting History International Conference*, Banff, Canada, 10 August 2007. The author has benefited from the comments of Garry Carnegie, Michael Gaffikin, Oktay Güvemli, Bassam Maali, Lee Parker, Hilmi Yayla, two anonymous reviewers, and Nola Buhr.

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