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Article

The Islamic Need for Investing Inherited Wealth and Accounting Treatments

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ABSTRACT - Islamic inheritance involves the allocation of the wealth of a Muslim deceased among his/her heirs after the settlement of legacies and debts. Irrespective of the amount given to each heir, if not invested, one day it will be finished through consumption, which could sooner or later make them live in poverty. Hence, this study intends to justify the Islamic need for investing inherited wealth. Another objective is to provide accounting treatments for basic Islamic inheritance transactions and the admission of heirs into an inherited business through the adaption of the provisions of AAOFI accounting and Bank Negara Malaysia (BNM) Shariah standards for musharakah and mudarabah. The study established that the investment of inherited wealth in either musharakah or mudarabah ventures is in line with the Shariah to enable heirs to generate income sustainably to afford their needs. The study also showed the accounting treatments for basic Islamic inheritance transactions in order to determine the share of the equity and profit or loss of each heir from the business properly and correctly.

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INTRODUCTION

Islamic inheritance (succession) entails the transfer the wealth (estate) of a Muslim deceased to his /her heirs after death. In other words, in Islam, upon one's death, the whole of his/her wealth is shared among heirs after the full settlement of legacies and debts, as required by the Shariah. It provides the share from the estate to be given to legal heirs, such as wife, husband, daughter, son, mother and father (Abd Wahab et al., 2019). It also becomes one of the approaches to wealth redistribution in an Islamic economy. It is regarded as a type of *musharakah* (Islamic partnership) known as *shirkat al-milk ghayr ikhtiyārī* (compulsory partnership) (Arshad & Ismail, 2010; Farooq & Ahmed; 2013; AAOIFI, 2015). This implies that as soon as a Muslim dies his/her heirs would automatically become partners to the wealth of the deceased free of charge. Moreover, generally Islamic inheritance is a common practice among Muslims across the globe irrespective of the sect to which one belongs. Hence, Umar and Kurawa (2019) describe it as a platform on which almost every Muslim gets two positions: an heir at one time and a deceased at the other.

Having observed many cases of Islamic inheritance distributions, many reasons are behind the motivation to conduct this study. First, we have seen many cases where the estates of wealthy

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people were distributed among their heirs, such that if they were rightly invested or continued to be reinvested, the investment would not only sufficiently and comfortably enable them to earn their living, but also assist others. Unfortunately, most of those that inherited a huge amount of money have now turned to beggars. Second, many reputable and profitable businesses died with their founders/owners. For example, in Nigeria, mostly, an inherited business, irrespective of its profitability, is usually liquidated and its net assets shared among heirs unless they agree that it should remain a going concern. Consequently, even the heirs of many popular international business people are now living in extreme poverty in the country. Third, the levels of poverty and unemployment in OIC member countries are increasing at alarming rates. Hence, various Islamic instruments, such as *zakah* and *waqf,* have been recommended as veritable instruments to overcome poverty in Islamic society. In reality, these instruments could only provide adequate funds if businesses are sustained through the admission of heirs into the businesses as partners, so that they become family businesses. Apart from the continuity of inherited businesses for family heirs, other forms of estates, such as cash and other disposable assets, should be invested in either *musharakah* or *mudarabah.*

Briefly, inherited wealth needs to be productive through investment for the welfare of the heirs (Rachmawati & Muttaqin, n.d.). The investment would certainly contribute towards poverty alleviation not only among family heirs but also in the Islamic society at large. Historically, *musharakah* had been practiced before Islam without being rejected by the Shariah (BNM, 2010). *Mudarabah* is also one of the oldest forms of contracts that predated Islam but was yet accepted by the Shariah (Sapuan, 2016). *Mudarabah* contract was practiced by Arab traders that could not directly engage in trading activities, such as women, orphan and old people (Shaharuddin & Gleave, 2006).

These contracts (*musharakah*a and *mudarabah*) are classified as equity modes of Islamic finance (Ahmed, 2014; Sapuan, 2016). They are called the twin pillars of Islamic finance, which are approved by the Noble Qur'an and the *Sunnah* of the Prophet (SAW).

