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WERE ISLAMIC RECORDS PRECURSORS TO ACCOUNTING BOOKS BASED ON THE ITALIAN METHOD?

Abstract: The precise origin of the accounting records and reports outlined by Pacioli in 1494 and used in the Italian Republics is presently unknown. Historical evidence preserved in Turkey and Egypt indicates that accounting records and reports developed in the early Islamic State were similar to those used in the Italian Republics as outlined by Pacioli in 1494. Furthermore, some of the records and reports used in different parts of the Islamic State are comparable to modern-day books and reports. The religious requirement of *Zakat* (religious levy) and the increasing responsibilities of the Islamic State were the force behind the development of accounting records and reports by Muslims. The Islamic State was established in 622, and *Zakat* was imposed on Muslims in the year 2 *Hijri'iah* (H) (623). The enactment of *Zakat* necessitated the establishment of the *Diwan* (office where accounts are held) and the initial development of accounting records and reports. These records were further developed in *Addawlatul Abbasi'iah* (Abbaside Caliphate) between 132-232 H (750-847) whereby seven accounting specializations were known and practiced. Auditing played a very important role in the Islamic State and was designated as one of the accounting specializations. This paper argues that it is most likely that the commercial links between Muslim traders and their Italian counterparts influenced the development of accounting books in the Italian Republics.

INTRODUCTION

The objective of this paper is to explain and examine the accounting records and reports that were developed and used

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by Muslims prior to the publication of Pacioli's book, *Summa de Arithmetica, Geometrica, Proportioni et Propotionalita*, in 1494. This examination is based on the received wisdom that "the Italians borrowed the concept of double entry from the Arabs"¹ [Have, 1976, p. 11]. The explanation and examination aim at identifying the contribution of early Muslims to accounting literature and highlighting the possible influence of Muslims' accounting practice on the Italian Republics. The examination of this influence is of significance because Europe at that time "was temporarily at a standstill, and we shall therefore not expect to find a visible or appreciable progress in methods of accounting during that period" [Woolf, 1912, p. 54].

The geographical scope of the Arabic commercial and financial activities was very limited prior to the establishment of the Islamic State in 622 AD by the Prophet Mohammad, peace be upon him (*pbuh*).² Commercial and financial activities were concentrated in the hands of a few families in Makkah³ and were focused on the Middle East region. There were two major trade sessions known as the winter and summer trade journeys [*Quran*, 106:1-4]. The winter trade journey was directed to Yemen, while the summer trade was with Ash-Sham (today known as Syria, Lebanon, Jordan, Palestine, and Israel). The "conventional" trade from Makkah to Yemen and Ash-Sham continued after 622, but began to take a different direction in the year 10 *Hijri'iah*⁴ (H) (632). After the conquest of Makkah in the year 8 H (630), Arabs who embraced Islam became preoccupied with the spread of Islam beyond the Arabian peninsula, stretching their commercial activities well beyond the Middle East. Since the 8th century Arabs "sailed their galleys along the coasts of Arabia and India, and arrived in Italy with luxury goods unknown in Europe" [Have, 1976, p. 13]. The increasing com-

¹Muslims were generally referred to as Arabs. This identification could be linked to the language spoken or to the origin of early Muslims who came from Arabia.

²mandatory Islamic expression to be used whenever the name of a prophet such as Noah, Abraham, Ismail, Isaac, Moses, Joseph, Jesus, or Mohammad is mentioned

³Commonly spelt Mecca, Makkah is the appropriate pronunciation and accordingly the adequate corresponding spelling.

⁴*Hijri'iah* refers to the Islamic calendar that started with the establishment of the Islamic State in 622 in Al-Madienah Al-Munawwarrah (a city in present Saudi Arabia). The Gregorian year, based on the sun, is 11 days longer than the *Hijri'iah* year, based on the moon.

mercial activities of Muslim traders also necessitated the pooling of funds to finance increasing European demands for their goods. The resulting expansion in the scope of trade led to the emergence of partnerships and the need to maintain proper accounting records and prepare adequate reports as required by the *Quran* [Al-Baqarah, 2: 282-283] to account to the entrepreneurs and partners. The need for proper accounting records and reports was also motivated by the requirement for the payment of *Zakat*⁵ as detailed in the *Shari'ah Islami'iah*⁶ (Islamic teachings).

