Conference Paper

Critical Study the Application of the Principle of Profit Sharing in Syirkah Mudharabah and Musyarakah in Islamic Banking

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Abstract

The existence of a syari'ah bank in accordance with shari'ah principles has answered some of the problems of the banking system in accordance with the wishes of the Muslims. In practice, there arose suspicion and dissatisfaction from customers of the Syari'ah Bank which had not fully implemented the Shari'ah principles. The application of accounting to Syari'ah banking institutions currently still faces obstacles caused by internal and external factors. This study aims to find out whether the principle of profit sharing has been applied in the preparation of financial statements as the basis for profit sharing in syirkah mudharabah and musyarakah. The research methods used in this study are qualitative methods with critical theory. The study was conducted on the application of the profit sharing system applied to financing with the Mudharabah and Musyarakah contract in Islamic financial institutions. The results of the research show that the concept of profit sharing that is applied is revenue sharing, the use of revenue sharing method is based on the existence of the principle of conservatism applied in Islamic financial institutions

Keywords: Syari'ah Bank, profit sharing, Quality of Financial Statements, Musyarakah, Mudharabah.

1. Introduction

The establishment of the Syari'ah Bank and the Syari'ah Financial Institution was an attempt to implement Islamic Shari'a in a gradual and partial manner with the intention of overcoming the weaknesses of this ummah in the field of economy and its welfare.

One of the obstacles from Syari'ah Banking is the application of Syari'ah Accounting in accordance with the Syari'ah Accounting Standards. The application of accounting to Syari'ah Banking institutions is still facing obstacles caused by internal and external factors. External factors in the form of syari'ah accounting theory structure are still in
the stages of discourse and regulation of information systems, while internal factors include: 1). Lack of human resources who are shari'ah accounting experts, 2). The principle of profit sharing requires honesty from customers and bank managers, 3). The supervision system of the Syari'ah Supervisory Board is not yet optimal, and 4). Utilization of information technology that has not been optimal. The research results of Suwarno (2005) show that the presentation of Syari'ah Bank Financial Statements in BPR has not been in accordance with the objectives of the financial statements. The purpose of the Financial Report is, among other things, the compliance of Shari'ah banks with shari'ah principles. This is due to internal barriers to Shari'ah banking, including technical expertise that has not been followed by Syari'ah Accounting conceptual abilities.

2. Literature Review

2.1. Islamic banking

There are several definitions of Islamic Banks or Syari'ah Banks, including: Antonio (1992) defines that Islamic banks are banks that operate in accordance with the principles of Islamic Sharia or Banks whose procedures refer to the provisions of the Qur’an and Hadith.

Whereas Azis (2001) defines Islamic Banks as follows:

Islamic Banks (Banks based on Syari’ah Islam) are banking institutions that use systems and operations based on Syari’ah Islam. This means that banking operations follow the business procedures based on the Qur’an and Hadith and not the procedures and business agreements that are not guided by alquran and Sunnah Rosululloh Muhammad SAW.

The General Secretary of the OIC (Organization of the Islamic Conference) defines Islamic Banks as follows:

"An Islamic bank is a financial institution whose status, rules and procedures for expressing its principle of Islamic principles and to the banning of receipts and payments on any of its operations” (Ali & Sarkar-1995)

From these definitions we can find out that Islamic Banks are a banking system that uses Islamic law as the basis of its operations not only banks that do not use the interest system in their operations but are wider than that. Islamic banks use a variety of mechanisms both in fundraising and in channeling funds such as buying and selling, business cooperation and leasing. One of the important things regarding
the relationship between banks and the public in Islamic banks is the relationship of partnership not the relationship between the debtor and the creditor. As stated by Bjorklund (2004,32) "The relationship between the Islamic bank and the client is a partnership and not a debtor-creditor.

Ahmad (2004) has explained from the results of his research in various countries about the differences between Islamic Banks and Conventional Banks (see Table 1)

| Characteristics          | Islamic Banking System                                    | Conventional Banking System                          |
|--------------------------|-----------------------------------------------------------|------------------------------------------------------|
| Guiding principle        | Guided by Quranic edicts, Hadeeth, Islamic ethics and Islamic laws. | Guided by profit motive alone, with no religious or ethical considerations. |
| Ethics of financing      | Financing being asset-backed, and meant for productive use helps reduce the overall debt burden. | Debt burden arising out of excessive use of credit leads to bankruptcies, and waste of financial resources. |
| Liquidation Assets       | An Investment Account Holder will have similar rights as shareholders. | Depositors are paid before the shareholders. |
| Involvement of risk & Equity financing | Equity financing is available to a project or venture that involves profit-and-loss sharing. Risk-sharing and profit sharing go together. | Commercial banks do not usually indulge in equity financing, only venture capital companies and investment banks do. Conventional banks carry much less risk, major part of the risks being transferred to the borrowers. |

According to Chapra (1988) Islamic banks are not only interest-free banking institutions but also an institution that can improve the distribution of income and wealth and increase equity participation in the economy.

