

## Accounting in A Historical Transition: A Shifting Dominant belief from Hindu to Islamic Administration in Indonesia\*)

**Dr. Eko G. Sukoharsono**  
Department of Accounting  
Centre for Indonesian Accounting and Management Research  
Malangkucecwara College of Economics  
Malang - Indonesia

### **Introduction**

The search for the genealogy of accounting knowledge has occupied the attention of many accounting historians (eg., Lee [1973a, b, 1977], Martinelle [1977, 1978], Nobes [1982], Storrar and Scorgie [1988], Sukoharsono and Gaffikin [1993], Burchell, et all [1980, 1985], Hoskin and Macve [1986, 1988] and Hopper and Macintosh [1992, 1993]. The primary intention in this paper is to search for the genealogy of accounting in Indonesia in the period of the coming of Islam. Storrar and Scorgie (1988) argued that the development of early Moslem societies has a significant impact on the early history of accounting knowledge. Sukoharsono and Gaffikin (1993) indicated that the early history of accounting in Indonesia can be traced back to the early Moslem settlement in the Indonesian archipelago. They argued that increasing social and commercial activities in Indonesia is related to the development of Islam. Islam, for them, had led to the complexity on social interaction and economic development in Indonesia.

In exploring the coming of Islam, there is some clear evidence regarding the increasing knowledge of commerce and the adoption of alphabetical and numerical notation. Both the advanced knowledge of commerce and the adoption of alpha-numeric notation increased the role of accounting, in the form of record keeping, as a means of "information-retrieval and knowledge-production" (Hoskin and Macve, 1986, p.109). Littleton [1933] and Chatfield [1974] claim that the antecedents of modern double-entry bookkeeping come from

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the increasing knowledge of commerce and the great adoption of alphabetic and numerical standards in economic activities. At this point, the knowledge of using alphabetic and numerical standards in any social and economic aspect can extend human activities in a real sense. A central aspect of this development is a shift from the traditional knowledge memory to 'formal' information-retrieval and knowledge-production through the process of writing and reading (Durkheim, 1977). The coming of Islam in many ways provides new light on not only the way of the individual in his direct relationship with, and submission to, God<sup>1</sup>), but also in increased knowledge of social and economic activities, particularly in administrative affairs. As Nieuwenhuijze (1974) stated,

For a considerable period, Islam has, in large parts of the Indonesian archipelago, been in a position to provide most if not all of the pattern of association and of educational system (Nieuwenhuijze, 1974, p.149).

Some important developments regarding the awareness of an increasing knowledge of social and commercial affairs could be traced to the coming of Islam to the Indonesian archipelago. One particular reason for this is connected to the nature of the early development of modern accounting in Indonesia. Leur (1955), in his study of *Indonesian Trade and Society*, suggested that to study the history of Indonesia, the development of Islam cannot be ignored. Islam influenced the rise of social history of Indonesia. Economic and political aspects of Indonesian history were also moulded to the way Islamic foundations were prescribed. Leur (1955) observed

[w]hen one considers the age of the Islamic and the related Byzantine civilization ... the same objectives to the hegemony of categories bearing the stamp of modern western European economic history arise ... In the field of business regulation, of merchant and craft guild organization, of city government, of state bureaucracy system, banking, and fiscal affairs, military and naval organization, commercial regulation and law - in all these one must conclude that the Byzantine - Islamic 'middle ages' manifest fully developed, mature forms ... (Leur, 1955, pp.15-16)

Although the development of the Byzantine-Islamic empire and the arrival of Islam in Indonesia are not related, the empire provided an example which showed that the spread of Islam manifested the development of modern forms of organisation and culture as well as human sciences (cf., Leur [1955] and Simkin [1968]). With the coming of Islam, indigenous Indonesians gained new knowledge of the ways of writing and the use of coins in economic transactions. The extent of the use of writing material and coins is fundamental to accounting (Sukoharsono and Gaffikin, 1993a). Both commodities constitute the basic requisites of modern accounting recording and measurement.

### **Early Development of Islam**

Nowadays, Sumatra and Java, two of the former great centres of Hinduism and Buddhism in the Indonesian archipelago, are Islamic communities. In fact, about ninety percent of Indonesians are Moslem. Islam is one of three major cultural waves that reached the archipelago from the north-western direction. Its faith and culture have, in gradually penetrating almost all of the archipelago, moulded its civilization. And the archipelago has become the largest Moslem community in the world. How did the spread of Islam begin in the archipelago? How was it introduced? And how did the people embrace Islam? Several studies found that Islam was able to spread among the people of the archipelago by means of marriages of Moslem traders to the indigenous women (eg., Schrieke [1957] and Nicholson [1965]). However, these findings cannot be considered as the only explanation of the Islamisation of the archipelago. The process went on for centuries; trading contacts and Islamic missionaries had an important role in the conversion of the archipelago to Islam (Furnivall, 1939). Penetration to the circles of the chiefs and princes was an effective way for them to spread Islam. Vlekke (1943) observed that some aspects which Islam spread among the circles of the kingdom courts, primarily in Java and Sumatra, were religious practices, enabling them to increase their inner strength or magical forces. In some cases, these practices attracted the chiefs and princes of a region to embrace Islam. Two aspects of Islam which contrasted with the older Buddhist and Hindu religions in the periods of Sriwijaya and

Majapahit were the emphasis on the importance of the individual, in his direct relationship with, and submission to, God, and the emphasis on the world-wide community, in which all Islamic believers were brothers. There was no hierarchy in the community. All were equal.

