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Business succession from an Islamic accounting perspective

Business
succession

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Abstract

Purpose – The purpose of this paper is to discuss the inheritance of a business from the Islamic accounting perspective.

Design/methodology/approach – The paper adapts the relevant provisions of conventional accounting standards and practices that conform to Sharī'ah (Islamic law). In addition, the provisions of the Islamic accounting standard for musharakah (AAOIFI's FAS No. 4) found to be relevant are also adapted.

Findings – The study shows that the assets of an inherited business should be measured at their fair values and that liabilities and legacies must be deducted therefrom with the view to arriving at the equity (or residue). The equity is then distributed among the heirs based on the sharing ratio established according to the Noble Qur'ān, the Sunnah (the Prophet's way) and Muslim jurists' views. Therefore, the inherited business becomes a family business as each heir is admitted into it. By extension, Islam emphasizes that the business should remain a going concern to generate income to sustain the welfare of the heirs.

Research limitations/implications – The discussion of the paper is limited to the inheritance of a business and its going concern in line with the Sharī'ah.

Practical implications – Special attention should be paid to the inherited business to ensure not only its continuity to generate income for the heirs but also that each heir gets a correct share of the equity of the business as regulated by the Sharī'ah.

Originality/value – This study links Islamic inheritance to the going concern of the business, which from all indications has not been given full consideration by previous studies.

Keywords *Musharakah*, AAOIFI, Islamic accounting, Going concern, Family inherited business, Islamic succession

Paper type Research paper

Introduction

One of the notable branches of *fiqh* (Islamic jurisprudence) is *al-mīrāth* or '*ilm al-farā'id*' (Lakhvi, 2003; Ajani *et al.*, 2013) or *farā'id* (Ismail, 2019; Alma'amun, 2010), which simply means succession. It teaches how a deceased's estate is distributed among his heirs. In other words, it identifies the heirs and their entitlements from the deceased's estate in accordance with the Qur'ān, the Sunnah (the way of the Prophet, peace be upon him) and Muslim scholars' verdicts (Lakhvi, 2003). Muslims are fully guided by the Sharī'ah (Islamic law) on



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Islamic inheritance with the view to ensuring that the estate is fairly distributed among the rightful heirs (Pilliam *et al.*, 2011).

Islamic succession is seen as a platform on which almost every Muslim will occupy two positions: an heir at one time and a deceased at another. Contemporary Muslim scholars have called upon Muslims to learn the knowledge of inheritance and propagate it so that the knowledge will not be exposed to non-Islamic views (Lakhvi, 2003). In fact, the knowledge is described as *farḍ kifāyah* (communal obligation), which means at least a few Muslims must be knowledgeable about it at all times (Al-Jibaly, 2005).

A business of any form could be left by the deceased Muslim as an estate. In this case, each heir becomes a partner to the business, consequent to which the business becomes a family business. This type of partnership is recognized as *shirkat al-milk ghayr ikhtiyārī* (compulsory partnership)[1] in Islamic finance (Arshad and Ismail, 2010; Farooq and Ahmed, 2013; AAOIFI, 2015; Abushareah and Naim, 2015). If the assets of the business are distributed, its productivity would be negatively affected and consequently harm the heirs (Saleem, 2019). This implies that sharing the equity of the business among the heirs in a way that ensures the business's continuity could improve their welfare.

It is noteworthy that the application of Islamic accounting in Islamic inheritance is very useful and relevant to all members of society because every living soul must die. Though Islamic inheritance has been practiced in Muslim communities at all times, to the best of our knowledge no accounting standard for Islamic inheritance has been developed and released publicly by either an independent Islamic organization or a Muslim nation. Moreover, despite the fact that every Muslim is a party to Islamic succession (an heir at one time and a deceased at another time), extensive studies integrating Islamic succession and accounting in line with the Sharī'ah are not available (Umar and Mohammed, 2017).

It is against this background that this paper seeks to elaborate on succession to a business from the Islamic accounting perspective. The rest of the paper is organized as follows: succession planning for the family business, succession to the business, accounting for sharing the inherited business, the going concern of the family inherited business, and the conclusion.

Succession planning for the family business

This section looks at the concept of succession planning and estate succession planning in the Qur'ān and the Sunnah.

The concept of succession planning

A key factor in smooth business succession from one generation to another is planning. It is a vital element that shows the extent to which the owner of the business is dedicated to avoiding the risks that may likely affect it in the future (Iglesias, 2015). Succession planning is a continuous and endless process (Ganu and Boateng, 2013). It can be described as a procedure for the future transfer of the ownership of the business with a view to ensuring its continuity when the owner exits (or dies) (Abdullah *et al.*, 2011). According to Ismail (2019), it provides insight into the possible measures to take to manage the risks that may affect the wealth inherited by one's family. In summary, succession planning for the family business entails all the possible measures taken by the current owner of the business to ensure that it perpetually remains in operation under the ownership and control of his heirs. Lack of a competent successor to the business among family members could cause the business to one day be possessed and controlled by someone outside the family (Iglesias, 2015).