In the early stages of the Islamic State, *Zakat* and other revenues were not of great financial significance and were not usually recorded [Ibn Saad, 1957, p. 400]. The geographical expansion of the Islamic State into the Middle East, Africa, and Asia, especially during the time of Caliph Omar bin Al-Khattab,⁷ led to significant increases in the revenues and responsibilities of the Islamic State. These increases in revenues and responsibilities necessitated the establishment of a mechanism to ensure adequate accountability of those responsible for the collection and disbursement of the state's revenues and expenses. This mechanism was achieved by the *Sahaby* (Prophet's companion) Al-Waleed bin Hisham Al-Mugierah [As-Saleh, 1982, p. 349]. The *Sahaby* recommended the establishment of records to account for the state's revenues and expenses. This recommendation was made to Omar bin Al-Khattab who appre-

⁵religious levy of purification of wealth which was imposed on Muslims in the year 2 H (623)

⁶*Shari'ah Islami'iah* is a very broad concept comprising the divine law governing the life of individual Muslims in their relationships with Allah, individual human beings as well as all other beings created by Allah. *Shari'ah Islami'iah* is based on the *Quran*, *Sunnah*, *Ijma'*, and *Qiyas*. The *Quran* is the Godly book of Muslims, while the *Sunnah* reflects what Prophet Mohammad (*pbuh*) said, did, and agreed to as preserved by his companions. The *Quran* and the *Sunnah* are the basic two sources of *Shari'ah Islami'iah*. The third source is *Ijma'* which should only be applied in the absence of an explicit answer to the issue in question. *Ijma'* represents the consensus of Muslim scholars about issues that are not explicitly mentioned in the *Quran* or the *Sunnah*. The final source is *Qiyas* which is represented in the analogical deductions from the *Quran*, the *Sunnah*, and the *Ijma'* for contemporary issues that are not directly mentioned in the *Quran*, the *Sunnah*, or the *Ijma'* but have similar characteristics as those existed in the past. Once a decision is made by either *Ijma'* or *Qiyas*, it becomes mandatory and cannot be overruled by future generations [Zaid, 1997, pp. 190-197].

⁷He was the second caliph and ruled the Islamic State during the period 13-23 H (634-644).

ciated the idea and established the *Diwan*.⁸ Accordingly, the religious levy of *Zakat* was the real force for the development of accounting records and the establishment of the *Diwans*.

Although the establishment of the *Diwan*, and hence of accounting records, was initially developed by the Islamic State, the contribution of Muslim traders cannot be ignored. Muslim traders were religiously motivated to maintain adequate records to facilitate the recording, measurement, and reporting of their business transactions. This religious motivation was especially aimed at the measurement of profits and capital growth for the payment of *Zakat* to *Baitul-Mal* (public treasury). The payment of *Zakat* as a religious levy did not require the assessment of individuals by the state as the case is today with regard to different types of taxes. The *Ulamaa* (Muslim scholars) are of the opinion that "*Zakat* is a liability entrusted to Muslims. It is received from those who pay it freely. Those who don't pay it are followed by Allah" [Bin Jafar, 1981, p. 241]. *Shari'ah Islami'iah* specifies the sources of *Zakat*, its rates, calculations,⁹ and the application¹⁰ of funds received from *Zakat*.

FACTORS THAT CONTRIBUTED TO THE DEVELOPMENT OF ACCOUNTING RECORDS AND REPORTS BY MUSLIMS

As in many types of discovery, necessity is the mother of invention. Accounting records were developed to meet certain needs of society. The development of accounting records by Muslims was initially associated with the *Zakat* accountability and the delegation of business and government authority. Factors associated with *Zakat* and the delegation of authority in the Islamic State are represented in the institution of specialized government officials, identification of specialized skills, segre-

⁸Some claim that the term "*Diwan*" is an Arabized Persian word [Lasheen, 1973, p. 26] while Al-Kalkashandy argued that it is an Arabic word. According to Al-Kalkashandy [1913, Vol. 1, p. 89], who wrote his book in 767 H (1366), the term "*Diwan*" is the noun from the Arabic verb "*Dawwana*" (writing). This argument is a valid one and was supported in earlier writings of An-Nahhas, the Arabic grammarian Sybaw'weh, and the Muslim scholar ibn Abbas. It was first used to mean the book of revenues as well as the office of recording and maintaining accounting books. At a later stage the term was restricted to mean office only. Now *Diwan* is used in Yemen and some other English-speaking countries to mean "lounge."

⁹as revealed in the *Quran* [Al-Ma'arej, 70: 24-25, Adh-Dhariyat, 51: 19] and further explained in the *Sunnah*, *Ijma'*, and *Qiyas*

¹⁰as strictly ordered in the *Quran* [Al-Taubah, 9: 60]

gation of duties, and the need for qualified employees. The requirement of *Zakat* and the delegation of business authority for individual Muslims promoted the need for the maintenance of accounting records and the measurement of business results.

