Specific features of Islamic accounting and cultural paradigm

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ABSTRACT

The objective of this paper is to provide a synopsis of Islamic accounting characteristics as well as to identify some of the determinants which led to its specificities. It explores several aspects related to the Islamic accounting principles and its institutional framework. The cultural paradigm is viewed as a differentiating key factor in the elaboration and implementation of the accounting standards in the Islamic Word. Based on Hofstede approach, the elements of this paradigm are linked to the relative preference for IFRS adoption of different Islamic countries. From the proposed analysis, it emerges the image of Islamic Accounting's complex nature, which may be seen as a distinct alternative to the principles and views promoted by IFRS.

KEY WORDS

Islam, accounting, IFRS, culture, banking, AAOIFI

INTRODUCTION

When embarking into a study on the topic of Islamic accounting, a researcher should always keep in mind the permanent need to maintain professional integrity mainly as he/she encounters controversial aspects. However, various times the objectivity of the foreign researcher independent of internal influences represents a competitive advantage. Thus, such a project stimulates professional curiosity, which will consequently lead to more in-depth studies on the topic. In this paper our research is based on a qualitative approach. The research objectives include: firstly, providing a synopsis of Islamic accounting characteristics; secondly, identifying some of the determinants which led to Islamic accounting specificities, including its institutional framework; thirdly, testing our research hypothesis which is linked to the fact that the cultural paradigm is viewed as a differentiating key factor in the elaboration and implementation of the accounting standards in the Islamic Word; fourthly, based on Hofstede approach, linking the elements of this paradigm to the relative preference for IFRS adoption of different Islamic countries and, for this purpose, several empirical cases being taken into account. Still, the research limits are significant and go beyond the accessibility to primary bibliographical sources or linguistic and cultural barriers. In this particular case, the "effort" is worth while mainly because of our interest in the cultural and religious background of the accounting regulations and the consequent attitude towards the use of the International Financial Reporting Standards (IFRS) issued as a result of the convergence between IASB and US FASB.

Over the past 25 years, a complex network of interlinked economic, social and political changes has considerably contributed to the wealth held by Muslims and to their need to make the most of this wealth according to the principles of Islam. Nowadays, the Muslim population represents 25% of World's population with more than 1.82 billion in the year 2009[1], being widely spread all around the globe but mainly concentrated in the Middle East, South East Asia, Africa and Central Asia. With a banking sector becoming one of the fastest growing financial sectors globally (Rad, 2006), Islamic Accounting and Finance become more and more difficult to ignore by the Western business environment. Thus, Islamic accounting and auditing standards have been developed in order to standardize the most suitable methods for the operations of the respective financial institutions.

There can be different meanings of Islamic accounting. Firstly, it can be understood in a religious sense when the accounting rules are influenced by the religious dogma. Secondly, the label Islamic accounting can be applied to those countries where Islam had been the dominant religion at a certain moment in time. Given this last remark, we must mention that the influence of this religion on the national accounting rules may differ considerably from one country to another.

For a long time the historical evidence on Islamic accounting available in English, was thin and mainly based on few secondary sources. Only recently, the modern technologies and communication tools permitted the exploration of primary records. Initially, the international accounting classifications did not mention much the Islamic countries, showing little interest in comparing these countries among them or with other jurisdictions in the world. Mueller (1968) in his second classification argues that different business environments need different accounting systems and the closest he gets to Islamic countries is the reference to one group represented "the developing nations of the Near and Far East" which might need standardized accounting systems. This idea has repeatedly been presented by the modern literature as Islam is seen different from Occident, so it must have its own accounting system (see in Gambling and Karim, 1986). Nair and Frank's (1980:429) classification using clustering includes, for example, Pakistan in the British Commonwealth model; whereas Doupnik and Salter (1993), in testing Nobes classification (1983), suggest a general model about the causes of accounting differences, posing 10 variables, and including in the study a group of Arab countries.

However, the development of Islamic financial institutions was the one that contributed significantly to the emergence of a modern literature on Islamic accounting. To this has added also the development of well-funded universities in Muslim countries such as the International Islamic University of Malaysia (IIUM), where a significant group of accounting scholars with a vast interest in the progress of the Islamic accounting literature in the recent years. Moreover, the contributions of the Muslim and non-Muslim scholars operating within Western universities have become considerable - since in the last decades, in a quest for better fulfilling the needs of investors, no matter their state of origin or religion, the Great Britain and United States became operating centers for Islamic financial organizations and research institutions, without denying the role of Malaysia and Indonesia in promoting Islamic finance globally (Wardi, 2005).