Ganu and Boateng (2013) aver that there are three main areas of succession planning. The first covers what the business requires when the senior manager retires. The second

area concerns provisions for contingencies in case of the sudden illness or death of a person in a key position in the organization. The third area is ensuring the business has the right personnel in place to function efficiently both now and in the future. In developing countries, lack of effective succession planning is among the common factors that lead to the collapse of the business as soon as the founder dies or becomes incapacitated.

Estate succession planning in the Qur'ān and the Sunnah

Generally, estate planning enjoys the full support of the Qur'ān and the Sunnah of the Prophet (peace be upon him) (Saleem, 2019). Allah (SWT) tells us how the wealth of some orphans was protected by Prophet Mūsā (peace be upon him) and Khidr (may Allah be pleased with him):

As for the wall, it belonged to two orphan boys in the town; and there was under it a treasure belonging to them; and their father was a righteous man, and your Lord intended that they should attain their age of full strength and take out their treasure as a mercy from your Lord. And I did them not of my own accord. That is the interpretation of those (things) over which you could not hold patience (Qur'ān, 18: 82).

The above verse shows how the wealth buried by a pious person was protected for the future welfare of his heirs (who were young then). The inference of the above verse is very general because it indicates the succession planning for a treasure not a business. However, according to Saleem (2019), a good lesson to learn and adapt from this verse is that the founder (owner) of the business should have a plan (possibly through a bequest) that could sustain the existence of the business, so that its net operating income (profit) would be shared among the heirs for their welfare in accordance with the sharing formula established by Islamic succession law. This implies the prevention of the business from liquidation through waqf (Islamic endowment) for the benefit of the heirs.

Similarly, Sa'd ibn Abū Waqqāṣ narrated that the Prophet (peace be upon him) said a bequest should not be greater than one-third of the distributable estate to avoid exposing the heirs to poverty (*Ṣaḥīḥ al-Bukhārī*, 2009, Vol. 4, p. 634, No. 5 and *Ṣaḥīḥ Muslim*, 2009, Vol. 13, p. 989, No. 3991). This *ḥadīth* stresses the need for making all the necessary efforts by Muslims to prevent their heirs from living in poverty after their death. Alma'amun (2010) also asserts that the *ḥadīth* supports the importance of estate planning for the welfare of heirs. Another *ḥadīth* states:

Anas ibn Mālik narrated that a man said, "Messenger of Allah! Shall I tie it and rely [upon Allah] or leave it loose and rely [upon Allah]?" He said: "Tie it and rely [upon Allah]" (al-Tirmidhī, 2007, Vol. 4, p. 509, No. 2517).

The general comment made on the above *ḥadīth* shows that the Prophet (peace be upon him) decrees that it is not a good practice for a Muslim to rely on Allah (SWT) without taking the necessary measures to protect his asset. This means that a Muslim should always act to the best of his ability and pray to Allah (SWT) for protection. Specifically, in relation to estate planning, one should put in place all the possible Sharī'ah-compliant measures to ensure that one's family members are not financially suffering, as that could put their lives in jeopardy. This is achievable through effective and efficient planning regarding one's inheritable estate. In the case of the inherited business estate, one should pray to Allah (SWT) and take the necessary mental and physical measures to ensure its continuity for the welfare of one's heirs in strict compliance with the Sharī'ah. Therefore, it is unwise to either act without praying to Allah (SWT) or pray without taking the necessary measures.

Moreover, Islam also takes measures to protect the misappropriation of heirs' wealth after distribution through the appointment of guardians or trustees. In Islam, a guardian might be a person mentioned in the will of the deceased, a person related to the heir by blood or any other person appointed by a Sharī'ah judge (Dan Almajiri, 2009). The guardians in charge of the heirs' wealth are required to fear Allah (SWT) in discharging their duties. Allah (SWT) warns that any person who misuses, consumes or takes something from orphans is doing nothing but taking fire into his stomach (Qur'ān, 4:10). Similarly, the guardians should take care of the deceased's children and manage their wealth with justice as if they are their own children. They should also bear in mind that one day they will die and would not be happy to see their children being cheated (Qur'ān, 4:9). Therefore, stealing and misappropriating heirs' wealth is a major sin in Islam. In view of this, therefore, putting in place measures to deter and detect fraudulent activities in respect of the inherited estate is highly recommended and rewarded in Islam.

