Chapter – 1
Introduction

1.1 Prelude

The rise of “Islamic banks and other Islamic financial foundations” since the 1970s has invigorated a present day writing that formulates it as tending to "Islamic Accounts and Finance". The expression "Islamic accounting and financing" indicate in the quickly developing present-day writing. “Napier (2009) has proposed three interrelated perspectives”: a generally arranged sense, in which "Islamic Accounting and financing" alludes to “thoughts and practices in Muslim”-greater part nations in past periods; a practice-situated sense, where the emphasis is on how substances portraying themselves as "Islamic" record for and report their exchanges and exercises; and a standard situated sense, where principal “accounting and financing” ideas and techniques shape a cognizant collection of thoughts and practices in view of the religion of Islam.

"Islam" implies add up to the accommodation or “surrender to the will of God (Allah)”, and a “Muslim” is someone who follows or practices Islam. In any case, this raises the issue of how “Muslims” can make sense of “what the will of God is”. The primary sources are the “Qur’an and Sunnah”, considered by “Muslims” to be the correct expressions of disclosure from “Allah to Prophet Muhammad”, and the “Sunnah (the demonstrations and colloquialisms of the Prophet as transmitted through customs known as Hadith)”. Standards derived from these two primary sources constitute the “Islamic law (Shariah Islami’iah or Shariah)”.

Sunni and Shia Islam are the two noteworthy sections of Islam. Both divisions share normal religious convictions: the five mainstays of Islam: (1) the solidarity of Allah and the prophet hood of Muhammad, (2) the five compulsory supplications, (3) fasting, (4) philanthropy, and (5) the journey to Mecca. Both gatherings additionally trust that the Quran has a Divine source, and that Allah’s prophetic missions finished up with Muhammad. The distinctions lie generally in the Shia and Sunni translation of the Hadiths and Shariah law on how Muslims ought to characterize and administer themselves. Notwithstanding their
religious introduction, a hefty portion of the issues tended to by the Islamic developments are the same and adopt same accounting and financing system.

Both the “Qur'an and the Sunnah” describe the principles and point by point rule books regarding trade, managerial issues, financial aspects and governmental issues, and these standards and guidelines shape the premise of that piece of Shariah known as fiqh al-mu'amalat (truly "law of between individual relations"). Thus, "Shariah Accounting and financing" may be be a superior term than "Islamic Accounting and financing" in this specific situation. In this review "Islamic Framework" alludes to accounting and financing thoughts and practices that had some major contrasts to their traditional partners, coming about because of adherence to Shariah standards.

1.2 Background of the Study

Despite the fact that rules of Islamic accounting and financing framework that is based on banning interest gained increased extensive acknowledgment, Islamic system has not created couple with the fast development of the Islamic financing framework and it remains ineffectively caught on. A great part of the insightful research into Islamic system is not composed of English, and the English-dialect writing has a tendency to be distributed among non-mainstream accounting journals. Our point of this review is to give more extensive introduction to research related to Islamic system, which we expect will fortify level headed discussion and further research in this field.

In this review researcher gathered probably the most noteworthy English-dialect commitments to the early, initial writing of “Islamic system”. The review incorporates papers that offer broad solutions to “financial and management accounting” compliance in consistence with Shariah standards and documents that report the experimental discoveries of studies into the “accounting and financing practices of Islamic financial institutions”. We also include some important historical studies showing the development of accounting in the Muslim world. We have classified the articles into six themes. Inevitably there is some repetition of key concepts, especially in relation to Shariah principles.

In any case, as of late, there have been weights on creating nations with various “cultures, religions, social, business and political situations” to receive the regular bookkeeping standards as well as benchmarks. Therefore, the hidden logic is received with no or immaterial adjustment for the sake of globalization. These "weight" to contain the
pretense of; (i) “Harmonization of global accounting measures by the IASC (Taylor, 1987; Wallace, 1990b)”, (ii) “the operations of multinational review firms and their customers the multinational enterprises”, and (iii) “the expert training conferred through the examination and capability sending out accounting bodies of the UK e.g. CIMA (Briston and Kedslie, 1997)”.

