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Impacts of Islamic Accounting System on Society: Accounting System in the ERA of Hazrat Abu Bakar and Hazrat Umar Farooq



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Abstract: During the time of Hazrat Abu Bakr and Hazrat Umar Farooq, the Islamic accounting system had a considerable impact on society. This system is founded on the values of transparency, responsibility, and moral behaviour, which support justice, fairness, and social welfare. In the era of Hazrat Abu Bakr and Hazrat Umar Farooq, the Islamic accounting system was crucial in preserving the social order's economic stability. The system made sure that financial transactions were carried out accurately, honestly, and reliably, which contributed to a rise in public confidence. As a result, a society that was richer and more stable allowed both businesses and people to prosper. The Islamic accounting system's emphasis on responsibility was one of its most notable effects. The Islamic accounting system's emphasis on social welfare had a significant impact as well. This made society more just and egalitarian as everyone had access to basic needs. To sum up, the Islamic accounting system has had a significant influence on society, especially during the time of Hazrat Abu Bakr and Hazrat Umar Farooq.

Key Words: Accounting System, Sharia, Society, Responsibility, Social Welfare

JEL Classification:

Introduction

Accounting is a crucial part of every organization since it aids in things like budgeting, managing money, staying within the law, and communicating with investors. (Lasher, 2016). According to the Financial Accounting Standards Board (FASB), accounting "provides financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in their capacity as capital providers" (FASB, 2021).

Accurate financial measurement and reporting are made possible with the assistance of accountants, giving stakeholders access to data they can trust and use in decision-making.

Accounting is also vital in corporate governance since it promotes transparency and accountability in business operations. (Beasley et al., 2019). Accounting methods that are effective can assist in the prevention of financial fraud, the maintenance of regulatory compliance, and the promotion of ethical behaviour inside firms. The Generally

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Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS) are two examples of accounting standards that help develop uniformity in financial reporting and maintain consistency in the information that is given to stakeholders. (Financial Accounting Standards Board, [2021](#)).

The Accounting System of Islam

The Islamic legal framework known as Shariah serves as the foundation for the Islamic accounting system, which is founded on the principles of Shariah. Financial transactions are required to be carried out in accordance with Shariah, which mandates that they be honest and open and that transactions based on interest cannot take place. The tenets of Islamic accounting, which place an emphasis on ethical conduct, accountability, and transparency, have as their primary goals the advancement of social justice and the maintenance of economic stability. (Chapra & Ahmed, [2002](#)).

The notion of zakat, which refers to an obligatory form of charitable donation that Muslims are required to pay based on their wealth, is one of the most essential concepts of Islamic accounting. In Islam, the payment of zakat is considered to redistribute income and ensure that the requirements of the needy and disadvantaged are satisfied. (Zahra & Haniffa, [2019](#)).

The practice of Islamic accounting places a strong emphasis on the idea of transparency. This is due to the fact that all financial transactions must be disclosed precisely and on time. This is mirrored in the Islamic financial reporting standards, which were created to provide various stakeholders with financial information that is both transparent and dependable. (Malik et al., [2018](#)).

Furthermore, the practice of all financial dealings in a manner that is in accordance with Islamic values and principles is obligatory for businesses that adhere to the principles of Islamic accounting, which helps to foster a culture of accountability. This involves avoiding transactions that are speculative and ensuring that investments are done in a manner

that is socially responsible (Zahra & Haniffa., [2019](#)).

In summary, the ethical ideals that aim to promote social fairness and economic stability are the foundation of Islam's system of accounting, which is built on these principles. The principles of Shariah serve as the foundation for Islamic accounting, which places a strong emphasis on transparency, responsibility, and moral conduct in all aspects of a business's operations.

Accounting System in the ERA of Prophet (S.A.W)

According to several historical sources, the accounting system that was in place in Islam during the time of the Prophet Muhammad offers some insight into the manner in which monetary transactions were carried out during the time of the Prophet.

The usage of a system known as "Hawala," which was a type of informal banking system that allowed the transfer of money between merchants and traders, was a significant component of the economic system that existed during this period. The Hawala system relied on a network of agents who would transfer money on behalf of their customers without the requirement for physical currency transactions. This allowed the Hawala system to operate on the principle of trust rather than the use of cash. At the time of the Prophet, long-distance trading was very common. This technique was very helpful in enabling such trade. (Muhammad Ali, [1990](#)).

