

# THE SUITABILITY OF CONVENTIONAL ACCOUNTING FOR ISLAMIC ORGANIZATIONS AND THE NATURE OF ISLAMIC ACCOUNTING:

## Perception of Moslem Accounting Academicians in Java

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### ABSTRACT

*The objective of this study is to examine the perception of Moslem Accounting Academicians in Java on the suitability of conventional accounting for Moslem users and Islamic organizations, as well as the objectives and characteristics of Islamic accounting. The questionnaires returned were 115 and 103 of this was usable. A non-parametric test of median was conducted using MINITAB 13 to test the hypotheses. The results showed that Moslem accounting academicians in Java believe that Islamic organizations should follow Shari'ah principles and promote social welfare rather than concentrate on profits. There also seems to be a favourable response to the need for Islamic accounting. Most of the participants agree with the accountability objective of Islamic accounting and support the integrative and holistic nature of Islamic accounting information.*

**Key words:** *conventional accounting, Islamic accounting, Islamic corporate reporting, objectives and characteristics of Islamic accounting*

### 1. Introduction

There were an increasing number of the studies related to Islamic accounting issues. These studies related to why the conventional accounting is inappropriate for Islamic organizations and the practical imperative of Islamic accounting. Hameed (2000) argues that the practical necessity for the development of an Islamic Accounting is the establishment of Islamic business and organizations which are specifically based on the Shari'ah. These socio-economic organizations are part of the Islamic economic and financial system, which is based on the Islamic world-view and values. The objectives, operations, and practical accounting requirements of these organizations need an alternative accounting. These organizations should use Islamic accounting to enable users to ensure that Islamic organizations abide by the principles of Shari'ah. However, due to lack of accepted standards for annual report disclosure, Islamic organizations still use accepted disclosure standards for conventional annual reports. Islamic banking in Indonesia use Statement of Financial Accounting Standard No 59 to prepare their financial statements.

Harahap (2002) argues that even though The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have been established, the accounting standards for Islamic banking are mostly based on conventional accounting concepts and principles. Islamic accounting is not only a matter of modifying conventional accounting to fit the needs of Islamic institutions but also need a major

overhaul (Yaya, 2001). The different philosophical assumptions underlying Islamic organizations and their different operating mechanism, some of which find no parallel in the conventional business and accounting practices, suggest a more radical change on conventional accounting.

Research conducted by Hameed (2000) showed that Malaysian Moslem accounting academicians Islamic perceived that Islamic organizations should follow Shari'ah/ethical principles and promote social welfare rather than concentrate on profits. There also seems to be a favourable response to the need for Islamic accounting among Moslem accounting academics and accountants in Malaysia. Most of the participants agree with the accountability objective of Islamic accounting and support the integrative and holistic nature of Islamic accounting information. In case of Indonesia, Yaya (2002) support the Hameed's (2000) finding. Moslem accounting academicians in Yogyakarta perceived that conventional accounting is not suitable for Islamic organizations. The respondents also have a strong consensus on some principles which can be used later as a basis for developing Islamic accounting.

Sulaiman (1997 and 1998) has conducted a survey of the perceptions of Moslem and non-Moslem accounting information users in Malaysia to investigate if Islamic Corporate Reporting Model appears to desire. Survey respondents comprised of accountants, financial analysts, bank lending officers and zakat officers. The result indicates that that there is no differences exist in the perceived usefulness of accounting information between Moslems and non-Moslems. The result also suggested that Baydoun and Willet's theory that Moslems would perceive the Islamic Corporate Reporting Model to be significantly more useful than non-Moslems was not supported. The result from Sulaiman's research may be interpreted as challenging the notion, that culture in general, and Islam in particular, may have a significant influence on accounting practice (Gray, 1988; Perera, 1989; Baydoun and Willett, 1994).

These different findings on the issues of Islamic accounting, suggest that there is a need to conduct more empirical research on Moslem society. In case of Indonesia, Yaya (2002) has conducted a research study in Yogyakarta. However, his study was conducted in limited area and did not examine the antecedents of perceived usefulness of Islamic corporate reporting. This research, therefore, aims to extend previous research by exploring the consensus among Moslem accounting academicians in Java on the nature of Islamic accounting: the suitability of conventional accounting for Moslem users and Islamic organizations and also the objectives and characteristics of Islamic accounting under different cultural contexts.