In general, contemporary Islamic finance, banking and accounting have been described as an interesting alternative to conventional or "capitalist" accounting; while international organizations and Western governments support the contemporary Islamic banking sector. Essentially, the growing ***body of literature related to Islamic accounting*** focuses on:

a) <u>The history of accounting developments in Muslim countries since the early days of the Islam</u> (Hamid et al., 1995; Zaid, 2000a, 2000b, 2001; Solas and Otar, 1994; Farag, 2009). For instance, Zaid (2001: 216) addresses the topic of the double-entry system, and underlines the possibility that Muslim traders developed it and "lent" it to their Italian counterparts. Farag (2009) presents a historical review of the evolution of accounting and accounting profession in Egypt since the ancient Egyptian civilization to the modern accounting practices. Egyptian accounting practice is divided into three stages: record keeping (1883–1939); financial reporting under changing economic regimes (1939–1975); and the move to adopt international accounting standards in an attempt to liberalize and integrate the Egyptian economy into the global economy (1975–2008).

b) <u>The basic understanding of Islamic accounting principles</u>, its objectives and compliance with Islamic law. Abdel-Majid (1981), the first major paper in an English-language journal, discusses the Islamic Shari'ah system, presents a range of Shari'ah - compliant banking transactions, and asserts that there is a need for specific accounting treatments for these transactions. Overall, there is a sense that Islamic accounting needs to be different from Western accounting. Khan (1994) also argues that the information needs of an Islamic society are quite different from those of a capitalist society, by providing a framework for Islamic accounting based on the proprietary theory.

c) <u>The differences between Islamic and conventional accounting</u> (Baydoun and Willett, 2000; Haniffa and Hudaib, 2001; Kuran, 2004; Vinnicombe and Park, 2007). For instance, Vinnicombe and Park (2007) provide a comparison of AAOIFI's FAS (Financial Accounting Standard) no.11 vis-à-vis IAS 37 and 39 reveals some substantive differences.

d) Specific issues in Islamic Accounting standards and practices (Mirza and Baydoun, 1999; Baydoun and Willett, 2000; Sulaiman, 2000; Dar and Presley, 2000).

e) Trends in Islamic accounting research (Mirza and Baydoun, 1999; Kuran, 2004; Kamla et al., 2006; Kamla, 2009). For instance, Kamla (2009) finds indications that Islamic accounting research is diverting from its primarily proclaimed social and moral roles. The article provides a critique of the limited scope of Islamic banking and accounting practices and research. It pinpoints the "obsession with technical and instrumental matters related to the interest ban and zakah calculations".

1. THE KEY GUIDING PRINCIPLES TO ISLAM AND THE APPROACH TOWARDS ACCOUNTING

Islam literally means peace, obedience to Allah in this world and hereafter. *Shari'ah* is the comprehensive body of Islamic laws, mainly concentrated in: *al-Quran*, *Sunnah* (the acts and sayings of the Prophet Muhammad, as transmitted through traditions known as Hadith); and two complementary sources *Ijtihad/ijma'*: shuratic and consensus process. These rules represent guidelines provided to all aspects of daily life of mankind including business, management and finance. Thus, Islam implies a ***series of principles*** that can basically be resumed as:

- Unity of God *(tawheed)* which implies a comprehensive worldview; an integration between world and Islamic principles (truth, justice, fair, goodwill, honesty, benevolence, accountability before God); the unity and equality of all God's creations in the worship of God and their equality as partners in terms of respect and appreciation towards the existence of all and the interconnectedness between all (Kampla et al., 2006).
- Trusteeship implies that people are given a special role in relation to the environment. The human being is appointed a trustee (steward) or *Khalifah* (Lewis, 2001:110) that will not abuse people for personal interests but will maintain the balance, spreading justice, truth and virtue.
- Community principles. According Al-Gazzali an eminent Muslim philosopher of the XIth century (quoted in numerous authors including Ibrahim, 2000:62), the purpose of Shari'ah is "to promote the welfare of the people, which lies in safeguarding their faith, their life, their intellect, their prosperity and their wealth". In economic terms, these principles have to do with *social responsibility* and p*ublic accountability* ensuring the community with the fact that the entity is continuously operating within the socioeconomic boundaries of the Islamic Shari'ah.
- The importance of knowledge (*ilm*), especially self-knowledge is connection to the notion of developing a sustainable community, by promoting developments of the intellect, wisdom and knowledge (Tinker, 2004).
- The holistic approach to life has to do with the wider environment, Islam being concerned to protect the environment and maintain the balance between the material and spiritual needs of all human beings. This principle has the most evident association to sustainable development, emphasizing the negativity of waste, obsessive extravagance (*israf*), excessive consumerism and conspicuous consumption (Kampla et al., 2006:254). The holistic approach to life has a significant influence on economics (Chapra, 1992) and so the Islamic economic

systems should be viewed from such a perspective (Gambling and Karim, 1991: 32). This approach has to do with perception of social justice as according to Quran wealth should not be concentrated in the hands of a few individuals. This leads to the notion of the fair distribution of wealth through *zakah/ zakat*. This is one of the Five Pillars of Islam, is the giving of a small percentage of one's possessions to charity. The Muslims have the duty to collect *zakat* and to fairly distribute it.