Immediately when heirs decide to set their inherited business as a going concern or decide to inject their other forms of inherited wealth into a business, there are at least two fundamental problems to provide answers to. First, what is the share capital of each heir in the business? Second, how to ascertain a profit or loss be given to each heir? Failure to provide clear and fair answers to these problems would definitely lead to disputes among heirs and consequently the collapse of an inherited business. Accounting is the right instrument to apply in the provision of solutions to these problems. It is a language of business that has an indispensable and universal application in all forms of business organizations, such as sole proprietorship, a partnership and a company. Hence, a third motivator for undertaking this study is to provide accounting treatments for basic Islamic inheritance transactions and the admission of heirs into an inherited business. Currently, there are accounting standards for *musharakah* and *mudarabah* developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). But these standards are primarily meant for application by Islamic financial institutions (IFIs) only (Umar, 2019a). Nonetheless, the provisions of these standards would be adapted, as no Islamic inheritance accounting standards exist. The provisions of Shariah standards for *musharakah and mudarabah* developed by Bank Negara Malaysia (BNM) would also be used.

Briefly, this study has two major objectives. First, to justify the Islamic need for the investment of inherited wealth. Second, to point out accounting treatments for Islamic inheritance transactions, particularly to introduce heirs into an inherited business. The remaining part of the paper is divided into four sections, which are organized as follows: the investment of inherited wealth, accounting treatments for Islamic inherited wealth, the share of profit or loss from the business and conclusion and recommendations.

THE INVESTMENT OF INHERITED WEALTH

A large number of Muslims consider Islamic inheritance as just a mere distribution of the wealth of a deceased, as they have not yet fully appreciated the need to empower heirs with their inherited wealth (Rachmawati & Muttaqin, n.d.). In other words, heirs do not care to continue with their inherited business or start a new business with their inherited wealth. For example, in Kano State, the Nigerian center of commerce dominated by Muslims, a great lesson could be learned from a particular case of inheritance whereby the shares of the deceased in a reputable and profitable company were sold by his heirs. Each male and female heirs got $ 800, 000 and $ 400,000 cash shares, respectively apart from land and other property. Unfortunately, in a few years, most of these heirs found it difficult to finance their basic needs. It was believed that, had they retained the shares in the company, the annual dividend to be given to each of them would substantially pay their basic demands.

However, there is several verses in the Noble Qur'an and the *hadith* of the Prophet (SAW) that calls for taking all necessary measures to protect and utilize inherited wealth to ensure the sustainable welfare of heirs (orphans). For example, Allah (SWT) says:

> And give not to foolish your property which Allah has made a means of support for you, but feed and clothe them therewith, and speak to them words of kindness and justice (An-Nisaa, 4:5)

According to Ismail and Taufiq (2015), since Allah (SWT) said "feed and clothe them therewith", it implies that orphans should continuously be fed and clothed with their wealth. This is only possible if their inherited wealth is invested. In addition, Prophet Musa (AS) and Khidr (AS) took a proactive measure to prevent defrauding young orphans' inherited property for their future welfare as Allah (SWT) said in the Noble Qur'an:

> And as for the wall, it belonged to two orphans in the towns; 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 […] (Al-kahf, 18: 82).

Even though the above verse does not expressly talk about investing the wealth of heirs in a business; however; at least it shows the preventive measures taken to protect it against misappropriation for their welfare in the future (Umar & Kurawa, 2019). Hence, it could be seen that there is a need to put in place measures to prevent orphans' wealth against embezzlement or reduction through consumption without investment. Moreover, another great lesson emerged from the *hadith* narrated by Saad bin Abu Waqqas in which the Prophet (SAW) restricted the maximum bequest to give to non-heirs to one-third. The Prophet (SAW) expressly said:

> […] It is better for you to leave your inheritors wealthy than to leave them poor begging others, and whatever you spend for Allah's sake will be considered as a charitable deed even the handful of food you put in your wife's mouth […]. (Sahih Bukhari Vol. 4, Book 51, No. 5, pp. 633-634).

The above *hadith* has clearly pointed out that the Noble Prophet (SAW) restricted the maximum amount to bequest to one-third to avoid exposing heirs into poverty. Similarly, Amr bin Shu'aib narrated from his father, through his grandfather that the Prophet said while addressing his people:

> As for one who is the guardian of an orphan who has wealth, then let him do business with it and not leave it until it becomes consumed by a charity" (Jami' al-Tirmidhi, 2007, Vol. 2, pp. 98-99, No. 641)

Although the above *hadith* was verified to be a weak narration, some companions of the Prophet (SAW), such as Aisha, Umar bin Khattab and Abdullahi Bin Umar, were of the view that an

orphan's wealth must be subjected to *Zakah*. This view has been adopted by the three Sunni Schools of Law: the Maliki, the Shafi'i and the Hambali. This evidence has, therefore, clearly pointed out the need to engage in a lawful and profitable business with the wealth of orphans to avoid the wealth being exhausted by *Zakah*.