The arrival of Islam in the archipelago followed a similar pattern to the early arrival of Hinduism. Islam came neither by conquest by other Islamic nationalities nor by large scale Moslem migration. Its influence was spread throughout the archipelago by a process of trading contacts between indigenous Indonesian traders and Moslem traders from Gujarat (India) and Persia (Ricklefs, 1981). Evidence of the arrival of Islam in the archipelago comes from a Chinese inscription which dates back to when the T'ang dynasty (618-907 AD) took power in China (Groeneveldt [1960], Hall [1981]). The T'ang dynasty was in contact with the archipelago via trading activities. As recorded in the history of the T'ang dynasty,

Ka-ling is also called Djawa [Java], it is situated in the Southern Ocean at the east of Sumatra and at the west of Bali. At its south it has the sea and towards the north lies Cambodia ... In 674 the people of this country took as their ruler a woman of the name Sima. Her rule was most excellent, ... (Groeneveldt, 1960, p.13).2)

Based on the Chinese inscription, Queen Sima has been associated with the arrival of Islam in the archipelago, when the Ta-shih people made contact with her kingdom (cf., Slametmuljono, 1974). The Ta-shih's settlements were along the coastal areas of West Sumatra and have been associated with the people of the Arab Tribes (Tjandrasasmita, 1978, p.141). This suggests that the first settlement of Islam in the archipelago was associated with the emergence of the Ta-shih, in about the seventh century AD along the coastal areas of West Sumatra.

In the subsequent century (the eighth century), the spread of Islam is one of the most significant processes of Indonesian history. By the eighth century highly frequent contacts occurred between Ta-shih, Chinese, and Arabs, and trading activities flourished. Trade and sea communication between the eastern and western parts of Asia increased mainly due to the growth of three powerful dynasties: from Western Asia, the Caliphate of Ummayah (660-749

AD); from Southeast Asia, the Sriwijaya kingdom (7th-13th century); and from Eastern Asia, the Chinese T'ang dynasty (618-907 AD). It is from the Caliphate of Ummayah that Moslem traders then spread into large parts of the Indonesian archipelago. Islam was a way of life. They practiced trading exchanges to fulfil their needs. Trading contacts with other nationalities such as Chinese, Arab, and Indian were also frequent. Trading goods such as spices, gold dust, woods, and medicinal plants and perfumes, had been a part of their busy exchange. The spread of Islam in the archipelago was recorded by Marco Polo, the Italian merchant who visited Sumatra on his way home from China in 1292. According to Marco Polo,

... the people of Ferlec [Perlak] used all to be idolators, but owing to contact with Saracen merchants, who continually resort here in their ships, they have all been converted to the law of Muhammad. This applies only to the inhabitants of the city (Polo, 1958, p.253).

In the subsequent development, ship traffic and trading communication conducted by Moslems in the coastal area of the Indonesian archipelago gradually increased. By the thirteenth century, a Moslem settlement was established by way of the adoption of an Islamic oriented state (Vlekke, 1943). This was the kingdom of Perlak. The glory of the kingdom has also been mentioned by Marco Polo who stated that most of the community followed the law of Islam (Polo, 1958). The community developed well once it embraced Islam.

From the thirteenth century, Islam spread rapidly across the archipelago (Zainu'ddin, 1968). In most parts of the archipelago there were settlements of the Moslem community. On the whole, Islam spread peacefully throughout the archipelago rather than, as in east Asia, north Africa and India, predominantly through dynastic wars and political chaos. Islam spread from west to east mainly following the trade routes. Once Moslem communities had been established, shipping along the trade routes was also used by Moslems undertaking the pilgrimage to Mecca in Arabia. The pilgrimage to Mecca is one of the five pillars of Islam that should be undertaken by Moslems.

Indonesia was slowly changing under the influence of this new religion, and the growing intensity of foreign trade along the coastal areas of the archipelago. Gujarats, Persians, Chinese and Europeans mainly from Portugal, were amongst the traders who came looking for great sources of wealth, such as spices, woods, coffee, tea and gold (Vlekke, 1943). Those traders, Gujarats and Persians, mainly spread Islam to indigenous Indonesians. It is interesting to note that the rapid expansion of Islam was perhaps due to its relative familiarity, its simplicity, and its spiritual nature. The rulers of the Indonesian regions first really noticed Islam after the rapid rise of international trade settlements along the coastal areas of Java and Sumatra (Zainu'ddin, 1968). Here was a new spiritual force introduced by Islamic missionaries that was strong enough to influence the rulers of the coastal or trading regions (Ras, 1987).