The succession to the business

Two issues are covered under this section: the transfer of the ownership of the inherited business to heirs and allocation of the business.

Transfer of the ownership of the inherited business

As mentioned in the previous section, Islamic inheritance is often used as an example of *shirkat al-mūlk ghayr ikhtiyārī*. It is a form of partnership that arises when a certain event occurs, leading two or more persons to jointly possess property without having made any arrangement or effort. For example, when a person dies, his heirs automatically have joint ownership of the estate he leaves behind. Similarly, it is described as a "holding partnership", which occurs when two or more persons have an asset in common as a result of inheritance or wills (AAOIFI, 2015, p. 241). Briefly, inheriting the business produces *shirkat al-mūlk ghayr ikhtiyārī* by providing automatic admission of each heir into the business as a partner free of charge; that is, without capital contribution. Figure 1 depicts the transfer of the deceased's equity (capital) to the heirs.

It can be seen that the deceased might have invested his wealth in a business organization such as sole proprietorship, partnership or company. The sign "x" indicated in each circle shows the portion of the investment belonging to the deceased. In the case of sole

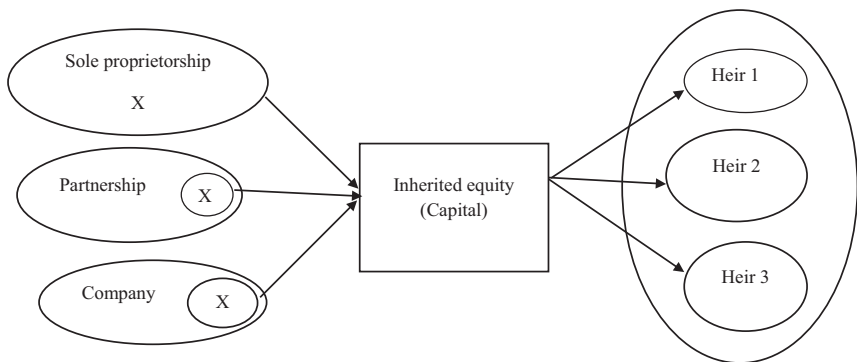


Figure 1.
Transfer of the
inherited business to
the heirs

Source: Authors' own

proprietorship, the business belongs to the deceased completely and, as such, the heirs are admitted into it as partners, which now becomes a partnership. However, in the case of a partnership or a company, the deceased is not the sole owner of the business since there are co-partners or other shareholders. Subject to the partnership agreement or the company's regulations, the deceased's capital contribution or shares should be shared among the heirs. In each case, it is shown that the equity is transferred to three heirs: 1, 2 and 3.

The transfer of the deceased's estate to the heirs is found in both the Noble Qur'an and the Sunnah of the Prophet (peace be upon him). Allah (SWT) says:

For men is a share of what the parents and close relatives leave, and for women is what the parents and close relative leave, be it little or much—a share ordained (by Allah) (Qur'an, 4:7).

Similarly, a *hadith* reveals the following:

Abu Hurairah reported the Noble Prophet to have said, "I am closer to the believers than their own selves, so whoever [of them] dies while in debt and leaves nothing for its repayment, we are to pay his debts on his behalf; and whoever [among them] dies leaving some property, that property is for his heirs" (Khan, 2009, Vol. 8, p. 1505, No. 723).

The above verse of the Noble Qur'an and the *hadith* show that heirs are the claimants to the surplus wealth (after settling debts and the will) of the deceased.

Allocation of the inherited business

In Islamic inheritance, there are 25 heirs: 15 males and 10 females (Lakhvi, pp. 30-31, 2003). The male heirs are son(s), grandson(s), father, grandfather, full brother(s), consanguine brother(s), uterine brother(s), son(s) of full brother, son(s) of consanguine brother, full paternal uncle, half paternal uncle, son(s) of full paternal uncle, son(s) of half paternal uncle, husband and male emancipator. The female heirs include daughter(s), granddaughter(s) (son's daughter), mother, maternal grandmother, paternal grandmother, full sister(s), consanguine sister(s), uterine sister(s), wife and female emancipator. It is worth noting that if a deceased is survived by all these heirs not all of them shall inherit from him/her. The heir who is closer to the deceased prevents the one who is remote from receiving any share from the estate. It should be noted that father, mother, sons, daughters and the living spouse(s) of the deceased are not exempted from inheritance. However, the heirs whose shares could be partially reduced are husband, wife, mother, daughter of son and consanguine sister. These are the potential partners to the family inherited business. Table I presents the heirs with their respective partial exclusion as a result of the presence of others.

