

FINANCIAL REPORTING FOR STEWARDSHIP: EVIDENCE FROM CONVENTIONAL VERSUS ISLAMIC PERSPECTIVES

Tabassum Riaz

*Assistant Professor, Department of Business Administration
University of the Punjab Jhelum Campus. Jhelum-Pakistan.*

E mail: tabassumriaz.pujc@gmail.com

Husnain Mubashar

*PhD Scholar Department of Management Sciences, Bahria University
Lahore Campus.*

E mail: husnainmubashar.dsd@gmail.com

Fraz Ashraf Khan

*Assistant Professor, Department of Law University of the Punjab Jhelum
Campus. Jhelum-Pakistan.*

E mail: frazashraf@pujc.edu.pk

Abstract

The aim of this study is to investigate the evidence of Stewardship for financial reporting from the conventional and Islamic accounting practices. This study hits the two basic issues. Firstly, whether the Stewardship should be considered as a separate objective of financial reporting and secondly, whether Stewardship should be considered as a primary objective of financial reporting or not. After detailed discussion from the conventional and Islamic perspective of financial reporting, this study concludes that Stewardship should be considered as separate objective because Stewardship has major implication for the qualitative characteristics of financial reporting. Further, this study demonstrates that Stewardship should be considered as primary objective of financial reporting rather than decision usefulness. The study offers guidelines for financial report preparation that include information about financial reports from an Islamic perspective, how to incorporate an Islamic perspective into financial reporting, and additional literature to help future researchers delve deeper into this topic.

Keywords. *Stewardship, Decision usefulness, qualitative characteristics, Islamic perspective, financial reporting.*

FINANCIAL REPORTING FOR STEWARDSHIP: EVIDENCE FROM CONVENTIONAL VERSUS ISLAMIC PERSPECTIVES

Introduction

What is the objective of financial reporting? The mainly it is considered that objective is the demand of output of an entity. As financial reporting is not a consumption good so to give answer the above questions different answers are suggested to this question. Financial reporting is done mainly for its two objectives, (1) it provides useful information to outsiders i.e. investors in making investment decision and this can be called as decision-making demand. (2) Inventors (owners) delegate decision making authority to the management relating to the resources that are awarded to them to run the business and investors demand necessary information about the actions which are taken to control them. This can be called as Stewardship demand.

IFRS (2010) also throws a light on objectives of financial reporting when discussing the conceptual framework of financial reporting standard. IFRS (2010) states that objective of financial reporting is to provide useful information to the existing and potential shareholders, new investors, lenders, and creditors for making decision about provision of resources into the entity. IFRS (2010) also discussed that financial reporting can also play an important role in making decision relating to the Stewardship of an entity resources.

Stewardship is generally known as custodianships of assets (Rosenfield, 2006, p.29). Role of Stewardship for financial reporting is very important and basic issues in financial reporting are also arising due to conflict between the objectives of financial reporting i.e. decision usefulness and Stewardship on insertion of useful information's. Stewardship is discussed by different research scholars with respect to financial reporting. But very rare studied are conducted on Stewardship for financial reporting from the Islamic accounting practices and from the theory of Islamic financial reporting. To the best of researcher knowledge, no research is conducted relating to Stewardship for financial reporting from the Islamic accounting practices and theory of Islamic financial reporting in Pakistan.

This research is conducted to fill this gap and to investigate the evidence of Stewardship for financial reporting from the conventional and Islamic accounting practices. This research also tries to observe the theory of Islamic financial reporting in the lights of Islamic accounting practices and Islamic taught. This study also observes the emerging issues in this field and their possible solutions. This study answers the question that how financial reporting contributes toward Stewardship and provide answer that whether Stewardship is considered as separate and primary objective of financial reporting?

The study offers guidelines for financial report preparation that include information

about financial reports from an Islamic perspective, how to incorporate an Islamic perspective into financial reporting, and additional literature to help future researchers delve deeper into this topic.