1.1. Application of the Islamic principles to accounting

Regarding the application of the Islamic principles to accounting, there is a general and old belief that, according to Quran, Allah rules over business and accounting. Islamic accounting is seen as "an integrated discipline with social, political and economic domain ruled by Allah or <<meta rule>>. Islamic accounting should regulate and establish a harmonious integration among the parties of this diverse domain" (Hayashi, 1989). It is supposed to provide full disclosure and social accountability in order to satisfy any reasonable informational demand in accordance with Shari'ah (Lewis, 2001).
In early Islam, the accountant (*Muhtasib*) was appointed to ensure justice in society by means of the transactions on the market and traders behavior matching the Shari'ah stipulations (Gambling and Karim, 1991); this remaining the model for modern Islamic accountant whose prime obligation is to the community (*umma*).
One of the early institutions to regulate the market and prevent fraud was *al-Hisba* established in 7th and 8th centuries for the "promotion of good and the prevention of evil" (Gambling and Karim, 1991:50). Among the unlawful (*haram*) business practices in Islam, there is *riba* (interest on credit), manipulation, fraud, speculative transactions, gambling, uncertainty/risks, free market interference. In fact, the two issues that influence profoundly the development of Islamic accounting are *riba* and *zakat* (for a detailed analysis see Sulaiman, 2003, Iqbal, 2002). The influence of riba on Islamic accounting lies in the equity structure of an entity and its influence on this entity's disclosure practices. On the other hand, zakat influences the measurement (valuation) methods.

In respect to the parallel between conventional and Islamic accounting, many authors attempted such comparison in general or for specific standards (see for instance Baydoun and Willett, 2000; Haniffa and Hudaib, 2001). According to them, the main differences between conventional and Islamic accounting have to do with the following:

a) General economic aspects such as:
- Secular versus religious;
- Economic rationalism versus Unity of God;
- Individualism versus collectivism;
- Profit maximization motive versus reasonable profit;
- Absolute versus relative ownership.

b) Specific accounting issues like:
- *Conservatism*: apply prudent valuation methods and avoid using the most favorable impact on owners versus most favorable to community;
- *On going concern*: business goes forever versus based on contractual agreement between parties;

- *Measuring unit*: monetary value versus quantity and monetary based (according to zakat calculation);
- *Consistency* based on the standards/regulations used by the entity versus consistency with Islamic law;
- *Materiality*: decision making usefulness versus fulfilling all duties before Allah;
- *Users of financial information*: identifying economic events and transactions versus identifying socio-economic and religious events and transactions.

In addition, some (Razik, 2009) consider that Islamic accounting and IFRS differ in five issues that are related to leases, restricted contracts, and specialty investment account (where the investors bear part of the business risk), related party transactions; whereas others (Baydoun and Willett, 2000) analyze the contents of Islamic corporate reports suggesting that a current value added statement should also be part of Islamic corporate reports in order to provide greater awareness of the social impact of company's activities. Sulaiman (2000) supports the use of both current value balance sheets and value added statements as part of Islamic business enterprises' corporate reports.

1.2. Islamic banking sector

Islamic banking has become in the last two decades, mainly after the oil price rises of the early 1970s, a successful global phenomenon, existing in majority and non-majority Muslim countries. It was often argued that its expansion was due to the endorsement from the oil-rich Gulf States (Henry and Wilson, 2005).

The reality is that there are, in our time, around 300 Islamic financial institutions globally, with assets of about \$200 - \$300 billion, a Dow Jones Islamic Market Index created in 1999 and another index - Dow Jones Citigroup Sukuk (Islamic Bond) Index in Kuala Lumpur - created in 2003 (Pollard and Samers, 2007). To this situation also contributed the so called "Islamic windows", which represent separate divisions of the multinational banks devoted to marketing Shari'ah - compliant financial products. This became a trend which spread rapidly into countries where large Islamic communities lived, such as the United Kingdom. Conventional banks such as HSBC and Lloyds offered Islamic banking products and a series of financial institutions followed: the Islamic Bank of Britain (created in 2004), Amana Mutual Funds Trust, American Finance House, Manzail and so on. Apart from operating in the Western world, many banks began operating in Islamic countries such as Citibank which was the first Western bank to open an Islamic subsidiary in Bahrain (in 1996). Other British, American, French and Swiss banks such as American Express, UBS and Banque Nationale de Paris started providing Islamic products through their Western branches or through Islamic subsidiaries in Pakistan, Bahrain and other Islamic countries (Iqbal, 1997; Pollard and Samers, 2007).

The institution that formally regulates the Islamic banking sector is ***The Accounting and Auditing Organization for Islamic Financial Institutions*** **(AAOIFI)**[2] - a standard setting body based in Bahrain. AAOIFI's fields of interest include accounting, auditing, governance, ethics and Shari'ah standards for Islamic financial institutions and industry. AAOIFI was established in accordance with the Agreement of Association which was signed by Islamic financial institutions on February, 26, 1990 in Algiers. Then, it was registered on 27 March, 1991 in the State of Bahrain.