Briefly, the above verses of the Noble Qur'an and *hadith* of Prophet (SAW) are enough to justify the need for investing the wealth of heirs for their sustainable welfare. This study proposes the two ideal Islamic contracts: *musharakah* and *mudarabah*, into which inherited wealth could be invested. Thus, contemporary Islamic scholars have suggested various ways for the sustainability of the wealth of heirs. For example, Rachmawati and Muttaqin (n.d.) developed the idea of productive inheritance, which entails the integration of the principles of Islamic Economics and the management of inheritance distributions at four stages. First, the allocation of an inherited estate among the rightful heirs in strict compliance with the Islamic Law of Succession. Second, through mutual agreement, a certain portion of each heir's wealth is collected to start a new business. Third, the application of the concept of cooperation based on Islamic economic principles by engaging in *musharakah* contracts with the funds collected from heirs. Fourth, the application of the principle of profit and loss sharing, which is recognized by Shariah, with the view to improve family business interests.

Moreover, Saleem (n.d.) suggested the integration of *waqf* and business by the founder (owner) of business intending to protect it from dissolution as a result of Islamic inheritance. He added that the income from the business could be shared among the heirs based on the ratio established by the Islamic Law of inheritance. Similarly, Umar (2019b) recommended the integration of an inheritable going concern business and *waqf* by dedicating a certain portion of its equity as *waqf* for one's exempted heirs and admitting heirs into it as partners (shareholders) when the founder (owner) passed away. This will contribute to the sustainable welfare of both heirs and exempted heirs. According to Umar et al. (2020), the essential features of *waqf* (irrevocability, inalienability and perpetuity) ensured the family inheritable properties continue to remain as a going concern and earn income for the benefit of heirs, exempted heirs and other members of Islamic society.

Similarly, Salim (2012) states that a clause could be inserted in Articles of Association (in the case of a company) or partnership deed (in the case of partnership), which permits a family member who inherits shares (equity) to sell off his/her interest only to another member of the family.

Having seen the various ways of ensuring an inherited business remains a going concern, the next important issue worthy of discussion is about the forms of the business to inherit and how heirs are admitted into them. Basically, the investment of a deceased can be in the form of sole proprietorship business, a capital contribution to a partnership or subscription to the shares of a company. Umar and Kurawa (2019) recommended that when a founder (owner) of a business dies his/her business should not be terminated for the distribution of its equity among heirs but should remain a going concern by admitting the heirs into it.

Figure 1 shows the transfer of an inherited business to heirs. It shows that a business to inherit can be a sole proprietorship, a partnership or a company. In the case of a sole proprietorship, the equity of the business is distributed among heirs.