Literature Review

Stewardship from Conventional Financial reporting perspective

International financial reporting standard (IFRS, 2010) in its conceptual framework refers that decision relating to the recourse allocation should be stated as objective of financial reporting because owners (investors) care about control of management to whom organizational resources are awarded for operation of organization and it is also discussed that financial reporting support in making decision related to Stewardship.

IASB and FASB (2008) while discussing the “Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information” proposed that converged conceptual framework should specify only one objective of financial reporting that is decision usefulness. It is also discussed in discussion that decision usefulness and Stewardship are parallel objective because information required for both objective is characterized as same for both and Stewardship objective is thus subset of objective of general purpose financial reporting.

IASB and FASB (2010, phase. A) in their common agenda summary while discussing the Conceptual framework of financial reporting demonstrate that financial reporting role in Stewardship is just supporting and it does not deal Stewardship as separate objective because the term “Stewardship” creates an ambiguity when it is translated into others language, so finally not too much demonstration was given to Stewardship and “decision usefulness” is finalized as sole objective of financial reporting.

Lennard (2007) stated about Stewardship while discussing the ‘Stewardship and objective of financial reporting’ that custodianships and protection of an organizational assets, including protecting them from negative macro-economic changes such as inflation and technological changes are the primary responsibility of organizational management to make their efficient and profitable use. Lennard (2007) also stated that an important dimension of financial reporting is contributed by Stewardship, and it is reflected in the objective of financial reporting. He also mentioned that Stewardship is not simply to provide information that helps in assessment of management but is to provide such information’s that gives a threshold to construct dialogue between management and shareholders.

Lennard (2007) also discussed that as such no conflict arise between decision usefulness and Stewardship because information required in order to fulfill the Stewardship objective is also required by usefulness but issue arise on the insertion of

FINANCIAL REPORTING FOR STEWARDSHIP: EVIDENCE FROM CONVENTIONAL VERSUS ISLAMIC PERSPECTIVES

information in such a way that information necessary for the assessment of Stewardship is kept a side for the benefit of management that no action is taken against them on custodianship of organizational recourses.

So, the role of Stewardship for financial reporting is accepted and information required to fulfill the Stewardship objective is also consistent with the information's for decision usefulness and could be included in the general objective of decision usefulness, these information's are providing information's relating to the future cash flows of the business (Whittington, 2008: 145). Abdel-Khalik (2011) concluded that Stewardship quality is proposed if Stewardship is properly evaluated and to properly evaluate Stewardship investors need both historical cost information and fair value information.

Stewardship from Islamic Financial Reporting

Lewis and Building (2006) state the accountability as the primary objective of accounting system. Those who are supervisor of the economic recourses are the accountable for the owners of these recourses. This steward function is the regular function of an organized human activity. Lewis and Building (2006) state the Stewardship falls under the divine law of Islam- Shari 'a. The literal meaning of Arabic word Shari 'a, is a code of conduct to spend life according to the teachings of The Quran and Hadith. As cited in Holy Quran

"Behold, the Lord said to the angels: "I will create a vicegerent on earth." They said: "Wilt Thou place therein one who will make mischief therein and shed blood? Whilst we do celebrate Thy praise and glorify Thy holy (name)?" He said: "I know what you know not...." (Surah Al-Baqarah: 30).

The above verse explained the trusteeship on mankind from the ALLAH that ALLAH creates mankind with trust that they remember and worship Me and will feel full accountability in the world for everything which creates Me.

"And it is He Who hath made you (His) agents, inheritors of the earth: He has raised you in ranks, some above others: that He may try you in the gifts He had given you: for thy Lord is quick in punishment: yet He is indeed Oft-Forgiving, Most Merciful" (Surah Al-An'am:165).

The above verse showed the inequality, and it is deemed as a natural thing.