The aims to replicate and extend from previous research (i.e. Hameed, 2000, Sulaiman 1997, 1998; Yaya; 2002) are twofold. First, in Java, there were some universities which recognized as the pioneer in the Islamic economic and accounting in discussions and curriculum. Some universities also undertake courses in Islamic civilization as part of their curriculum. These Universities usually have Islamic background such as Muhammadiyah or Nahdatul Ulama. Some universities in Java also have already published journals which encourages the articles on the Islamic accounting issues. The increasing discussions and curriculum in universities in Java showed the theoretical imperative of Islamic accounting. Second, there are developed Islamic organizations in Java with many Islamic banks and insurances which can be described as practical imperative of Islamic accounting. Further, there is a general Islamic resurgence in accounting academia from those universities as well as among Moslem businessmen who try to implement Islam in their activities. Moslem accounting academicians also have function as key carriers of Islamic culture because they play an explicit role in value socialization (Schwartz, 1999). Therefore, it is important to elicit the perception from Moslem accounting academicians from universities in Java on the Islamic accounting issue.

## 2. Literature Review

### 2.1 The Need of Islamic Accounting

Lewis (2001) argue that in an Islamic society, the development of accounting theory should be based on the provisions of Islamic law along with other necessary principles and postulates which are not in conflict with Islamic law. Hameed (2000) argue that the need for Islamic accounting can be divided into two factors: push and pull factors. Pull factors were those that made conventional accounting unsuitable for Moslem users and Islamic organizations. Hameed (2000) defines pull factors as those factors that make Islamic accounting both a theoretical and practical necessity and imperative. These factors literally pull Islamic accounting into existence to meet the need of Moslem users and Islamic organizations. The pull factors can be categorized into two groups: Islamization of Knowledge factor which provides the theoretical imperative for Islamic Accounting and establishment of Moslem and Islamic institutions which is the practical imperative for the development of Islamic Accounting. The problems of conventional accounting which can make it unsuitable for Moslem users and Islamic institutions and can be categorized as push factors can be summarized as follows:

- a. The objectives of conventional accounting based on decision usefulness may not be acceptable from an Islamic point of view because it seeks to concentrate and accumulate wealth to certain sections of society i.e. shareholders and creditors.
- b. The accounting principles on which conventional accounting reports are prepared may be unsuitable for the direct and indirect equitable distribution of wealth and the calculation of Zakat which is the one of the most important objective of Islamic accounting.
- c. The problem with historic cost income models becomes more problematic in a Moslem environment where profit is the main means of ascertaining divisible returns to finance providers as interest is prohibited.
- d. The negative economic and social consequences of conventional accounting on the environment, society and individuals are unacceptable from an Islamic point of view.

### 2.2 The Objectives and Characteristics of Islamic Accounting

#### 2.2.1 The Objectives of Islamic Accounting

There were some alternative of the objectives of Islamic accounting which have been proposed by prior research. They were; (a) decision usefulness, (b) stewardship, (c) Islamic accountability and (d) accountability through *Zakat*.

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) recognized that the objectives of financial accounting including accounting for Islamic bank is determine the type and nature of information which should be included in financial reports in order to assist users of these reports in making decisions. AAOIFI also recognizes stewardship as one of its objectives. It points out that the objective of financial accounting is to contribute to the safeguarding of the assets, and to the enhancement of the managerial and productive capabilities of the Islamic bank while encouraging compliance with its established goals and policies. Mirza and Baydoun (2000) support this objective and suggest that the stewardship function must be the focus of attention of accountants of Islamic institutions in reporting to external parties.

Hameed (2000) suggests that Islamic accountability model can be used as the main objective of Islamic accounting. From a practical point of view, this suggestion is supported by Khir (1992) who asserts that this concept is so ingrained in the Moslem community that it will give the greatest motivation for the practical development of Islamic accounting.

Khan (1994) argued that the objectives of Islamic accounting including accounting for Islamic banks are different from those of conventional accounting for two main reasons. First, Islamic banks deal within a Sharia framework. As a result, the nature of their transactions is different from that of conventional banks. Second, the users of information generated by Islamic banks have different needs from the users of information published by conventional accounting. Looking to the information needs of users, Khan (1994) argued that the accounting reports of Islamic banks should help the shareholders, depositors, investors and employees to determine their liability to *zakat*.