AAOIFI is supported by institutional members (200 members from 45 countries, so far) including central banks, Islamic financial institutions, and other participants from the international Islamic banking and finance industry, worldwide. Despite that the AAOIFI standards are not mandatory; it has been successful in promoting its standards to Islamic countries (Kingdom of Bahrain, Dubai International Financial Centre, Jordan, Lebanon, Qatar, Sudan and Syria). Moreover, the relevant authorities in Australia, Indonesia, Malaysia, Pakistan, Saudi Arabia, and South Africa have issued guidelines that are based on AAOIFI's standards and pronouncements. So far AAOIFI issued 26 accounting standards, 5 auditing standards, 2 ethics standards, 7 governance standards, 35 Shari'ah standards (for a list of these please check Appendix 1).

The declared objectives of AAOIFI are:
1. to develop accounting and auditing thoughts relevant to Islamic financial institutions;
2. to disseminate accounting and auditing thoughts relevant to Islamic financial institutions and its applications through training, seminars, publication of periodical newsletters, carrying out and commissioning of research and other means;
3. to prepare, promulgate and interpret accounting and auditing standards for Islamic financial institutions; and
4. to review and amend accounting and auditing standards for Islamic financial institutions.

AAOIFI carries out these objectives in accordance with the precepts of Islamic Shari'ah. This activity is intended both to enhance the confidence of financial statements users in the information disclosed by these institutions, and to encourage these users to invest or deposit their funds in Islamic financial institutions and to use their services. In addition, AAOIFI assist financial institutions in developing new products (Lewis, 2001).

In spite of the AAOIFI's claims that it has issued Shari'ah - compliant standards, there are researchers who believe that these standards have been built significantly on Western standards and the objectives of the AAOIFI's standards resemblance a lot to any other standards issued by international or local accounting bodies in the capital market (Maurer, 2002). Some researchers (El-Gamal, 2006) even think that by standardizing the Islamic accounting, AAOIFI has helped legitimize these standards as Islamic and reduced suspicion by Muslims as to their Islamic nature, permitting Islamic institutions to avoid costumer comparisons between Islamic products and conventional ones or raising questions on the methodology used.

Theoretically, the existence of "Islamic windows" implies that Islamic banks differentiate their activities and products from conventional ones in that they should share profit and loss with their depositors (Dar and Presley, 2000). Consequently, Profit Loss Sharing (PLS) is one of the basic concepts of Islamic finance representing "contractual arrangement between two or more transacting parties, which allows them to pool their resources to invest in a project to share in profit and loss" (Dar and Presley, 2000:4). Almost in all theoretical models of Islamic banking, PLS is based on one of two major modes of financing (*Mudaraba* and *Musharaka*) or on both. However, the research reveals that practice of Islamic banking rarely uses these models. Even specialized Islamic firms, like Mudaraba Companies (MCo's) in Pakistan, supposed to function purely on a PLS basis, have a negligible proportion of their funds invested on a *Mudaraba*[3] or *Musharaka*[4] basis. The authors specify that nearly all Islamic banks, investment companies, and investment funds offer trade and project finance on mark-up, commissioned manufacturing, or on leasing bases. The problem is that these interest-bearing products are marketed and passed as Islamic by Shari'ah Supervisory Boards[5] with the support of AAOIFI's standards (Kuran, 2004; El-Gamal, 2006). El-Gamal (2006) argues that in practice the Islamic banking tend to end up replicating conventional products such as *Sukuk* or Islamic bonds that are merely similar to embedded financial instruments. Some authors believe that the community principles are rarely taken into account in Islamic banks' decision making process (Kuran, 2004). Others even reach the conclusion that according to the concepts of *Murabaha, Musharka* and *Mudaraba* "much of the conventional Western finance wisdom is incompatible with Islamic traditions" (Hamid et al., 1993:146).

2. CULTURE – DETERMINANT OF ISLAMIC ECONOMIC BEHAVIOR

The issues presented in the previous paragraphs raise the question: *Does religion influence accounting?* For instance, Hofstede (1991) defines culture as "the collective programming of the mind which distinguishes the members of one group or category of people from another". Like him, we emphasize that culture is, at least partially, learned, and not only inherited. Also, culture represents "all those social, political and other factors which influence individual's behavior" (Hamid, et. al, 1993). Thus, religion is a more complex factor with the potential to transcend national boundaries, while often has "less than universal acceptance within national boundaries" (Hamid et al., 1993:132). In addition it is argued that that Islam has the potential to influence the structure, basic principles and accounting mechanisms in the Islamic World. The effect of religion on cultural values, which affects financial reporting practices, is discussed in Baydoun and Willett (1997). For example, they suggest that committed Muslims could use accounting to provide an opportunity to show compliance with religious requirements; thus, current cost accounting would better meet their needs than historical cost accounting.
Thus, our research hypothesis can be drawn like:
H: ***There are some particularities of the Islamic accounting which are among others generated by the characteristics of the specific Islamic cultural paradigm.***

2.1. Hofstede and the key cultural dimensions

Considered to be the father of the cultural dimensions modeling, Hofstede (2001:1) specified that culture "manifests itself not only in values, but in more superficial ways: in symbols, heroes, and rituals". Beginning from such a premise, Hofstede created a model in which cultural differences and their consequences on national, regional and international level can be described. Based on an attitude survey of a multinational entity's employees (IBM) in 66 countries during the 1970s, Hofstede developed country-based indices corresponding initially to four dimensions of national culture for each and every country surveyed, later on adding a further dimension (Hofstede and Bond, 1988) – which all were meant to reflect Eastern and Western values alike.