Word Hesab in Holy Quran is repeated eight times in different versus (as cited by Lewis and Building, 2006). The word Hesab in accounting is basic root of accounting and in holy Quran is a reference to account in its common sense pertaining to the one's obligations to account to ALLAH on all matters of human. According to Islam Muslims are accountable for God for all recourses which are awarded by God and the day of judgment the success of individual depends upon the performance in the world that how he / she makes an efficient use of recourses awarded

by God according to Shari 'a. This is also clearly supported from Qurani Verse

"Then he who is given his Record in his right hand, soon will his account be taken by an easy reckoning, and he will turn to his people, rejoicing, But he who is given his Record behind his back, Soon will he cry for Perdition, And he will enter a Blazing Fire...." (Surah Al-Inshiqaq: 7-12)

The above verse explained the audit process and record book which showed that record of every individual is recorded in his / her book and awarded with the success or failure.

"Then he that will be given his Record in his right hand will say: "Ah here! Read you, my Record! "I did really understand that my Account would (one Day) reach me..." (Surah Al-Haqqah: 19-20).

The above verse explains the meeting account that shows that everyone is accountable for his / her activities and one day he / she will be awarded with the account and on the base of that account any further action will be taken.

So, the basic similarity between Hesab in Islam and accounting is that every Muslim must carry out all those duties which come into the context of Shari 'a (The Holy Quran, The Ahadis), similarly the management of the organizations are accountable for their action concerning the recourses awarded to them by shareholders (Lewis and Lee, 2006).

Ownership can be differentiated from control. Shareholders are the owners of the organization, but the management is the custodianship and organizational recourses are under control of management and this control is awarded by owners. Concept of ownership in Islam can be characterized from the following verses.

"To Him belongs what is in the heavens and on earth and all between them, and all beneath the soil....." (Surah Ta-Ha: 6).

As discussed above that accountability is the primary objective of accounting system and accounting roots are basically arisen from the Holy Quran (From word Hisab) so it is important to know that what are the Islamic thoughts about accounting and how these are a base toward financial reporting from Islamic perspective.

Any appraisal of existing system or constructing a new one based on Islamic system can be constructed in the light of Islam. This can be done by referencing the Islamic teachings, The Quran, The Ahadis. The existence of Islamic reporting's can be convinced through Islamic instructions to Muslims to record in writing all the transactions. As Malaysian Accounting standard board (2008) while discussing the financial reporting from Islamic perspective stated that Islamic thoughts must contained the comprehensive governance of man's life to protect him from corrupted earthly desires. So, all aspects of human life whether Ibadah (relating to worship) or muamalat (relating to mankind and its environment) must be governed through Islamic teachings (Al-Quran and As-Sunnah). Through following verse this and

FINANCIAL REPORTING FOR STEWARDSHIP: EVIDENCE FROM CONVENTIONAL VERSUS ISLAMIC PERSPECTIVES

much other information can be disclosed.

"Allah doth command you to render back your trusts to those to whom they are due and when ye judge between people that ye judge with justice...." (Al-Quran 4:58)

In an Islamic context, therefore reporting should be a means whereby the controllers of an entity can discharge their trust to any relevant stakeholders. Financial reporting from an Islamic perspective can also be characterized from following Qurani Verse.

"O you who believe! When you deal with each other, in transactions involving future obligations in a fixed period, reduce them to writing let a scribe write down faithfully as between the parties; let not the scribe refuse to write as Allah has taught him, so let him write...." (Surah Al-Baqarah, verse 282).

So, field of study "Islamic accounting" is created with faith that recording of financial transaction is an order but remember that recording of financial transaction is not an act of worship, and it is an act of muamalat.

Malaysian Accounting standard board (2008) states that term "Financial reporting from Islamic perspective" is more appropriate than "Islamic accounting" with argument that this field is mostly concern with the application of Islamic principles to the financial reports. Following arguments is also proved from Qurani Verses also provide evidence related to application of Islamic teachings relating to financial reports.

Conventional Financial Reporting vs. Financial reporting from Islamic perspective

Malaysian accounting standard board (2008, A7) states that financial reporting from the Islamic perspective is process of providing information to the users to assess the entity that whether it is operating according to laws of Sharia and fulfilling the responsibility to societies and environment, it also provides information for users to make decision that will enforce the entity for fulfilling those responsibilities.