The payment of zakat, which is a required charitable donation in Islam and was another significant activity during the time of the Prophet, was also an important financial practice. Officials from the community oversaw collecting the zakat payments, and those funds were then given to others in the neighbourhood who were struggling financially. (Alam Khan, [1994](#)).

There are records indicating that the Prophet kept track of both his own personal finances as well as the finances of the Muslim community. These records pertain to accounting. There are tales, for instance, that

the Prophet kept thorough records of the zakat donations he received and dispersed, as well as records of the debts owed by members of the community at the time. (Ibn Ishaq, [1955](#)).

Accounting System in the ERA of Hazrat Abu Bakr

During the reign of Hazrat Abu Bakr, the first Caliph to succeed the Prophet Muhammad following his passing, the fledgling Islamic state began to build a financial and accounting system that was more organized and codified. Several historical sources offer new perspectives on the financial and accounting procedures that were prevalent throughout this period. (Ibn Jareer, 1990).

The establishment of a centralised system for the collection and distribution of Zakat, which is an obligatory charitable donation in Islam, was one of the most significant developments that took place during the time of Hazrat Abu Bakr. This was one of the most important developments that took place during the time of Hazrat Abu Bakr. In order to collect the zakat from the members of the Muslim populace and to disperse it to those who were in need, Abu Bakr selected officers who were known as "collectors" or "treasurers." It was necessary for the collectors they keep meticulous records of the zakat that they have collected and given.

Another change that occurred during this period was the formation of a taxation system that was more organized and formal. Abu Bakr imposed taxes on many sorts of wealth, including agricultural production and other forms of wealth, and these taxes were collected by officials who were designated to the role of "tax collector." The Islamic state and all of its varied endeavours were provided funding by the revenue that was collected from these taxes. (Ibn Qayyim, [2002](#)).

Additionally, According to some accounts, Abu Bakr meticulously documented every aspect of his personal finances, including the sums of money he earned and spent.

Accounting System in the ERA of Hazrat Umar Farooq

At the time of Hazrat Umar Farooq, the Islamic accounting system was predicated on the ideals of transparency and responsibility. The second Caliph of Islam, Hazrat Umar Farooq, is credited with instituting a series of changes that were intended to enhance the administration of the Islamic state's finances.

During the time of Hazrat Umar Farooq, one of the most important aspects of the administrative structure of the government was the development of a centralized treasury. This particular treasury was in charge of collecting money and distributing it to the several departments that make up the state. In addition to this, it was necessary for the Treasury to keep complete and accurate records of all financial dealings. (Al-Buraey, [2018](#)).

The selection of auditors who would be responsible for monitoring the state's financial activities was yet another significant component of the accounting system. These auditors were in charge of ensuring that all financial dealings were carried out in a way that was open to scrutiny and accountable (Al-Khatib, [2016](#)).

Hazrat Umar Farooq was also responsible for the establishment of a method of public accounting, which involved the recording of all monetary transactions in a public ledger. Because of this approach, we were able to guarantee that every person had access to information regarding the state's financial dealings (Boubakri, & Guedhami, [2010](#)).

In conclusion, The accounting system in use during the time of Hazrat Umar Farooq was distinguished by its adherence to the concepts of transparency and responsibility. Important aspects of this system include the construction of a centralized treasury, the employment of auditors, and the implementation of a system of public accounting.

Impacts of Islamic Accounting System on Society

The Accounting system of Islam has significant

impacts on society, some of these are listed below:

Ethical Behavior

The principles of Islamic law, also known as shariah, are the basis for the Islamic accounting system. These principles are taken from the teachings of the Quran and the Prophet Muhammad. Since the Islamic accounting system is predicated on the idea that individuals are answerable to both Allah and society, ethical conduct is an essential component of this method of record-keeping. This method encourages moral conduct in the workplace by putting an emphasis on transparency, equity, and social responsibility.