### 2.2.2 Measurement and Disclosures in Islamic Accounting

Most of Islamic accounting literature takes *Zakat* as a cornerstone of determining measurement tools. Khan (1994) argued that one set of the main objectives in an Islamic society is to help an individual to determine his or her liability to *zakat* and pay it promptly. In valuing *Zakat*, the majority of jurists appear to have concluded that it 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, 1994&2000 and Haniffa & Hudaib, 2001).

Mirza and Baydoun (2000) view this issue differently 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 contract is based on past transaction and *Zakat* is based on current valuation, then the measurement needs to conform to each purpose.

Haniffa & Hudaib (2001) propose that the importance of disclosure and presentation is to fulfill the duties and obligations according to the Islamic *Shariah*. To achieve this purpose, an Islamic enterprise is expected to disclose at least: (1) any prohibited transactions they made; (2) *Zakat* obligation they have to pay and have already paid; and (3) social responsibility. Social responsibility would include charities, wages to employees, and environmental protection. This means that financial reporting in an Islamic society is likely to be more detailed than what is currently prevalent in Western societies. Baydoun and Willet (2000) view that social accountability and full disclosures are the basis of Islamic corporate reports. The consideration of social accountability would imply that conventional historic cost balance sheet should be supplemented with estimates of current values. They suggest the current value balance sheet be included as part of the reporting requirements of firms operating in an Islamic economy especially for calculating *zakat* obligation. Meanwhile, the income statement should be relegated to the notes because of its corruptive influence in directing people to become highly profit oriented.

## 2.3 Research Hypotheses

### 2.3.1 Suitability of Conventional Accounting for Islamic Organizations

Hameed (2000) argue that the difference in worldview and values will make difference in accounting. He argued that conventional accounting is not appropriate for Islamic organizations due to its inappropriate objectives, characteristics and consequences. Sulaiman and Willet (2003) also argued that the possible explanation for phenomena showed that Baydoun and Willet's model was not supported by empirical evidence is the potential of Western materialist values to corrupt the value system of Moslems. Hence, there is a possibility for the Moslem accountants and accounting academicians to

perceive it differently from the Islamic accounting theories. This phenomenon leads the first research questions: Is conventional accounting appropriate for Islamic business organizations and Moslem users to fulfill their objectives?

In case of Malaysia, Hameed (2000) concluded that the hypothesis that Malaysian Moslem accountants and accounting academicians believe that some conventional accounting principles are suitable for Islamic organisations is accepted. It also appears that some conventional accounting principles, such as monetary measurement, prudence and historical cost, may be viewed as appropriate for Islamic organizations. In case of Indonesia, Yaya (2002) who examine the perception of Moslem accounting academicians in Yogyakarta also support the findings of Hameed's study.

- H1: Moslem Accounting Academicians in Java believe that conventional accounting provides information, directs Moslem users towards unIslamic behavior.**
- H2: Moslem Accounting Academicians in Java believe that Financial Statements provided under conventional accounting provide inappropriate information for Moslem users.**
- H3: Moslem Accounting Academicians in Java believe that the conventional accounting concepts of historical cost, prudence and monetary measurement are not suitable for Islamic organizations.**

### **2.3.2 The Objectives and Characteristics of Islamic Accounting**

Hameed's (2000) study in Malaysia concluded that Islamic/social objectives of Islamic accounting are seen by Malaysian Moslem accountants and accounting academicians as more important than the economic objectives such as the maximisation of shareholder wealth. Yaya (2003) who conducted study in Yogyakarta, found that Moslem Accounting Academicians in Yogyakarta perceived the objective of Islamic accounting is different from the objective of conventional accounting, which is decision usefulness. He argued that, since this consensus is widely supported by the respondents, the development of Islamic accounting could be brought about by providing information that will enable shareholders to ensure that the organization has discharged its accountability in accordance with the *Shariah* and to induce economic behavior in line with Islamic objectives and values.

- H4: Moslem Accounting Academicians in Java believe that the objectives of Islamic accounting are different from the objectives of conventional accounting**

It is commonly understood that the type of information provided is the result of the various interests of the users of the accounting information. In conventional accounting, there is a kind of classification of users of accounting information whereby shareholder and potential shareholders are regarded as the primary users. This practice is in line with capitalism that views the capital provider as the centre of wealth creation. Since Islamic accounting has a different worldview, it is possible that there is a difference in the level of importance of users of accounting information between Islamic accounting and conventional accounting.

