

# The Acceptability and Impact of Sharia Foundation of Islamic Ethics in Accounting Education

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## **Abstract**

The objective of this study is to examine the acceptability of sharia foundation of Islamic ethics in accounting education and it's significant to generate future ethical accountants. The primary data was collected through a survey questionnaire to determine the level of consensus among accounting educator on Islamic ethics issues and principles. This study successfully collected 195 sets of questionnaires from accounting educator. The finding shows that incorporating Islamic ethics principles (integrity, sincere, righteousness) into accounting education will be a significant contribution towards generating ethical accounting students. Therefore, sharia foundation of Islamic ethics is good principles, valid and reliable to enhanced accounting education quality and provides a guideline for the university administrator to improve accounting curriculum.

**Key word:** Islamic Ethics, Ethics, Accounting, Education, Sharia Foundation

## **Introduction**

Emphasizing on ethics in accounting education enhance some insight to resolve moral conflicts and dilemma faced by accountants. Many scholar and academician argued that ethics should be include in accounting curriculum and profession because ethics is a reflection of morality and divine. The concept of ethics is defined as the system that reflects on moral belief and behaviour of individual and indicates the right decisions and behaviours of a person or a groups pertaining to moral issues and dilemma (McPhail and Walter, 2009). The ultimate objective of ethics concern on rules governing the ordering of values and beliefs being develop and understanding of the consequences of particular courses and action (Bakar et al., 2003).

Good ethics has been considered a crucial role for the accountant's and to users who rely on accounting information because ethical behaviour is essential and expected traits of accountant's. The most important concern is to impetus ethics and divine values among accounting professional in order to uplift the profession and gain public trust (Beekun and Badawi, 2005; Caliyurt, 2007). Accountants are the trustees of company's financial report. Thus,

giving further endorsement to the role of an accountant in decision-making as it is very significant to accounting user. Accounting ethics is defined as a philosophical set of moral principles and concepts as a guideline that creates ethical awareness to accountants in their professional work and practices (Adkin and Radtke, 2004). Further, ethical components are seen as a guideline for a supervisory framework in different accounting environment. Sound and good ethics have become critical to accounting environment to strengthen the integrity of accounting profession (Bakar et al., 2003). Thus, Meyer (2004) indicates that having good ethics will help accountants' to automatically do right things without the need for supervision.

Recently, many literatures indicate that there are increasing demands of people looking for financial products consistent with their religious belief arising from the accounting scandal and law suit (Basri & Abdul Khalid, 2012). The relationship between accounting and Islam indicates that Islamic ethics in accounting can direct an accountant to be responsible and trustful (Mirza & Baydoun, 1999; Sulaiman & Willet, 2001). Thus, people see that religious systems provide the predominant source of ethical principles that suit for the business environment (Frumkin and Keating, 2001). Caliyurt (2007) argued that ethical behaviour is shaped by moral principles laid down from religion. As religion might have good and potential influence on accounting practices and financial reporting (Baydoun and Willet, 1997). Therefore, based on the issues of ethics in accounting, the paper aims to obtain evidence on the acceptability of sharia foundation of Islamic ethics to meet accounting objectives and its significant in generating future ethical accountant.

### **The Significant of Accounting Ethics**

The needs for ethical accountants' in accounting discipline request for increases of ethical discussion in classroom and integration of ethics in accounting education systems (Fisher et al., 2005). Dellaportas et al., (2006) addressed that through education process could help to enhance ethical development of accounting student's. McPhail and Walter (2009) indicated that ethics education in accounting curriculum should premised on moral development and moral commitment of accounting students. However, Bakar et al., (2003) argued that accounting faculty and educators have not done enough to prepare student to deal with moral issues and respond it ethically. Several discussions from majority literature highlighted that ethics can be integrated into the teaching process and can improve ethical development of accounting students (Abdul Rahman, 2003; Adkins and Radtke, 2004; Dellaportas et al., 2006). Ethics critically need to be integrated by accounting educator in classes as the students are our future accountants and auditors (Pomeranz, 1997). Study suggests that there is a growing argument that ethics in accounting education still need to be revised (Cooper et al., 2005). Furthermore, Mc Phail & Walters (2009) highlighted that conventional accounting seems to be lack of public trust and becoming more complex due to the expansion of business and economic globally.