### **The Knowledge of Writing and Commerce upon the Coming of Islam**

It is a prerequisite to know the historical aspects of early writing in the Indonesian archipelago in order to appreciate the underlying rationale of current writings on commercial and accounting reports. Accounting today is a part of the art of writing, which itself constitutes words and brings about meanings. It is generally believed that writing plays a vital role in all higher civilisations. For Foucault [1977, p189], writing constitutes a power which is an essential element in disciplining society. Through writing, knowledge spreads from one hand to another. In accounting, Littleton [1933] explicitly states that the art of writing is an essential element in making accounting works understandable. Similarly, Robson (1992) argues that through the development of writing, accounting discipline can play at 'a distance'. Accounting reports which consist of numbers, lists, tables, and graphs are writing presentations. These have played a dominant role in the service of the production of accounting knowledge and retrieval of accounting information (Hoskin and Macve, 1986).

Innis [1950, 1951] is one of the first scholars to conduct a research study into the way in which writing affected man's thinking patterns. He states that

The art of writing provided man with a transpersonal memory. Men were given an artificially extended and verifiable memory of objects and events not present to sight or recollection. Individuals applied their minds to symbols rather than things and went beyond the world of concrete experience into the world of conceptual relations created within an enlarged time and space universe. The time world was extended beyond the range of remembered things and the space world beyond the range of known places. Writing enormously enhanced a capacity for abstract thinking which had been evident in the growth of language in the oral tradition. Names were roughly extended in proportion to the increased use and perfection of written records (Innis, 1972, p.10).

Innis suggests that the particular form of writing system plays a crucial role in shaping the thoughts of its users. In addition, Foucault has pointed out that the

... innovations of disciplinary writing concerned the correlation of ... elements, the accumulation of documents, ... seriation, the organization of comparative fields making it possible to classify, to form categories, to determine averages, to fix norms (Foucault, 1977, p.190).

Foucault insists that the knowledge of individuals results not just from observation, but from "the whole apparatus of writing that accompanied it ..." (p.190). Thus, knowledge of writing has a potential role in the emergence of higher levels of human civilisation.

In Indonesia, the invention of writing has been shrouded in awe and mystery. No one knows from where and when the earliest writing emerged. In archaeological records, quite a few early inscriptions were found undated, whereas some with dates present difficulty in reading and interpretation (Jones [1986], Kratz [1986]). However, a detailed analysis by Chatterji [1966], an Indian archaeologist, may bring to light the development of writing in Indonesia. He found that the earliest inscription in Indonesia was what he called Pallava script found in the Kutai district of Kalimantan dated ca. 400 (Chatterji, 1966, pp.114-122). The inscriptions are engraved either on stone slate or copper plates. A few gold and silver plates have also been discovered (De Casparis, 1975). The language of the earliest inscriptions (which are mostly not dated) is Sanskrit. Most of the inscriptions were used to commemorate occasions of the building of temples or of pious donations (Chatterji, 1966).

- (1) श्रीमद्विराजकीर्तिः (2) राज[सु] श्रीमूलवर्म्मण- पुण्यम् [1]  
(3) शृण्वन्तु विप्रमुरूप[ः] (4) मे चान्ये साधवः पुरुष[ः]<sup>1</sup> [11]  
(5) बहुदानजीवदानम् (6) सकल्पवृक्षं सभूमिदानञ्च [1]  
(7) तेषाम्पुण्यगणानाम् (8) पूषोयं स्थापितो विघ्नैः [11]<sup>2</sup>

Let the foremost amongst the Brahmins and whatsoever other pious men (there are) hear of the meritorious deed of King Mulavarman of illustrious and resplendent fame - (of his) various gifts, gift of animals, together with (the gift of) a wish - yielding tree and gift of land. For those multitudes of pious deeds this sacrificial post has been set up by the Brahmins'.

- (1) श्रीमतो नृपपुंस्यस्य (2) राज[सु]श्रीमूलवर्म्मणः [1]<sup>\*</sup>  
(3) दानं<sup>1</sup> पुण्यतमे क्षत्रे<sup>2</sup> (4) बहुलस्वप्रवेश्वरे [11]<sup>\*</sup>  
(5) द्विजातिभ्योन्निकल्पेभ्यः<sup>3</sup> (6) विघ्नतिर्गोसहस्रिकम् [1]<sup>\*</sup>  
(7) तस्य पुण्यस्य पूषोयम् (8) कृतोविघ्नैरिहागतं[ः]<sup>4</sup> [11]<sup>\*</sup>

The gift of twenty thousand kine of the illustrious and foremost of the rulers of men, the King Mulavarman, which was given at the most sacred place of Vaprakesvara to the twice - borns resembling fire - for that meritorious deed this sacrificial post has been erected by Brahmins who had come hither'.

Adapted from Chatterji (1966, pp.122-124).

These are the earliest inscriptions derived from the Kutai Pallava scripts dated ca. 400. These inscriptions indicate that writing seems to be a product of and keeping information about sacred events. They show that the Brahmins gave sacred gifts and donations to their King. This illustrates the way in which writing and documentation were a part of their political administration. The language of Sanskrit was the sacred formal writing in recording the event. Another interesting aspect of the inscription is that it seems that administrative and political information was part of the work to be recorded. According to Mauss (1967), gifts and donations in early society are a "total social phenomena" that provide the mechanism for

producing sacred ritual and solidarity in certain kinds of differentiated societies. For Mauss, gifts and donations are also a kind of self-interested economic exchange in early society that contains "all thread of which the social fabric is composed ... religious, legal, moral, economic" (Mauss, 1967, p.1). Through writing, these religious, legal, moral and economic aspects of a society can be visualised and properly realised into 'visible' references. Writing provides the opportunity to inspect and retrieve the inscribed information by being 'out-of-time'.