Empirical findings of Hameed (2000) suggested that stakeholders other than shareholders are perceived by Malaysian Moslem accountants and accounting academicians, as important as, if not more important than, shareholders, as users of Islamic accounting information. Yaya (2002) also support this finding that Moslem Accounting Academicians in Yogyakarta believe that the level of importance of users of accounting information is different between Islamic accounting and conventional accounting.

whereby in Islamic accounting the shareholder is not necessarily the most important user among the stakeholders. Therefore, the fifth hypothesis can be stated as follows:

**H5: Moslem Accounting Academicians in Java believe that other users of accounting information in Islamic accounting are equally important with shareholders.**

It is argued that Islam emphasizes social and religious concerns i.e. lawful and unlawful aspects of transactions. This implies that there should be some differences in the information to be disclosed between Islamic based accounting and conventional based accounting. The findings of Hameed's (2000) support the hypothesis that Malaysian Moslem accountants and accounting academicians believe that Islamic accounting emphasizes Islamic/social information. Yaya (2002) concluded that hypothesis on the characteristics of Islamic accounting, it is found that Moslem Accounting Academicians in Yogyakarta believe that Islamic accounting should emphasize social and religious oriented information. This consensus would imply that there is a need in an Islamic accounting system to provide information to encourage the business organization to behave in an Islamic manner and discourage any un-Islamic behavior that might probably be undertaken by the organization or the users of information.

**H6: Moslem Accounting Academicians in Java believe that Islamic Accounting should give more on social and religious information.**

### **3 Methodology**

#### **3.1 Population and Sample**

This research takes Moslem accounting academicians in Java as the target research population. The Moslem of accounting academician was defined as Moslem faculty members and lectures of the Accounting Department or Economic School of the universities which recognized as actively internalizing Islamic values especially Islamic economics or Islamic accounting in their curriculum. The main reason of choosing this target population is because they are expected to be familiar with the issues of Islamic accounting. The other reason is because teacher, including Moslem accounting academicians, as a group, they play an explicit role in value socialization, they are presumably key carriers of culture, and they probably reflect the mid-range of prevailing value priorities in most societies (Schwartz, 1999).

The researcher use State and Private University Directory to obtain information about the number of accounting academicians from some universities in Java which fulfill the criteria. Because the directories did not have information about universities which have Islamic accounting or Islamic economic in their curriculum, the researcher obtain information from Forum Silaturahmi Studi Ekonomi Islam (FOSSEI). The researcher also visits the website of some universities to get the information about their curriculum and lectures.

#### **3.2 Research Variables**

This study will obtain empirical evidence of perception on the nature of Islamic accounting hypothesizes as mentioned in the previous section. To test the issues about the nature of Islamic accounting, this research will adopt instrument developed by Hameed (2000). This instrument has been used by Hameed (2000) and Yaya (2003) which show high reliability and validity. Islamic Accounting Questionnaire using the Likert and 1 to 7 scales except for measuring the objective of Islamic Accounting.

The variables related to the nature of Islamic accounting are UnIslamic behavioral consequence of conventional accounting (UNISL), Financial statements prepared under conventional accounting is not suitable (FACON), Unsuitability of conventional accounting principles (CAPRIN), The objective of Islamic Accounting (OBJECTIVE), The users of Islamic accounting (USER), and The variable of characteristics of Islamic accounting (CHARCT)

### 3.3 Data Collection Method

Survey will be used for data collection method. A survey design - through the data collection process of asking questions, provides a quantitative or numeric description of some fraction of the population i.e. a sample which can be in turn generalized to the population from which the sample is drawn.

### 3.4 Hypotheses Testing

After conducting normality tests, the first until the sixth hypothesis are tested using the t test and non-parametric sign test. The t- test and non-parametric sign test are appropriate because they can be used to test a hypothesis which calls for drawing just one sample. These tests tell us whether the particular sample could have come from some specified population. These tests also can answer whether any difference in central tendency between the sample and population. The t- test assumes that the observations or scores in the sample have come from a normally distributed population. Proper interpretation of t- test based on the normal distribution also assumes that the scores analyzed result from measurement in at least an interval scale. The meaningfulness of the results of a parametric test such as t-test depends on the validity of these assumptions. Therefore, if the normally distributed assumption of t test is not meet, the hypotheses will be tested using non- parametric sign test. One of the advantages of non- parametric statistical test is make fewer assumptions about the data and may be more relevant to particular situation (Siegel and Castellan, 1988).

