

Understanding and Awareness of Islamic Accounting: The Case of Malaysian Accounting Undergraduates

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Abstract *The purpose of this paper is to investigate the level of knowledge regarding Islamic accounting among first and final year accounting undergraduates; and to determine whether there is any significant difference in their level of understanding and awareness of Islamic accounting. A questionnaire was administered to the accounting undergraduates in one of Malaysian public universities. Results indicate that some of the respondents have some basic knowledge regarding Islamic accounting. Results also indicate that there is a significant difference in the level of understanding between the first and final year students. This is due to the fact that final year students were exposed to Islamic accounting topic in their final year. To emphasise Islamic accounting, education of this topic should be incorporated into the syllabus and professional training where appropriate.*

Key words Accounting students, Islamic accounting, Malaysia

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1. Introduction

The Islamic banking sector has grown rapidly in recent years and this new found prominence has raised many questions as to what exactly is Islamic banking and how does it works. Since the inception of Islamic banking, the number of Islamic financial institutions worldwide has risen significantly. This has led to the creation of other organisations such as Takaful companies (Islamic insurance). With regard to financial reporting, the Accounting and Auditing Organisation for Islamic Institutions (AAOIFI) has been at the forefront in developing various accounting and auditing standards to ensure the quality of financial reports produced by these Islamic financial institutions. In Malaysia, Bank Negara Malaysia and the Malaysian Accounting Standards Board (MASB) have also provided the financial reporting guidelines for these financial institutions.

It has been argued that the quality of education and innovation are key factors in increasing and supporting the accounting profession's talent pool. However, very few institutions of higher learning in Malaysia offer Islamic accounting course in their accounting programs. Therefore, the purpose of this study is to determine the level of awareness of accounting students in one of Malaysia's public universities with the absence of specific Islamic accounting course. To explore further the level of awareness of these students, this study attempts to compare the awareness and knowledge of the first and final year students. The findings of this study is expected to shed some light on the importance of Islamic accounting in accounting program and to justify the needs to introduce Islamic accounting as one of the course to be taken by accounting students. This study has several implications for the accounting profession, education sectors and also society.

2. Literature review

2.1. Islamic Accounting vs. Conventional Accounting

According to Hameed (2003), Islamic accounting is "the accounting process which provides appropriate information to stakeholders of an entity to ensure that entity is continuously operating within Islamic *shariah* boundary and delivering on its socioeconomics objectives." While for the contrast, which is

conventional accounting is defined as “the identification, recording, classification, interpretation and communication of economic events to permit users to make informed decision” (American Accounting Association, 1996). Based on the definition, it can be concluded that the definition on the Islamic accounting is based on the concept of *shariah* that stands on Islamic principles compared to conventional accounting is based on capitalist interpretation. Besides, Hameed (2003) also highlights that Islamic accounting ensures that Islamic organisations abide by the principles of *shariah* or Islamic law in their dealings and enable the assessment of whether the objectives of the organisation are being met. *Shariah* law is a broad concept comprising divine law governing the life of individual Muslims in their relationships with Allah, individual human beings and others.

Shariah law prohibits interest-based income or usury and also gambling, so part of what Islamic accounting does is help ensure companies do not harm others while making money and achieve an equitable allocation and distribution of wealth, not just among shareholders of a specific corporation but also among society in general (Kettel, 2010). Both conventional and Islamic accounting provides information and defines how that information is measured, valued, recorded and communicated. Conventional accounting provides information about economic events and transactions, measuring resources in terms of assets and liabilities, and communicating that information through financial statements users, typically investors, rely on to make decisions regarding their investments. Islamic accounting, however, identifies socio-economic events and transactions measured in both financial and non-financial terms and the information is used to ensure Islamic organizations of all types adhere to Shariah and achieve the socio-economic objectives promoted by Islam (Ahmed, 2012).

Internationally, current Islamic accounting was initiated by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The AAOIFI is an Islamic international autonomous non-for-profit corporate body that prepares accounting, auditing, governance, ethics and Shariah standards for Islamic financial institutions and the industry. It was founded in 1991 and has so far issued a total of 88 standards covering the areas Shariah, accounting, auditing, ethics, and governance for Islamic financial institutions.