It is important to note, however, that the great extent of the development of the early art of writing and early administrative records in Indonesia increased remarkably when Islam came to the archipelago.

As far as Javanese (and Balinese) manuscripts are concerned, we can make only one or two general observations. Relevant to our suggestion that the advent of paper in useable quantities was associated with the arrival of Islam is the statement by Pigeaud (1967:35) that "no clear evidence of the existence of pre-Islamic Javanese paper manuscripts is available ..." [emphasis added] (Jones, 1986, p.138).

The arrival of Islam in the archipelago advanced knowledge of writing purposes (eg., Ambariyanto [1986], Pigeaud and Graaf [1976]). With the development of writing, the enhancement of collective memory could be realised. In relation to knowledge of writing, paper was an important development brought by Islam to Indonesia<sup>3</sup>). Hoernle's study [1900] gave an invaluable source of information on the important development of paper in Indonesia. In particular, he claimed that Islam brought the development of paper to replace the use of palm-leaves for writing purposes during the Buddhist and Hindu periods<sup>4</sup>).

It is important to note that the adoption of the use of paper in Indonesia was due to the fact that paper is not only more convenient for writing purposes, but more convincingly, it serves the spread of knowledge of the human sciences. One particular concern here is the development of record keeping of matters, events and administrations. One example is in

keeping a record of the Holy Book, the Al-Qur'an. Through the development of paper it was possible for Al-Qur'an to be reproduced and to spread throughout the archipelago.

Before writing could reach the mass of Indonesians, however, it had to be simplified through an alphabet, an invention which was originally designed to serve the knowledge of accounting. It is believed that, through the development of an alphabet, documentary methods, keeping of registers and writing transactions were beginning to emerge. In Indonesia, before the adoption of the current alphabet (a, b, c, ..., x, y, z), several kinds of ancient alphabets had existed (De Casparis, 1975). There were Pallava, Kawi (both were Sanskrit modifications), and a Javanese alphabet.<sup>5)</sup> However, after the establishment of Islam in Indonesia, the adoption of the present day Latin alphabet began. The use of alphabets in writing transformed the nature of Indonesian culture and created the conditions for civilisation and the trappings of urban life. Writing created a pattern of cultural development that was to repeat itself throughout history. Gelb (1963, pp.221-222) claimed that

there is no need to urge that the introduction of writing was the factor which was responsible for the birth of original civilizations. It seems rather that all of the factors - geographic, social, economic - leading towards a full civilisation simultaneously created a complex of conditions which could not function properly without writing. Or, to put it in other words; *writing exists only in a civilisation and a civilisation cannot exist without writing.*

This implies that the knowledge of accounting exists and develops because of writing. Thus, writing is important to the spread of accounting in civilisation, including in Indonesia.

The use of writing in Indonesia during the early spread of Islam was modest and confined to administration among a population of priests and kingdom officials (Raffles, 1978). Once the art of writing had been mastered for administrative purposes, it was then used for literary, religious and historical purposes. Stories, fables, and literary creations about heroes, kings, and even animals, were composed and recorded. In these forms, accounting was used simply in the form of 'quantification' of knowledge which only represented the

quantity of possessions. However, at this stage, modern accounting practices in the form of "qualitative and quantitative" (Robson, 1992) presentations had not been adopted.

One particular development of accounting in the form of writing during the early settlement of Islam is related to a mechanism by which writing was used for the purpose of administration and accountability of collection of taxes in the royal courts of an Islamic kingdom. The records of tax-collections were reflected in simple forms. A clear indication of the preparation of tax collection and its accountability was that relating to the role of *Shahbandar* (Leur, 1955), who was an important person linking the ruler and foreign traders, and who was also responsible for the collection of anchorage fees and import and export duties (cf., Schrieke [1957] and Leur [1955]). It is suggested that early simple accounting calculations were developed by *Shahbandar*. He prepared tax collection at regular periods and then submitted it to the royal courts as revenue. A similar process occurred whenever a court-tax official collector (this person was different to the *Shahbandar*, he was an indigenous Indonesian, whereas *Shahbandar* was mostly a foreigner) came into contact with farmers, fishermen, craftsmen and merchants, and a system of tax calculation had been prepared. The tax system was complex (Schrieke, 1957). Schrieke indicated that there were various rates and different types of levies in respect of different commodities, occupations and other matters. The same occupations or commodities could result in different tax rates. For example, fishermen might pay tax at a different rate for each individual. Consideration for the difference was the individual's status in the community. If a fisherman was of a high status in the community based on that community's classification, he or she had to pay tax higher than that community's. Such circumstances led to the development of a complex writing system related to administration and financial calculations.

### **Numerical Notations**

After discussing the use of paper and the adoption of the abstract nature of alphabetical writing in the archipelago, I turn now to the development of advanced scientific

activity in the wake of Islam. With the spread of Islam in the archipelago, indigenous Indonesians, especially Moslems, directed their attention to intellectual activities, turning first to the practical knowledge of science, such as mathematics and astronomy. These sciences were primarily derived from a religious basis. From mathematical means, Moslems could find the direction to Mecca, towards which they perform daily prayers facing Ka'bah<sup>6)</sup>. Basic mathematics was also needed by Moslems to calculate inheritances and to count days and years according to the Islamic calendar. From astronomy, Moslems could determine the beginning of Ramadhan, the month of fasting, and other great holy days. These Moslem religious needs were central to the development of the current understanding of science.