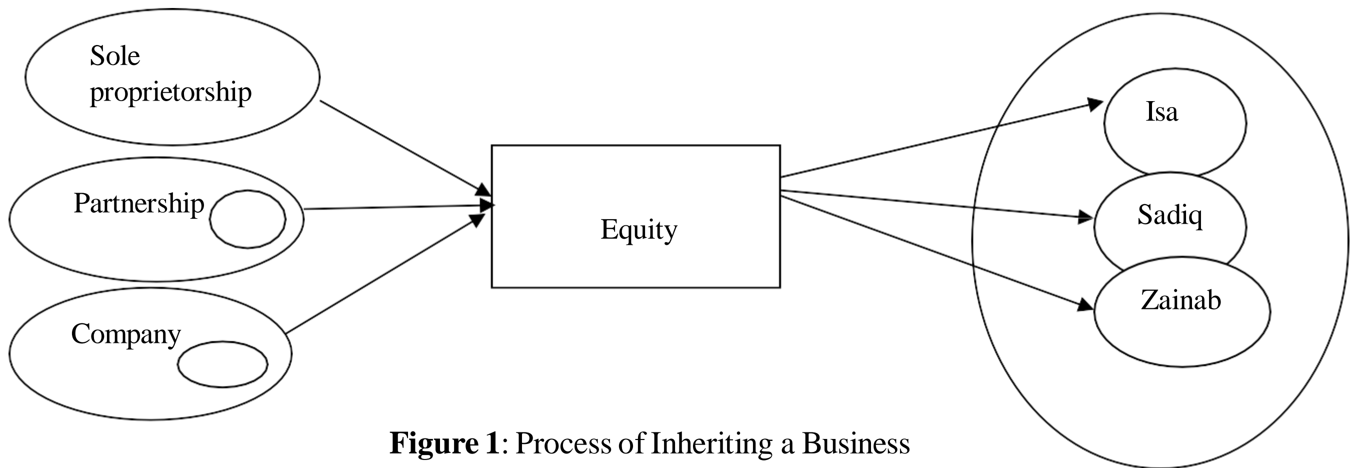

Figure 1: Process of Inheriting a Business

However, where admissions are prohibited by the business regulations, the equity of the deceased in the business must be paid to the heirs. The admission of heirs into an inherited business as new partners or shareholders necessitates the revaluation of assets at their fair (market) values out of which the liabilities would be deducted to arrive at equity (residue) to share among heirs. Revaluation of assets is a common practice in the conventional partnership as a result of the admission of a new partner, the retirement or death of a partner and a change in profit or loss sharing ratios.

This is in line with the requirement of AAOFI standard for *musharakah* whereby capital contribution in the form of real or intangible assets should be revalued at their fair values. In addition, this standard provides two reasons for using fair value instead of historical cost. First, the application of fair value will lead to the achievement of one of the financial accounting objectives (see para. 26.) Second, the use of fair value will lead to achieving the representational faithfulness of the accounting information. Similarly, BNM (2010; 2015a) requires the revaluation of capital contribution in-kind by experts, valuers or any other competent person, at the time of commencing the *musharakah*. Similarly, where heirs decide to engage in *mudarabah* by making contributions in-kind, such contributed assets should be revalued at their market values (BNM, 2015b). Generally, in Islamic accounting, the revaluation of assets based on their market values corresponds with the basis of the valuation of *zakatable* assets to achieve the socio-economic objective in the Islamic society (Napier, 2009; Awang & Mokhtar, 2012; Velayutham, 2014).

However, in which case where the deceased left sufficient wealth other than business, such wealth could be used to start a fresh business. Refer Figure 2:

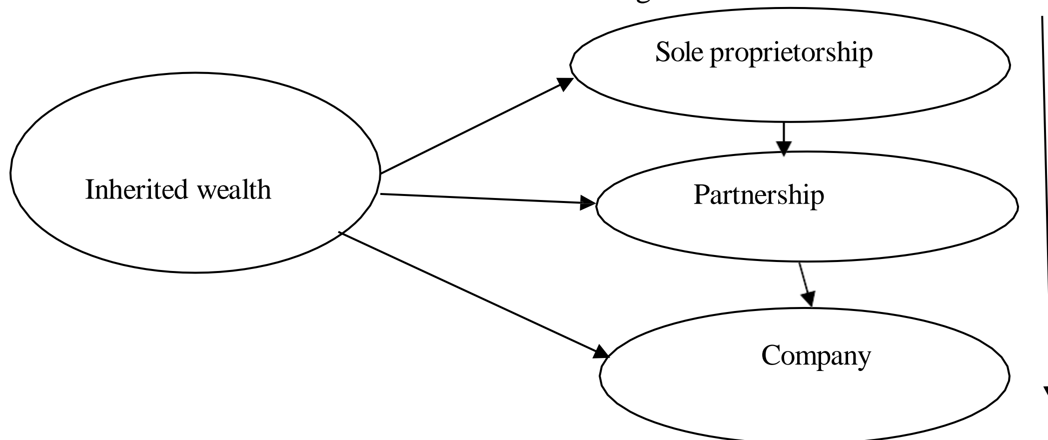

Figure 2: Investment of the Inherited Wealth in Business Organizations

Figure 2 depicts the chances of investing the other forms of wealth (non-business) in three basic forms of business organizations. In this case, wealth is expected to be sold to generate cash to start the new business. In a situation where non-cash assets are to be used directly for the business, such as motor vans, land and buildings, etc., such assets should be measured at their fair values (as previously mentioned) before sharing the equity among the heirs. Investment in a sole proprietorship here occurs when the deceased is survived by one heir only or only one heir is interested to engage in business. In this case, the heir has an option to combine his capital with another person (a non-heir) to form either a partnership or a company. It is shown in Figure 2 that a sole proprietorship could be converted into a partnership and then into a company. Besides, a partnership could be skipped by converting a sole proprietorship into a limited liability company directly.

However, for this study, we provide two options to heirs, either to form *musharakah or mudarabah* ventures. These Islamic contracts could operate in the form of a partnership or company. AAOIFI in its revised standard entitled "Shariah Standard No. (12): *sharikah (musharakah)* and Modern Corporations", pointed out that contemporary corporations, such as "stock company, joint-liability company and company limited by shares among others could be considered as *musharakah*" (AAOIFI,2017). This signifies that from an Islamic point of view, all forms of business organizations comprising two or more persons, whether or not registered as companies, could be regarded as *musharakah.* However, conventionally, a partnership is not a legal entity like a company (which is separate and distinct from the persons who formed it).