These key dimensions may be described as follows:

- Power Distance Index (PDI) - represents the extent to which the less powerful members of a society accept that power is unequally distributed;
- Individualism (IDV) - describes individualistic societies as communities where there are few ties beyond those of the nuclear family, while the opposite societies - collectivism - are characterized by stronger cohesive in-group ties;
- Masculinity (MAS) - opposes “masculine” societies and “feminine” societies. In the first case, men are confident, tough, and more concerned with material and professional success, while women are modest and more concerned in the quality of life, by being. In the other case, both men and women are equally concerned with quality of life;
- Uncertainty Avoidance Index (UAI) deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to man's search for Truth. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations.
- Long-Term Orientation (LTO) - represents the extent to which people favor a pragmatic vision over a short-term thinking. It can be said to deal with Virtue regardless of Truth. In order to design this dimension Hofstede undertook a Chinese Value Survey.

In spite of the long time success of the model and of the numerous business-related and psychological research studies either based on or validating it (Hoppe, 1990; Sondergaard, 1994; Barkema and Vermeulen, 1997, Ding *et al.*, 2004), this cultural dimensions model has been constantly challenged respectively criticized by several researchers (Bond, 1988; Smith *et al.*, 1996 respectively by Gernon and Wallace, 1995; Baskerville, 2003).

2.2. Hofstede’s cultural dimensions applied to a sample of Islamic majority countries

The Hofstede analysis for the Arab World presented on his website[6] reveals that ***Muslim faith plays a significant role in people’s lives***. The sample used includes: Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia and the United Arab Emirates. The predominant religion for these countries is Islam, the practice of the Muslim faith.

The interpretation of the cultural dimensions on the sample countries refer to:

a) Large **Power Distance** (80) and **Uncertainty Avoidance** (68) are predominant characteristics for the countries in this region. These societies are more likely to follow a caste system that does not allow significant upward mobility of its citizens. *They are also highly rule-oriented with laws, rules and regulations in order to reduce the amount of uncertainty, while inequalities of power and wealth have been allowed to grow within the society*. The combination of these two dimensions creates a situation where leaders have virtually ultimate power and authority, and the rules, laws and regulations developed by those in power reinforce their own leadership and control. It is not unusual for new leadership to arise from armed insurrection – the ultimate power, rather than from diplomatic or democratic change.

- The high Power Distance Index is indicative of a high level of inequality of power and wealth within the society. These populations have an expectation and acceptance that leaders will separate themselves from the group and this condition is not necessarily subverted upon the population, but rather accepted by the society as their cultural heritage.

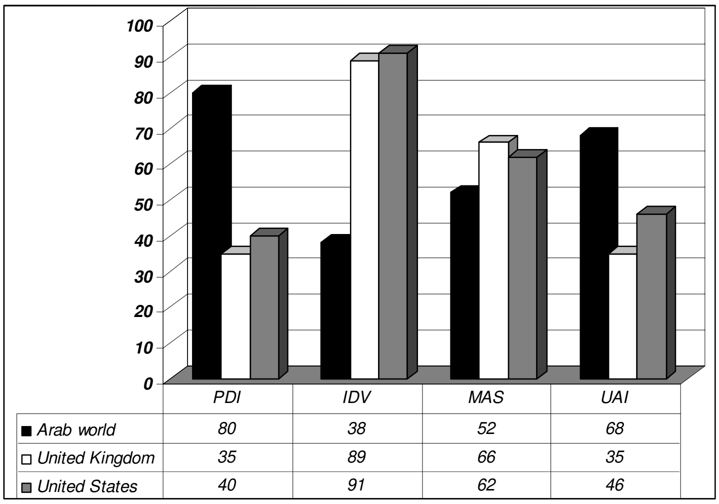
- The high Uncertainty Avoidance Index indicates the society's low level of tolerance for uncertainty. In an effort to minimize or reduce this level of uncertainty, *strict* rules, laws and regulations are adopted and implemented. The ultimate goal of these populations is to control everything in order to eliminate or avoid the unexpected. As a consequence, the society does not willingly accept change and is very risk adverse.

b) The **Masculinity Index** (52), only slightly higher than the 50.2 average for all the countries included in the Hofstede MAS Dimension.

c) The lowest Hofstede dimension for the Arab World is the **Individualism** (38), compared to a world average ranking of 64. This translates into a Collectivist society as compared to Individualist culture and is manifested in a close long-term commitment to the member "group", that being a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount, and over-rides most other societal rules.

In comparison to the countries that influenced the most the International Financial Standards, represented by the United Kingdom and United States of America, the data provided by Hofstede's cultural dimensions show (see Figure 1) that there are significant differences in Power Distance Index (ranking of the Arab World being double than that of UK and USA which are similar) and Individualism (ranking of the Arab World being half of that of UK and USA which are similar).