Specialized government departments emerged with the foundation of the Islamic State in Al-Madienah Al-Munawwarah in the year 1 H (622). As a new state, it was necessary to identify the different functions needed to achieve its objectives. Accordingly, a number of government officials were appointed to exercise the rights, discharge the responsibilities, and protect the interests of the state. The appointment of these officials necessitated the identification and classification of specialized skills and, hence, promoted the separation of duties to prevent the accumulation of authority in the hands of one person. The principle of decentralized power was based on the principle of *Ash-Shura*¹¹ (consultation). The *Ash-Shura* principle requires the caliph, as well as all other individuals in different positions, to consult with the appropriate knowledgeable persons in the relevant field before making a decision on any issue affecting the state and its citizens. Accordingly, it was necessary to select employees with the appropriate knowledge and/or experience in the particular field of employment. The *Ash-Shura* principle was practiced and promoted by the Prophet Mohammad (*pbuh*) personally. He selected employees and assigned duties to his companions who were known to be competent and capable of discharging their obligations [Hawary, 1988a, p. 16]. The duties and rights of employees at different levels of the hierarchy were explicitly specified and observed from the earliest establishment of the Islamic State. The Prophet Mohammad (*pbuh*) had 42 specialized officials in his government. Each official had a specified role to play, defined duties, and a stated salary [Hawary, 1988b, p. 5].

Zakat was the common factor that influenced the Islamic State and individual Muslims in the development of accounting records and reports. The calculation and payment of *Zakat* required the maintenance of adequate records and the preparation of accounting reports to discharge the religious financial responsibility of paying *Zakat* as required by *Shari'ah Islami'iah*. The calculation of the *Zakat* demanded the careful recording and proper observation of the date of occurrence of

¹¹*Ash-Shura* is a mandatory Islamic principle imposed on Muslims in the *Quran* [Al-Imran, 3: 159, Ash-Shura, 42: 38].

transactions. The importance of the date of occurrence was based on the principle of *Al-Haol* (periodicity), which was an important factor in determining whether the income was subject to *Zakat* or not. According to *Al-Haol*, an income was not subject to *Zakat* unless it had been in the possession of the owner for 12 calendar months.

The development of accounting records and reports found momentum in the notion that accounting would help in decision making, either on the state or the individual level. This notion was promoted by Imam Ash-Shafi'ie¹² who said [Shahata, 1993, p. 45]:

... he who learnt accounting will make an appropriate decision ... This means that the trader or any other person cannot express an appropriate opinion or make the right decision without the assistance of the information recorded in the books.

ACCOUNTING RECORDS DEVELOPED BY MUSLIMS

The formal establishment of the *Diwan* during the period of the second caliph, Omar bin Al-Khattab [*Encyclopedia Britannica*, 1993, Vol. 4, p. 131], included the classification of records and their layout in addition to the design and maintenance of supporting documents. Before the citizens of Ash-Sham and Iraq embraced Islam in the years 14 H (636) and 16 H (638) respectively, they were occupied by the Romans and Persians respectively. Accordingly, they used the occupiers' languages. The recording in the land *Zakat* books continued in the Roman and Persian languages for a short period of time in the *Diwans* of Ash-Sham and Iraq. Other books had already been kept in Arabic since their inception. The languages in these *Diwans* were [Ibn Khaldoon, n.d.,¹³ pp. 269-270]:

... converted into Arabic by the order of the Caliph Abdul-Malek 73-86 H (693-705) to the Governor of Jordan to convert the Diwan of Ash-Sham into Arabic. This conversion was completed in one year under the supervision of Surjoon the clerk of Abdul-Malek. In Iraq the Diwan was converted into Arabic by Saleh bin

¹²Imam Ash-Shafi'ie lived between 150-204 H (767-820) and was the founder of one of the four influential Islamic schools of thought known as *Madhab Ash-Shafi'ie*. The other three are *Madhab Al-Maliky*, *Madhab Al-Hanafy*, and *Madhab Al-Hanbaly*.

¹³His handwritten book was dated 767 H (1366).

Abdur-Rahman the clerk of Al-Hajjaj who ruled Iraq and died in 95 H [714 AD]. The position of the accountant is of significance and is the third pillar of the hierarchy.