Thus, academic community emphasize the need to increase the coverage and incorporate ethics into accounting curriculum (Caliyurt, 2007; Cooper et al., 2005). Fisher et al., (2005) argued that ethics coverage should be part in the education process to generate ethical

future accountant. The society expects accountants' to provide his/her services in a professional and ethical manner (Adkins and Radtke, 2004). Accountants and accounting profession are expected to have integrity and able to sensitize ethical issues. Moreover, the responsibility of the accountant's is to communicate data with high integrity and ensure the quality of financial information that might impact decision making of the users (Low et al., 2008; Bakar et al., 2003).

Therefore, the call for an effective code of conducts for accountants' might strengthening accounting profession and attempt to avoid ethical breaches (Adkins and Radtke, 2004; Cooper et al., 2005). Moreover, an ethical issue is a problem or situation that needs discussion in which a person must make decision and evaluation what is right or wrong. However, the fraudulent activities and malpractice behaviour was not the root of the problem, indeed only a symptom of individual unethical conduct due to non-adherence to ethical and moral principles (Kamaluddin and Ab. Manan, 2010). Abdul Rahman (2010) highlighted that accounting education recently lack of the spirit to generate accounting students with high integrity and humanity. Thus, Djuitaningsih (2013) argued that this entire incident happens due to the ignorance of the divine values in financial and economic activities.

On the other hand, Islamic ethics has emerged as an important tool in accounting disciplines. Ahmad and Ahmad (2009) addressed that there is an increasing demand among Muslim user for financial product and service that adherence to Sharia law. Mulawarman et al., (2006) indicated that conventional accounting ethics bring secularization values that emphasize on the principles of self-interest, profit making and materialism. These principles are not consistent with the Islamic values in accounting since Islam does not accept the segregation between the affairs in this world and hereafter (Djuitaningsih, 2013). Thus, it is suggest to bring the religious values in accounting which means accounting are no longer value free and the ultimate goal is not only to benefit all its shareholder and stakeholder but also the society.

### **The Need of Islamic Ethical System in Accounting**

Islamic world view starts with the concept of Oneness of God, the Creator and all human beings are required total submission to Him and to do all God directed according to His will (Siwar and Hossain, 2009; Triwuyuno, 2011). Islamic ethical system is established as a rules of behaviour as a guideline to conduct Islamic life based on Islamic law and rules. Three primary sources of Islamic ethics derived from core principles of the Holy *Quran* (the verbatim word and book revealed by Allah (swt) to Prophet Muhammad (pbuh)), *Sunnah* or *Hadith* (deeds, action, teaching, sayings and approval of Prophet Muhammad (pbuh)) and *Fiqh* which is scholarly interpretation (*Ijmaa and Qiyas*) of the law and rules (Beekun and Badawi, 2005; Naqvi, 2003). Thus, the three primary sources are the foundation and guidelines for conducting Islamic ethics in accounting discipline and are the basic form that affects the values of accountants in performing their duties.

In Islamic ethical framework, ethics is known as *Akhlaq* and promoted divine values of Islam and implemented by Prophet Muhammad (pbuh) (Naqvi, 2003). Prophet Muhammad (pbuh) himself has been sent to human beings for the purpose of perfecting the qualities of good morals (*Akhlaq*) (hadith narrated by Abu Hurairah r.a). This principles of divine values are not subject to change and presumed to be valid of all times and places (Beekun and Badawi, 2005). Islamic ethical system has a universal set of ethics as a guideline to all activities including economic, business and accounting. This emphasize that Islam has a complete rules and laws or Sharia as a way for human beings to manage their life perfectly. Islam encompassing a way of life and not recognizes separation between spiritual and temporal affairs (AAOIFI, paragraph 8, 1998). As Allah (swt) says in Al-Quran “*I have only created....men that they may serve me*” (*Al-Qur’an, 51:56*). This reveals that all activities including accounting practices and business become part of *Ibadah* if they comply with the Islamic code of conduct due to religious beliefs and obedience to Allah (swt) (Baydoun and Willet, 1997; Hameed and Yaya, 2005).