Investment in a *Musharakah* Venture

Musharakah is an Arabic word that literally means "sharing" (Usmani, n.d.;BNM, 2010).It is commonly known as *"shirkah"* in Islamic jurisprudence (Usmani, n.d; Arshad and Ismail, 2010;BNM, 2010). Technically, *musharakah* is defined as:

> a contract between the partners to contribute capital to an enterprise or a venture, whether existing or new, or owner of a real estate or moveable asset, either on a temporary or permanent basis. Profits generated by that venture or real estate or asset are shared in accordance with the terms of the *musharakah* agreement while losses are shared in proportion to each partner's share of capital (BNM, 2010, p.3).

Similarly, Umar (2019a) describes *musharakah* as a form of Islamic equity finance in which two or more persons (not necessarily including the IB) put together their capital contributions in order to undertake a business in strict compliance to the Shariah. As earlier mentioned, in Islamic finance, Islamic inheritance is a common example of *shirkatal-milk ghayr ikhtiyari* (compulsory partnership). It is called a compulsory partnership because it is an occurrence of an event that automatically makes two or more persons jointly possess property without making any arrangement or effort. For example, when a person dies, his successors (heirs) automatically have joint ownership in his/her estate. Investors in *musharakah* are commonly known as partners. The general rule of *musharakah* is that each partner has the right to participate in managing the business, but the partners might decide to delegate the management responsibilities to some partners (Usmani, n.d.).

Moreover, the *musharakah* venture could be managed in any of the following three ways: management by all partners, management by appointed partner (s) or management by a non-partner (third party) (BNM, 2010). The first option is normally applied if all the heirs are competent and have time to actively participate in business management. The second option is selected where not all the heirs are competent or free to manage the business. Hence, the responsibility of the management is delegated to the selected heirs who are deemed to be capable of managing the business efficiently and effectively. The third option is adopted where none of the heirs is capable of managing the business. In this case, the heirs or their trustees have to appoint non-heirs to manage the business and be entitled to rewards in the form of salaries and wages. Moreover, the

heirs could ask a non-heir to subscribe to the capital of business, if they think that he/she (or a non-heir) can contribute materially or skillfully or both towards the success of the business.

Investment in a *Mudarabah* Venture

The term *mudarabah* originates from an Arabic word "*zerab*", which literally means "to beat", "to hurt" and "to struggle" or struggle or walk on the earth (Aziz et al., 2013). Similarly, according to Sapuan (2016), the word *mudarabah* (profit sharing) is derived from the word "*al-darb al-ard*", which literally means "traveling through the land", as mentioned in the Noble Qur'an (Al-Muzzammil, 20). Technically, *mudarabah* is defined as:

> …a contract between a capital provider (*rabbul mal)* and an entrepreneur (*mudarib)* under which the *rabbul mal* provides capital to be managed by the *mudarib* and any profit generated from the capital is shared between the *rabbul mal* and the *mudarib* according to a mutually agreed profit sharing ratio (PSR) whilst financial losses are borne by the *rabbul mal* provided that such losses are not due to the *mudarib's* misconduct (*ta`addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*) (BNM, 2015b, p. 5).

Mudarabah is a special kind of partnership (Usmani, n.d.). It is otherwise known as a silent partnership, where someone provides capital for another as an entrepreneur to undertake a business (Ahmed, 2014). It is therefore seen as a contract of a fiduciary relationship between two different persons where one provides capital *(rabbul mal)* and the other party known as entrepreneur engages in a business with the money. *Mudarabah* could be divided into two: *al-mudarabah al-muqayyadah* (restricted *mudarabah*) and *al-mudarabah al-mutlaqah* (unrestricted *mudarabah*) (Usmani, n.d; Sapuan, 2016). In the case of former, the capital provider is expected to clearly identify the business to be carried out by the *mudarib*, whereas in the latter case the *mudarib* is free to invest the fund in any profitable business that is in line with the Shariah. It is important to note that the capital provider in *mudarabah* becomes a sleeping partner, as he enjoys profit without participating in managing the affairs of the business (Ahmed, 2014).