2.2. The importance of education on Islamic accounting

The need for new accounting courses resulted from factors such as business trends and the need for additional accountants. In general, accounting curricula were developed to fill the market’s need for accountants. In this regard, the Malaysian Institute of Accountants has developed the Competency Framework to monitor and regulate the quality of all accounting talent. Among areas that need to be a close attention are valuation, shariah audit and insolvency (Accountants Today, 2017). Islamic accounting courses are important to enhance the knowledge of accounting students and practitioners in preparation of accounting reports and financial statements of the Islamic institutions such as Islamic banks, takaful, zakat and Ar-rahnu (Islamic pawn). Several authors have explained the importance and implications of Islamic accounting to account for Islamic products. However, the level of awareness of Islamic accounting has yet to be examined in the context of Malaysian public universities students.

Quite recently, Siswantoro (2015) examined students perception and awareness regarding Islamic accounting and he found that few students were aware of Islamic accounting. In addition to that, Rahim (2016) examined the effects of Islamic economics on non-muslims and she found that the non-muslim students are open to the Islamic economics ideas and among topics that draw the highest attention is Islamic banking and finance. Talib *et al.* (2014), measure the level of awareness of accounting academicians in Malaysia on the need of *Shariah*-based accounting, particularly on institutions offering Islamic financial services. The findings indicate all respondents agreed that *Shariah*-based accounting is needed to account for Islamic financial instruments. This is consistent with the *Shariah* Advisory Council (SAC) requirements and provisions for the existing Islamic Accounting Standards such as AAOIFI.

Bley and Kuehn (2003) examined 700 graduate and undergraduate students of the School of Business and Management at the American University of Sharjah on their perceptions and preferences related to conventional and Islamic banking products and services, and their knowledge of the terms and concepts of each system. They reported that personal banking preferences are largely based on students’ level of religious sincerity. In other words, Muslim students in general, and those students who reported to take their religion very seriously, perceived Islamic finance more favourably than conventional finance. Overall,

students' knowledge of conventional and Islamic finance terms and concepts was surprisingly low. In general, conventional finance knowledge was the highest for those students with poor to no Arabic language fluency, who majored in finance and who were fairly advanced in their programs and had a high level of academic success. In contrast, the level of Islamic finance knowledge was generally the highest for male Muslim students with a high level of Arabic fluency, who are fairly advanced in their program with a high level of academic success, regardless of their business concentration.

3. Methodology of research

The sample examined in this study comprises of accounting and non-accounting students in one of the public universities in Malaysia. The research was conducted through questionnaires and it consisted of two parts: 1) Section A collects demographic information; and 2) Section B containing statement preference responses based on a Likert scale. Section B requires respondents to choose the appropriate responses from the 5-point Likert scale; 1 = SD (Strongly Disagree); 2 = MD (Moderately Disagree); 3 = N (Neutral); 4 = MA (Moderately Agree); 5 = SA (Strongly Agree).

The instrument is pre-tested by enrolling lecturers attached to the Faculty of Management and Economics, UPSI. A reliability test is carried out to ensure the internal consistency of the instrument. The results show that all items possessed Cronbach's Alpha's value of more than 80%, which indicates that the internal consistency of the instrument is good and therefore, acceptable.

4. Results and discussions

The respondents profile shows that out of 60 respondents, more than 70% are female students, only 21.7% are males. Out of this sample, 30 respondents are first year students and the remaining are the final year students.

Table 1. Gender

| Gender | Number of students | Percentage |
|--------|--------------------|------------|
| Male | 13 | 21.7% |
| Female | 47 | 78.3% |
| Total | 60 | 100% |

4.1. Awareness of Islamic Accounting

Eight questions are designed to assess the students' knowledge about Islamic accounting. The questions involved knowledge in relation to the definition and elements of Islamic accounting. Table 2 presents the classification of level of knowledge and awareness based on the 5-point Likert scale. Table 3 presents the results for first year students while Table 4 presents the results for final year students.