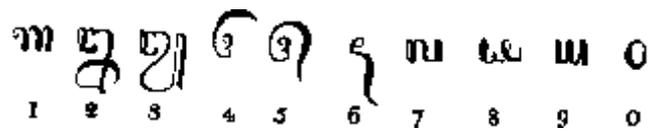
In Indonesia, the arrival of Islam brought great advantages to the development of the sciences, particularly through the adoption of the Hindu-Arabic numerals (1, 2, 3, 4, 5, 6, 7, 8, 9 and 0). The Hindu-Arabic numeric system has played an important role in promoting abstract thought through the use of numerical signs. Historically, the numerals 1, 2, 3, 4, 5, 6, 7, 8 and 9, have been used in almost all parts of the globe and are believed by some scholars to be related to the nine Sanskrit characters used in ancient times by the Hindus. The key numeral to the whole place number system is the zero element, or sign 0, whose invention was an achievement of Moslem thought (Al-Daffa, 1977).

It is interesting to note that while the earliest Hindu example of a zero was found on an inscription of 876 AD at Gwalior, the earliest Moslem zero is contained in a manuscripts dated 873 AD (Al-Daffa, 1977, p.37).

The history of the zero element actually begins with the Hindus long before Islam. According to Hindu thought, the symbol for zero was "⊙" (a dot inside a circle). However, they were not able to develop this concept any further. Zero in their system never became a number to be added or subtracted or used to simplify their calculations (p.38). With the establishment of the Moslem empire, the Moslem East (Baghdad) and the Moslem West (North Africa, Spain), a number of different representations of zero were used. In the Moslem East, the dot "." was used as a zero and the augmented set of numerals became

• ٩ ٨ ٧ ٦ ٥ ٤ ٣ ٢ ١ . The Moslem West adopted the circle "0" as their symbol and the complete set of numerals became 1, 2, 3, 4, 5, 6, 7, 8, 9 and 0.

Prior to the rise of Islam, a numerical system had been adopted, mainly derived from a modification of part of the Javanese alphabet (Raffles, 1978). But on occasions it was important to differentiate between alphabetic and numeric characters, so it was usual to employ certain signs or symbols in lieu of ordinary numerals. The numerals were



However, the development of Javanese numerals did not become sufficiently popular to enable it to be continued to be used in accounting and calculation. The Hindu-Arabic numerals, instead, have been widely adopted. Thus, the influence of Islam in the archipelago moulded the modes of early scientific achievement by indigenous Indonesians.

The development of both alphabetic and numeral notations increased the opportunity of indigenous Indonesians to present and preserve a variety of knowledge. This development also enhanced the stability of the writing process in relation to the recording, reference, and retrieval of information. The development of complex writing and record keeping became possible. Accounting, both in its qualitative and quantitative form, became the mode of representation. Ste. Croix (1956) pointed out that the rise of Islam led to the development of accounting records. In particular, he refers to the adoption of Hindu-Arabic numerals to simplify the presentation of numerical calculation. The idea of a sign for zero, for nothing, and for the symbol of tens, hundreds, etc., assisted the calculation of complex sums in accounting numbers.

### **Transition from Hindu Learning to Islamic Economy and Administration**

A very important and characteristic creed that promoted the adoption of Islamic behaviour in the archipelago evolved from the Islamic concept of God, Allah. This concept is primarily based on the acknowledging of Allah with attributes such as Al-Malik (the absolute Owner of all), Al-Muhaymin (who watches over and protects all things).<sup>7)</sup> This led to the guidance of Moslem activities in almost all of everyday life. Belief in these attributes not only had a far-reaching influence on the general attitude of the Moslem individual, but it also touched economic enterprises (eg., trading transactions) and administration (eg., policy making and planning).

It is hardly surprising that Islam achieved its first and most lasting successes in the Minangkabau west coast entrepots [Sumatra], which most resembled in function the Islam city of the Middle East, revolving as they did around a central market place. ... The main administrative and port officials all had Moslem titles, and Islamic teachers well versed in the Koran were in evidence in the port (Dobbin, 1983, p.119).

This is one example of an Indonesian community which, with the coming of Islam, adopted what it believed to be Islamic behaviour. Dobbin also showed that in the early Islamic countries, particularly in Sumatra, the Al-Qur'an was laid down as a basic principle which governed general economic behaviour and involved the ethics of trading activities. In Sulawesi, the community enthusiastically embraced Islam after its establishment in Sumatra and Java. The Arabic script was adopted, mainly in southern Sulawesi. The clearest cases of a fully Islamic literature occurred in Acehese. It was at this point that the Al-Qur'an was used as an alternative to the existing mode of regulating society's affairs. The Sunnah of the Prophet Muhammad, as contained in the Hadith, had an important part to play in the basic economic life of individuals and the community. The texts of Islam show a particular interest in the activities of traders; the Prophet Muhammad was in fact a merchant, and both the Al-Qur'an and Sunnah look with favour upon commercial activity. The Sunnah approves of economic activity, the search for profit, commerce and production for the market. And according to the Sunnah, trade is regarded as a superior way of earning one's livelihood (Rodinson, 1977). The Syariah,<sup>8)</sup> as it was codified, came to contain numerous provisions