Another Egyptian historian who held the position of accountant in the 14th century [Al-Kalkashandy,¹⁴ 1913, p. 482] believed that:

the Diwan of Ash-Sham was converted into Arabic language by the governor of Ash-Sham Sulaiman bin Sa'eed. And that the Diwan of Egypt was converted from the Coptic language into Arabic by Abdul-Malek bin Marwan.

During the early stages of the Islamic State, the accounting records were loose-leaf. The first person to introduce bound records and registers was Caliph Al-Waleed bin¹⁵ Abdul-Malek during the period 86-96 H (705-715) [Lasheen, 1973, p. 36]. The organization of the accounting books reached its highest level of evolution during *Addawlatul Abbasi'iah* (Abbaside Caliphate) between 132-232 H (750-847). In 132 H (750), *Diwan Al-Kharaj* (Department of Land *Zakat*) and *Diwan Al-Jund* (Department of Army Personnel) were assigned to Khaled bin Barmak, who restructured these departments, developed, and, most importantly, named the accounting books to be maintained.

The recognition of the importance of and the need for classified records and adequate reports has affected and promoted the development of accounting practice in the Islamic State. Accounting was classified into specializations of which one was the "review of books" (auditing). The others were "stable accounting" (accounting for livestock), "construction accounting," "rice-farm accounting" (agricultural accounting), "warehouse accounting," "mint accounting" (currency accounting), "sheep-grazing accounting" (farm accounting), and "treasury accounting." The responsibility of the reviewer was "to check what was written in the books" [Al-Kalkashandy, 1913, Vol. 1, pp. 130-139]. He explained the need for and responsibilities of the reviewer:

... the other six are not protected from omission, error of judgement, errors of writing and accordingly it is

¹⁴His handwritten book was dated 767 H (1366).

¹⁵Bin (sometimes written Ibn) is an Arabic word commonly used by Arabs generally and Muslims especially. It precedes the name of the father and means "the son of."

common for a person not to see his mistakes but can see others' errors. It is necessary for the head of the Diwan to appoint a person to review the books. This person must possess a high standard of the language, be hafidh [a memorizer] of the Quran, intelligent, wise, trustworthy and neither prejudiced nor inimical. When the reviewer is satisfied with the contents of the book being reviewed, he should sign in the book as an indication of his satisfaction with the contents.

The audit function played an important role in the Islamic State. The bookkeeper "had to comply with instructions, pre-approved systems or models and not to depart therefrom" [Al-Kalkashandy, 1913, Vol. 1, p. 54]. Auditing was mandatory as appreciated by Al-Hariery who suggested that "accounting is subject to verification" [Al-Kalkashandy, 1913, Vol. 1 p. 154]. During that time, greater emphasis was placed on self-control as a fundamental religious principle [Al-Gazaly, 1980, Vol. 15, pp. 6-7]. Self-control was influenced by Muslims' belief that Allah is watching all acts and knows all thoughts of mankind. Self-control is followed by self-judgment which requires Muslims to observe their acts and thoughts and judge themselves before being judged by Allah. The fundamental religious principle of self-control and, accordingly, self-judgment are essential requirements of *Shari'ah Islami'iah*, as explicitly stated in the *Quran* [for example, Al-Israa, 17:14] and the *Sunnah*. According to the *Sunnah*, self-control and self-judgment are the reflection of accountability which is one of the main principles of stewardship and the agency relationship developed in the Islamic State. The Prophet Mohammad (*pbuh*) used the term *Muhasabah* to mean accounting and accountability. He also used the term *Hasaba* (accounted) as meaning recorded, stored, and counted [Shahata, 1993, p. 39].

The primary book of recording in the Islamic state was named *Jaridah* [Bin Jafar, 1981, p. 23], which is an Arabic word meaning, among other things, newspaper or journal. The use of the term "*Jaridah*" was mentioned by Al-Mazendarany in 767 H (1363) and Ibn Khaldoon in 779 H (1378). The employment of *Jaridah* was subject to registration before it could be used. Registration occurred by stamping the *Jaridah* with the sultan's seal. The registration of accounting books was mandatory for government entities, and its applicability to private entities cannot be ruled out. It is still a legal requirement in some Middle Eastern countries such as Egypt to have the "Daily Book" registered and stamped before being used. Ibn Khaldoon was one of

the famous Muslim scholars who witnessed significant discoveries and developments in several fields of knowledge including accounting. He personally contributed to these discoveries and developments during *Addawlatul Abbasi'iah* (132-232 H, 750-847). He stated that the accounting clerk had to maintain the books, sign his name at the end of the book, and stamp it with the sultan's seal. The seal usually bore either the name of the sultan or his symbol, stamped in the corner of the book [Ibn Khaldoon, n.d., p. 205].