Table 2. Level of knowledge

| Scale | Level of Mean |
|-----------|---------------|
| 0.0-1.67 | Low |
| 1.68-3.34 | Moderate |
| 3.35-5.00 | High |

Table 3. Awareness of Islamic Accounting among first year accounting students (n=30)

| Statement | SD % | MD % | N % | MA % | SA % | Mean |
|--|---------|---------|--------|---------|---------|------|
| 1 Islamic accounting is an alternative accounting system which aims to provide users with information enabling them to operate businesses and organizations according to Shariah, or Islamic law | 30 | 26.7 | 40 | 3.3 | 0 | 2.17 |
| 2 The key elements prohibited by Islamic law are uncertainty (gharar), gambling (maysir) and interest (riba). | 13.3 | 33.3 | 50 | 3.3 | 0 | 2.47 |

| | Statement | SD % | MD % | N % | MA % | SA % | Mean |
|---|--|---------|---------|--------|---------|---------|------|
| 3 | The accounting standards on Presentation of Financial Statements of Islamic Financial Institutions (FRSi-1) is developed because in some cases Islamic financial institutions encounter accounting problems due to existing accounting standards being developed based on conventional institutions and may be perceived to be insufficient to account for and report Islamic financial transactions | 10 | 33.3 | 46.7 | 10 | 0 | 2.57 |
| 4 | The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) is an Islamic international autonomous non-for-profit corporate body that prepares accounting, auditing, governance, ethics and Shariah standards for Islamic financial institutions and the industry | 20 | 30 | 46.7 | 3.3 | 0 | 2.33 |
| 5 | Concept of accounting was found in Muslim practices in seventh century. | 16.7 | 36.7 | 43.3 | 3.3 | 0 | 2.33 |
| 6 | Islamic accounting is the process of identifying, measuring and communicating economic and other relevant information inspired by Islamic law | 13.3 | 26.7 | 56.7 | 3.3 | 0 | 2.50 |
| 7 | Islamic accounting offers faithful representation of the economic transaction of the business entity. | 23.3 | 26.7 | 50 | 0 | 0 | 2.27 |
| 8 | Shariah Islami'ah can help harmonizing the Islamic society by following Islamic accounting standards. | 16.7 | 26.7 | 56.7 | 0 | 0 | 2.40 |

All means values are on a 5-point scale; 1 = SD (Strongly Disagree); 2 = MD (Moderately Disagree); 3 = N (Neutral); 4 = MA (Moderately Agree); 5 = SA (Strongly Agree)

Table 4. Awareness of Islamic Accounting among final year accounting students (n=30)

| | Statement | SD % | MD % | N % | MA % | SA % | Mean |
|---|--|---------|---------|--------|---------|---------|------|
| 1 | Islamic accounting is an alternative accounting system which aims to provide users with information enabling them to operate businesses and organizations according to Shariah, or Islamic law | 0 | 0 | 0 | 46.7 | 53.3 | 4.53 |
| 2 | The key elements prohibited by Islamic law are uncertainty (gharar), gambling (maysir) and interest (riba). | 0 | 0 | 40 | 46.7 | 13.3 | 3.73 |
| 3 | The accounting standards on Presentation of Financial Statements of Islamic Financial Institutions (FRSi-1) is developed because in some cases Islamic financial institutions encounter accounting problems due to existing accounting standards being developed based on conventional institutions and may be perceived to be insufficient to account for and report Islamic financial transactions | 0 | 0 | 13.3 | 53.3 | 33.3 | 4.20 |
| 4 | The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) is an Islamic international autonomous non-for-profit corporate body that prepares accounting, auditing, governance, ethics and Shariah standards for Islamic financial institutions and the industry | 0 | 0 | 30.0 | 56.7 | 13.3 | 3.83 |
| 5 | Concept of accounting was found in Muslim practices in seventh century. | 0 | 0 | 43.3 | 56.7 | 0 | 3.57 |
| 6 | Islamic accounting is the process of identifying, measuring and communicating economic and other relevant information inspired by Islamic law | 0 | 0 | 20. | 60 | 20 | 4.00 |
| 7 | Islamic accounting offers faithful representation of the economic transaction of the business entity. | 0 | 0 | 23.3 | 63.3 | 13.3 | 3.90 |
| 8 | Shariah Islami'ah can help harmonizing the Islamic society by following Islamic accounting standards. | 0 | 0 | 16.7 | 66.7 | 16.7 | 4.00 |