concerning commercial activities, such as the concepts of ownership, earning, and the concepts of the Lawful and the Unlawful (*Halal* and *Haram*), the ethics of the rules of farming, the principles and practices of trade, consumption, and saving and Zakat. These kinds of Syariah are mainly derived from the Al-Qur'an and Sunnah (see Hasanuz Zaman [1991]). It was within this framework that, from about the early fifteenth century, along the coastal areas of Java and Sumatra, Islamic law became an important field of study in *Masjid* (Mosque) and *Surau*.<sup>9)</sup>

There are several important historical sources that refer to early Islamic teaching in the archipelago. These are the stories of Marco Polo, History of the Yuan dynasty, Babad Tanah Jawi (Javanese annals) and Serat Kanda (Javanese annals). From the story of Marco Polo, there is an indication that the Islamic state existed in the archipelago in 1292 (Yule, [1875], Polo [1958]). This was situated on the east coast of North Sumatra. It was also indicated that this coast was an important trading port in the 13th century. Marco Polo referred to the place as Ferlec and he wrote as follows:

The kingdom, you know, is so much frequented by the Saracen Merchants that they have converted the natives to the Law of Mohammad (Yule, 1875, p.286).

This indicates that Islamic law and teaching had been used as the principle for spreading Islamic knowledge. It was at this point that the Islamic state was influential in spreading Islam along the coastal Sumatra areas and Java. Archaeological evidence and Malay chronicles also indicate that the realms of Ferlec and Samudra (these are the Islamic states established in the early coming of Islam) were under the Moslem king called Al-Maliku'l-Salih, who died in 1297 (Al-Attas, 1966). Marco Polo, visiting this part of Sumatra in 1292, witnessed the fact that the community was Moslem. During the reign of Al-Maliku'l-Zahir (the eldest son of Al-Maliku'l-Salih) in the first half the 14th century, Islamic learning and teaching was already flourishing in Sumatra. It was the earliest centre of Islamic learning in the archipelago. According to Ibn Battutah <sup>10)</sup>, Al-Maliku'l-Zahir was a Sultan who loved

religious debates and discourses, and had himself surrounded by *Ulama* and *Fuqaha* (independent religious teachers and Moslem scholars) (Gibb, 1953, p.274).

The most interesting characteristic of Al-Maliku'l-Zahir's Islamic teaching was a system that constructed the Islamic concept of good and bad, virtuous and vicious, lawful (halal) and unlawful (haram). A further development of the Islamic concept was to implement Zakat. The system played a key role in spreading Islam and in determining the broad contours of an economic system in the early days of Islam in the archipelago. This led to a growing concentration on special missions, trying to induce neighbouring villages or islands to accept Islamic law in relation to trade and commercial activities. Through this concept, the centre of Islamic teaching was prepared, in order to attempt conversion of individuals in the nearby area, trying to persuade them to adopt the five pillars of Islam and the life of good Moslems. The Sultan was also zealous in propagating the faith in the surrounding country by means of war and raiding expeditions (Gibb, 1953).

Islamic administration and trading activities in Java also flourished. According to the Javanese annals, Babad Tanah Jawi, about 1448 AD, Raden Rahmat, the religious teacher of Ngampel (Surabaya), known as *Sunan Ngampel*, established an Islamic teaching centre (Ras,1987). He was the ancestor of a long line of Moslems and the most senior of *Wali Sanga* (the nine saints), who spread the Islamic faith in East and Central Java. It was at this point that the Sunan Ngampel school was able to educate the Javanese community in Islamic knowledge. One particular interest of such knowledge, related to this discussion, is Islamic trading principles and administrative affairs which are mentioned in the Javanese annals: *Babad Tanah Jawi* (The History of Java Land) (Ras, 1987). One aspect of the establishment of the Sunan Ngampel school was the idea of a central Islamic state. This idea was realised with the establishment of the first Islamic state in Java, known as *Demak* after a long process of waiting. The Islamic state of Demak was administered by the former *santri* (religious student) of Sunan Ngampel, Raden Patah (Pigeaud and Graaf [1976] and Ras [1987]). He then succeeded in overthrowing the Hindu-Javanese kingdom of Majapahit in 1478.

## **Early Islamic States and Public Finance**

The development of the art of writing, numerical notation and Islamic teaching centres, followed by the establishment of the new Islamic state of Demak (in Java) and Aceh in Sumatra, resulted in business complexities in the Moslem community and an increased role of the Islamic state in public affairs. As already pointed out in previous discussion, the new faith, Islam, met with favourable conditions and therefore easily spread throughout the archipelago. Both new Islamic states, Aceh and Demak, were to emerge for a time as the most powerful, wealthy and cultivated states in the archipelago. They were, by the end of the fifteenth century, good seaports for international trading (Ricklefs, 1981). Rice, pepper, corn, benzoin, woods, tea, coffee and gold were produced by them and exported to international traders.