The ban on Riba, often known as interest-based transactions, is considered to be one of the most fundamental tenants of Islamic accounting. The Islamic accounting system encourages ethical behaviour by promoting business transactions that are based on profit and loss sharing rather than interest-based transactions. This shift away from interest-based transactions is one of the ways that the Islamic accounting system promotes ethical behaviour. This idea assures that all parties participating in a business transaction share in the risk and reward of the enterprise, which fosters fairness and ethical behaviour on the part of the participants.

A further tenet of Islamic accounting is the concept of zakat, sometimes known as almsgiving. The practice of Islamic accounting mandates companies to give away a portion of their revenues to charitable organizations. This encourages individuals to behave in a socially responsible and moral manner. This idea ensures that companies do not only focus on earnings, but also on the overall health and happiness of the society in which they operate.

The idea of being responsible for one's actions is the third and final pillar of Islamic accounting. Businesses must maintain precise records of their financial dealings and disclose all relevant financial information in order to comply with the requirements of Islamic accounting. This principle encourages ethical behaviour by requiring businesses to take

responsibility for their deeds and to be open and honest in all of their relationships with customers and other parties. (Muhammad, 2005).

In conclusion, by its guiding concepts of profit and loss sharing, zakat (charity), and responsibility, the Islamic accounting system encourages moral conduct in commercial settings. These guiding principles ensure that commercial enterprises run in an honest and open manner, emphasizing social responsibility and ethical conduct.

Promotion of Transparency and Accountability

The impact of the Islamic accounting system on society can be seen through its promotion of transparency and accountability in financial transactions. According to Siddiqui (2008), The principles that underpin Islamic accounting place a strong emphasis on the disclosure of any and all pertinent financial information and mandate the utilization of financial reporting that is both accurate and trustworthy. This helps to ensure that those with a stake in an investment or financial transaction have access to the information they require to make educated decisions about those investments or transactions.

Accountability is also encouraged by Islamic accounting because it stipulates that individuals and organizations must act in accordance with ethical and moral principles in all of their financial operations. This includes the prohibition of acts that are considered unethical in Islamic finance, such as interest-based transactions, speculation, and fraud, among other practices. As a consequence of this, Islamic accounting contributes to ensuring that monetary transactions are carried out in a manner that is both fair and transparent. This, in turn, fosters increased trust and confidence in monetary institutions as well as the economy.

The promotion of transparency, accountability and social responsibility in financial transactions is the primary way in which Islamic accounting has an effect on society as a whole, and this effect can be

considered as the overall impact that Islamic accounting has had on society. By adhering to ethical and moral values, Islamic accounting helps to ensure that financial transactions are done in a fair and transparent manner. This, in turn, encourages more trust and confidence in financial institutions as well as the economy as a whole.

Encouragement of Social Responsibility

The tenets of Islamic Shariah, upon which the Islamic accounting system is founded, place a strong emphasis on individual and collective social responsibility and accountability. The foundational tenets of Islamic accounting stem from the conviction that individuals and organizations alike bear a responsibility to society and are obligated to conduct their affairs in a manner that is honest, open, and impartial. This emphasis on social responsibility has a beneficial effect on society and inspires individuals as well as corporations to behave in a manner that is in the overall best interest of society.

According to Hasan and Abdulla (2016), By highlighting the significance of zakat (charity), sadaqah (voluntary giving), and waqf (endowment) in Islamic finance, the principles of Islamic accounting encourage social responsibility and contribute to the advancement of field. These principles urge individuals and corporations to contribute to the well-being of society through charitable giving and endowments for the benefit of future generations. These endowments are for the benefit of future generations.

The practice of Islamic accounting places an emphasis on the significance of transparency and accountability, two qualities that encourage moral conduct and prohibit dishonest or corrupt business dealings. This transparency is achieved through the utilization of financial reporting standards that are based on the principles of Islamic Shari'ah. These standards require businesses to disclose all relevant financial information and ensure that their transactions are conducted in an ethical and lawful manner.

Furthermore, The Islamic accounting system encourages the concept of ethical

investing, which mandates enterprises to participate in socially responsible initiatives and avoid investments in activities that are detrimental to society, such as gambling or the production of alcoholic beverages. This encourages firms to prioritize the welfare of society over their personal financial gain, which in the long run is beneficial to society as a whole because it benefits individual enterprises.