For the fourth hypothesis, the data will be analyzed by using chi-square test of frequency. The chi-square test is suitable for analyzing responses data which differ in frequency (Siegel and Castellan, 1988). The technique is of the goodness of fit type in that may be used to test whether a significant difference exists between and observed numbers of responses falling in each category and an expected number. The four hypothesis will be supported if there is a significant difference between respondent's perceptions of Islamic accountability as objective of Islamic accounting and the other perception of objective of Islamic accounting.

## 4 Results and Discussions

Based on information from FOSSEI, the questionnaires were distributed to twenty universities which have Islamic accounting or Islamic economic in their curriculum, of which six are publicly funded and the last are private. All these universities offer courses in business or accounting. The University with the largest Moslem accounting member is University of Diponegoro with 44 staffs in the department of accounting. The private universities are relatively new with fairly small number of accounting staff. It must be noted that some universities undertake courses in Islamic civilization as part of their curriculum. These Universities usually have Islamic affiliation organizations background such as Muhammadiyah or Nahdatul Ulama. There were some universities which recognized as pioneer in Islamic accounting curriculum such as University of Brawijaya, Malang and University of Trisakti, Jakarta.

The questionnaires returned were 115 and 103 of this were usable. Therefore the response rate was 51,11 % and the usable rate was 46%. The relatively high response rate was encouraging and is felt to be due to personally delivering the questionnaires to the head of department or lecturers concerned rather than posting them.

#### 4.1 Profile of the Respondents

Table 1 shows profile of the respondents based on their gender, education level, Islamic organizations affiliation, profession, and tenure. In terms of Islamic organizations affiliation, table 1 shows an interesting phenomenon, that most of the respondents did not have an affiliation (62,1%). Meanwhile, the respondents who have affiliation are commonly from Islamic background institutions such as University of Muhammadiyah, University of Islam Indonesia, and University of Wahid Hasyim.

#### 4.2 Validity and Reliability

This study used both of correlation bivariate and factor analysis to test the validity of instruments. The results showed that correlation between each indicator on the total scores of the construct was significant. Therefore, this result showed that all of the indicators were valid.

The reliability of the items in the questionnaire was tested using SPSS Cronbach Alpha model method. If this alpha measure results in is 0.6 or above as a rule of thumb (Nunnally, 1960, as quoted by Ghozali, 2005) then the items are said to be reliable. From table 2 it can be seen that most of the items of variable from the Islamic Accounting Questionnaire were reliable. This is evidenced by the Cronbach's Alpha figure of around 0.6 for all items.

#### 4.3 Non-response Bias Test

Non-response bias test was conducted by comparing early respondents with late respondents, as proxy for the sample who did not participate, in terms of their answer to the questionnaire. The researcher assumed that the late respondents were respondents who response after the dateline given (one month after the researcher sent the questionnaire). There were 24 late respondents and 79 early respondents. Non-response bias was conducted by compare the late and early respondents answer. T-test is employed to compare the independent sample. The result shows that there is no differences significance response between early and late respondents.

#### 4.4 Test of Normality

The hypotheses testing for this study need normality test. The t-test can be conducted if the data is normally distributed. The sign median test is used when the data does not meet this assumption. Kolmogorov-Smirnov and Shapiro-Wilk is used to detect the normality of data. The null hypothesis is data normality distributed and the alternative hypothesis is otherwise. Table 3 showed the result of normality test. The probability of significance for variables related to the nature of Islamic accounting are significant at 0, 05 level. Therefore the null hypothesis is rejected and the conclusion is data for those variables is not normally distributed.

#### 4.5 Hypotheses Testing

As Islamic accounting is an exploratory study of the subject, it is considered adequate by the researcher to conduct a univariate analysis on the data without attempting to study relationship among different variables. The test of normality showed that the data for research variables were not normally



distributed. Thus, the hypotheses related with the nature of Islamic accounting will be tested using non-parametric sign test of median. A non-parametric test of median will be conducted using MINITAB 13 as SPSS did not have corresponding univariate tests.

