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## ACCOUNTING OF MUDHARABAH TRANSACTIONS ACCORDING TO ISLAMIC CONCEPTS

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### Abstract

The aim of this research is to investigate the use of the mudaraba accounting framework in financing models for micro, small and medium enterprises. (MSMEs). The research carried out was a literature review. This study uses a qualitative descriptive model. The use of mudaraba accounting as a financing model for the Microfinance Program (PKM) by Islamic Financial Institutions (LKS) to support micro, small and medium companies (MSMEs). This study uses Statement of Financial Accounting Standards (PSAK) 105: Accounting for Mudaraba as a framework for identification, quantification and representation of PKM transactions using MSMEs. These findings indicate that the financing model for micro, small and medium enterprises (MSMEs) implemented by PKM contributes to increasing the independence of MSMEs in meeting their financial needs for company operations. Support for appropriate accounting practices is very important to increase the reliability of information in Mudaraba LKS-based MSME financial portfolios. Further studies are needed to investigate the actual circumstances surrounding the financing of small and medium enterprises (SMEs) through Limited Liability Company (LKS) structures. This research aims to provide a full understanding of accounting practices related to mudaraba, a financial arrangement based on profit sharing, which functions as a means to support such financing.

**Keywords:** Accounting, Mudaraba, PKM, UMKM

### Abstract

*The objective of this research is to investigate the use of the mudaraba accounting framework in the financing model for Micro, Small, and Medium Enterprises (UMKM). The research conducted is a literature review. This study employs a qualitative descriptive model. The utilization of mudaraba accounting as a funding model for the Microfinance Program (PKM) by Islamic Financial Institutions (LKS) in support of Micro, Small, and Medium Enterprises (UMKM). The present study employed Statement of Financial Accounting Standards (PSAK) 105: Accounting for Mudaraba as a framework for the identification, quantification, and representation of PKM transactions using MSMEs. The findings indicate that the financing model for micro, small, and medium enterprises (UMKM) implemented by the PKM contributes to the enhanced self-sufficiency of MSMEs in fulfilling their financial needs for company operations. The support of suitable accounting practices is crucial for enhancing the reliability of information in LKS's Mudaraba-based finance portfolio for MSMEs. Additional study is necessary to investigate the actual circumstances surrounding the financing of Small and Medium Enterprises (SMEs) through the Limited Liability Company (LKS) structure. This research aims to provide a full understanding of the accounting practices associated with mudaraba, a financial arrangement based on profit sharing, which serves as a means to support such financing.*

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## **INTRODUCTION**

The formation of the ASEAN Economic Community (AEC) in 2015 has facilitated unhindered economic flows in the Southeast Asia region. MEA refers to the Multilateral Economic Agreement, which is a collective agreement between ASEAN member countries aimed at establishing a free trade zone. The main objective of this agreement is to strengthen regional economic competitiveness by positioning ASEAN as a global manufacturing center and promoting the development of a regional market covering approximately 500 million people. According to Wangke (2014:5), in 2015, the focus of the ASEAN Economic Community (AEC) will cover several key areas, which can serve as a profitable boost for Indonesia. Primarily, the AEC aims to develop a region characterized by strong economic growth, with particular emphasis on encouraging the advancement of small and medium-sized enterprises (SMEs). The "UKM" approach refers to the term "National University" Facilitating the access of small and medium enterprises (SME) to current information, market conditions, human resource development, finance and technology will contribute to increasing their competitiveness and dynamism.

Most micro, small and medium enterprises (MSMEs) in Indonesia, which make up the entrepreneurial sector, tend to avoid seeking financial support from banks due to their limited access to credit. These MSME entrepreneurs prefer to do business independently, without involving financial institutions, because the latter often impose strict requirements that are difficult for them to fulfill. The use of Sharia financial institutions that use shared cost financing is considered more appropriate for financing the micro, small and medium (MSME) sector due to the ability to offer greater certainty in determining income distribution ratios. Additionally, this approach avoids the potential burden of interest rates that can fluctuate over time, as is often observed in conventional economic systems. MSME entrepreneurs have high expectations for contracts, considering them as valuable assets that contribute significantly to the success of their ventures.

The aim of developing MSMEs is to achieve economic prosperity for the MSME community, which represents the largest corporate sector in Indonesia. This can be achieved by mobilizing MSMEs through obtaining financial assistance from Shariah financial institutions, using mudharabah schemes, to increase the capacity of these companies. Therefore, it is essential to establish a mudaraba-based financial framework to facilitate partnerships between Sharia-compliant financial institutions and micro, small and medium enterprises (MSMEs). In order to produce relevant financial information, it is essential that the accounting system used supports real pro-sector economics.

## **METHOD**

This research can be categorized as library research, which involves research carried out by documentary means. Book content analysis, historical research, and other related studies. The method used is qualitative descriptive. This research was conducted by adopting accounting in the MSME financing model. Data processing was carried out using exploratory research. This research is exploratory in nature.

## **RESULTS**

### **1. Mudharabah Financing Mechanism in Banking Institutions that Comply with Sharia**

There are several compelling reasons for the importance of financing through mudharabah plans in the context of Sharia-compliant banking institutions:

- a. Under optimal economic conditions, accreditation schemes, combined with PLS schemes, emerge as the most profitable option for implementation, especially in the field of Sharia banking. This system effectively distributes risks between banks and consumers.
- b. What is a serious note behind the successful growth of sharia banks is the proportion of consumer credit which reaches 55 percent of total sharia bank financing to the country.