All means values are on a 5-point scale; 1 = SD (Strongly Disagree); 2 = MD (Moderately Disagree); 3 = N (Neutral); 4 = MA (Moderately Agree); 5 = SA (Strongly Agree)

In a nutshell, there is a high degree of awareness of Islamic accounting among the accounting students. All respondents also agree that Islamic accounting is an alternative accounting system which is based on Quranic principles. Besides most of the respondents agree that the Islamic accounting standards have to be developed because in some cases Islamic financial institutions encounter accounting problems due to existing accounting standards such as IFRSs or GAAP being developed based on conventional institutions and may be perceived to be insufficient to account for and report Islamic financial transactions. To analyse further, an independent sample t-test was conducted to compare the awareness of Islamic accounting among first and final year students. The test results show there is a significant difference in terms of their level of knowledge ($p < 0.05$). This is due to the fact that students in their final year are exposed to Islamic accounting topic in subject Accounting Theory and Practice whereas first year students only learn about conventional accounting in their early semesters.

4.2. The Differences between Islamic Accounting and Conventional Accounting.

Next, the respondents were asked about their understanding of the differences between conventional accounting and Islamic accounting. Table 5 and 6 present the mean for both first and final students.

Table 5. Understanding of conventional and Islamic accounting among first year students

| Statement | SD % | MD % | N % | MA % | SA % | Mean |
|---|---------|---------|--------|---------|---------|------|
| 1 Islamic financial institutions are those that are based on Quranic principles and are different from conventional institutions which have no such religious preoccupations. | 16.7 | 46.7 | 36.7 | 0 | 0 | 2.20 |
| 2 Islamic accounting investment is called sukuk. | 16.7 | 30 | 50 | 3.3 | 0 | 2.40 |
| 3 Investment in Islamic financial institutions must be guided by Shariah guidelines whereas investment in conventional institutions are profit motive – can invest in liquor, tobacco, gambling companies (non-shariah compliant) | 20.0 | 30 | 50 | 0 | 0 | 2.30 |
| 4 The conceptual framework is similar to that of conventional accounting but with differential views and concepts in Islamic teaching. | 16.7 | 43.3 | 40 | 0 | 0 | 2.23 |
| 5 Islamic financial institutions are based on profit-and-loss sharing principle, unlike the interest-based commercial system. | 13.3 | 30 | 53.3 | 3.3 | 0 | 2.47 |
| 6 Islamic financial institutions promotes risk-sharing between providers of funds (investors) and the user of funds (entrepreneurs) whereby under conventional banking the investor is assured of a predetermined rate of interest. | 13.3 | 30 | 50 | 6.7 | 0 | 2.50 |

All means values are on a 5-point scale; 1 = SD (Strongly Disagree); 2 = MD (Moderately Disagree); 3 = N (Neutral); 4 = MA (Moderately Agree); 5 = SA (Strongly Agree)

Table 6. Understanding of conventional and Islamic accounting among final year students

| Statement | SD % | MD % | N % | MA % | SA % | Mean |
|---|---------|---------|--------|---------|---------|------|
| 1 Islamic financial institutions are those that are based on Quranic principles and are different from conventional institutions which have no such religious preoccupations. | 0 | 0 | 0 | 46.7 | 53.3 | 4.53 |
| 2 Islamic accounting investment is called sukuk. | 0 | 0 | 20 | 56.7 | 23.3 | 4.03 |
| 3 Investment in Islamic financial institutions must be guided by Shariah guidelines whereas investment in conventional institutions are profit motive – can invest in liquor, tobacco, gambling companies (non-shariah compliant) | 0 | 0 | 36.7 | 53.3 | 10 | 3.73 |
| 4 The conceptual framework is similar to that of conventional accounting but with differential views and concepts in Islamic teaching. | 0 | 0 | 10 | 33.3 | 56.7 | 3.47 |
| 5 Islamic financial institutions are based on profit-and-loss sharing principle, unlike the interest-based commercial system. | 0 | 0 | 43.3 | 36.8 | 20 | 3.77 |

| | Statement | SD % | MD % | N % | MA % | SA % | Mean |
|---|---|---------|---------|--------|---------|---------|------|
| 6 | Islamic financial institutions promotes risk-sharing between providers of funds (investors) and the user of funds (entrepreneurs) whereby under conventional banking the investor is assured of a predetermined rate of interest. | 0 | 3.3 | 33.3 | 53.3 | 10 | 3.70 |