Figure 1. **Comparison of the cultural dimensions for Arab World, UK and USA**



	PDI	IDV	MAS	UAI
■ Arab world	80	38	52	68
□ United Kingdom	35	89	66	35
▩ United States	40	91	62	46

(*Source*: Based on the data provided by http://www.geert-hofstede.com/hofstede_dimensions.php accessed on April, 14, 2010)

Therefore, we can conclude that Arab countries taken into consideration by the Hofstede's study show a lower tolerance to uncertainty and risks, higher commitment to community – both observations being in accordance with the key findings on Islamic principles. The other significant issue is represented by the higher level of inequality of power and wealth within the Arab societies in the survey, which may be explained by the principle of *trusteeship*, the leaders being seen as endowed with a special divine role and separated from the group.

3. STATE, RELIGION AND THE PREFERENCE FOR IFRS

In order to test the interlinkage that may exist between the interference of religion in the matters of state based on constitution and the use of International Financial Reporting Standards, we have selected the countries in which Islam is the religion of the majority of the people (over 50%). The respective percentage shows the proportional amount of Muslims out of the total population of each country. In total, there are currently 48 Muslim majority countries, however considering the information available on the use of IFRS (http://www.iasplus.com/ country/useias.htm) our sample consists in 38 countries. Within the sample, 4 groups can be identified.

Table 1. **The groups identified in the analysis**

Group codification:	**Significance:**	**Countries included:**
NN	There is no indication of a state religion, Islamic or secular state	Syria, Albania, Nigeria, Indonesia, Lebanon, Sierra Leone
SS	There is a clear indication of the fact that government is officially separated from religion (a secular state)	Niger, Bangladesh, Uzbekistan, Senegal, Mali, Burkina Faso, Turkey, Azerbaijan, Kazakhstan, Gambia, Kyrgyzstan, Tajikistan
SR	There is a clear indication of the fact that Islam is the official state religion	Libya, Tunisia, Malaysia, Algeria, Morocco, United Arab Emirates, Egypt, Qatar, Jordan, Iraq, Maldives, Brunei, Bahrain, Oman, Kuwait
IS	There is the case of the Islamic states where Shari'ah law or the Quran are used as legislation	Pakistan, Saudi Arabia, Iran, Mauritania, Yemen

(*Source*: Based on several resources[7])

In assessing the preference for IFRS, some remarks must be made:

- sometimes, the jurisdiction's local GAAP is not in English;
- often, even if many jurisdictions that maintain their own local GAAP claim that these is "based on" or "similar to" or "converged with" IFRS, not all IFRS have been adopted;
- often, there is a time lag in adopting an IFRS as local GAAP;
- the following observations are based on the direct use of IFRS as reported in the basis of preparation note and the auditor's report;
- the syntax "all companies" refers to all listed and not listed companies.

In our sample, 55% of the countries have officially "embraced", in a form or another, the principles promoted by IFRS, showing a preference for this set of standards.

Table2. **The preference for IFRS**

Group codification:	Use of IFRS
NN	67% IFRS are not permitted to all companies
SS	50% IFRS are not permitted to all companies; 17% IFRS are required to all companies.
SR	33% IFRS are required all listed companies; 27% IFRS are not permitted to all companies; 20% IFRS are required to all companies; 13% IFRS are permitted to all companies.
IS	60% IFRS are not permitted to all companies.

(*Source:* Based on information available on http://www.iasplus.com/ country/useias.htm accessed on April, 12, 2010)

In the ***group NN*** we remark the particular cases of Lebanon where IFRS are required to all listed companies and Sierra Leone where IFRS are required to all companies. However, even among the 67% of cases in which IFRS are not formally permitted to all companies, there may be plans to "converge with" IFRS. For instance, on 23 December 2008, the Indonesian Institute of Accountants (*Ikatan Akuntan Indonesia* - IAI) issued a formal statement announcing its plan to have Indonesian GAAP fully converged with the IFRSs by 1 January 2012. **Indonesia** is the largest Muslim majority country in the world, and its standard-setting body is the Financial Accounting Standards Board (*Dewan Standar Akuntansi Keuangan* - DSAK) under the IAI. According to Indonesian law, both public and private companies must comply with accounting standards issued by the DSAK-IAI. So far, there are 62 Statements of Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan* - PSAKs), which consist of 55 PSAKs for conventional transactions and 7 PSAKs for Syari'ah banking transactions, 8 Interpretations of Financial Accounting Standards and 3 Technical Bulletins.

In the second ***group SS*,** we remark the extremes represented by 50% of countries where IFRS are not permitted to all companies and 17% where IFRS are required to all companies. In between, each of the 4 countries left experiences a different situation: Gambia – IFRS permitted to all companies; Kazakhstan - IFRS required to all listed companies; Azerbaijan - IFRS required for some listed companies; and Turkey – IFRS permitted listed companies. In the case of **Turkey**, there is a general opinion that it had adopted deliberately secular policies and looked to the West for its accounting practices (Orten, 2006). In addition, Communique Serial: XI No: 25 settles the delays in translating IFRS into Turkish by allowing one of the options:

- a listed company can follow the official English version of IFRS as published by the IASB, so the audit report and basis of presentation shall include an explicit statement of compliance with IFRS;
- a listed company can follow the Turkish translation of IFRS. Thus, the audit report and basis of presentation state that financial statements comply with "IFRS as adopted for use in Turkey".