- c. To increase society's economic efficiency, Sharia banking needs to increase its commitment to increasing the proportion of financing patterns to results.
- d. The location of funds to generate income should be prioritized over other forms of financing, as it has the potential to accelerate economic progress and improve the overall well-being of individuals and society. Usually, the real sector is responsible for providing financial support for profit and loss sharing arrangements in a logical manner. Nevertheless, the numbers show a downward trajectory in the value fraction of mortgage financing. Financing of mortgage schemes has seen a consistent decline over the years. In 2009, the funding rate was 14.07%, which decreased to 7.43% in 2015. In contrast, the proportion of mortgage schemes has shown a relatively stronger trend, with a rate of 56.14% in 2009 and 57.30% in 2015.

2. Sharia Financial Institution Accounting

One fast-growing Sharia-compliant financial company that can serve as a basis for applying Sharia Laws to its goods is Sharia banking. The basic principles of Sharia, which cover activities such as commercial transactions involving sales and purchases, income generation, and rental agreements, have gained significant traction in the field of Sharia-compliant financial products. Sharia-compliant banking has the potential to increase economic prosperity and the overall well-being of individuals. (Alamsyah, 2012: 2) Indicators are: (1) underlying transactions; (2) not speculative in nature; and (3) mechanisms for outcomes. The close relationship between Sharia banking and the real sector can be attributed to the nature of its products. The use of financing in Sharia-compliant financial products has the potential to improve the overall well-being of individuals who are directly involved in the state of society. Recognition, understanding, and implementation of tasks are facilitated by practicality and relevance to the community. Sharia-compliant banking practices do not involve the use of speculative products in commercial transactions. The presence of speculative products, also known as gharar, introduces a significant level of risk to economic sustainability, especially in the financial sector.

Referring to the basic principles of Sharia accounting, which state that the universe was established by a divine entity as a trust and channel for the holistic well-being of humanity, which includes both material and spiritual dimensions (al-falah), it can be concluded that the implementation of Sharia accountability is very likely to facilitate an environment in which accounting practices effectively contribute to the progress of human endeavor towards falah.

Since 2007, there has been a clear separation between the Financial Accounting Standards (FAS) Reports for Shariah companies and the general FAS. The Institute of Indonesian Accountants (IAI), which functions as the authorized body responsible for formulating accounting standards in Indonesia, has issued the 59th Statement of Accounting Standards (SAK) relating to the field of Bank Sharia Accounting, starting in 2002. However, as a transitional SAK towards International Financial Reporting Standards (IFRS), the 59th SAK has been canceled and replaced with Sharia SAK. To facilitate the implementation of Sharia SAK, Bank Indonesia also issued the Indonesian Syariah Bank Accounting Guide (PAPSI) in 2003, with subsequent revisions carried out in 2013. Sharia accounting rules in the global context relate to statements issued by the Accounting and Audit Organization for Financial Institutions Islam (AAOIFI). Implementation of PSAK 105 concerning Mudharabah Accounting can function as a catalyst for the expansion of the Islamic economy, thereby encouraging the development of the real sector. In the field of Islamic economics, profit and loss sharing is proposed as a viable approach to overcome economic disparities arising from the use of interest-based instruments in contemporary economic systems.

The Shariah Financial Institution (LKS) operates under a mudaraba framework, where it takes on the role of Shahibul maal, providing complete capital, while the client/mudharib functions as a manager responsible for day-to-day activities within the company. The term financing refers to the duration of returns and allocation of profits as stipulated in the

contractual agreement. LKS is not involved in client/mudharib or company mudharib administration. LKS offers financial support in the form of monetary resources, with specific amounts clearly indicated. The agreed yield ratio remains constant throughout the life of the investment, unless mutually set by the parties involved, and does not allow for any modification or reversal. To reduce potential risks associated with customers' failure to fulfill their commitments due to dishonest intentions or negligence, LKS may require guarantees or warranties.

### 3. Mudharabah Accounting for Microfinance

The use of Sharia-compliant banking mechanisms as a basis for facilitating the growth of small companies towards independence has the potential to promote prosperity for owners and the wider entrepreneurial community.

LKS introduced the "Microfinance Program (PKM)" as a new offering within the sharia banking framework. Banks then facilitate the provision of short-term financing through PKM, where banks provide the necessary funds to MSMEs, while entrepreneurs contribute their energy and experience. The distribution of financial profits or losses will be shared between the financial institution and the business owner based on pre-determined proportions. In this context, it is generally understood that banks are responsible for any financial losses incurred, while the liability of micro-entrepreneurs is limited to the loss of their time and effort. The contractual agreement between the bank and the entrepreneur is limited due to the bank's commitment to provide financial support for certain business endeavors undertaken by the micro-entrepreneur, and then distribute the profits generated proportionally to the agreed percentage. To initiate financial transactions, it is important for banks to comply with established legal obligations:

- a) Details of the parties to the contract, description of the object, nature of the business to be carried out, period of the contract and all other relevant details including limitations and restrictions must be clearly stated. Partners must ensure that the terms and conditions of the contract are clear, concise and unambiguous, not intentionally misleading in any way that would confuse investment account holders or result in mutual disrespect for each other.
- b) PKM must bear all financial risks and must not require collateral to reduce these risks.
- c) The profit sharing ratio must be determined and agreed upon before implementing the mudaraba. The ratio is just a percentage of profits. Fixed amount payments are not permitted.
- d) The right of SME entrepreneurs to have full control over business management while effective supervision is the right of PKM.

### CONCLUSIONS AND RECOMMENDATIONS

The following conclusions can be drawn from the discussion above:

- a. The financing model for MSMEs using the PKM pattern can help MSMEs become independent in meeting their funding needs to run a business.
- b. The distribution of mudharabah-based financing by LKS to MSMEs needs to be supported by the implementation of appropriate accounting, namely mudharabah accounting, so that the information produced is more reliable.
- c. Further research is needed by looking at cases of MSMEs that have mudharabah financing products to obtain a more comprehensive picture.

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