Conventional financial reporting is the process of providing useful financial information for users to make decision making related to investment and for the efficient use of capital and helps in promoting effect allocation of resources (Paul Rosenfield, (2006), p.27). MASB (2008, A9) states that financial reporting just the preparation of presentation of financial statements while financial reporting from Islamic perspective may include financial and non-financial information and its area is broad than financial statement, such as it contains social and environmental reporting also.

(MASB, A10) also mentioned that financial reporting from Islamic Perspective has

differentiated between Halal and Haram such as financial income composed of Interest and income from Sharia compliant contract while in conventional reporting there is no as such difference is created. MASB (2008, A11) discussed that financial reporting from Islamic perspective also provide some additional information which is necessary for Zakat, as some time more information on assets and liabilities are required for purpose of Zakat.

There are some other features of Islamic financial reporting such as to report accurate income determination (true earnings), unity of ALLAH, reasonable profit, religious, commitment to justice, full disclosure. Following verses also providing some evidence from Islamic perspective.

Don't Mix truth with Falsehood.

"And cover not Truth with falsehood, nor conceal the Truth when ye know (what it is)" (Surah Al-Baqarah: 42). "But verily it is Truth of assured certainty...." (Surah Al-Haqqah: 51)

Debt contract and account

"O you who believe! When you deal with each other, in transactions involving future obligations in a fixed period, reduce them to writing let a scribe write down faithfully as between the parties; let not the scribe refuse to write" (Surah Al-Baqarah, verse 282).

The above verse demonstrates the importance of accounting from Holy Quran. It also demonstrates on faithful representation that first make a contract in written form and don't refuse to write it down and demonstrate that write it faithfully so that it must compliance with Sharia and give a true and fair picture.

Verification of Information

"O you who believe! If a wicked person comes to you with any news, ascertain the truth, lest ye harm people unwittingly and afterwards become full of repentance for what ye have done...." (Surah Al-Hujurat: 6).

Fulfill the Contract

"Come not nigh to the orphan's property except to improve it, until he attains the age of full strength; and fulfill (every) engagement, for (every) engagement, will be enquired into (on the Day of Reckoning)...." (Surah Al-Isra: 34).

Full measure and weight in just

"Give full measure when ye measure, and weigh with a balance that is straight; that is the most fitting and the most advantageous in the final determination...." (Surah Al-Isra: 35).

The above verse shows the importance of true and fair accounting practices and throws light on fraud and demonstrates that don't make fraud when people engaged in transaction with each other. It also gives an indication toward final success when we will make fair practices during transaction.

Dealing in fraud who give less in measure.

FINANCIAL REPORTING FOR STEWARDSHIP: EVIDENCE FROM CONVENTIONAL VERSUS ISLAMIC PERSPECTIVES

“Woe to those that deal in fraud, those who, when they must receive by measure, from men, exact full measure, but when they have to give by measure or weight to men, give less than due. Do they not think that they will be called to account....” (Surah Al-Mutaffifin: 1-9).

The above verse provides evidence of Stewardship from Holy Quran. It demonstrates that everyone must be accountable for their action which they are performing in the world. It shows that people who makes fraud in transaction when they involve with each other why they forget that they are accountable for ALLAH as Holy Quran clearly demonstrates about it.

Which is left by ALLAH is better.

“To the Madyan people (We sent) Shu'aib, one of their own brethren: he said: "O my people! Worship Allah: you have no other god but Him. And give not short measure or weight....” (Surah Hud: 84-86).

The above verse mentions that all humankind are only accountable to one ALLAH and there is no other GOD in this world. So, when there is clear that we are accountable of ALLAH then why we make fraud for our benefit.

The Issue created from the discussion

The discussion on financial reporting for Stewardship is discussed in detail in above literature. It is shown that basic issues in financial reporting basically arise due to conflict between objectives of financial reporting.

As Paul Rosenfield (2006, p.38) mentioned that conflict arise among functions of financial reporting when issuers of financial reporting think about the action which is taken against him by the users of the financial reporting on receiving the information (Stewardship), similarly if issuers think about their benefit and action which will be taken against them, than the objective “decision usefulness” will be affected due to attention of users on their own benefits. If issues in financial reporting arises due to conflict between objectives of financial reporting than following issues are considered.