In the ***group SR*** we notice a diversity of situations.
For instance, in **Jordan**, full IFRS are required for all listed companies by Jordanian Securities Commission. In addition, the Companies Law requires all public

shareholding companies, general partnerships, limited partnerships, limited liability companies, private shareholding companies, and foreign companies operating in Jordan to prepare annual audited financial statements in accordance with "internationally recognized accounting and auditing principles" - that can be understood as IFRS. In addressing these circumstances, http://www.iasplus.com /index.htm informs on April, 13, 2010 that as the IFRS for SMEs is an IFRS, the IFRS for SMEs may be used by all companies other than those regulated by the JSC and that no special adoption of the IFRS for SMEs is needed yet in Jordan.
As an exception, **Morocco** requires IFRS for some listed entities. The Central Bank of Morocco (*Bank Al Maghrib*) requires that all banks and similar financial institutions use IFRS since 1 January 2008. The Moroccan Stock Exchange Law requires all companies listed on the Casablanca Stock Exchange other than banks and similar financial institutions to choose between IFRSs and Moroccan GAAP.

Interesting enough, **Bahrain** which is the nerve centre of financial institutions' Shari'ah regulation IFRSs required for all companies listed and not listed. At the extreme, even if IFRS not permitted for all entities, **Malaysia** has announced a plan to fully converge Malaysian GAAP with IFRS effective 1 January 2012. From January 2011, Malaysian companies are expected to prepare their first set IFRS-based comparative financial statements, while March 2010 is the target date for first interim financial statements. Despite the relatively long lead-time provided to companies by the Malaysian accounting standard setting body, there seems to be little appreciation of the complexity of work required to implement properly IFRS (Zain, 2009). Many companies could have sensed the urgency of the mandatory implementation and reporting requirements by the Securities Commission and Bank Negara, but may be struggling to find a reference point to start from; while the conversion costs may vary from a few million Ringgit for the top market capitalized company to close to a million Ringgit for MASDEQ company (Zain, 2009).

On the other hand, when studying the situation of **The United Arab Emirates**, we had to consider the possibility that it is a federation of seven emirates (Abu Dhabi, Dubai, Sharjah, Ajman, Umm al-Quwain, Ras al-Khaimah and Fujairah), which may have different approach towards IFRS. Abu Dhabi is the capital, the second largest city of the UAE and the country's center of political, industrial, and cultural activities. The overall situation is that all companies listed on the Abu Dhabi Securities Markets and Dubai International Financial Exchange are required to publish IFRS financial statements. Note that companies from UAE Emirates other than Dubai are listed on the ADSM, in addition to Abu Dhabi companies. In addition, all banks in the United Arab Emirates are required by the Central Bank of UAE to publish IFRS financial statements.

Among the group represented by the ***Islamic states*****,** 60% of these do not permit IFRS to all companies. **Saudi Arabia** even if does not permit the use of IFRS by unlisted companies, it requires all banks and insurance companies listed on the Saudi Stock Exchange to use IFRSs. Whereas **Yemen** permits IFRS to all companies unlisted (occasionally used in practice), since it does not have a stock exchange and there are no domestic accounting standards or accounting regulation. Audit reports in Yemen generally refer to conformity with generally accepted accounting principles without indicating whether that is IFRS or US GAAP or some other framework.

CONCLUSIONS AND FURTHER RESEARCH

The main objective of this paper is to provide a synopsis of the Islamic accounting characteristics as well as to identify some factors which led to its specificities. The ***output of our analysis*** can be resumed by the next findings:

- The Islamic accounting framework shows particular features generated by the appeal to Islamic community and ethics principles. These particularities are reflected by the core accounting principles and structures involved;
- A significant determinant of the Islamic accounting recent developments is the expansion of the Islamic financial sector and its structural transformation;
- From the institutional point of view, the key entity involved in the regulation of the Islamic financial institutions is AAOIFI. While its objective is to promote the use of accounting and auditing principles relevant to Islamic financial institutions in accordance with the precepts of Islamic Shari'ah, its activity in practice is modulated by the diversity of implementation conditions of these principles and by the consequences of the interactions with non-Islamic financial institutions and organizations;
- There appears to be some relevant empirical support for our **H** hypothesis. More exactly, the characteristics of the Islamic cultural paradigm – especially the lower tolerance to uncertainty and risks and the higher commitment to community - seem to exercise an important influence on the design of Islamic accounting. However, the nature, amplitude and transmission channels of such an influence should be further analyzed in greater detail, since it looks like a diversity of situations and several other variables might interfere in the chain of causality. Among these variables, the development degree of the financial sector's components - banking and capital markets - plays a significant role.