#### **4.5.1 The Appropriateness of Conventional Accounting for Islamic Business Organizations and Moslem Users**

The researcher argued in previous section that the objectives, characteristics and consequences of conventional accounting do not make it a suitable information tool for Moslem users and organisations. This inappropriateness can be categorized into three aspects:

##### **a. Conventional accounting may in effect direct Moslem users towards unIslamic behaviour.**

From table 4, it can be seen that the p value is less than 0.05 for the sign tests. This indicates that the difference between the population median and the test value of 4 is significant and cannot be ignored. The hypothesis that the median of UNISL is greater than 4 is accepted. It can thus be inferred that Moslem Accounting Academicians in Java believe that conventional accounting does not lead to Islamic behaviour.

##### **b. Conventional accounting provides inappropriate information**

From Table 4, it can be seen that the p-value is less than 0.05, indicating that the hypothesis that Moslem Accounting Academicians in Java perceive that conventional accounting information is not suitable for Moslem users is supported.

##### **c. Conventional accounting concepts are not suitable for Islamic organizations.**

The p values is 0.8878 for the sign test indicate that the probability of the sample having come from a population containing a median of less than 4 almost 88,78%. Hence the hypothesis is not supported. In other word, Moslem Accounting Academicians in Java believe that some conventional accounting principles are suitable for Islamic organizations.

#### **4.5.2 The Objectives and Characteristic of Islamic Accounting**

##### **a. The Objectives of Islamic Accounting**

Based on the data obtained from the field research, it is found that 1,9 % (2 cases) of the respondents choose decision usefulness, 1,9 % (2 cases) choose stewardship, 75,7 % (78 cases) choose Islamic accountability and 7,8 % (8 cases) choose accountability through zakat, while the rest 2,9% (3 cases) choose others. The frequency distribution of the option is shown in Figure 1

The difference of the obtained frequency to its expected frequency is significant below 5% confidence level ( $p$  value = 0.000) as shown in Table 5. This means that the probability of the expected frequency being equal is almost nil. Therefore it can be said that the hypothesis is supported and the Islamic accountability is the most accepted objective as the framework of Islamic accounting.

##### **b. The Users of Islamic Accounting**

The results in table 2 indicate the p value was less than 0.05, indicating that the median was significantly more than 4. Hence the hypothesis is supported, that stakeholders other than shareholders are perceived by Moslem accounting academicians in Java, as important as, if not more important than, shareholders, as users of Islamic accounting information.

### c. The Characteristics of Islamic accounting

From Table 2 it can be seen that the p value is less than 0.05. Hence, the hypothesis is supported that Moslem accounting academicians in Java believe that Islamic accounting emphasizes Islamic/social information.

## 5. Discussions

The results show that the respondents perceived that conventional accounting does not direct Moslem users towards Islamic behavior and that conventional accounting needed major modification for Islamic organizations. This finding is consistent with Yaya (2002) and Hameed (2000). Respondents of this study have the same characteristics with Yaya (2002) who elicit the perception of Moslem accounting academicians in Yogyakarta and considered that the respondents have same level understanding on the Islamic accountings issues.

The second hypothesis was supported then we can conclude that Moslem Accounting Academicians in Java perceive that conventional accounting information is not suitable for Moslem users and Islamic organizations. This result is consistent with Yaya (2002) and Hameed (2000) who conclude that the respondents perceived that the information provided by conventional accounting do not allow them to properly disclose their Islamic accountabilities. There was an interesting phenomenon because the third hypothesis was not supported. It appears that some conventional accounting principles, such as monetary measurement, prudence and historical cost, may be viewed as appropriate for Islamic organizations. Both Moslem accounting academicians in Java and Malaysia perceived that those principles were appropriate for Islamic accounting.

Moslem accounting academicians were very familiar with principles of conventional accounting such as monetary measurement and historical cost. Despite this, there was still debate in Islamic accounting researchers on the measurement and disclosure principles were should be used by Islamic accounting (see Baydoun and Willet (1994 and 2000); Taheri (2000); Mirza and Baydoun (2000); Yaya (2002), Triyuwono (2002); Haniffa *et al* (2004)). Thus, there is a possibility for the Moslem accounting academicians in Java to perceive it differently from the Islamic accounting theory suggested by Baydoun and Willet (1994). In the case of measurement, Haniffa *et al* (2004) state that an Islamic accounting is likely to use both historical cost and market selling prices. The dual system of asset valuation is likely to enable firms to accommodate contracts and satisfy the various claimants. It also enables them to fairly discharge their social obligations, especially the payment of *zakat*.