Thus far, the need to apply *mudarabah* to maximize heirs' wealth arises when none of the heirs has skills and experiences to manage the business in such a way to achieve the objectives of the business efficiently and effectively. Because of this, the heirs have to appoint an entrepreneur(s), who is capable of applying all the necessary skills and knowledge for the success of the business. In this case, the heirs and managers are in *mudarabah* venture.

ACCOUNTING TREATMENTS FOR ISLAMIC INHERITED WEALTH

The accounts for conventional partnership, such as the accounting for the formation of a partnership, the introduction of partners into business, the retirement of partners and dissolution, were adapted by Umar and Mohammed (2017) to develop accounts for Islamic inheritance. They proposed the following four basic necessary accounts to open for Islamic inheritance: estate, cash, revaluation and capital accounts. These accounts have been designed based on the assumption that the inherited estate (or its part) would be invested or continue to be invested in a business.

a. *Estate account:* This account is prepared with a view to determining the net estate (residue) to distribute among heirs after settling funeral expenses, liabilities and wills (if any). Going by double-entry principles, any transaction that increases the value of an inherited estate is credited to the estate account. On the other hand, a transaction that decreases the estate's value is debited to the account. The transactions that are posted to the credit side of the estate account increase the value of estate whereas debit entries are claims (reduction) against the estate. After the settlement of these claims, the balance (residue) is shared among heirs and then transferred to the capital account of the business. This is because it is assumed that inherited wealth is invested into a business with the view to maximizing heirs' wealth. In line with the Islamic Law of Succession, the assets left by the deceased are to be measured or sold at market value. In other words, non-cash assets, such as land and

buildings, motor vehicles, plant and machinery and furniture and fittings among others, of the deceased are revalued at their respective market prices before distribution. The residue sharing ratio is determined in accordance with the Noble Qur'an and *Sunnah* provisions. The sharing ratios for children and parents, spouse and siblings (in the absence of descendants or ascendants heirs) are provided by verses 11, 12 and 176 of al-Nisa' (Chapter 4), respectively.

It is worth noting that the business capital (equity) should be credited to the estate account if the business is solely owned by the deceased. However, in the case of a partnership or the shares of a company, depending on the partners' agreements or company regulations, the share capital (or shares) of the deceased is directly allocated among his heirs. This implies that heirs have no control over the capital of a partnership or company and, as such, the equity of the deceased (or capital contribution) should not be posted into the estate account. But if there are unsettled liabilities of the deceased, depending on the amount of the liabilities, his/her investment in the partnership or company must be withdrawn or sold either partially or fully to settle such debts. If this happens, the sales proceeds should be debited to the cash account and credited to the estate account. The same accounting entries are applied if the heirs sell or withdraw their investment in the partnership or company.

b. *Cash account:* This account is prepared to show cash receipts and payments for transactions that are related to Islamic inheritance. As usual, all receipts are debited to the account whereas payments are credited. The excess of the debit side over the credit side represents a cash balance at the end of the period.
c. *Revaluation account:* Usually, in a partnership, business assets are normally revalued as a result of the admission of a new partner into the business, the withdrawal of a partner from the business due to retirement or death and a change in the profit and loss sharing ratio (Umar and Kurawa, 2019; Umar, 2019a).It is a conventional practice that whenever any of these changes occur, assets are revalued at market value. Specifically, concerning Islamic inheritance, the revaluation account is prepared to accommodate changes in the values of the assets of the inherited business, especially if the business is exclusively owned by the deceased. The changes (whether an increase or a decrease) are relevant not the total revalued amount because it is assumed that the complete records of the business are maintained. A decrease in the value of an asset is debited to the revaluation account while an increase is credited to the account. The excess of the total credit side over the total debit side represents a profit on revaluation, which is transferred to the credit side of the estate account. On the other hand, if the total debit side is more than the total credit side, the difference is a loss on revaluation, which is debited to the estate account.
d. *Capital account:* This account is prepared to ascertain the capital balance belonging to each partner for continuing or the commencement of a new business. It is similar to the capital account in a conventional partnership. Therefore, an increase in the amount of capital is credited to the account whereas a decrease is debited. The residue (balance) shared among the heirs is then credited to their respective capital account. In addition, both capital contributions in cash and in-kind are credited to the account. But as mentioned earlier, any capital contribution to the business (either *musharakah or mudarabah*) other than cash must be revalued by an expert, a valuer or any other competent person at the prevailing market price (AAOIFI, 2015; BNM 2010, 2015a, 2015b). The claims against the capital, such as the values of the assets taken by heirs and cash withdrawn by heirs, are debited to the account. The excess of the total credit side over the total debit side represents the capital balances of each heir.