All means values are on a 5-point scale; 1 = SD (Strongly Disagree); 2 = MD (Moderately Disagree); 3 = N (Neutral); 4 = MA (Moderately Agree); 5 = SA (Strongly Agree)

The results indicate that only some of the students understand the difference between Islamic and conventional financial institutions which yields a low level of understanding. This results is consistent with findings from Bley and Kuehn (2003) and Siswantoro (2015) whereby they also find that the students' knowledge of conventional and Islamic finance terms is quite low. An independent sample t-test was conducted to compare the awareness of Islamic accounting among first and final year students. The test results show there is a significant difference in terms of their level of knowledge ($p < 0.05$). This is due to the fact that students in their final year are exposed to Islamic accounting topic in subject Accounting Theory and Practice whereas first year students only learn about conventional accounting.

4.3. Importance of Islamic accounting education for accounting students

The respondents were also asked for their opinion with regard to the importance of Islamic accounting education for accounting students in terms of their desire to learn about Islamic accounting and the result is presented next.

Table 7. Desire to learn Islamic accounting in the course of your study

| | Statement | SD % | MD % | N % | MA % | SA % | Mean |
|---|--|---------|---------|--------|---------|---------|------|
| 1 | I like to learn about Islamic accounting | 0 | 0 | 6.7 | 63.3 | 30 | 4.23 |
| 2 | Islamic accounting is needed for Islamic financial institutions (e.g. Islamic banks and takaful companies) | 0 | 0 | 40.0 | 53.3 | 6.7 | 3.67 |
| 3 | Accountants should be equipped with Islamic accounting knowledge | 5 | 5 | 41 | 33 | 36 | 2.23 |
| 4 | Islamic accounting subject should be introduced as a compulsory subject in accounting course | 0 | 15 | 40 | 33 | 12 | 3.87 |
| 5 | Islamic accounting subject should be introduced as an elective subject in accounting course | 0 | 0 | 20 | 50 | 30 | 3.63 |
| 6 | Islamic accounting syllabus is needed for business sector | 1 | 11 | 33 | 48.3 | 6.7 | 3.73 |

Table 7 shows that the majority of respondents would like to learn about Islamic accounting and most of them agree that Islamic accounting is needed for business sector and also for the Islamic financial institutions. They also indicate that Islamic accounting subject should be introduced as an elective subject rather than compulsory. The findings suggest that there is a general consensus among the respondents that Islamic accounting subject is important for the business sector and should be introduced in the accounting course. These findings are consistent with (Talib *et al.*, 2014) who also find that the majority of respondents in their study perceived Islamic accounting as important for the business sector and Islamic financial institutions. Besides that, the inclusion of Islamic accounting subject as an elective is important because future accountants should be equipped with shariah-based accounting knowledge in order to be competent and competitive in the job market.

5. Conclusions

This study provides some insights on the perception of accounting students with regard to Islamic accounting. This study shows that there is a high degree of awareness among accounting students who agree that Islamic accounting is important to be included in the accounting syllabus. Most of the respondents also agree that future accountants should be equipped with Islamic accounting knowledge. In this study, the difference between first and final year is prominent because final year students are exposed

to Islamic accounting topic in their final semester. However, it is argued here that the exposure to that topic is insufficient because majority of the students feel that Islamic accounting should be introduced at least as an elective subject. Currently, in Malaysia, only a few Malaysian public universities offer Islamic accounting as their course subject as part of fulfilling their degree requirement such as International Islamic University of Malaysia and Universiti Sains Islam Malaysia (Shafii *et al.*, 2014).

This study has several implications to society and the education sector. The accounting degree syllabus offered by the local universities need to expand their scope by imparting the Islamic accounting course an elective course in order to equip the students with the skill and knowledge required by their potential future employer. The data can be improved further by overcoming some of the limitations by increasing the number of respondents to include others from other universities. One of the most important implications of this study is that the findings will help the universities and curriculum designer to perhaps incorporate basic Islamic accounting course in their current accounting programs.

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