It is discussed above that Stewardship is not considered as separate objective. So here issue is this why Stewardship is not considered as separate objective. Stewardship should be considered as separate objective of financial reporting. Stewardship should not be considered as separate object of financial reporting. If Stewardship is considered as separate objective of financial reporting than what is the primary objective among two objectives of financial reporting (Stewardship or Decision usefulness)

Possible Solution

According to above issue (1) why Stewardship is not considered as separate objective the reason behind is that the information required for Stewardship objective is also required for decision usefulness so that's why Stewardship is not characterized as separate objective, but the main thing is that whether it should be characterized as

separate objective or not.

According To above discussion Stewardship should be considered as separate objective because Stewardship has major implication for the qualitative characteristics of financial reporting. Because when issuers issue financial reports, they give priority to their own benefit and to avoid any action which users (investors) will take in case bad custodianship of assets and bad performance. So, to avoid any action against them, they hit the characteristics of financial reporting such as faithful representation and many others and do the earning management by manipulating earnings which does not provide a true and fair picture of financial reports. So, if financial reporting does not show the true and fair picture then it will hit the decision usefulness objective and misguide the investors who make decisions on the base of information given in the reports.

Argument in consideration of second (2) issues is that Stewardship should be considered as primary objective of financial reporting because as discussed above in literature that accountability is the primary objective of accounting system. The Holy Quran also proved the concept of accounting in Islam (Hesab). Lewis and Building (2006) state that word Hesab in accounting is considered as root of accounting and in Quran to account for obligations.

If Hesab is root of accounting and financial statements are constructed on the base of these accounting standards. Paul Rosenfield (2006, p.29) Mentioned that financial statements are the heart of financial reporting and if the heart is based on accounting whose roots are described in Islam so then Stewardship should be considered as primary objective. Because Islam gives most priority to because ALLAH creates people on earth as an agent and gives them recourses under their custody and all humans are accountable at the Day of Judgment for their action which they perform. Following verses explains further.

“And it is He Who hath made you (His) agents, inheritors of the earth: He has raised you in ranks, some above others: that He may try you in the gifts He had given you: for thy Lord is quick in punishment: yet He is indeed Oft-Forgiving, Most Merciful” (Surah Al-An’am:165).

“Then he that will be given his Record in his right hand will say: "Ah here! Read you, my Record! "I did really understand that my Account would (one Day) reach me..." (Surah Al-Haqqah: 19-20).



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

References

1. Abdel-Khalik, A.R. (2011). Fair value accounting and Stewardship. Accounting

FINANCIAL REPORTING FOR STEWARDSHIP: EVIDENCE FROM CONVENTIONAL VERSUS ISLAMIC PERSPECTIVES

Perspectives / Perspectives Comptables, Vol. 9 No. 4 — PC vol. 9, no 4

2. *IASB and FASB. (2010). Conceptual Framework for Financial Reporting. Common Project summary and feedback statement of Phase A., September 2010*
3. *IASB and FASB. (2008). Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*
4. *IASB and FASB. (2005). Conceptual framework-objectives of financial reporting (Agenda paper 4).*
5. *Lewis, M.K., and Building, W.L. (2006). Accountability and Islam. Fourth International Conference on Accounting and Finance in Transition Adelaide, April 10-12*
6. *Lennard, A. (2007). Stewardship and the Objectives of Financial Statements: A Comment on IASB's Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information. Accounting in Europe, 4:1, 51-66*
7. *Malaysian accounting standard board (2008). Financial reporting from Islamic perspective*
8. *International Financial Reporting Standard (2010). Conceptual framework work for financial reporting*
9. *Rosenfield, P. (2006). Contemporary Issues in Financial Reporting: A user-oriented approach. First published by "Routledge in 2006" 2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN*
10. *Whittington, G. (2008). Fair value and the IASB/FASB Conceptual Framework project: An alternative view. ABACUS 44 (2): 139 – 68*