Briefly, Table 1 summarizes the accounting entries for the transactions to post into the basic accounts based on the discussion above.

Table 1: Accounting Entries for the Injection of Inherited Wealth into Business

S/N	Accounting Entries
1	Equity (the capital) of the deceased: Dr. Capital A/C; and Cr. Estate A/C.
2	Sales proceeds from the estate disposal: Dr. Cash A/C; and Cr. Estate A/C
3	The value of an asset taken by an heir: Dr. Capital A/C (of the heir); and Cr. Estate A/C
4	The disposal of an inherited investment: Dr. Cash A/C; and Cr. Estate A/C
5	The amount received from the debtors of the deceased: Dr. Cash A/C; and Cr. Estate A/C
6	Payment for funeral expenses: Dr. Estate A/C (of the heir); and Cr. Cash A/C
7	Payment for decease's liabilities: Dr. Estate A/C; and Cr. Cash A/C
8	Payment for estate distribution expenses: Dr. Estate A/C (of the heir); and Cr. Cash A/C
9	Cash withdrawn by an heir: Dr. Capital A/C (of the heir; and Cr. Cash A/C
10	An increase in the value of a business asset on revaluation: Dr. Business Asset A/C; and Cr. Revaluation A/C
11	A decrease in the value of a business asset on revaluation: Dr. Revaluation A/C; and Business Asset A/C
12	Payment of revaluation expenses: Dr. Revaluation A/C; and Cr. Cash A/C
13	Gain on revaluation: Dr. Revaluation A/C; and Cr. Estate A/C
14	Loss on revaluation: Dr. Estate A/C; and Cr. Revaluation A/C
15	Share of a positive residue: Dr. Estate A/C; and Cr. Capital A/C
16	Share of a negative residue: Dr. Capital A/C; and Cr. Estate A/C

Table 1 shows sixteen basic accounting entries (but not exhaustive) for the distribution of an inherited estate and the subsequent conversion of wealth into a business (whether *musharakah or mudarabah*) for the welfare of heirs. Based on the accounting entries, four (4) basic necessary accounts are identified, such as estate account, cash account, revaluation account and capital account

THE SHARE OF PROFIT OR LOSS FROM THE BUSINESS

An income statement is also known as the statement of profit or loss. As the name connotes, the account is prepared to ascertain the profit or loss of a business for a particular period. Normally, the income statement is prepared at the end of the financial year. However, it could be prepared monthly, quarterly or anytime, as decided by the partners (shareholders) of the business. Umar (2019a) states that the account (income statement) is divided into three sections in the following order: gross section; net profit section and appropriation section. Basically, in the gross profit section, the cost of sales is compared against the total sales (revenues). Gross profit is achieved if the total sales are greater than the total cost of sales. On the other hand, a gross loss is sustained if the total sales are less than the total cost of sales.

Net profit or loss is determined in the second section. The gross profit is transferred to this account (credit side). In conventional practice, expenses, such as salaries and wages (excluding partners' remuneration and commission), depreciation, travelling expenses, power and lighting expenses and sales and distribution expenses, among others, are debited to the second section. The excess of gross profit over total expenses is a net profit. On the other hand, it is a net loss if the gross profit is less than the total expenses.

The third section is where the profit or loss is shared among the partners (heirs). Normally, in a conventional partnership, both profit and loss are shared using the same ratio (Umar, 2019a). Also, the ratio for sharing the profit and the loss has not been provided conventionally, although Section 24(1) of the Partnership Act (1890) provides that partners should share both the profit and the loss using the same ratio.

Similarly, in Islamic finance, the partners to *musharakah* are expected to agree on the sharing ratio before commencing the business otherwise it becomes invalid (Usmani, n.d.). By extension, profit is shared based on the agreed sharing ratio (BNM, 2010; Ahmed (2014). But the ratio of the profit to give to an inactive partner (sleeping partner) must not be greater than the proportion of his/her investment to the total amount of capital contribution (Usmani, n.d.). In the case of an inherited business, the heir may agree to retain the ratios they used to share the inherited estate if all things being equal.