Certainly, there are several limits of this analysis. Among these, one can notice: 1) The absence of a formal structured framework for explaining the differencing mechanisms; 2) The absence of an empirical model able to provide an estimation of the impact exercised by economic and non-economic explanatory variables (such as the type of political structures, the predominance of Islamic population, the institutionalized adherence to Islamic views and beliefs and so on); 3) The use of Hofstede's cultural dimensions which has been criticized for their Western paradigm focus versus the use of more general approaches.

Therefore, we consider that in spite of the above mentioned research limits, it emerges from this paper the image of Islamic accounting's complex nature, which may be seen as a distinct alternative to the principles and views promoted by IFRS.

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Appendix 1: AAOIFI's standards[8]

ACCOUNTING STANDARDS	SHARI'AH STANDARDS
1. Objective of financial accounting for Islamic banks and financial institution (IFIs). 2. Concept of financial accounting for IFIs. 3. General presentation and disclosure in the financial statements of IFIs. 4. Murabaha and Murabaha to the purchase orderer. 5. Mudaraba financing. 6. Musharaka financing. 7. Disclosure of bases for profit allocation between owners' equity and investment account holders. 8. Equity of investment account holders and their equivalent. 9. Salam and Parallel Salam. 10. Ijarah and Ijarah Muntahia Bittamleek. 11. Zakah. 12. Istisna'a and Parallel Istisna'a. 13. Provisions and Reserves. 14. General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies. 15. Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies. 16. Investment Funds. 17. Provisions and Reserves in Islamic Insurance Companies. 18. Foreign Currency Transactions and Foreign Operation. 19. Investments. 20. Islamic Financial Services Offered by Conventional Financial Institutions. 21. Contributions in Islamic Insurance Companies. 22. Deferred Payment Sale. 23. Disclosure on Transfer of Assets. 24. Segment Reporting. 25. Consolidation. 26. Investment in Associates.	1. Trading in currencies. 2. Debit Card, Charge Card and Credit Card. 3. Default in Payment by a Debtor. 4. Settlement of Debt by Set-Off. 5. Guarantees. 6. Conversion of a Conventional Bank to an Islamic Bank. 7. Hawala. 8. Murabaha to the Purchase Orderer. 9. Ijarah and Ijarah Muntahia Bittamleek. 10. Salam and Parallel Salam. 11. Istisna'a and Parallel Istisna'a. 12. Sharika (Musharaka) and Modern Corporations. 13. Mudaraba. 14. Documentary Credit. 15. Jua'la. 16. Commercial Papers. 17. Investment Sukuk. 18. Possession (Qabd). 19. Loan (Qard). 20. Commodities in Organised Markets. 21. Financial Papers (Shares and Bonds). 22. Concession Contracts. 23. Agency. 24. Syndicated Financing. 25. Combination of Contracts. 26. Islamic Insurance. 27. Indices. 28. Banking Services. 29. Ethics and stipulations for Fatwa. 30. Monetization (Tawarruq) 31. Gharar Stipulations in Financial Transactions 32. Arbitration 33. Waqf 34. Ijarah on Labour (Individuals) 35. 35. Zakah
AUDITING STANDARDS	**GOVERNANCE STANDARDS**
1. Objective and principles of auditing. 2. The Auditor's Report. 3. Terms of Audit Engagement. 4. Testing for Compliance with Shari'a Rules and Principles by an External Auditor. 5. The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements	1. Shari'a Supervisory Board: Appointment, Composition and Report. 2. Shari'a Review. 3. Internal Shari'a Review. 4. Audit and Governance Committee for IFIs. 5. Independence of Shari'a Supervisory Board. 6. Statement on Governance Principles for IFIs.

	7. Corporate Social Responsibility
ETHICS STANDARDS	
1. Code of ethics for accountants and auditors of IFIs. 2. Code of ethics for employees of IFIs.	

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[1] Information available on the website http://www.islamicpopulation.com/ accessed on April 11, 2010.

[2] Information available on the website http://www.aaoifi.com/ accessed on April 7, 2010.

[3] Mudaraba represents a partnership in profit between the provider(s) of labor and the providers of capital. Profit is shared as agreed by the two parties and the losses are borne by the provider(s) of funds.

[4] Musharaka represents an investment based technique, each party contributing to a partnership's capital in equal or varying degrees, with losses shared in proportion to the contributed capital.

[5] SSBs are in-house religious advisors to Islamic banks (Karim, 1989).

[6] Information available on Hofstede's website on Cultural Dimensions: http://www.geert-hofstede.com /hofstede_arab_ world.shtml accessed on April 12, 2010.

[7] Information available on: The library of Congress: Country studies http://lcweb2.loc.gov/frd/cs /cshome.html; CIA Fact Sheet, https://www.cia.gov/library/publications/the-world-factbook/index. html; Population Reference Bureau, http://www.prb.org/; International Monetary Fund, World Economic Outlook Database, October 2009, http://ddp-ext.worldbank.org/ext/DDPQQ/showReport.do? method=showReport accesed on April 8, 2010

[8] Available on-line at http://www.aaoifi.com/keypublications.html accessed on March 6, 2010