S/N	Heir	Partial exclusion
1.	Husband	His share decreases from one-half (1/2) to one-fourth (1/4) in the presence of a child or grandchild (howsoever remote by male lineage) of the deceased
2.	Wife	She gets one-eighth (1/8) instead of one-quarter (1/4) when the deceased is survived by children or grandchildren (howsoever remote by male lineage)
3.	Mother	Her share is reduced from one-third (1/3) to one-sixth (1/6) if the deceased is survived by children or grandchildren
4.	Son's daughter	Her share changes from one-half (1/2) to one-sixth (1/6) if the deceased is survived by one daughter and no sons
5.	Half-sister	She gets one-sixth (1/6) instead of one-half (1/2) in the presence of one full sister

Source: Qur'an (4:11, 4:12, 4:176)

Table I.
Partial exclusion

Table I shows how the entitlements of some heirs are affected in the presence of others. For example, the husband has his share changed from one-half (1/2) to one-fourth (1/4) if his deceased wife is survived by a grandchild (howsoever remote by male lineage).

Having identified the heirs as successors (partners) to the business, the next is the allocation of the net assets of the inherited business among the heirs. There are three major verses in the Noble Qur'ān specifying the share to be given to each heir. The verses are 11, 12 and 176 of Surah al-Nisa' (Chapter 4). Allah (SWT) says:

Allah [thus] directs you as regards your children's [inheritance]: to the male, a portion equal to that of two females; if only daughters, two or more, their share is two-thirds of the inheritance; if only one, her share is a half. For parents, a sixth share of the inheritance to each, if the deceased left children; if there are no children, and the parents are the [only] heirs, the mother has a third; if the deceased left brothers [or sisters] the mother has a sixth [of the distribution]. In all cases, after the payment of legacies and debts. You know not whether your parents or your children are nearest to you in benefit. These are settled portions ordained by Allah, and Allah is All-knowing, All-wise. In what your wives leave, your share is a half if they leave no child; but if they leave a child, you get a fourth after payment of legacies and debts. In what you leave, their share is a fourth if you leave no child; but if you leave a child, they get an eighth after payment of legacies and debts. If the man or woman whose inheritance is in question has left neither ascendants nor descendants, but has left a brother or a sister, each one of the two gets a sixth; but if more than two, they share in a third after payment of legacies and debts; so that no loss is caused [to anyone]. Thus is it ordained by Allah, and Allah is All-Knowing, Most Forbearing (Qur'ān, 4:11; 4:12).

In addition, Allah (SWT) says:

They ask you for a legal verdict. Say: Allah directs [thus] about *al-kalālah* [those who have neither descendants nor ascendants as heirs]. If a man dies leaving a sister, but no child [or parent], she shall have half the inheritance. If a woman left no child [or parent], her brother takes her inheritance. If there are two sisters, they shall have two-thirds of the inheritance. If there are brothers and sisters, the male will have twice the share of the female. [Thus] does Allah make clear to you [His Law] lest you go astray. And Allah is the Knower of everything (Qur'ān, 4:176).

While verse 11 specifies the share to be given to the deceased's children and parents, verse 12 states the entitlement of a spouse and maternal siblings. Verse 176 is about sharing the deceased's estate among his paternal siblings if he is not survived by descendants or ascendants.

Islamic inheritance has three pillars: *al-muwarrith* (the deceased), *al-wārith* (the heirs) and *al-mawrūth* (the property) (Lakhvi, 2003). These pillars must exist before Islamic succession takes place. The deceased is a person who is proved to be dead and whose estate is going to be shared among the legal heirs in accordance with the Sharī'ah. The heirs are persons who are entitled to shares from the property of the deceased. The property is an asset (estate) left by the deceased and is shared among the heirs as regulated by the Noble Qur'ān, the Sunnah and the understanding of Muslim jurists. For the purpose of this paper, the property is the business estate.

In Islam, there are three ways by which a person becomes an heir to the deceased: blood relation, marriage and emancipation. Blood relation or legal biological relationship entitles people that are related to the deceased, as either ascendants or descendants, to inherit from the deceased's property. These include children, parents, grandparents and brothers, among others. Through marriage, a living spouse is entitled to inherit from the estate of a deceased spouse. Emancipation exists when a freed slave dies without leaving anyone to inherit from him; the person who freed him could inherit from him.

However, there are causes that could prevent some heirs from getting anything from the estate. One such cause is murder. All Muslim jurists opined that a murderer is not entitled to

inherit from his victim. Abu Hurayrah quoted the Prophet Muhammad (peace be upon him) as saying, “The murderer shall not inherit” (al-Tirmidhī, 2007, Vol. 4, p. 172, No. 2109).