With the establishment of the new Islamic states, the role of the central government in public services increased. According to Meilink-Roelofs (1962), this was not only to manage the products exported to international traders, but to enable the states to guide Islamic life. It thus provided the groundwork for further socioeconomic development. The development of social welfare, religious educational systems and economic aspects were the main emphases of the states. By this time, the satisfaction of these needs and the continuous accumulation of wealth in the state treasuries created problems in wealth administration including the financial management of the states. These problems required the development of state public finance and administration to deal with the proper management of state revenues and expenditures. The methods that were used to solve these problems varied according to time and place.

As a part of the development of administration affairs in the new Islamic states, governmental expenditures were of little importance until the end of the sixteenth century. This was not because Demak and Aceh states were less developed and organised, but primarily because of the prevailing conviction that it was the Moslems' duty to serve with their property and their lives. Moslems believe that sacrificing some of their properties and life to God, Allah, was one kind of obedience to Islamic commands. Another reason was the

state's reliance on voluntary *sadaqa* (charity) from Moslems to meet its needs. Outlays of that period, therefore, consisted of very small payments for current administrative costs, and maintenance of some public works and buildings. State finances and budgets for the control and administration of special funds were nonexistent.

With the socioeconomic developments during the spread of Islam, the state government increased its responsibility in meeting social needs. This changed the attitude toward governmental expenditures. The strains of the Islamic state of Demak and the Hindu-Javanese kingdom of Majapahit created a much stronger need for state defence expenditures. According to Raffles (1817), it was for this reason that Raden Patah, the leader of the Demak state, prepared for war against Majapahit<sup>11</sup>). As part of the war preparation, a lot of horses, food and other property and equipment were collected. This of course required funding. It was at this point that the state was urged to adopt proper planning for raising funds (Vlekke, 1943) (this point will be discussed in the following paragraph). By the beginning of the sixteenth century, the Islamic state of Demak had defeated Majapahit. Following this success, the concentration of the population mainly in the city created new social needs for public works, social welfare, education and Islamic religious ceremonies. As a result of these developments, the state required more state employees. Finally, a new social and political system created growing needs in the periods of Demak's expansion which had to be met through more government spending. A concise summary of the relative expenses according to their natural classifications includes the following: (1) expenditures for security, fortification, military and diplomatic expenses, (2) expenditures for internal administration necessary for Islamic teaching, religious ceremonies and public works, and (3) expenditures for general welfare in the areas of rice, meat and pepper distribution. The amounts in each category are difficult to calculate, mainly because of a lack of reliable information and material.

Another antecedent of accounting during the early spread of Islam in terms of public finance is the existence of early Islamic state revenues. As discussed, the management of the early forms of state expenditures was through substantial increases in state spending. This meant it no longer had to be met from voluntary contributions. To cover their recurring

expenditures, regular sources of revenues were required, supplemented by irregular revenues to cover extraordinary and unpredictable expenses. Such a situation called for better planning of revenues and expenses, their coordination according to purpose, and close administrative control. This is how Islamic state finance came into existence.

The principle sources of revenue collected by the state were *kharaj* (land tax), *ushoor* (custom duties), foreigner tax, *Zakat*, *upeti* (tribute) and marriage, divorce, inheritance, circumcision and funeral fees. Each was the subject of a separate fund account, and was disbursed according to its own set of rules. The most important source of revenue differed from town to town, but it was mainly from *Zakat*, land tax and tribute. The revenue was spent on building and maintaining Mosques, supporting poor people, collectors' salaries, and priests' emoluments. This source, which constituted approximately 75 per cent of the total state revenue, is considered to be one of the primary factors in the early establishment of the Islamic states, such as Demak. Raffles (1817) states that

In every chief town there is a high priest, who with the assistance of several inferior priests, holds an ecclesiastical court, and superintends the priests who are appointed in the subordinate districts and villages. His emoluments consist of a share, which varies in different districts, of the *Zakat* levied by the village priest, of fees of court, present &c. (Raffles, 1817, p.4).

This indicates that *Zakat*, court fees, and tribute were the main source of revenue to be collected for the emoluments of priests. In contrast to Demak, the development of the Islamic states of Aceh and Indragiri, in Sumatra<sup>12)</sup>, was based on revenue from the gold trade. Pires, a Portuguese, who went on a voyage to the East and visited Sumatra in 1512-1515, referred to Indragiri as an active and important Islamic kingdom on the island.

Indragiri is an important kingdom. It has a fair number of trading people, and people go there from many places to trade. It is the chief of Minangkabau.

...One, two, or three ships come every year; they sell all their clothing, and take in a great deal of gold ... (Pires, 1944, pp. 153 and 161)

It was at this point that the early Islamic states of Sumatra and Java collected and received regular revenues. Gold production allowed expenditure on regular state activities, such as internal administration, building mosques and their maintenance.