2.2. Islamic bank financing products

The types of financing transactions from Islamic banking according to are:

1. Mudharabah, namely business cooperation between Shahibul Maal (capital owner) and Mudarib (fund manager) with a profit sharing ratio according to the agreement in advance.

2. Musyarakah It is a contract of cooperation that occurs between Capital owners (musyarakah partners) to combine capital and conduct business together in a
TABLE 2: Lanjutan.

| Return on Capital                                                                 | Depends on productivity, idle money cannot earn any return. Money is not capital per se, only potential capital. | Even idle money in bank deposits earns returns. |
|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| Prohibition of Gharar (uncertainty)                                              | The existence of uncertainty in a contract is prohibited because it requires the occurrence of an event which may not ultimately occur. “Full disclosure” by both parties is the norm in contracts. Derivatives trading e.g. options are considered as having elements of Gharar. | Trading and dealing in derivatives are widely considered as the main source of liquidity in the conventional financial, commodity and capital markets. |
| Profit and Loss Sharing                                                           | Most transactions are based on this variable returns, dependent on lenders’ performance. Greater share of risks forces them to manage risks more professionally, to ensure better returns than conventional accounts. Depositors & investors have opportunity to earn higher returns than in conventional systems. | There is no relationship between bank performance and returns to the depositors or investors, who mostly enjoy a risk-free return. Conventional institutions mostly act as intermediaries between lenders & borrowers enjoying almost a risk-free spread. |
| Zakat                                                                            | It has become one of the functions of the Islamic banks to collect and distribute Zakat.                      | Government Taxes perhaps serve the same purpose - mode and rate of charging are different, though. |
| Sumber: Ahmad (2004)                                                             |                                                                                                              |                                                   |

partnership, with the profit sharing ratio in accordance with the agreement, while the loss is borne proportionally according to the capital contribution.

3. Murabahah is a contract of sale and purchase of goods by stating the acquisition price and profit agreed upon by the seller (Bank) and Buyer (customer).

4. Salam is a contract of sale and purchase muslam fiih (ordered goods) with suspension of delivery by muslam ilaihi (seller) and repayment is done immediately by the buyer before the ordered goods are received with certain conditions. In this Salam the Bank can act as a buyer or seller. If the bank acts as a seller then orders the other party to supply ordered goods by way of greetings, this is called parallel greetings.
5. Isthisna is a buyer (mashnu’) buying contract (mustashni’) with the recipient of the order (shani) who also acts as a seller. Even though specifications (type, type, size, quality, quantity) and price of ordered goods are agreed at the beginning of the contract with payments made in accordance with the agreement (upfront, installments and backward) and if the bank acts as shani ‘then appoints another party to make goods called parallel istishna.

6. Ijarah is the contract of transfer of usufructuary rights over goods or services, through payment of rent without being followed by transfer of ownership of goods. If it ends with the surrender of ownership called Ijarah Waiqtina or Ijarah Muntahia Bitamlik.

3. Research Methods

This research uses qualitative methods. According to Anis (2011), qualitative research is research carried out in certain settings that exist in real life (natural) with the intention of investigating and understanding phenomena: what happens, why it occurs and how it occurs? Whereas the research approach used is critical theory According to Neuman in Turiman (2011), critical approaches are more aimed at fighting for the ideas of researchers to bring substantial changes to society. Research is no longer producing neutral / impartial and apolitical scientific papers, but rather is a tool to change social institutions, ways of thinking, and people’s behavior in a direction that is believed to be better. Therefore, in this approach a deep understanding of a phenomenon based on the facts of the field needs to be supplemented by analysis and opinions based on the personal circumstances of the researcher, provided that adequate arguments are supported.

4. Results and Discussion

4.1. The concept of profit sharing on Syirkah Mudharabah and Musyarakah in islamic financial institutions

Syirkah is a contract of cooperation between two or more parties, which agrees to conduct a joint business with the aim of gaining profit or profit. Cooperation or Syirkah involving assets or capital with two types of staff or managers, namely Syirkah Mudharabah and Syirkah Inan or Musyarakah. Syirkah mudhârabah is syirkah between two parties provided that one party contributes work (charity), while the other party
contributes property capital (mâl) while Syirkah inân is a collaboration between two or more parties who each contribute work (‘charity) and property capital (mâl).

The distribution of syirkah benefits both syirkah mudharbah or syirkah musyarakah must be based on mutual agreement. They can share it equally (fifty-fifty) and may not be the same. This provision is based on the Hadith Rasululloh SAW from Ali ra. said:

الربح على ما اصطلحوا عليه

Profits are based on their agreement (parties who share) (HR Abdurrazzak, in al-Jami')

So the size of the profit ratio that is part of each syarik, both managers and investors, must be agreed upon. The amount of the profit ratio can be agreed by taking into account the share of each contribution both labor and capital; it can also without regard to it. The amount of profit may not be determined by its nominal value, but only in the form of a ratio or percentage of profit.