The spread of “Western” consumerism “(Ahmed, 1992)” and free enterprise system of globalization are not free from its opponents. The “resurgence of religion particularly Islam in the Muslim nations”, addresses the financial estimations of traditional private enterprise and endeavors to present its own financial framework in accordance with its own particular perspective. This study considers that the “Islamic accounting and financing” framework may require an option "Islamic accounting and financing" framework that would give fitting data which ideally would instigate client conduct reliable with the Islamic perspective.

Moreover there is a progress of “Islamisation” of learning and teaches (“Abu Sulayman, 1989”) which essentially is an endeavor to fundamentally rethink mainstream "western" information and to recast them with the qualities, standards and suspicions of Islam.

The development states that there is an “emergency in the Muslim personality” which has brought on the stagnation of learning and advance in the “Muslim world”. They attest that the best approach to redress the issue are to reinterpret ordinary western mainstream information about the Islamic shape and to reintegrate human learning gotten from the faculties and prevail upon disclosure, the information given by God through sacred writings and the Prophets; as it was, a radical new epistemology. The obvious issue with “Islamic law” is that it depends on endless principles of “Quran” (which is the Expression of God as indicated by Muslims), the Sunnah (“the adages and customs of the Prophet Muhammad pbuh”) and the elucidation of religious researchers in the course of recent years. The “Quran and the Sunnah” can't be altered. They must be reinterpreted inside tradition that must be adhered to be isolated from ‘Islam’.

1.3 Relevance and scope of the study

Other than belligerence for the requirement for an Islamic system, this exploration endeavors to investigate and build up the targets and qualities, from an “Islamic viewpoint, of accounting and financing”, will fill the needs, and goals of “Islamic culture”. This study
recommends that the perspective, standards, goals and estimations of Islam are not quite the same as common Western culture. In that capacity, the specific commitments and disallowances in the “financial and social” field under the “Islamic Shariah (Islamic Law)” call for an alternate system and distinctive ideas, tenets, standards and rules to accomplish the destinations of an Islamic culture. The regular framework might be unseemly instrument for the undertaking. Promote the foundation of Islamic associations inside Muslim social orders requires a prompt down to earth instead of just a hypothetical requirement for an option Islamic framework. There is a threat that the proceeded with utilization of customary framework without no less than a noteworthy change may bring about a variation if not a dissatisfaction of the goals and mission for which the associations were set up. This option framework which would be in accordance with the mission of Islamic associations and the world-perspective of “Muslim” clients is named "Islamic framework".

1.4 Scope of the Study

The hidden philosophical estimations of mainstream "Western Anglo-American culture" are reflected in its bookkeeping practices and standards. It is made by an industrialist community reality with outrageous centralization of influence, imbalances in income and wealth, social and monetary insecurity, and ecological devastation. The goals of all humanized society are dissimilar. Shift to traditional framework have been recommended from different viewpoints as it does not consider the profound component important as does Islam and in this way can't be utilized as a device to accomplish the targets of an Islamic culture.

There are as of now “192 Islamic banks” and monetary establishments in the “Muslim world” and different nations (“Timewell, 1998”). These foundations are jumping up even in Western nations where Multinationals, for example, “Chase Manhattan and Australian New Zealand (ANZ) banks” build up unique counters or branches to serve the specialty market (or catch the noteworthy “Muslim assets”). “Islamic insurance (known as Takaful)” are additionally working together with alleviation associations (e.g. “Islamic Relief, Muslim Aid and Human Relief Foundation in the UK”). “Zakat” offices have been set up to gather and disseminate “Zakat, a religious wealth/income” assess.

Likewise business enterprises are developed taking after the “Islamic model” in “Muslim” nations, for example, “Egypt (El-Ashker, 1987)”. A large portion utilize ordinary
framework, is inappropriate to the improvement of an “Islamic financial/social” condition and the accomplishment of “Islamic mission”. The regulatory body “Accounting and Auditing Organization for Islamic Financial Institutions” has been made to develop certain “Accounting Standards for Islamic banks (Pomeranz, 1997; Karim, 1999)”.