Difference of religion is another hindrance to inheritance in Islam. A Muslim cannot automatically inherit from a non-Muslim nor can a non-Muslim inherit from a Muslim, as Jābir reported that the Prophet (peace be upon him) said there is no inheritance between a believer and an unbeliever (Al-Tirmidhī, 2007, Vol. 4, p. 171, No. 2108). Likewise, a person who committed adultery or fornication and gives birth to a child, he neither inherits from the child nor the child inherits from him.

It was reported by Amr ibn Shu’aib through his father, who heard from his grandfather that the Noble Prophet (peace be upon him) said, “Any man who fornicates with a free woman or a slave woman, the child born from that illicit intercourse does not inherit from him nor does he inherit from it” (Al-Tirmidhī, 2007, Vol. 4, pp. 175-176, No. 2113).

Table II presents an example of estate distribution among the heirs and other claimants.

Table II shows the general format for distributing the estate among claimants in accordance with the Sharī’ah. It shows that the deceased left US\$150,300 as the total estate. After deducting the sum of US\$20,300 for funeral expenses and liabilities, and US\$10,000 that the deceased left as a will, US\$120,000 remains as a residue. It is then shared between the two sons of the deceased and each gets US\$60,000.

Specifically, in relation to the inherited business, the gross estate consists of the total market value of the assets of the business (both non-current and current assets). The settlement of the funeral expenses comes first, unless someone takes the responsibility for it or it is settled from the non-business estate. The liabilities are the next claims to be settled, which consist of current (short-term) and non-current (long-term) liabilities of the business and the deceased’s personal liabilities (if any). Any will (bequest) made by the deceased has to be settled before the distribution. The bequest consists of a set of instructions made by a person while alive for implementation when he dies. The subject matter of the will could be Islamic instructions and admonishments, monetary distributions and the assignment of rights. The person to whom the bequest could be made might be a close relative, a non-Muslim relative or an individual unrelated to the deceased (Al-Jibaly, 1999). Similarly, according to Alma’amun (2010), the will could serve as an avenue for transferring a portion of the deceased’s estate to persons who are disqualified to inherit him due to issues like different religions. Settling a will and debts before sharing the estate among heirs is decreed in the Noble Qur’an (4:11; 4:12). The distributable estate (residue) is then distributed among the heirs.

	US\$	US\$
Total Gross Estate		150,300
Funeral Expenses	(300)	
Total Liabilities	<u>(20,000)</u>	<u>(20,300)</u>
Net Estate before settling will (a)		130,000
Will (Maximum of 1/3 of the Net Estate)		<u>(10,000)</u>
Distributable Estate (b)		<u>120,000</u>
Heirs: Usman (1/2*b)		60,000
Aliyu (1/2*b)		60,000
Distributable Estate		<u>120,000</u>

Source: Authors’ own

Table II.
An example of estate sharing

In [Table II](#), it can be seen that the deceased is survived by two sons. Therefore, each heir gets half of the distributable estate. We opine that the funeral expenses and personal liabilities of the deceased should be deducted from the non-business portion of the estate unless it does not exist or is not enough to settle them fully. This is to avoid the unnecessary reduction of the working capital of the business, which tends to have a negative impact on the growth and development of the inherited business.

Accounting for sharing the inherited business

Currently, there are no accounting standards that have been specifically developed for Islamic inheritance, though it is part of Islamic finance. The accounting standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) are primarily intended for the application by Islamic financial institutions (IFIs) alone. However, the standards that are found worthy or applicable could be adapted for the distribution of the inherited business. This is because even AAOIFI's standards were substantially developed by accepting conventional accounting standards and practices that are not contrary to the Sharī'ah and rejecting those that go contrary to it ([Karim, 1995](#); [Lewis, 2001](#)). Hence, we are going to adapt both the Islamic and conventional accounting standards requirements and treatments provided that they are in line with the Sharī'ah.

As pointed out earlier, inheriting a business signifies that the equity (capital) of the deceased is distributed among the heirs. The accounting equation is based on the formula:

$$\text{Assets} = \text{Equity} + \text{Liabilities} \quad (1)$$

[Umar and Mohammed \(2017\)](#) modify the equation to suit Islamic inheritance, as follows:

$$\text{Assets} = \text{Equity} + \text{Liabilities} + \text{Will} \quad (2)$$

This signifies that:

$$\text{Equity}(\text{residue}) = \text{Assets} - (\text{Liabilities} + \text{Will}) \quad (3)$$

In other words, the heirs are collectively entitled to what remains after settling the liabilities of the deceased and bequest (if any). [Figure 2](#) shows the diagrammatic comparison between the general financial accounting equation and the Islamic inheritance accounting equation.