Islam suggests that an emphasis on the sharia ethical code of conduct of financial activities may protect and pursue its economic goal rather than threaten it (Beekun and Badawi, 2005). In support to this statement, Siwar and Hossain (2009) highlighted that Sharia objectives are to establish social justice (*al-adl and al-ihsan*) to human being and realizing profit to human both in this world and hereafter. Thus, Siddiqi (2000) stated that Islamic code of conduct has legislated higher standards of morality which could make life better. Further, Islamic ethics is derived by divine values such as integrity, accountability, morality and justice that are needed in accounting practices in business environment (Abuznaid, 2009). The aim of Islamic ethics are based on the concept of achieving a good life of every individual, gain a balance between the material and spiritual need and socio-economic justice for the society (Bhatia, 2004). Man being created to fulfill their responsibility to meet the purpose of their existence (Abuznaid, 2009). This is the concept of *Iman* and *Taqwa*, signifies man’s roles as vicegerent (*Khalifah*) on earth. As *Khalifah*, accountant’s responsible and accountable to Allah (swt) and trustee of Allah (swt) resources. As the trustee, accountant’s actions must be in accordance with the conditions of that trust (Beekun and Badawi, 2005). Islamic ethical code prohibit *riba* and gambling in financial transaction, strictures against telling lies, fraud, breach of contract but financial activities must ensure the welfare of public as the economic activities is concerned.

The need for divine values and good ethics such as trust, honesty, integrity and justice financial transaction is inherent in Islamic accounting practice which is desirable to the public (Triyuwono, 2011). The work of ethical accountants in Islam is important to ensure good management in business and worldly life and achieve the blessing of God (Abdul Rahman, 2010, 2003; Hameed & Yaya, 2005). Although the concept and practice in conventional accounting ethics for accountants have some resemblance to the Islamic concept, the conventional ethics may not be full compliance with Islamic values and *Sharia* (Islamic law) (Bhatia, 2004). The differences between conventional accounting ethics and Islamic ethics are not only on the goal but also on the underlying principles (Muhammad et. al., 2008). Hameed and Yaya (2005)

argued that conventional accounting ethics have a contradiction with Islamic morality where conventional accounting practice desired to achieve the materialistic objectives which are separate from religion and divine values. Accordingly, Triyuwono (2011) argued that conventional accounting principles are presented as secular and capitalistic, not ethical rules. However, Islam has its own rules as a framework to accounting practices and reporting which has different philosophy and procedures than the western law (Ahmad, 2014). Thus, Djuitaningsih (2013) emphasized that with regard to the effort in integrating Islamic ethics, accounting discipline must adopt a fully Islamic framework or Sharia.

### **Methodology**

The objective of this study is to examine the acceptability of the sharia foundation of Islamic ethics on accounting objectives and its significant to generate future ethical accountants. To examine the problem of this study, a quantitative research method was adopted to collect data. Surveys questionnaires were used to obtain data from participants to examine the perception on the issues of Islamic ethics (Hair et al., 2010). This study identified 523 accounting educators from the selected universities as a sample. The participants of this study were sent an e-mail consists of the survey that invited them to involve in the research and only 195 of the accounting educators responded to the e-mail. Survey items were developed based on Islamic ethics instrument adapted from AAOIFI Code of Ethics for Accountants and Auditors (1998) and Accounting Ethical Development model by Fisher et al., (2005) with several modifications to fit research question appropriately with careful review of the Islamic ethics literature and framework. Accordingly, this study will use correlation analysis to test for validity of the construct items. The higher the correlation between the item and the construct shows the better the items measuring the constructs. The study used descriptive design as a method of analysis to obtain empirical evidence on the opinion of the suitability and acceptability of Islamic ethics to meet accounting objectives.