Further, Usmani (n.d.) grouped the views of Sunni Schools of Law into three. First, Imam Malik and Imam Shafi'i are of the view that for the *musharakah* to be valid, the profit must be shared according to capital contribution. Second, the opinion of Imam Ahmad is that the *musharakah* is valid even if the profit-sharing ratio is greater or less than the proportion of a partner's capital contribution. Third, the view of Imam Abu Hanifah is that the profit-sharing ratio of a partner could be more than or less than the proportion of the partner's capital contribution provided that such a partner is active. This implies that a sleeping partner's profit-sharing ratio must not be more than the proportion of his investment to the total investment. In addition, it is the view of Taqi Usmani that the share of the profit to be given to a sleeping partner must not exceed the proportion of the capital he contributed to the business (Arshad and Ismail, 2010). In contrast, a loss is expected to be shared based on the capital contribution, as unanimously agreed by Muslim jurists (Ahmed, 2014).

In the case of a family inherited business, it is recommended that heirs could retain their inheritance distribution sharing ratio to share the profit or loss of the business, especially if none of them contributes additional capital to or makes any withdrawal from the business. However, in a situation where there are additional capital contributions or withdrawals, the recommendation is that both profit and loss should be shared according to heirs' capital balances.

Likewise, in the case of *mudarabah* Muslim jurists unanimously agree that the ratio of sharing profits must be predetermined by the mutual agreement of the capital provider and the entrepreneur to avoid future conflicts (Sapuan, 2016; Aswer & Muhamed, 2019). The Shariah has not provided the profit sharing ratio between the capital provider and the manager, rather they are required to agree before the contract is commenced (Usmani, n.d.). Profit is shared between the capital provider and the entrepreneur whereas loss is solely suffered by the capital provider (Ahmed, 2014; BNM, 2015b; Sapuan, 2016). In addition, the manager gets nothing as a reward for the services he renders (Ahmed, 2014).

However, the *mudarib* must be held responsible for any loss sustained as a result of misconduct (*ta`addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*) of the contract BNM, 2015b; Sapuan, 2016).A loss could be absorbed by a non-partner to the *musharakah* (third party) (BNM, 2010).Similarly, contemporary scholars approve a third party guarantee (*al-kafala*) with a view to protecting the investment against negligence and other fraudulent activities not attributable to risks of the market (Sapuan, 2016).

Table 2: Format for the Income Statement

	$	$
Sales		xxxx
Cost of Sales		(xx)
Gross Profit		Xx
Expenses:		
Rent	x	
Salaries and Wages	x	
Electricity Bill	x	
Transport Expenses	x	
Depreciation	x	
Repairs and Maintenance, etc.	x	
		(x)
Net Profit/ (Loss)		xx (xx)
Share of Net Profit / (Loss):		
Adamu	x (x)	
Aisha	x(x)	
Yusuf (*mudarib*)	x	xx(xx)
Net Profit/ (Loss)		xx (xx)

Table 2 shows how the income statement is prepared with a view to finding the profit or loss to share among partners. This format applies to both *musharakah* and *mudarabah* contracts. It is noticeable that Adamu and Aisha, as heirs who become partners to the *musharakah*, enjoy profit and suffer loss as well. However, Yusuf is entitled to profit only, being a *mudarib* to the *mudarabah* contract. In other words, Yusuf is not going to suffer any loss unless he is found guilty of breaching the contract terms or act of negligence.

CONCLUSION

Islamic inheritance entails the distribution of the wealth of a Muslim deceased among his/her heirs after the payment of legacies and liabilities. No matter how much amount of wealth given to each heir if it is not continuously invested, one day it would be completely spent. That could make the heirs become beggars. Hence, there are two major objectives of this study. First, to provide justification for investing inherited wealth to generate income perpetually for heirs to enable them to comfortably earn their living. Second, to provide accounting treatments for the conversion of inherited wealth into a business. The study established Islamic support for the investment of inherited wealth for the perpetual welfare of heirs in either *musharakah* or *mudarabah* by referring to the verses of the Noble Qur'an and the *Sunnah* of the Prophet (SAW). In addition, since there are no Islamic accounting standards developed for Islamic inheritance, the relevant provisions of AAOIFI standards for *musharakah and mudarabah* as well as Bank Negara Shariah standards for *musharakah and mudarabah* were adapted to provide accounting treatments for the transformation of inherited wealth into a business. This study is expected to educate and motivate the Muslim *ummah*, particularly successful businesspersons with their heirs, to put in place all the possible measures at the right time to ensure that inherited businesses do not collapse with their owners. Besides, their inherited wealth other than business is injected into the inherited business or used to start a worthwhile business that would perpetually generate income for them. More so, the relevant regulatory bodies for businesses could use this study by making laws to ban the

unnecessary dissolution of businesses upon their death or sensitize the general public on the benefits of the continuity of inherited businesses to heirs and the general public.

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