It can be seen in [Figure 2](#) that equity is the same as residue; assets and estate are the same; and liabilities are common to both. The only thing that is new is the legacy (will), which is another claim to be settled before the residue is distributed among the heirs.

A key issue to know here is the measurement basis to use for each component of the equation. In financial reporting, measurement means a procedure for ascertaining the prices of the assets, liabilities, incomes and expenses to be documented in the entity's books and subsequently used to prepare financial statements. To ascertain the measurement basis to apply for Islamic inheritance, there is the need to look at the measurement bases developed by the International Accounting Standards Board (IASB), 2007. The Conceptual Framework of the IASB (2010, pp. 37-38) states the following measurement bases for the elements of financial statements, namely: historical cost, current cost, realizable value and present value.

- **Historical cost:** An asset is measured as the amount of cash or its equivalent value of consideration incurred to acquire it. A liability should also be measured as the actual amount received or its equivalent value in exchange for the obligation. In

Islamic accounting, the application of the historical cost method to value the assets could lead to the underpayment of zakat (Islamic alms).

- Current cost or current value: This is a monetary value or its equivalent amount to presently collect in exchange for an asset. A liability is also measured as the monetary value or an equivalent amount to be given as a settlement for it at the moment.
- Realizable value (or settlement value): This basis is mostly applicable if the business is to be terminated, that is, it is no longer a going concern. Under this basis, the assets are measured at the expected amount of sales proceeds from their disposal. Likewise, the value of the liabilities is the same as the total amounts needed to presently pay them all. The theory of this basis is problematic and makes it inapplicable to the provision of stewardship (Haniffa *et al.*, 2002).
- Present value: Using present value, assets are measured at the expected net cash inflows to be discounted to the present value. Likewise, the value of liabilities is the present discounted value of the expected cash outflows to settle the liabilities. According to Haniffa *et al.* (2002), the net present value is also not suitable for the provision of stewardship due to its complications. They added that some scholars rejected its application since the future belongs to Allah (SWT).

In addition, fair value measurement is another basis that is not captured in the IASB's conceptual framework. According to IFRS 13, it is defined as:

The price that would be received to sell an asset or pay to transfer a liability in an orderly manner between market participants at the measurement date (para 8).

Similarly, AAOIFI (2015) in its conceptual framework for financial reporting defined fair value as:

The value representing an estimate of the amount of cash, or cash equivalent that would be received for an asset sold or an amount of cash or cash equivalent for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date of the transfer (para. 7/3/4).

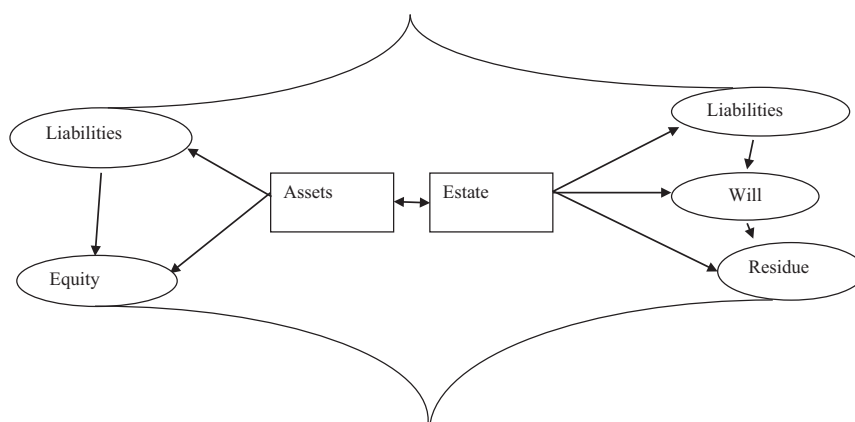


Figure 2. Comparison between financial accounting equation and Islamic inheritance accounting equation

Source: Umar and Mohammed (2017)

Here, it can be said that both Islamic and conventional definitions of fair value are the same. In simple terms, fair value is the same as market value, that is, the assets and the liabilities are to be revalued at their current market prices. The fair value is found to be the most appropriate measurement to apply in Islamic succession.

The revaluation of both assets and liabilities is a normal practice in contemporary partnership accounting as a result of the admission of a new partner, the retirement of a partner or the change in the profit or loss sharing ratio. If the fair value is linked to Islamic inheritance, it means the estate left by the deceased should be measured at the price at which it could be sold in an open market at the date of the distribution. Likewise, the liabilities should be measured as the amount needed to fully settle them at the date of distribution. The will should be measured at the amount required to settle it during the distribution, as ordered by the deceased. This is similar to the provision of AAOIFI's standard for *musharakah* (Financial Accounting Standard, FAS No. 4), which provides that if an Islamic bank contributes capital in kind with the view to engaging in *musharakah* with any person, such asset should be measured at fair value.