### **Results**

The Cronbach's alpha coefficients model was conducted to test the reliability of the items in the questionnaire used in this study. Ideally, the Cronbach's alpha coefficient of a scale should be above 0.7 to be acceptable and values above 0.8 are preferable (Pallant, 2007). Based on these result in Table 1, it can be seen all of the items construct were reliable with a Cronbach's alpha coefficient values are 0.818 and 0.827 respectively, generally indicates good scales, acceptable and meet the significant level of validity.

**Table 1**  
**Cronbach's Alpha Coefficient for Variables**

Constructs	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
1. Sharia Foundation of Islamic Ethics	0.818	0.830	6
2. Ethical Accounting Student	0.827	0.829	10

The questionnaire tests two issues, namely the suitability of Sharia foundation of Islamic ethics to meet accounting objectives in accounting curriculum and the impact of Sharia foundation in generating ethical accounting students in Malaysian universities. The items were measured on a scales of 1 to 5, a score of 1 indicate that the issues test are not important at all while a score of 5 show the issues are very important in accounting practices.

**Sharia Foundation of Islamic Ethics**

The first step of analysis was to determine the suitability of Sharia foundation of Islamic ethics in accounting education from accounting educators perspectives. The hypothesis proposed that accounting educators believed that Sharia foundation of Islamic ethics is important toward virtue behavior in accounting education. The variable of Sharia foundation of Islamic ethics is constituted by item 1 to 6. The data was analyzed by using chi-square of frequency to explore the proportion of cases that fall into the various categories of a single variable (Pallant, 2007). Below is the result of the suitability of sharia foundation in accounting education.

**Table 2**  
**Mean, Standard Deviations and Ranking of Sharia Foundation in Accounting**

	N	Mean	Std. Deviation	Ranking	Percent
1. Accountant should have high integrity	195	4.97	.158	4 (190)	97.4
2. Accountant is only vicegerent of God	195	4.86	.442	6 (174)	89.2
3. Accountant need to be sincere	195	4.98	.123	2 (192)	98.5
4. Fearing God by observing Allah command	195	4.98	.142	3 (191)	97.9
5. High degree of righteousness in his work	195	4.92	.275	5 (179)	91.8
6. Accountable to Allah to all his deed	195	5.00	.000	1 (195)	100

Table 2 reports mean, standard deviations and ranking for accounting educators scores on the suitability of Sharia Foundation of Islam ethics in accounting. Analysis means presents

that all of the means are above 4.0; indicating all means are relatively high. Data analysis showed that overall respondents believed that all of the items in Sharia Foundation of Islamic ethics were acceptable and important in accounting education. Item six *'accountable to Allah to all his deed'* was rated as the most important and acceptable Sharia foundations that direct Muslim users toward Islamic behaviour with 100 percent of respondents rank this item as important and acceptable.

Respondents believed that *'accountant need to be sincere'* with 98.5 percent of respondents ranking this statement as the second important and acceptable reason for Sharia foundation of Islamic ethics. Respondents also accept that *'fearing God by observing Allah command'* as an important Sharia foundation with 97.9 percent. Respondents rank *'accountant should have high integrity'* as the fourth item important in Sharia foundation *'high degree of righteousness in his work'* and *'accountant is only vicegerent of God'* were rated as the last two reason that are important and acceptable in Sharia foundation of Islamic ethics. Thus, comparing each construct in Sharia foundation, it can be said that *'accountable to Allah to all his deed'* is the most important and accepted item as the Sharia foundation of Islamic ethics.

### **Why Sharia Foundation of Islamic Ethics are Important to the Development of Ethical Accounting Students**

The second hypothesis was to test the influence of Sharia foundation of Islamic ethics in generating an ethical accounting student. The result in Table 3 provides mean, standard deviations and frequency for the variables in this hypothesis. Accounting educators were asked to rank the importance of Islamic ethics on the development of ethical accounting student. Analysis means presents that all of the means are above 3.7; indicating all means are relatively high. Thus, data showed that most of accounting educator agrees with the item in Ethical Accounting Students scale that Sharia foundation of Islamic ethics have significant influence in generating ethical accounting students. The result revealed that overall respondents believed that item one *'student ethical development is crucial to accounting profession'* which 76.9 percent of respondents strongly agree and 23.1 percent agree with the statement. Analysis of result also indicate that all of the respondents believed that item five *'Islamic ethics influence the development of ethical accountant'* with 86.2 percent strongly agree and 12.3 percent of accounting educators agree with this statement.