In conclusion, because it encourages social responsibility, transparency, and ethical behaviour, Islamic accounting has a mostly good effect on society. Its influence can be summarized as follows: The concepts of Islamic accounting contribute to the overall well-being of society and promote sustainable economic growth. These goals are accomplished by encouraging both individuals and enterprises to act in a manner that is beneficial to society as a whole.

Development of a Fairer and more Equitable Financial System

The Islamic accounting system was designed based on the values of fairness and equity, which are ingrained in the Islamic religion. These ideas formed the basis for the system. It is a system that is founded on Islamic law, which is known as shariah, and it tries to ensure that financial transactions are done in a manner that is consistent with Islamic ideals. This system was developed in order to ensure that Islamic values are adhered to.

In Islamic accounting, the concepts of justice and fairness are considered to be among the most important guiding principles. The practice of Islamic law necessitates that all parties participating in a financial transaction must be treated in a manner that is just and fair to one another. This idea is mirrored in the various laws and regulations that regulate Islamic finance, such as the demand for profit and loss sharing in commercial ventures and the prohibition of transactions based on interest. (Siddiqui, A. (2006).

Transparency is also considered to be an essential component of Islamic accounting. All parties participating in a financial transaction

are required by Islamic law to have access to all necessary information and to ensure that the transaction is carried out in an open and honest way. This idea is mirrored in the many reporting requirements that are imposed on Islamic financial institutions, including the need that Islamic financial institutions to disclose all pertinent financial information to stakeholders. (El-Gamal, M. A., & Inman, R. P. (2018).

The use of an accounting method based on Islamic principles has had a significant influence on the growth of a financial system that is fairer and more egalitarian. Over the past several years, there has been a tremendous expansion of Islamic banking, and there are currently Islamic financial institutions functioning in more than 60 countries throughout the world. This growth has been driven by several factors, including the increasing demand for financial products that are consistent with Islamic values and the recognition of the benefits of the Islamic financial system in promoting economic development and financial stability. Both of these factors have contributed to the growth of the Islamic financial industry.

In addition, the Islamic method of accounting has generated wide-ranging social and economic effects. A wide variety of social and economic development projects, such as the expansion of educational opportunities and healthcare services, have been financed with money derived through Islamic banking practices. This has served to encourage economic growth and development in a variety of different places of the world, notably in nations where Muslims make up most of the population. (Obaidullah, M., & Khan, T. (2008).

Overall, the adoption of the Islamic method of accounting as part of the process of creating a more just and equitable monetary system has been a significant contributor. The ideals of justice, fairness, and transparency that it upholds have been crucial in facilitating economic growth and maintaining financial stability, in addition to contributing to more expansive social and economic development goals.

Summary

The goal of the Islamic accounting system, which is founded on the precepts of Shariah law and attempts to ensure that all financial transactions are carried out in a just and equitable manner, is to ensure that accurate financial records are kept. The implementation of Islamic accounting can have several effects on society, including the following:

1. The encouragement of transparency and responsibility The Islamic accounting system places a strong emphasis on the need for transparency and responsibility in all aspects of a business's financial dealings. This contributes to the growth of trust and confidence in the monetary system, which has the potential to have a good effect on society as a whole.
2. The encouragement of social responsibility: Islamic accounting rules mandate that businesses consider the social impact of their actions. This can be seen as a way to encourage enterprises to accept social responsibility. This provides an incentive for companies to behave in a socially responsible manner, which is ultimate to the advantage of society as a whole.
3. The formation of a financial system that is more just and equitable The Islamic method of accounting is predicated on the values of equity and justice. This indicates that it works towards the goal of ensuring that wealth is dispersed in a more equitable manner, which can contribute to the alleviation of poverty and inequality.
4. Encouragement of ethical conduct The Islamic method of bookkeeping mandates that firms conduct their operations in an ethical manner. This can be helpful in preventing fraudulent activity and corrupt practices, both of which can have detrimental effects on society.
5. The promotion of sustainable development: according to the principles of Islamic accounting, firms

are required to consider the effect that their actions will have in the long run. This may foster the development of habits that are sustainable, which may be to the benefit of the environment and the generations to come after us.

Overall, by fostering transparency, accountability, social responsibility, equity, ethical behaviour, and sustainable development, the Islamic accounting system can have a positive impact on society.

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