Generally, conventional accounting standards and practices are adaptable in Islamic inheritance for at least two reasons. First, a study carried out in Malaysia established that even IFIs substantially apply the International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) in the preparation of their financial statements, because the accounting treatments of many of their events and transactions are not provided in the AAOIFI's standards (Muhamad Sori, 2016). Second, looking at the contents of AAOIFI's standards critically, there are conventional issues adapted, which do not violate the Sharī'ah. Therefore, to ensure fairness in the distribution of the inherited business, there is nothing wrong in adapting the IASs/IFRSs requirements provided that they do not contradict with the Sharī'ah.

Furthermore, according to Umar and Mohammed (2017), the following four necessary accounts are needed to accommodate the inheritance of the business: estate account, cash account, revaluation account and capital account.

- Estate account: The estate account needs to be opened to ascertain the net estate to be allocated among the heirs. The net estate is the excess of the gross estate over the sum of the funeral expenses, liabilities and bequests. Specifically, in the case of family inherited businesses, the net estate is the excess of the capital^[2] of the deceased over the total claims (funeral expenses, liabilities and will). The net estate is distributed among the heirs as partners on the basis of the sharing ratio as regulated by Islamic succession law.

Applying the double entry principles of accounting, the capital (equity of the deceased) and any other relevant gain (like profit on revaluation) are credited to the estate account. On the other hand, funeral expenses, the outstanding liabilities of the deceased, the will, loss on revaluation and other relevant expenses (like distribution expenses), among others, should be debited to the account. The excess stands for the distributable equity, which is allocated among the heirs and is credited to the capital account of the partners (heirs).

- Cash account: This account is used to accommodate all the receipts and payments to determine the cash balance at the end of a particular period of time. It consists of both cash and bank transactions. Receipts are debited to the cash account whereas payments are credited to the account.
- Revaluation account^[3]: This account takes care of the changes in the value of the assets and liabilities. In relation to the family business, it is applied when the assets

of the business are revalued and lead to either an increase or a decrease in their values. An increase in the value is credited to the account while a decrease is debited to it. In addition, the liabilities should also be measured at their fair values, whereby an increase and a decrease are debited and credited to the account, respectively. Revaluation expenses should also be debited to the account. If the total credit side is greater than the total debit side, the difference represents a profit on revaluation and is credited to the estate account. On the other hand, if the total credit side is less than the debit side, the difference becomes a loss on revaluation and is debited to the estate account.

- **Capital account:** This account shows the equity that belongs to each heir as at a particular period of time. Transactions that increase the capital of heirs, such as the share of the estate, additional cash contribution and capital contribution in kind are credited to the account. On the other hand, those that reduce the capital like withdrawal of cash and the value of the asset taken (by an heir) are debited to the account.

The going concern of the family inherited business

In the preceding sections, it has been made clear that heirs are admitted into the business. This implies that the inherited business is expected to remain a going concern to generate income for them. The term “going concern” simply means “continuity”. It is a popular accounting postulate, which means a business should continue to operate endlessly in the absence of evidence to the contrary (Ahmed, 1994). Similarly, according to IASB (2010), the going concern assumption depicts that an entity’s financial statements should be prepared to reflect that the entity has no plan to liquidate or significantly reduce its production or activities in the predictable future.

In Islamic jurisprudence, the going concern is similar to the presumption of continuity called “*istiṣhāb*” (Ahmed, 1994). From an Islamic accounting perspective, the continuity of the business depends on the agreements of the parties to it (Haniffa and Hudaib, 2011). Although the concept of a going concern is accepted in Islamic accounting, indefinite existence is an exclusive attribute of Allah (SWT) (Ather and Ullah, 2009). In addition, it identifies Islamic short-term and long-term objectives for the going concern:

[. . .] Islamic Perspective of Accounting (IPA) (on the going concern) focuses on both short and long term obligations: the short-term focus is to identify the wealth subjected to zakat and the long-term focus is on wealth procured for utilization beyond the zakat period. This corresponds to the spirit of Islam which encourages acts of worship and strives for sustenance as in the Islamic conventional wisdom: “Work as if you are going to live forever and worship Allah as if you are going to die tomorrow” (Haniffa and Hudaib, 2011, p. 32).

It is noteworthy from the above quotation that Islamic accounting considers the payment of business zakat as the short-term objective of the going concern and the creation of wealth as its long-term objective.