This practice continued and was affirmed by Al-Mazendarany [1363, p. 2] who observed that the *Jaridah* starts with the phrase "In the Name of Allah, the Most Gracious, the Most Merciful." This requirement was similar to the suggestion of Pacioli that recording should start with the expression "In the Name of God" [Brown and Johnston, 1963, p. 28]. The title "journal," as referred to by Pacioli [Brown and Johnston, 1963, p. 43] and as we know it today, or "*zornal*" as it was called in Venice, may be based on the translation of the Arabic word *Jaridah*. The adoption of the expression "journal" and possibly the phrase "in the name of God" supports the view that the Italians adopted knowledge from other cultures [Have, 1976, p. 13]. This view makes Pacioli a translator of what existed in other cultures rather than an inventor [Chatfield, 1968, p. 45]. It is further suggested that Pacioli's book was "mainly based on the writings of Leonard of Piza" [Ball, 1960, p. 209], who was the first European to translate algebra from the writings of the Arabians and was supposed to have written the first treatise on bookkeeping. Furthermore, Gordon suggested in 1756 that bookkeeping would first be practiced by the first considerable merchants (i.e., the Arabs), and he ascribed to the Egyptians the invention and the introduction of bookkeeping to the Europeans [Heaps, 1895, p. 21]. This statement has merit because Europe at that time "was temporarily at a standstill, and we shall therefore not expect to find any visible or appreciable progress in methods of accounting during that period" [Woolf, 1912, p. 54].

The *Jaridah* as a specialized journal and a number of other accounting books were developed and used in the Islamic State. Although accounting books were developed after the establishment of the Islamic State and during *Addawlatul Amawi'iah* (Omayyed Caliphate), early Muslim historians refer only to the books used during *Addawlatul Abbasi'iah* between 132-232 H (750-847). The books that were developed in the Islamic State were of a functional nature and reflected the accounting spe-

cializations that were in practice at that time. In addition to the requirement of registering the accounting records, it was mandatory to number all pages before being used [Lasheen, 1973, p. 41]. The layout of the accounting records aimed at serving the specific function and roles performed by the relevant *Diwan*. Some of those common accounting books used in the Islamic State are described below.

Jaridah Al-Kharaj: This specialized book¹⁶ was used to record a specific type of *Zakat* imposed on earnings from land, crops, and animals. Its layout was similar to the modern accounts receivable subsidiary ledger [Lasheen, 1973, p. 41]. It was indexed in alphabetical order for easy reference to needed accounts [An-Nuwairy,¹⁷ n.d., Vol. 8, pp. 200-242]. The organization of *Jaridah Al-Kharaj* in alphabetical order indicates that the book contained a significant number of accounts and, hence, pages. The indexing of *Jaridah Al-Kharaj* was geographically based to facilitate the identification of collections made by the levy collectors, on the one hand, and to recognize the regional outstanding amounts of *Zakat Al-Kharaj*. This was of importance for the preparation and control of the budget of the *Wilayah* (sultanate/province). The recording in this book was based on *Kanoon Al-Kharaj*.¹⁸ It shows *Al-Kharaj* liability of individuals and installments paid until the entire liability is settled [Al-Khawarizimi,¹⁹ 1984, p. 81]. Each page of *Jaridah Al-Kharaj* had two columns and was assigned to one *Al-Kharaj* payer. The levy liability was recorded in one column and the payments in the other. The recording was in the form of debits and credits, but there is no evidence that terms analogous or etymologically similar to “debit” and “credit” were used.

Jaridah Annafakat (expenditures journal): This *Jaridah* was maintained by *Diwan An-Nafakat* (Department of Expenditures) for the expenses of the caliph (state). It was indexed in alphabetical order according to the nature of expenses incurred by the *Diwan*. All expenses relating to the state were recorded in this *Jaridah* and were supported by relevant evidence.

¹⁶It was also known as *Al-Awraj*.

¹⁷He was born in Egypt in 678 H (1280) and died in 734 H (1334).

¹⁸This is the law requiring the assessment and payment of *Al-khraj* (law of *Zakat* on land, crops, and animals).

¹⁹He wrote his book in the 10th century and died in 387 H (997).

Jaridah Al-Mal (funds journal): This *Jaridah* was maintained by *Diwan Al-Mal* (Department of Treasury) which was responsible for the receipt of *Zakat* and its payment. It was also a classified book that was supposedly classified according to the different types of *Zakat* received and their application in accordance with the requirements of the *Quran*.