The other explanation why the respondents perceived the conventional accounting concepts of historical cost, prudence and monetary to be suitable for Islamic organizations could be due to the perception that general belief that accounting is concerned with money and prudence principle serves as a protection to absent shareholders and creditors from overvaluing the assets. This belief comes from convergent behavior that proposes that the work environment will influence a person values and behavior (Addler *et al*, 1986; Kelley *et al*, 1987). In this case, the Moslem accounting academicians exhibit convergent tendencies because they adopt the Western World-View and values which have implications for accounting values. Thus, they believe that some conventional accounting principles, such as monetary measurement, prudence and historical cost, may be viewed as appropriate for Islamic organizations. Conversely, if they believe that some conventional accounting principles, such as monetary measurement, prudence and historical cost, are not appropriate for Islamic organizations, thus they steadfastly conform to their home-culture values (Islamic values) and influence behaviours, they will be portraying divergent tendencies.

Based on the result of the test on hypothesis 4, it can be said that the objective of Islamic accounting is different from the objective of conventional accounting. This result is consistent with Hameed (2000) and Yaya (2002). Since this consensus is widely supported by the respondents, the development of Islamic accounting could be brought about by providing information that will enable shareholders to ensure that the organization has discharged its accountability in accordance with the *Shariah* and to induce economic behavior in line with Islamic objectives and values. Then based on hypothesis 5 testing on the users of Islamic accounting, it was found that Moslem accounting academicians in Java believe that the level of importance of users of accounting information is different between Islamic accounting and conventional accounting, whereby in Islamic accounting the shareholder is not necessarily the most important user among the stakeholders.

Finally, on testing hypothesis 6 on the characteristics of Islamic accounting, it is found that Moslem accounting academicians in Java believe that Islamic accounting should emphasize social and religious oriented information. This consensus would imply that there is a need in an Islamic accounting system to provide information to encourage the business organization to behave in an Islamic manner and discourage any un-Islamic behavior that might probably be undertaken by the organization or the users of information (Yaya, 2002). The strong consensus among Moslem accounting academicians on certain principles showed that these principles can be used later as a basis for developing Islamic accounting.

The result of hypothesis 6 testing was similar with Hameed (2000) and Yaya (2002) and also support the Islamic accounting theory which suggested that Islamic accounting should emphasize social and religious oriented information. This implies that the principles of *Shari'ah* should drive accounting and reporting policies for Islamic organizations. Since adherence to *Shariah* is a form of worship, managers of Islamic organizations must balance between wealth allocations to firm's claimants and to oneself by taking into account the welfare of both fellow humans and also the environment when making choices on accounting and reporting policies. By doing so, managers of Islamic organizations are able to fulfill obligations to *Allah*, society, the environment, and self and also to achieve socio economic justice and success in this world and hereafter.

## 6. Conclusion, Limitations of the Study and Suggestions for Further Research

The general conclusion from the hypotheses testing is that Moslem accounting academicians in Java believe that Islamic organizations should follow *Shari'ah*/ethical principles and promote social welfare rather than concentrate on profits. There also seems to be a favourable response to the need for Islamic accounting among Moslem accounting academicians in Java. Most of the participants agree with the accountability objective of Islamic accounting and support the integrative and holistic nature of Islamic accounting information. Although the respondents are not convinced about the unsuitability of the conventional accounting concepts of historic cost, prudence and monetary measurement, for Islamic organisations and Moslem users, they generally agree that conventional accounting is not suitable in terms of its objectives, the information it provides and its behavioural effects.

This research had several inherent limitations. In particular several important aspects of Islamic accounting could not be investigated due to the length and time limitations. These include the structure of questionnaire and the in-depth discussion of recognition and measurement system for Islamic accounting. The theoretical paradigm adopted by this study is the Islamic paradigm, which is a spiritual extension of a middle position of the subjective/objective dimension divide and towards an interpretive

approach. For this paradigm, long-term participant observation in an organizational setting, multi-stage interviews and case studies will be appropriate for data collection methods for further research.

This study, as is the case for normative ethical research in general, fail to take into account the actual condition of the reporting the Islamic business enterprises. Maali's *et al* (2003) analysis suggest that that social reporting by Islamic banks falls significantly short of expectations for entities whose operations are based on Islamic principles. The Islamic banks tend to disclose only the items to help to construct a positive image, such as matters relating to charity and *Zakat*. However, Islamic banks tend not to disclose issues that are potentially important to the stakeholders. Therefore, future research can consider the issues about the actual reporting practice of Islamic organizations.