A business remains a going concern if it is capable of meeting its liabilities and continuously operating without any indication of liquidation (whether voluntary or compulsory) for the minimum of a year (Australian Institute of Company Directors (AICD), 2009). The symptoms of a business’s inability to remain a going concern are comprehensively stated in the International Standard on Auditing (ISA) (570). Some of them are overdependence on short-term debts to purchase non-current assets, lack of adequate support from major creditors, breach of loan agreements, the emergence of strong competitors, breach of legal and other professional pronouncements and losses of market

share, franchise, license and key suppliers. IAS 1 and ISA 570 show that management is saddled with the responsibility of evaluating the ability of the business to remain a going concern. During an audit assignment, the auditor is expected to get adequate and appropriate audit evidence with the view to reaching a conclusion on whether or not the management has appropriately applied the going concern basis in the preparation of financial statements (para. 6, ISA 570).

Maintaining the family inherited business as a going concern is strongly recommended in Islam for the welfare of heirs. A *ḥadīth* of the Prophet (peace be upon him) discloses the following:

It was narrated by Amr ibn Shu'aib from his father, from his grandfather, who said that the Prophet (peace be upon him) told his companions: If someone is the guardian of an orphan who has wealth, let him do business with it and not leave it until it becomes consumed by charity (Al-Tirmidhī, 2007, Vol. 2, pp. 98-99, No. 641).

The chain of narration (*isnād*) of this *ḥadīth* is weak. However, many companions of the Prophet (peace be upon him) agreed that the guardian of the orphan is responsible for paying zakat on his behalf. 'Ā'ishah, 'Umar ibn al-Khaṭṭāb and 'Abd Allāh ibn 'Umar are among the companions who agreed on the payment of zakat out of the orphan's wealth. Moreover, [Ismail and Taufiq \(2015\)](#) assert that even if the *ḥadīth* is considered weak, engaging in a lawful and profitable business with the wealth of the heirs (orphans) is in line with the saying of Allah (SWT), that feeding and clothing orphans should be with their wealth (not out of their wealth) (Qur'ān, 4:5). Here, "with their wealth" connotes continuous feeding and clothing the orphans without limit, which is only possible if their wealth is invested.

A good lesson to learn from this verse of the Noble Qur'ān and the *ḥadīth* is that if Islam generally requires the investment of heirs' (orphans') wealth (to avoid its reduction by zakat), it is better and easier to continue operating an inherited business than to start a fresh one. This is because an older business is likely to be more profitable and sustainable than the new one because of goodwill. Therefore, heirs should be admitted into the inherited business and all the necessary measures should be put in place to ensure it remains a going concern.

The benefits of the continuity of the inherited business are not only limited to heirs but also to the society at large. On this issue, [Afghan and Wiqar \(2007\)](#) state that Islamic inheritance is consistent with the principle of wealth distribution, which prohibits the concentration of wealth within a single family or person or group of people. Specifically, the payment of business zakat would continue if the business remains a going concern ([Ather and Ullah, 2009](#); [Haniffa and Hudaib, 2011](#)). Therefore, the continuity of the inherited business could significantly contribute towards the achievement of socio-economic development of the society. That as opposed to single-minded self-interest is what actually differentiates Islamic accounting from its conventional counterpart ([Haniffa et al., 2002](#); [Haniffa and Hudaib, 2011](#); [Trokić, 2015](#); [Ismail and Muhamad Sori, 2017](#)).

Briefly, for the welfare of the heirs, if a business estate is inherited, the business should not be liquidated to distribute the net worth among them. Instead, the business should remain a going concern and, therefore, all the heirs should be admitted into it as partners.

Conclusion

In Islam, heirs and their entitlements are determined in accordance with the provisions of Islamic law: the Noble Qur'ān, the Sunnah of the Prophet (peace be upon him) and Muslim

scholars' verdicts. Business as an inherited estate becomes a family business and, therefore, heirs become partners to it. The equity (after settling debts and bequests) is shared among them. This signifies that the business should remain a going concern with the view to generating income for the heirs. Hence, the heirs would comfortably earn their living as long as the business remains a going concern. This paper contributes to the literature looking at business succession from an Islamic accounting point of view, as this seems to be not fully considered by previous studies.

Notes

1. It occurs when a certain event occurs which gives two or more persons joint possession of an asset.
2. The capital is the excess of the total assets over the total liabilities of the business.
3. This account is opened if the deceased is the sole owner of the business. It is not supposed to be opened if the deceased is a partner or shareholder to the business. This is because the equity is transferred to the heirs after accounting for the changes in the values of the assets and liabilities of the business.

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Further reading

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