Jaridah Al-Musadareen (confiscated funds journal): This *Jaridah* was maintained by *Diwan Al-Musadareen* (Department of Confiscation) [Lasheen, 1973, p. 41]. It was especially used for recording funds confiscated from individuals not complying with the requirements of *Shari'ah Islami'iah*. These included government officials who misused their position and authority.

The specification of these specialized *Jaridah* are dated back to the time of the fifth caliph, Omar bin Abdul-Aziz (Omayyed Caliphate), who lived between 61 and 101 H (681-720) and ruled from 99 H (718) to 101 H (720). "He was the first person to establish an autonomous department for each type of revenue" [Ibn Saad, 1957, Vol. 1, p. 400]. Furthermore, Omar bin Abdul-Aziz was the first caliph to make the issuance of receipts mandatory. He wrote to one of his assistants named "Zuraik," requiring him to issue a receipt for money collected [Imam, 1951, Vol. 1, p. 255].

Daftar Al-Yawmi'iah (daily book): This is an Arabic title, as is the case with most books. *Daftar Al-Yawmi'iah* was known as *Ruznamah* in Persia and in some other non-Arabic sultanates/provinces of the Islamic State. This *Daftar* is defined by Al-Khawarizimi [1984, p. 81] as "the daily book used to record expenses and other financial transactions associated with *Zakat Al-Kharaj*." This confirms the specialization of the books whereby *Daftar Al-Yawmi'iah* was used to record *Al-Kharaj* expenses, while *Jaridah Al-Kharaj* was used to record *Al-Kharaj* revenues as discussed earlier. It was a requirement that "recording in *Daftar Al-Yawmi'iah* should follow the date of occurrence and comply with prescribed recording procedures" [An-Nuwairi, n.d., Vol. 8, pp. 273-275]. Recording in the *Daftar Al-Yawmi'iah* was subject to the preparation of *Ash-Shahed* (journal voucher). The preparation of *Ash-Shahed* was the responsibility of the accountant and had to be approved by the head of the *Diwan* and the minister or his deputy before being used as the authority for recording in *Daftar Al-Yawmi'iah* [Lasheen, 1973, pp. 131-132]. The approval of the head of the

Diwan was of a technical nature while the minister's approval was administrative. The minister's approval was necessary for the purpose of control and accountability. Accordingly, *Ash-Shahed* was a vital document for it formed the accountant's authority for recording and was to be retained by the accountant for the purpose of auditing and accountability. The approval on *Ash-Shahed* is expressed by the phrase *Youktab* (to be recorded). For transactions conducted beyond the capital of the *Wilayah* (sultanate/province), it was necessary to send a copy of *Ash-Shahed* to the capital of the *Wilayah* for recording in the central accounting books. The copy was stamped by the sultan of the *Wilayah* and kept as evidence for recording in the central records. This implies that territorial records were also duplicated in the capital city where the sultan lived. Furthermore, this book and related documents were required to be kept in an organized manner and indexed in a way that allowed easy reference at any time after recording and filing were completed. Access to filed documents and closed accounting books was subject to certain conditions and procedures, including the approval of a senior staff member of the *Diwan* [Lasheen, 1973, pp. 147-149]. These recording, organization, indexing, and access procedures reflect the importance of *Daftar Al-Yawmi'iah* as the main reference, in addition to being the source for posting to subsidiary books.

Daftar Attawjihah (book of directions): Another book that was used to record budget expenses classified according to the type of activity and budget classification. This description makes it similar in nature to the modern general ledger. *Daftar Attawjihah* was used to control regional expenses and to ensure sultanate/province compliance with budget allocations and specifications. Two types of budgets were developed and used in the Islamic State. One was known as *Mukarrariyah* (operational/recurrent budget) and the other *Itlakiyyah* (discretionary budget). It seems that the *Itlakiyyah* budget was the one that could be departed from according to the discretion of the sultan or other authorized officials, while *Mukarrariyah* was to be adhered to strictly.

Daftar Attahwilat (book of transfers): This *Daftar* was also a classified book used for recording the transfer of funds between the *Wilayah* and the central government. It was maintained by each *Wilayah* within the Islamic State. The central government approved the budget for each *Wilayah* on the basis of *Zakat*

collections, payments, and transfers to or from the central government. Approval was regulated by several factors, including the *Wilayah Zakat* collections, population, geographical size, importance, etc. Information embodied in *Daftar Attahwilat* included such items as transfers to and from the *Wilayah* and revenues collected by the *Wilayah*. Accordingly, two books were maintained for budgetary control—the *Daftar Attawjihah* which was concerned with the control of expenses and the *Daftar Attahwilat* which was maintained for the control of revenues plus adjustments for deficits or surpluses. At the end of the financial year, the difference between revenues (*Daftar Attahwilat*) and expenses (*Daftar Attawjihah*) was extracted. The excess or shortfall was then transferred to or from the central government and recorded in the *Daftar Attahwilat*.