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**TABLE 1**  
**PROFILE OF THE RESPONDENTS**

	Frequency	Percent
Gender:		
Male	69	67
Female	33	32
Education level:		
Undergraduate (S1)	37	35,9
Master (S2)	55	53,4
Doctor (S3)	11	10,7
Islamic organizations affiliation:		
Nahdatul Ulama	12	11,7
Muhammadiyah	27	26,2
None	41	62,1
Profession:		
Only lectures	85	82,5
Lectures and also CPA firm's employee	18	17,5
Tenure:		
Less than 5 years	23	25,8
5-10 years	30	33,7
11-15 years	17	19,1
16-20 years	12	13,5
More than 20 years	7	7,8

Source: Primary Data processed, 2005

**TABLE 2**  
**RESULTS OF RELIABILITY TEST**

Variables	Cronbach's Alpha
Unislamic behavioral consequence of conventional accounting (UNISL)	0,8045
Financial statements prepared under conventional accounting is not suitable (FACON)	0,8888
Unsuitability of conventional accounting principles (CAPRIN)	0,7211
The objective of Islamic Accounting (OBJECTVE) <sup>1</sup>	-
The users of Islamic accounting (USER)	0,8152
Characteristics of Islamic accounting (CHARCT)	0,8723
Power Distance (POWER)	0,8024
Uncertainty Avoidance (UNCER)	0,8486
Conservatism (CONSV)	0,8112
Secrecy (SECRECY)	0,7678

**TABLE 3**  
**RESULT OF NORMALITY TEST**

Variables	Kolmogorov-Smirnov Test		Shapiro-Wilk Test	
	Statistics	p-value	Statistics	p-value
UNISL	0,134	0,002	0,916	0,000
FACON	0,155	0,000	0,925	0,000
CAPRIN	0,105	0,034	0,967	0,041
USER	0,144	0,000	0,948	0,003
CHARCT	0,156	0,000	0,903	0,000

Source: Primary data processed by SPSS 11,5

<sup>1</sup> This variable has single indicator only and measured using ordinal scale

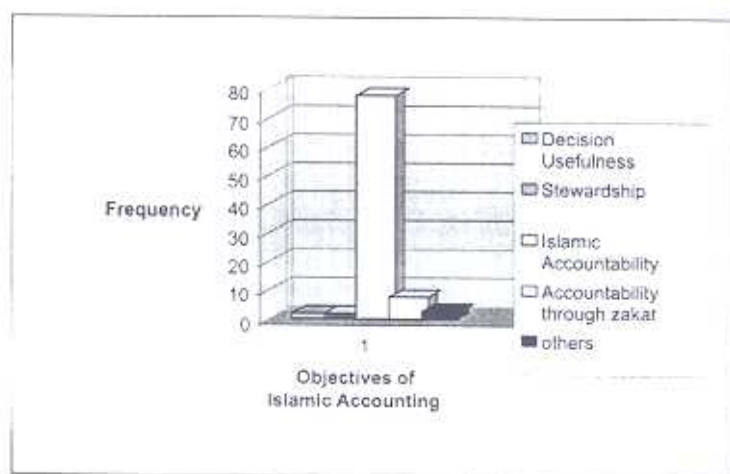


**TABLE 4**  
**RESULTS OF HYPOTHESES TESTING**

Variables	Below	Equal	Above	Median	p-value
UNISL	16	9	78	5,250	0,0000
FACON	33	9	61	4,670	0,0027
CAPRIN	46	9	36	3,670	0,8878
USER	8	12	78	5,500	0,0000
CHARCT	6	1	90	5,900	0,0000

Source: Primary Data processed by MINITAB 13

**FIGURE 1**  
**DISTRIBUTION FREQUENCY OF OBJECTIVE VARIABLE**



Source: Primary data, processed by Microsoft Excel

**TABLE 5**  
**RESULTS OF CHI-SQUARES TEST**

Objectives of Islamic Accounting	Observed Number	Expected Number
Decision Usefulness	2	18,6
Stewardship	2	18,6
Islamic Accountability	78	18,6
Accountability through zakat	8	18,6
Others objectives.	3	18,6
Chi-square statistics	238,452	
Asymp. Sig	0,000	

Source: Primary data, processed by SPSS 11,5