While losses are borne by each business partner (sharîk) based on the portion of capital in accordance with the hadith below.

الوضيعة على المال و الربح على ما اصطلحوا عليه

"Losses are based on the amount of capital" (HR. Abdurrazzak)

While losses are borne by each business partner (sharîk) based on the portion of capital. If each capital is 50%, then each of them bears a loss of 50%. The syirkah inan parties may not require losses based on agreement, but must be in accordance with the amount of assets they make as capital in this syirkah.

Based on these provisions, in the Accounting concept, the intended profit is defined as profit after deducting cost of goods sold and operational costs.

4.2. Practice of profit sharing in Syirkah Mudharabah and Musyarakah in islamic financial institutions

Based on the fatwa of the National Sharia Council (DSN) No: 15 / DSN-MUI / IX / 2000 Concerning Principles of Distribution of Business Results in Islamic Financial Institutions, Islamic Financial Institutions are given the freedom to choose an approach that divides the results of operations among parties the form of cooperation may be based on the principle:

1. Profit Sharing, which is profit sharing calculated from income after deducting capital (ra'su al-mal) and costs.

2. Net Revenue Sharing, namely profit sharing calculated from income after deducting capital (ra'su al-mal).
According to the DSN fatwa 2, the methods each have advantages and disadvantages, to see the differences between the two methods and the impact on each company’s income can be seen in the example in Table 3 below:

| Descriptions        | Amount | Method          |
|---------------------|--------|-----------------|
| Sales               | 100    | Revenue Sharing |
| Cost Of Good Sold   | 65     |                 |
| Gross Profit        | 35     |                 |
| Expense:            | 25     |                 |
| Net Profit          | 10     | Profit Sharing  |

Refunds on the basis of the Musharaka contract are carried out in two ways, namely in installments or at the end of the period, in accordance with the financing period. Each time the customer returns the capital to the bank, the level of ownership of the business assets will increase. Conversely, bank ownership of business assets will decrease. If the customer repays all the capital supplied by the bank, the business asset is fully owned by the customer.

The results of research in Islamic financial institutions at point 4.2 show that the practice of profit sharing is not right and optimal in accordance with sharia principles because most of the profit sharing used uses the revenue sharing method. The use of revenue sharing method is based on the existence of the principle of conservatism applied in the accounting of Islamic financial institutions. Yet according to Muhammad Akhyar the principle of conservatism, Historical Cost and materiality are conventional accounting principles that are contrary to Islam.

The results of this study are in accordance with the Theory of Economic of Islam, according to Abdul Hamid Abu Sulaiman in Chapra (Chapra,2000); Only replacing interest-based loans with other forms of interest or only profit sharing fails to offer a real alternative. Therefore, Yaya (2001) argues that an extensive overhaul of conventional accounting is needed to become shari’ah accounting. He holds that conventional accounting failed to achieve socio-economic goals in Islam. The socio-economic goals in Islam are the foundation in every Islamic jurisprudence / rule relating to economic issues because the current economic problems are very complicated while some of them are not regulated directly by the principles of shari’ah.
5. Conclusions, Implications and Limitations

5.1. Conclusions

Based on the problem formulation and analysis of research results, the conclusions in this study can be described as:

1. Distribution of syirkah profits must be based on mutual agreement while borne by investors or in accordance with the portion of capital each. This provision is based on the Hadith Rasululloh SAW from Ali ra. said: Profits are based on their agreement (parties who share) (HR Abdurrazzak, in al-Jami’). Whereas the loss is borne by each business partner (syarîk) based on the portion of capital in accordance with the hadith of Rasululloh SAW: Losses are based on the amount of capital ”(HR. Abdurrazzak)

2. Based on the DSN Fatwa, Islamic Financial Institutions are given the freedom to choose the Profit Sharing approach, namely profit sharing calculated from after-capital income (ra’su al-mal) and costs and the Profit Sharing Principle (Net Revenue Sharing), namely profit sharing calculated from income after deducting capital (ra’su al-mal).

3. The practice of profit sharing has not been right and optimal in accordance with sharia principles because most of the profit sharing used uses the revenue sharing method. The use of revenue sharing method is based on the principle of conservatism and this still contradicts Islamic Shari’a because profit divided is not actual profit

5.2. Implications and limitations of research

This research can contribute to the development of a study of the application of sharia accounting within Islamic Financial Institutions appropriately so as to produce economic actors who cling to the application of Islamic principles and sharia to an economic transaction so that justice is realized. This study has a variety of limitations including the number of respondents who are still few and very simple research methods.

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