ACCOUNTING REPORTS

Financial reports were of prime importance in the Islamic State and were associated with control and accountability objectives. The development of financial reports was necessitated by *Zakat* and the formation of partnerships. From the perspective of *Zakat*, it was necessary to develop financial reports to reflect the results of operations and financial position for the calculation of the appropriate amount of *Zakat* payable. The development of these reports was also necessitated by the need of the active partners to account for their stewardship of the partnership, on the one hand, and the determination of the partners' share of *Zakat* payable on their portion of profit and asset appreciation if applicable. In all cases, *Zakat* was the turning point in the development of accounting generally and financial reports specifically.

Different types of accounting reports were developed and used in the Islamic State. They were prepared for various purposes and at different times, either as specified or as needed. The two common types of reports were known as *Al-Khitmah* and *Al-Khitmah Al-Jame'ah*.

Al-Khitmah: The *Al-Khitmah* was a report prepared at the end of each month which showed the totals of individual revenues and expenditures [Bin Jafar, 1981, p. 35]. It could also be prepared at the end of the financial year. *Al-Khitmah* is an Arabic word which means final or end [Al-Khawarizimi, 1984, p. 81]. It was similar to a modern-day monthly income and expenditure account. Although *Al-Khitmah* emerged as a government

monthly report, it would have been used by individual Muslim traders for the purpose of identifying their profits on a regular basis and, hence, for the calculation and payment of *Zakat*.

Al-Khitmah Al-Jame'ah: *Al-Khitmah Al-Jame'ah* is an Arabic word meaning comprehensive final report [Al-Khawarizimi, 1984, p. 82] and was prepared annually by the accountant and submitted to his supervisor. It showed the *Diwan's* itemized revenues, expenses, and surplus or deficit at the end of the financial year. If *Al-Khitmah Al-Jame'ah* was accepted by the head of department, it was called *Al-Muwafakah* (acceptance). If the report was not accepted for any reason, it was then called *Al-Muhasabah* (account) only [Al-Khawarizimi, 1984, p. 82] The word *Al-Muwafakah* indicated the acceptance or even the approval of the report balances by the head of the department. The nonacceptance of *Al-Khitmah Al-Jame'ah* was based upon the discovery of anomalies or the requirement for further justifications, clarifications, adjustments, or restructuring of the report's contents. *Al-Khitmah Al-Jame'ah* covered all financial activities of the relevant *Diwan*. It was a combined income statement and balance sheet because it included current and capital expenditure. Based on existing evidence, the concept of the balance sheet as a separate statement, as we know it today, was not common in the Islamic State.

The report that fits the requirement of *Zakat* for the use of individual Muslims reflects the income statement approach. However, some balance sheet items were included because of the *Zakat* requirement for assets to be revalued annually. The revaluation of assets was based on replacement cost for the purpose of determining profits, payment of *Zakat*, and protection of capital. The valuation process also required the specification and inclusion of liabilities. The use of the combined income statement and balance sheet is evident in the inclusion of accounts receivable, loans, transfers, and other balance sheet items in *Al-Khitmah Al-Jame'ah*.

For the calculation and payment of *Zakat*, debts were classified in the financial reports into three different classes according to their collectability. These classes were *Ar-Ra'ej Menal Mal* (collectable debts), *Al-Munkaser Menal Mal* (uncollectible debts), and *Al-Muta'adhdher Wa-Al-Mutahayyer Wa-Al-Muta'akked* (difficult, doubtful, and complicated debts) [Al-Khawarizimi, 1984, p. 82]. This classification of debtors was of significance for the protection of capital. It aimed at presenting

debtors in the most realistic collectability manner in order to avoid paying *Zakat* on income that may not be collected.