1.5 Objectives of the study

This review has meant to research the conceivable requirement for 'Islamic bookkeeping and financing' as a contrasting option to the traditional bookkeeping and financing framework as of now by and by in many parts of the world. Specifically, it intended to examine whether the targets, attributes and outcomes of customary framework are fitting to Islamic associations and Muslim clients and if not, to propose the layouts of an Islamic accounting and financing hypothesis. The inspiration for the review is the apparently relentless commanding inclination of traditional framework. This globalization propensity of regular framework is in spite of the known impact of social, religious, social, business and political elements on the way of bookkeeping practice. Likewise it additionally gone for getting exact confirmation on the unIslamic behavioral outcomes of traditional framework on Muslim clients.

In short the objectives of this research have been set as:

1. To determine the factors responsible for facilitating Islamic banking system vis-à-vis conventional system.
2. To investigate the most effective mode of financing in Islamic banking.
3. To determine whether demographic factors have any impact on facilitating Islamic banking system vis-à-vis conventional system.
4. Identify the significant factors of practices of Islamic accounting, accountability, and usefulness.
5. To study the community wise perception level changes in Islamic system, and its ethical principles.

1.6 Research Design & Methodology

The purpose of this research is to make people aware of Islamic accounting and financing system through comparison on perception level by asking questionnaire to Muslim
community so that they can compare their practices with Islamic and conventional system as they have knowledge of both the system.

In order to identify, the perception on the system of practicing, the comparison has been made in between Siha and Sunni. The perception has been studied here by taking both the groups to fit the objectives of the study. The perception on banking and investment attitude and comparative features in both Islamic and conventional approaches has been studied in the following measurements. Domicile, occupation, age and income have been included in this research in demographic study of the Muslims. This measure the maximum users from the different occupational groups are from which areas they belong to.

**Data:** Both Primary and secondary

**Questionnaire:** Pre-tested with 20 from each group and modified as per need.

**Sample area:** Domicile wise respondents have been collected from city areas like, Cuttack and Bhubaneswar, urban areas like Kendrapada, Khordha, Jajpur and Bhadrak. Semi-urban areas of Odisha like, Salipur & Niali, rural areas like Pipili & Kaipadar are from the different areas of were included to a total of 320 out of 350 respondents. The respondents were selected at random and the areas were selected from the sense of populous area. 30 respondents were rejected and out of the total 320 respondents were found to be valid and taken in to measurement.

**Research Tools & Techniques:**

The research tools and techniques are used through the SPSS package-21 and accordingly it has been analysed. The Percentage, graphs have also been drawn for better clarity in the analysis to support. The other tools like ANOVA, Factor analysis and Multiple Dichotomy analysis has been done.

Factor analysis: It has been applied to identify the significant factors across all major variables on service variables

Questionnaire was for two groups: Siha & Sunni and accordingly it has been measured the perception level changes for practice effectiveness. The choice of the research site was due to several reasons such as familiarity in terms of finance and time considerations. The Islamic system has been critically analysed as compared to the conventional system with the critical review of:
1. The ethical framework of Islamic business organisations.

2. The ability of Islamic scriptural sources to provide for the development of a regulatory framework for contemporary Islamic organisation.

3. The appropriateness of conventional accounting and financing information and principles for Islamic organisations.

4. The main and subsidiary objectives of Islamic system.

5. The relative importance of stakeholders other than shareholders as users of Islamic system.

6. The information which Islamic system should provide and its characteristics.

1.7 Research Hypothesis

After rigorous literature review and experience of the researcher in Shariah law and Islamic finance industry for about fifteen years, Research hypothesis, framed on the basis of research objectives illustrated above provide critical mass for analysis and evaluation of data and decipher concrete findings. For this study, we have taken five selected demographic factors namely – Age, Domicile, Income, Qualification and Occupation. The following hypotheses are developed to facilitate the comparative study.