Furthermore, most of accounting educators believed that item 3 *'Islamic ethics are important in the accounting courses'* with 91.3 percent of respondents ranking this statement as strongly agree, 5.6 percent agree and 3.6 percent of respondent neither agree nor disagree. However, all statements were rated significantly important by accounting educators although 9.7 percent of respondents disagree with item 8 *'student ethical awareness has declined over the years'*, 12.8 percent disagree with item 9 *'accounting education did not prepare student to make right and ethical decisions'* and 16.9 percent of respondents disagree with item 10 *'failure to teach ethics contribute to business scandal'*.

**Table 3**  
**Means, Standard deviations and Frequency on the Important of Sharia Foundation of Islamic Ethics to Accounting Students Development**

	Mean	Std. Deviation	Frequency Of Strongly Agree	Agree	Neither Agree nor disagree	Disagree
1. Student ethical development is crucial to accounting profession	4.77	.422	76.9	23.1	-	-
2. Islamic ethics are important in the business community	4.79	.489	82.6	13.8	3.6	-
3. Islamic ethics are important in accounting courses	4.88	.408	91.3	5.6	3.1	-
4. Islamic ethics are important to make right and trustful decisions in workplace	4.79	.475	82.6	14.4	3.1	-
5. Islamic ethics influence the development of ethical accountant	4.85	.402	86.2	12.3	1.5	-
6. Accounting profession may lose the right to regulate itself if ethical lapses continue	4.85	.362	84.6	15.4	-	-
7. Student do not seem to be getting adequate ethical training	4.84	.447	86.7	10.3	3.1	-
8. Student ethical awareness has declined over the years	3.91	1.009	26.2	55.9	4.6	9.7
9. Accounting education not prepare student to make ethical decisions	3.73	.921	19.5	46.7	21.0	12.8
10. Failure to teach ethics contribute to business scandal	3.72	1.242	32.8	34.9	9.7	16.9

## Discussion and Conclusion

### The Suitability of Sharia Foundation of Islamic Ethics to Meet Accounting Objectives

Findings show that accounting educators perceived Sharia Foundation was acceptable and important in directing virtue behaviour among accounting students in accounting education. Results demonstrate that all accounting educators believed that accountable to Allah to all his/her deeds in this world hereafter as the most acceptable Sharia Foundation and may direct accounting user towards ethical behaviour in accounting (Ratmono, 2005; Yaya and Hameed,



2010). This was an interesting result because it shows overall accounting educators agree that accountable to Allah was viewed as the first Sharia foundation that needs to be complying by the accountant (Ahmad, 2014). Therefore, it can be concluded that most respondents believed that accountant need to be sincere and should obey Allah and His requirements in performing his/her duty. The holy Quran emphasized that a Muslim should obey Allah first and then superiors and accept that fearing Allah by observing Allah's commandment and avoiding His prohibitions as an important Sharia foundation.

Moreover, accounting educators believed that accountants' should have high moral value and integrity, highly competent and adequately qualified in performing his/her duty. The result also considered that accountants' should strive to attain the highest degree of righteousness and perfection in his/her work. Further, they agree that accountants' is only vicegerent of Allah in this world and will be held accountable for his/her deeds. Thus, the first hypothesis was supported and concludes that Malaysian accounting educators have the same level acceptability on Sharia foundation of Islamic ethics to be instilled and integrate in accounting education.

### **The Important of Sharia Foundation of Islamic Ethics on the Development of Ethical Accounting Students**

Prior research concerning Islamic ethics (Abd Rahman, 2003; Yunanda and Abd Majid, 2011; Hameed & Yaya, 2005, Ratmono, 2005) concur that the most important reason for integrating Islamic ethics in accounting education is for ethical development of accounting students. Islamic ethics are based from Islamic teaching which source from Al-Quran and Sunnah (the behaviour and teaching of Prophet Muhammad S.A.W). The findings from the study reveal that Sharia foundations of Islamic ethics are important elements on ethical development of accounting students. Results from this study is consistent with Maisarah et al., (2009) that claim religiosity (faith maturity) affect students' ethical sensitivity. These suggests that Islamic ethics help to guide an individual view when facing an ethical dilemmas and making right decision. Kamaludin and Ab Manan (2010) highlighted that Islam with its divine values emphasize on the accountability to God and the concept of public benefit to be foundation of ethics.