Figure 1 represents a literal translation of *Al-Khitmah Al-Jame'ah* based on cash transactions only. Its purpose was to report the financial status of the *Wilayah*. The figure shows the funds collected and their sources, in addition to the application of these funds during the financial year and the cash surplus at year's end. This report has some similarities with the modern-day funds statement. It is worthwhile to mention that the term "*Muhaseb*" (accountant) was not commonly used at that time, and the exact date of its use is as yet unknown. Different titles appear to have been used at different times. According to Al-Kalkashandy [1913, Vol. 5, p. 466], who lived between 756-821 H (1355-1418), "*Al-Amel* is the person in charge of writing and preparing the accounts. This title was originally assigned to the *Amier*²⁰ but at a later stage was assigned to *Al-Amel* only. . . . *Al-Sairafy* (cashier) is the one in charge of the receipt and payment of cash . . . and was previously known as *Al-Jehbed*" (emphasis added). *Al-Jehbed* was also the title given to the storekeeper [Al-Khawarizimi, 1984, p. 82]. It appears that the title *Al-Jehbed* was a common title assigned to the person who had custody over assets, especially cash, material, animals, etc.

CONCLUSION

Accounting records and reports were developed in the Islamic State over a period of time following its establishment in 622 and the imposition of the religious requirement of *Zakat* in 623. The development of accounting records and reports started in the year 2 H (623), with further maturation during *Addawlatul Abbasi'iah* (Abbaside Caliphate). The accounting records were of a functional nature, reflecting the functions performed by the *Diwans* in the *Wilayah* and the central government. A number of accounting records were developed to suit the needs of the state and individual Muslim traders. These records included *Jaridah Al-Kharaj*, *Jaridah Annafakat*, *Jaridah*

²⁰The term "*Amier*" in *Shari'ah Islami'iah* is used to mean leader and not prince as it is commonly used today. It is a religious requirement as per the *Sunnah* to appoint an *Amier* whenever three or more people are engaged in any activity. The *Amier* could be the leader of the state as the case with the second caliph, Omar bin Al-Khattab, who was known as being the *Amier* of the believers. It could also be used for the person leading a group of employees at the work place or any other group of three or more persons in any activity.

FIGURE 1 Al-Khitmah Al-Jame'ah

In the name of Allah, the Most gracious, the Most merciful

Al-Khitmah Al-Jame'ah for Receipts and Expenses during the period
Muharram²¹ 1 to Dhul-Hejjah²² 30, Year H

Prepared by, Assisted by, Supervised by, Approved by

Source of Funds

REVENUES FOR THE PERIOD

(a) Levies received from, date received,	XXX	
(b) Other income, ²³ its source, date received.....,	XXX	
SUBTOTAL		XXX

ADD

(a) Brought forward from last financial year	XXX	
(b) Sales	XXX	
(c) Reconciliations and Fines	XXX	
(d) Loans	XXX	
(e) Unclaimed Deceased Estate	XXX	
(f) Transfers	XXX	XXX
<i>Al-Fadhlakah</i> (Total)		XXX

Use of Funds

(a) Transfers to other <i>Diwans</i>	XXX	
(b) Purchases made by this <i>Diwan</i>	XXX	
(c) Other Expenses	XXX	XXX

Al-Hasel (Balance) XXX

Source: Lasheen, 1973, p. 84

²¹first month in the Islamic calender

²²last month in the Islamic calender

²³This is a nonreligious levy. It represents income received by the state, such as donations, *Wakf* (philanthropy) and other incomes allocated to the state either by individuals or by the central government. *Wakf* is normally established during the life of the person donating the *Wakf* or upon his/her will after death. The *Wakf* must be used and directed according to the instructions of the person donating it.

Al-Mal, *Jaridah Al-Musadareen*, *Daftar Al-Yawmi'iah*, *Daftar Attawjihah*, and *Daftar Attahwilat*. Furthermore, two financial reports were developed and used; namely, *Al-Khitmah* and *Al-Khitmah Al-Jame'ah*. These reports are similar in nature to the modern-day funds statement .

The type, layout, and names of some of the records used in the Islamic State are similar to those used in the Italian Republics. The commercial links between Muslim and Italian traders would have influenced the development of accounting records

in the Italian Republics. This influence is noticeable in the naming of the Italian primary book "*Zournal*," which is the literal translation of the Arabic word "*Jaridah*." Further influence is apparent in the layout of some books, especially the accounts receivable subsidiary ledger and the classification of debts into three main categories as collectable, doubtful, and uncollectible. It is also possible that joint business ventures were established between Muslim and Italian traders that prompted the Italian traders to adopt the accounting and business practices of Muslim traders.

In conclusion, this paper argues that the development of accounting records and reports in the Islamic State have most likely contributed to the development and practice of accounting in the Italian Republics as documented by Pacioli in 1494. Further research into the accounting practices of early Muslims may reveal additional evidence of the development of other related issues in accounting and auditing.

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