**Notes:**

- 1) The beginning of the faith of Islam was not from Muhammad's birth (about 571 AD) but from 622 AD when the Prophet Muhammad and his followers fled from the city of Mecca to Medina, and founded the community of believers. In relation to worship, the five pillars of Islam must be carried out by ummat (members of the community) of Islam. The first obligation is the affirmation of faith: `There is no God but Allah and Muhammad is His Prophet. This is the central pillar of the faith. The second is prayer. Moslems should pray five times a day, within specified times and after ritual cleansing. The third is to give alms to the poor (Zakat). The fourth is in the ninth month of the Moslem year, the month of Ramadhan, when Moslems should fast from sunrise to sunset neither eating nor drinking nor indulging in other pleasures during that time. The final obligation is, if possible, to make the pilgrimage to Mecca, the Holy City, at least once in a lifetime.
- 2) This is an original inscription derived from Chinese sources, which was then translated into English by Groeneveldt in Notes on the Malay Archipelago and Malacca, p.13.
- 3) Papermaking is said to have been invented in China at least by the first century BC. (Ji-Xing, 1981). In fact, the only early evidence of the use of paper was in the account of I-Tsing relating to his stay in Sumatra from 685 to 689 AD. He reported that "I went on board the ship to send a letter ... in order to ... ask for paper and cakes of ink, which are to be used in copying the Sutras in the Brahman language, and also for the means (cost) of hiring scribes" (Jones, 1986, p.131).

In short, the history of paper in the Moslem world began when the spread of paper from China reached as far as Turkestan. This bordered on the Islamic domain where, in the middle of the eighth century AD, spectacular events were taking place. By the beginning of the Abbasid Caliphate [750-1258] in the Middle East, the Chinese began to share the knowledge of papermaking, after many centuries of having held secret the techniques of papermaking. By 795 AD, the Abbasid dynasty established a paper industry in the Capital, Baghdad, which was then known as a power house of cultural and artistic development (Jones, 1986, p.132). Another centre of the papermaking industry was Tihamah (South Mecca), which flourished and spread to Damascus, and Tripoli in Syria and became known for the superior quality of its paper (p.132). In the ninth century AD, the development of paper continually flourished up to the Delta of Egypt. By the end of the tenth century AD, the paper industry had spread throughout the Moslem world. And it reached Indonesia by the thirteenth century AD., when the Islam kingdom flourished (p.133).

- 4) An Indonesian word for paper is 'kertas' derived from the Arabic 'qirtas'.
- 5) An example of the ancient Javanese alphabet is as follows

- 6) Ka'bah is the Moslem shrine situated in the centre of Mecca.
- 7) There are a number of attributes ascribed to God, Allah, mentioned in a number of Qur'anic verses and in many of the Prophet's sayings. These attributes construct a mind that guides Moslem behaviour in the Islamic direction. Other attributes of Allah are *Al-Rahim* (Who gives blessings and prosperity, particularly to those who use these gifts as He has permitted), *Al-Muhaymin* (Who watches over and protects all things), *Al-Wahhab* (Who donates all things to His creatures), *Al-Razzaq* (Who is the Provider of all things that are beneficial to His creatures), *Al-Fattah* (Who opens the solutions to all problems, and eliminates obstacles), *Al-Qabid* (Who constricts), *Al-Basit* (Who expands), *Al-'Adl* (Who is the Just One), *Al-Karim* (Who is the Generous), *Al-Hafiz* (Who preserves all things in detail and for a time preserves them from misfortune and calamity), *Al-Mujib* (Who responds to every need), *Al-Wakil* (Who provides a means to solve the problems in the best way), *Al-Wali* (Who is the friend of His righteous servants), *Al-Ghani* (Who is the Self-sufficient), *Al-Mughni* (Who is the Enricher) (Hasanuzzaman, 1991, p.22).
- 8) The main sources of Islamic religious law, Syariah, were originally the Al-Qur'an and the Hadith (Sunnah). At an early date, three other sources were added, namely Kiyas (analogy), Ijma' (consensus), and Ray (private opinion) However, private opinion has never been fully accepted as a faith source of Islamic law. Thus, the Syariah consists mainly of the Al-Qur'an, Hadith, Kiyas, and Ijma'.
- 9) This is also a place of prayer, but it is usually a small building rather than a Mosque. In the early days, both were also used as gathering places for any number of activities.
- 10) Ibn Battutah was an Arab who travelled in Asia and Africa between 1325 and 1354, and visited Sumatra.
- 11) Raden Patah, according to the Javanese Annals: Babad Tanah Jawi, was a grandchild of Majapahit king, Brawijaya. His father, an illegitimate son of Brawijaya, was the Prince of Palembang, Aria Damar, in Sumatra. History also says that Raden Patah was also a son of Brawijaya, and that when Aria Damar married a Chinese Princess of Champa, she was pregnant with Brawijaya. When Raden Patah grew up, his father, Aria Damar, sent him to learn the Islamic faith at the Sunan Ngampel's school. Interestingly, when Raden Patah was mature, he refused to live in the Majapahit kingdom. He then founded Demak, and declared war against his grandfather, as he believed that his grandfather was a nonbeliever in Islam. There were two great wars between Raden Patah and the Majapahit kingdom. In the first, Raden Patah was defeated. In the second, Majapahit, the great and magnificent capital of the archipelago, fell in 1475. Raden Patah then reigned from 1477 to 1519, and died at a great age. The fall of Majapahit in 1475 was known as the first establishment of Islamic kingdom in Java.
- 12) The Indragiri kingdom has been associated with the Islamic state when the three members of the kingdom used Islamic names, Raja Ibadat (Religious king), Raja Adat (Tradition king), and Raja Alam (World king) (Dobbin, 1983).

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