Inevitably, accounting educators viewed that Islamic ethics is important in the business community. They believed that Sharia foundation serve as a guideline and govern individual daily life including in business and economic activities. In addition, accounting educators agreed that Islamic ethics is important to make right decision in the workplace and should be integrating in accounting courses. Study by Maisarah et al., (2009) significantly implied the need of Malaysian education system to emphasize not only on intellectual perspectives but also religious positions, which the divine values in Islam are accepted by the Malaysian. Moreover, accounting educators believed the value in sharia foundation of Islamic ethics can contribute to ethical development of accounting students. The result of this study is consistent with Ratmono (2005) which suggested the important of social and religious oriented information in accounting education.

Accordingly, prior study (Abd Rahman, 2010) demonstrate the significant relationship between religiosity and ethical developments have produce positive result (Basri and Khalid, 2012). Thus, this result support Yunanda and Abd Majid (2011) study that claim incorporating Islamic ethics into accounting education will be a significant contribution towards generating ethical accounting students. Despite convincing remarks concerning ethical development of accounting students, finding reveals that accounting educators perceived that students do not seem to be getting adequate ethical training (Fisher et al., 2007; Low et al., 2008). They perceived that students' ethical awareness has declined over the years. It is believed that these happen due to deficiency of ethical values inserted in education system (Yunanda and Majid, 2011). As Low et al., (2008) study indicate that poor quality of professional education system is one of the reasons contributes to these ethical problems.

Results indicate that overall respondents perceived that students' ethical development is crucial to accounting profession. In short, there is considerable agreement among academicians concerning the lack of adequate ethical training among accounting students (Fisher et al., 2005) and the bursting curriculum makes it difficult to integrate ethics in accounting curriculum by academicians (Mahdavikhou and Khotanlou, 2012). Further, most of accounting educators claim that accounting education focusing more on how to prepare right reporting and does not prepare students to make ethically sensitive decisions when facing ethical dilemma.

Next results reveals that more than half of accounting educators highlights that accounting profession need to re-established public trust due to recent accounting scandal (Mahdavikhou and Khotanlou 2012; Low et al., 2008). Thus, accounting professional are expected to have high moral values and integrity (Maisarah et al., 2009). Accounting educators claim that accountants' should realize their roles as vicegerent of God and moral agent of the profession (Yunanda and Majid, 2011). Thus, the study indicate that the visibility of Islamic ethics in accounting education are appropriate and initiate moral development of accounting students and re-established public confident in the profession.

## **Conclusion**

The positive significant relationship between Sharia Foundation and accounting student development indicated that accounting educators embrace a positive acceptability of Sharia foundation as a guideline towards Islamic behavior in accounting environment. Results demonstrate that accounting educators accept and understand the important of Sharia foundations (e.g. accountability to Allah, honesty, trustfulness and benevolence) as a religious guidance that emphasis on Islamic law to be comply in consensus to Islamic accounting. Thus, it shows that sharia foundation of Islamic ethics emphasize on principles that stressing on moral development, serving the community, complying with professional code of ethics for positive economic development (Mulawarman et al., 2006). The Islamic ethical principles have thrived for centuries and had long been exist since the early stage of Islamic civilization (Abu-Tapanjeh,

2007) and seen as guidelines to running business and economic successfully under the framework of the Sharia. The ethical component in Islamic business activity is to provide justice, honest, fair and trust to ensure public confident on financial transactions and benefit social welfare (Ladewi, 2014). It can be highlighted that Islamic ethics are always grounded on moral foundation and adherence to Sharia law (Ahmad, 2014). Since then, due to the call for a financial system that concern with ethical and social responsibility, accounting user especially the Muslim user demand for code of ethics that adhere to the Islamic tenets.

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