- **H1₀** There is no significant difference between the reasons for opting for Islamic banking among various age groups.

- **H2₀** There is no significant difference between the reasons for opting for Islamic banking among various domicile groups

- **H3₀** There is no significant difference between the reasons for opting for Islamic banking among various income groups.

- **H4₀** There is no significant difference between the reasons for opting for Islamic banking among various qualification groups.

- **H5₀** There is no significant difference between the reasons for opting for Islamic banking among various occupation groups.
1.8 Limitations

Similarly as with all exploration, this examination had a few confinements. Specifically a few imperative parts of Islamic framework couldn't be examined because of the length and time confinements. These incorporate the structure of the Islamic system report, and the top to bottom exchange of acknowledgment and estimation framework for Islamic system.

The scope of accounting principles tried could likewise be reached out in future research to incorporate traditions other than the recorded cost, reasonability and money related estimation standards tried in this examination. This would be a premise to affirm or invalidate the similarity of customary system to Islamic system.

The review confronts confinement acted by inward like well as outside variables. There have been unordinary improvement in the Islamic system recently and couple of banks going under the output of RBI (not talking about the issue) the difficulties was postured at the very beginning of the exploration as the senior authorities were not prepared to unveil or enable workers to interface for any sort of action.

1. Islamic system rehearses alongside managing an account and protection hones spread all through the world and this exploration: additionally wind up plainly global. With the topographical limitations settling on the testing method and test size to get sufficient portrayal was one of the hardest difficulties.

2. The specimen size was constrained to Odisha region and deliberate investment of Muslims for the review which may vary from the general population attitude in other region.

3. During the review the distinction in the way of life between different places was normal additionally seen among the groups which further required to be studied top to bottom in order to give consistency within the community.

4. Research is reliant on the reactions of the Shi'a and Sunni groups which is liable to variety in various circumstances and change in conviction and conduct of groups. Consequently the reactions may change with evolving recognition.

5. Saving money practices of Islamic framework have been just talked about as regular practices are specifically included and express separately.
6. The degree to which Muslim groups share genuine reactions relies on upon the perceptual approach, which may fluctuate in connection to their age, occupation and education and so on.

The data collection is liable to twisting for the above reason and the respondents may have avoided outrageous reactions and depended on mean score and depicts them self in more ideal way. However the specimen respondent has been sufficiently benevolent to comprehend the requirements and support in research action after being guaranteed of the secrecy of the individual subtle elements while accepting up the open opportunity express their feeling with a view to enhance authoritative procedures. The other test was to illustrate data proposition statistically and building up connection between the components under the review. It was likewise troublesome assignment to choose the right statistical method at the right time. The impediment specified above were experienced amid the research and recorded as they were located occasionally. However disregarding all the constraint the review can be finished and is a honest to goodness push to go up against the issue confronted by organizational management practices.

1.9 Outline of the Thesis

The study has been divided into seven chapters:

Chapter - I is Introduction, this chapter consists of the study sets up the background against which the research has to be perceived, relevance of the study, statement of the problem, objective of the study, research methodology in brief, limitation of the study, and finally the chapter plan.

Chapter – II is Overview of of Islamic system undertaken in terms of its objectives, characteristics and consequences. Taking the cue from social, environmental and critical accounting and financing literature, accounting and financing system in an Islamic society. This chapter also includes discusses and categorised conventional system of financing. The debate on the conventional pattern of knowledge is extended by its discussion in the context.

Chapter – III gives a brief account of all the literature surveyed and the chapter is titled as – Review of Literature.
Chapter – IV elaborates the Research Methodology adopted in the study. This chapter consists of four parts i.e. sampling procedure, data collection, research methodology, hypothesis of the study and the research process.

Chapter – V is the empirical work itself. This elaborates the analysis portions. This part consists of two parts, Methods and Analysis. This part is the core of the whole study.

Chapter – VI of the study is the findings and recommendations or implications. Both of these have been done with reference to the objective set at the inception of the research.

Finally Chapter – VII gives the concluding statement of the study.

References:


