

The Philosophy of Islamic Finance and its Implications for Islamic Accounting

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Abstract : The philosophy of Islamic finance is rooted in Islamic principles, upholding justice, transparency, and social responsibility as the foundations of the economy. Unlike conventional finance, which is oriented toward profit maximization, this philosophy prohibits usury, uncertainty, and gambling, and encourages investment in the real sector and profit-sharing practices to achieve comprehensive welfare (falah). These philosophical implications are highly significant for the concept of Islamic accounting. Islamic accounting not only aims to present relevant financial information but also ensures compliance with Islamic principles and reports on social performance. This is reflected in the recognition of income and expenses derived solely from halal sources, specific accounting treatment for Islamic contracts, and broader disclosure regarding Sharia Supervisory Board compliance and social contributions such as zakat. Thus, Islamic accounting functions as an accountability tool that reflects the ethical and moral values upheld in Islamic financial philosophy, aiming to achieve a fair and integrity-based economic system.

Keywords : Islamic Financial Philosophy, Accounting, and Islamic Accounting

I. INTRODUCTION

The Islamic finance industry is currently experiencing global growth. Globally, the Islamic finance industry has attracted attention not only from Muslim-majority countries but also from many countries around the world that are observing the development of the Islamic finance industry. The emergence of the Islamic finance industry is not limited to the expansion of services and products, but it can also trigger differences in the philosophical foundations that distinguish between Islamic and conventional financial systems.

The more rapid growth in the Islamic finance industry, there are challenges in its application, one of which is in the realm of accounting. Islamic and conventional financial systems certainly have differences in the application of accounting. Currently, the



conventional accounting system is largely based on western economic philosophy, namely by maximizing profits and individualism.

Accounting is not just a system or tool in recording, recording, and analyzing financial transactions from various sectors. However, accounting is one of the keys and has an important role in connecting stakeholders with financial information. Accounting has a complex theoretical foundation as a philosophical and methodological basis in forming financial accounting standards and developing accounting techniques.

The main basis for the preparation of financial statements and the interpretation of the resulting information is the concept of accounting theory. In the modern business era is characterized by high complexity and dynamics. In addition, an understanding of the concepts of accounting theory is increasingly important in ensuring the relevance, reliability, and usefulness of information in decision making (Baridwan, 2000) .

In addition to the current conventional accounting mostly based on western economic philosophy, there is Islamic accounting which is one of the derivatives of the Islamic financial system. In addition, Islamic accounting aims to provide financial statements that are not only relevant and reliable, but also based on sharia principles. Islamic accounting has Islamic economic principles that are fair and transparent. Islamic accounting emphasizes fairness, honesty, and transparency in carrying out business and financial transactions (Djamil, 2023) . However, in implementing it, there are challenges and problems arising from the application of Islamic financial philosophy.

Basically, the philosophy of Islamic finance emphasizes universal Islamic values, namely justice, equality, transparency, and the prohibition of *usury* (interest), *gharar* (uncertainty), and *maysir* (gambling) (Junery, Paradigm of Islamic Accounting Development, 2019) . Sharia principles are the main foundation in every Islamic financial transaction and report. However, in its application there is a gap between the idealism of Islamic financial philosophy and Islamic accounting practices.

Crucial problems with the philosophy of Islamic finance include the lack of in-depth and comprehensive understanding of accounting practitioners, regulators, and even academics. So that the implementation of Islamic accounting is often only procedural, following existing accounting standards without really understanding the objectives of sharia. In addition, there is a complexity of accounting standards that become a challenge in Islamic accounting.

Based on the background of these problems, there is an urgency to deepen the understanding and application of Islamic finance philosophy as the main foundation in the implementation of Islamic accounting. Without a strong philosophical foundation, sharia accounting has a risk that tends to be just a label, without the goal of sharia, namely realizing justice and transparency in sharia business or economic activities. So there is a question how the implementation of Islamic finance affects Islamic accounting.

II. RESEARCH METHOD

This research uses a qualitative method, namely by using a *library research* approach or *literature study*. The analysis used in this research uses *content* analysis. Research analysis

emphasizes the truth of the data by paying attention to meaning in context. Content analysis can be categorized in historical research methodology (Sugiyono, 2021) . Literature review includes obtaining data from the library, reading, recording, and managing research materials. This research uses documents, especially literature on research subjects, such as scientific research, books, and other journals. Data analysis was conducted using the content analysis method in a descriptive approach. Relevant databases and the types of publications to be included were selected as search keywords.

This research process involves several stages consisting of identifying the philosophy of Islamic finance, the concept of conventional and Islamic accounting theory that is relevant to the collection of library materials based on the context under study. After the collection of library materials, content analysis is carried out with the aim of understanding the implications and contributions in the research. So that it can provide a deep understanding related to the theme that is the focus of this research.

III. DISCUSSION

Philosophy of Islamic Finance

Islamic Economic Philosophy is a field of philosophy that studies economic activities based on Islamic Sharia values. The fundamental difference between Islamic economics and other economic systems lies in the basis of its thinking. Islamic economics is based on Islamic sharia values while other economic systems are based on human thinking. So the Islamic economy will bring grace to all mankind (Arsyad & BP, 2021) .

The main purpose of the existence of Islamic economic philosophy is (Arsyad & BP, 2021) :

1. Proving the truth of Islamic sharia. The study of the philosophy of Islamic economics will lead to the true truth that is Allah Almighty, which is to reveal the truth of His sharia in the economic dimension.
2. The realization of *falaah* (welfare) in the world and the hereafter. The purpose of Islamic economics is the realization of welfare (*falaah*) in the world and the hereafter, so that the study of Islamic economic philosophy is to explore the meaning of *falaah* and implications for the lives of mankind. If we have always listened to the muadzin announced in his adhan "*Hayya 'alal falaah*" then what is the meaning and essence and how to realize it. So the philosophy of Islamic economics seeks the meaning of it all.
3. Economic Justice. If it has always been said that economics aims to realize economic justice for all human beings, then it is actually Islam that has a clear concept of justice, namely the equitable distribution of wealth to all people.
4. Examining Islam as a mercy for all nature. The study of Islamic economic philosophy explores how Islam, especially in the economic field, provides justice and welfare not only for Muslims but also for all mankind.
5. Exploring the meaning of Mashlahat for all. Specifically, the study of Islamic economic philosophy is to explore mashlahat in every rule and guideline in Islamic economics.

Economic philosophy is the basis on which an economic system is built. Based

on the existing economic philosophy can be derived goals to be achieved, such as the purpose of economic activity consumption, production, distribution, economic development, monetary policy, and fiscal policy. Islamic economic philosophy is based on the triangle concept: the philosophy of God, man and nature. The key to Islamic economic philosophy lies in humans with God, nature and other humans. This dimension of Islamic economic philosophy is what distinguishes Islamic economics from other economic systems capitalism and socialism. Islamic economic philosophy, has a paradigm that is relevant to the logical, ethical and aesthetic values of Islamic which is then functionalized into the middle of human economic behavior. From this economic philosophy derived also instrumental values as a set of *rules of the game (rule of game)* an activity (Athoillah & Q-Anees, 2013) .

Islamic economics is based on three principles that apply to economic activities: Tauhid, Shari'ah and morals. Sharia practices and ethics are a reflection of monotheism. The basis of monotheism is Dhoruri Sharia and morals are not disturbed. Sharia Principle Guidance Financial activities do not deviate from sharia rules. When morals are built Financial activities to always act and behave in accordance with Islamic morals and ethics (Rois & all, 2023) .

Sharia principles in financial aspects include (Rambe & Herlambang, 2023) :

1. Every action will be held accountable.
 "And neither your wealth nor your children draw you near to Us in the least; but those who believe and do righteous deeds, they are the ones who will receive a double reward for what they have done, and they will be secure in high places". (QS. As Sabaa' 34; 31)
2. Every asset earned has the rights of others.
 "And in their wealth there is a right for the poor who ask and the poor who have no share". (QS. Adz-Dzariyaat 51; 19).
 "O you who believe, spend (in the cause of Allah) some of the provision We have given you before the Day comes on which there will be no more buying and selling and no more intercession. And the disbelievers are the wrongdoers". (QS.Al Baqarah 2; 254)
 "The example of those who spend their wealth in the cause of Allah⁽¹⁶⁶⁾ is like that of a seed which grows seven ears, in each ear a hundred seeds. Allah multiplies (the reward) for whom He wills. And Allah is All-Wide (in His bounty) and All-Knowing". (QS.Al Baqarah 2; 261)
3. Money as a medium of exchange is not a traded commodity.
 "Those who eat (take) usury cannot stand but as one who is possessed by a demon because of insanity. That is because they say that buying and selling is like usury, whereas Allah has made buying and selling lawful and usury unlawful. And as for those to whom the prohibition of their Lord has come, and they have ceased (from usury), then to them belongs what they had taken (before the prohibition came); and their affair is (up to) Allah. But whoever returns (to usury), those are the inhabitants of hell, and they shall abide therein". (QS.Al Baqarah 2; 275)
 "And whatever usury (extra) you give that it may increase in the wealth of men, it does not increase in the sight of Allah. And what you give in the form

of zakat that you intend to achieve the pleasure of Allah, then (those who do so) are those who multiply (their reward)". (Qs. Ar Ruum 30; 39).

Accounting

The early history of bookkeeping is related to that made by an Italian mathematician during the renaissance, precisely Luca Pacioli (1494), in his book entitled "Summa de Arithmetica Geometria Proportione et Propotionalite", there is a section that explains "Bookkeeping Two Part Skeleton". In addition, the section is utilized as a source of perspective for the science of ordinary bookkeeping (Anggraeni & Rohman, 2021) .

Accounting comes from the foreign word accounting, which means to count or account. Almost all business activities around the world use this in making decisions, so it is often referred to as the language of business. Accounting is a process of recording, classifying, summarizing, processing and presenting data, transactions and events related to finance, so that it can be used by people who use it easily understood for decision making and other purposes (Weygandt, Kimmel, & Kieso, 2015) .

Accounting theory is a framework that covers various aspects that are fundamental in accounting practice. Starting from the basics of financial accounting to contemporary theories that dig deeper into the relationship between accounting and economic reality and dynamics in the company. The basics of financial accounting itself include several key concepts that form the foundation for the preparation of financial statements, such as the concept of an economic entity that recognizes that the company has an identity separate from its owner, the accounting period that establishes the time span measured in financial reporting, and the principles of consistency and conservatism that govern reporting consistency and accuracy in estimates and judgments (Hadi, 2018) .

In addition to these fundamentals, there are also more modern theories in accounting. One of them is positive accounting theory, which discusses how accounting seeks to reflect economic reality using an empirical and descriptive approach. This theory examines how accounting information is influenced by external and internal factors, and how the information is used by interested parties. In addition, agency theory is the main focus in understanding the relationship between principal (owner) and agent (management), as well as agency issues that arise in the accounting context (Limtaroli, Venny, Novita, & Meiden, 2023) .

The concepts of accounting theory are not only the basis for effective accounting practices, but also provide an important framework for quality decision-making processes in an increasingly complex and dynamic business environment. With a deep understanding of these concepts, organizations can ensure the relevance, reliability, and usefulness of financial information in supporting the achievement of their business objectives and maintaining compliance with applicable regulations (Promika, 2024) .

Sharia Accounting

Accounting theory has an integral role in the implementation of accounting practice. A proper understanding of accounting theory is a catalyst for continuous progress in the field of accounting. The implementation of Islamic accounting is conceptually realized as a solution to the constraints that arise in conventional accounting transactions in contrast to Islamic principles. The solutions to these diverse challenges are explained in the *Qur'an*, which is considered the ultimate guide of a Muslim. Sharia

accounting originates from Surah *Al-Baqarah* verse 282 which emphasizes individuals to believe, accounting records of all events both completed and not yet carefully and honestly (Gaswira & Nabila, 2023).

Accounting is also called "Al-Muhasabah," derived from the word "Masdar hassaba-yuhasbu," meaning "to count" or "to measure" (Ilyas, 2020). In Islam, the concept of accounting emphasizes the principles of accountability or responsibility, as stated in Surah *Al-Baqarah* verse 282 which emphasizes to believers to make careful records of every ongoing transaction, including the amount and implementation, so that all matters can be accounted for thoroughly and clearly. This verse of the Qur'an teaches to pay attention to piety to Allah SWT in all actions (Naini, 2016). Islamic accounting aims to ensure that business transactions are carried out with honesty, certainty, transparency, justice, and accountability. This mission includes efforts to create an economic civilization based on human values, promoting independence, transcendent, and in accordance with Islamic teachings (Sunarno, 2024).

In general, the principles of Sharia Accounting reflect surat *Al-Baqarah* verse 282 (Mauludi, 2014):

Accountability Principle: Emphasizes that every person involved in business must be fully responsible for the trust entrusted. They are expected to prepare honest and transparent financial reports to all interested parties.

Principle of Fairness: Takes into account the moral aspects and ethical values that are important in Islamic Accounting. This principle encourages business practices with high moral integrity, ensuring that every action reflects fairness and truth.

Principle of Integrity: Refers to the validity and honesty in the reporting of financial information. Integrity in Islamic Accounting demands that information is presented without misrepresentation or manipulation, in accordance with the moral values found in the Quran.

These principles emphasize the importance of accuracy and honesty in financial recording and reporting, and support business practices that are consistent with Islamic ethical values, to achieve balanced spiritual and worldly goals. Islamic accounting is an emerging field of science.

In general, it can be said that the problem of rationalism as a basis in the development of accounting today in which there are three contradictory images according to Islamic views, namely (Muhammad & Malian, 2000):

1. Conventional accounting is based on the rejection of religion and metaphysics and places the State as the ruling power. This is contrary to the Islamic concept, where sharia is a guiding force that directs all aspects of human life and is fully accountable to God.
2. The basic beliefs and values of conventional accounting are based on the concept of self-interest without regard to social interests.
3. Conventional accounting believes that humans do not have an inherent conception of fairness but humans have an opportunity-taking nature.

From the three views above, it can be concluded that conventional accounting sees humans as homo economicus, while in Islam, humans are not only homo economicus but also homo ethicus and homo religious. Based on these limitations, it is necessary to think of an alternative paradigm that contains both technical and social aspects based on

rationality by considering religion and can harmonize personal interests with social interests (Junery, 2019) .

Results

Islamic principles derived from the Qur'an and As-Sunnah are the foundation of islamic finance philosophy. The core of this philosophy is to achieve *falah*, or success in this world and the hereafter, by conducting business in a fair, moral and responsible manner. Islamic finance differs from conventional finance, which often focuses on generating as much profit as possible. Islamic finance prioritizes a balance between material gain and social-spiritual well-being.

Some of the main pillars of Islamic finance include:

1. Tawhid (Oneness of God): This is the main foundation that states that Allah owns everything in the universe, including wealth, and that humans are merely *khalifahs* or managers. Therefore, financial management must be in accordance with His will.
2. Justice ('Adl): Islamic finance strongly emphasizes the fair distribution of wealth and prohibits practices that harm either party, such as usury (interest), *gharar* (excessive uncertainty), and *maysir* (gambling).
3. Prohibition of Usury: Usury is considered an exploitative practice that causes economic injustice and inequality. In contrast, Islamic finance encourages transactions that are based on results, i.e. profit or loss sharing, and legal buying and selling.
4. Prioritization on the Real Sector: Islamic finance encourages investment in economic activities that are productive and provide real added value to society, not just financial speculation.
5. Social Responsibility (*Maslahah*): Islamic finance focuses not only on the individual, but also on collective welfare. This is reflected in the concepts of *zakat*, *infaq*, *sadaqah*, and *waqf*, as well as investments that provide broad social benefits.
6. Islamic Business Ethics: Every transaction must be conducted honestly, transparently, and avoid fraudulent or exploitative practices.

Implications for Islamic Accounting Concepts

The philosophy of Islamic finance has profound implications for the development of Islamic accounting concepts, making it different from conventional accounting in several fundamental aspects:

- a. Purpose of Financial Statements:

Conventional Accounting: The primary objective is to provide relevant and reliable information for economic decision-making, primarily for investors and creditors, with a focus on profitability and solvency.

Islamic Accounting: In addition to conventional objectives, Islamic accounting also aims to provide information that demonstrates *sharia compliance*, social performance, and *accountability to Allah*. Islamic financial statements should reflect fairness, transparency, and fulfillment of social obligations.

- b. Concept of Income and Expense:

Conventional Accounting: Revenue is recognized when there is a potential cash inflow and expenses are recognized when there is a potential cash

outflow, regardless of the source of acquisition as long as it is legal under positive law.

Shariah Accounting: Revenues and expenses must be derived from halal sources and activities. Transactions involving *riba*, *gharar*, and *maysir* are not recognized as legitimate income and should be excluded from the financial statements.

c. Recognition and Measurement of Assets/Liabilities:

Conventional Accounting: Recognition of assets and liabilities is based on certain definitions and criteria, often using historical cost or fair value.

Shariah Accounting: The transactions underlying the recognition of assets and liabilities must be Shariah-compliant. For example, Islamic financing contracts such as *murabahah*, *mudharabah* and *musyarakah* have specific accounting treatments that reflect the principle of profit sharing or fair purchase. Measurement also considers aspects of value for money and Shariah compliance.

d. *Disclosure*:

Conventional Accounting: Disclosure focuses on material financial information.

Islamic Accounting: Has broader disclosures, including information about:

1. Shariah compliance: A statement from the Sharia Supervisory Board (DPS) regarding the operational compliance of the Islamic financial institution. Social Performance: Reports on the distribution of *zakat*, *infaq*, *sadaqah*, *waqf*, and other social activities.
2. Non-halal Sources of Income: Although prohibited, if any income is already received from non-halal sources, it must be disclosed and channeled to the virtue fund post.

e. The Role of Zakat:

Sharia Accounting: Zakat is recognized as an obligation that must be accounted for and reported transparently. Some Islamic accounting frameworks even treat zakat as an integral part of the financial statements.

Islamic finance philosophy provides a strong ethical and moral framework, which is then translated into Islamic accounting standards and practices. Islamic accounting is not just a technical adjustment, but a representation of a more holistic economic vision, where spiritual, ethical and social aspects become an integral part of financial reporting.

IV. CONCLUSION

The Islamic finance philosophy is the ideological foundation that distinguishes the Islamic financial system from the conventional system. Rooted in the principles of Tawhid, justice and social responsibility, it prohibits practices such as usury, *gharar* and *maysir*, and encourages investment in the real sector and profit-sharing-based transactions. The goal is not merely to seek material gain, but also to achieve comprehensive prosperity (*falah*) in this world and the hereafter.

The implications of this philosophy for Islamic accounting are significant. Islamic accounting not only aims at providing relevant financial information, but also ensuring sharia compliance and reporting social performance. This is reflected in the recognition

of revenues and expenses only from halal sources, specific accounting treatment for sharia contracts such as *murabahah*, *mudharabah*, and *musyarakah*, and wider disclosures related to Sharia Supervisory Board (DPS) compliance and social contributions such as zakat.

Thus, Islamic accounting serves as a reflection and accountability tool of the ethical and moral values upheld in the philosophy of Islamic finance. It is a concrete manifestation of the commitment to realize an economic system that is fair, transparent, and beneficial for all mankind.

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