

## The Need For Sharia Accounting On Sharia Business Institutions

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**Abstract:** Islam as a religion has been placed as an option and also its teachings are used as guidelines in the lives of human beings who embrace it. So that its existence has provided direction in the development of human civilization, especially in the fields of science and technology. The rise of thoughts, discussions and studies on Islamic economics, has had a major influence on the growth of sharia-based business systems in general and Islamic financial institutions in particular. The existence of such a system has been widely experimented with in several countries, such as: Iran, Pakistan and Sudan, as well as Malaysia, and recently Indonesia.

**Keywords:** Mention only specific concepts [word or phrase], 3-5 concepts, truly conceptual words, and not too general ones.

### 1. Introduction

Islam is an open religion, which always gives freedom to its people to think ahead, in order to achieve a better level of civilization and progress. Greetings, an American professor wrote in a book which reads: "...the introduction of Arabic Numerical greatly facilitated the growth of accounting". This statement shows that Islam which was born in the Arab region has contributed a lot to the development of the world of science and technology, even though it is only a number notation known as Arabic numerals, such as the numbers 1, 2, 3, and so on that we know today. These numbers are very important for the operational activities of

human life, such as accounting activities. Islamic accounting has been born since time immemorial. Perhaps until now, we have not understood, that there are historical record of science that has been overlooked in the minds of Muslim scholars. That is where the origin of double entry bookkeeping which is now used among companies and accounting workers. Where in Vernon Kam's view, that double entry bookkeeping appeared in Italy around the 13th century. The oldest and most extant records we have of double entry bookkeeping date back to the last years of the 13th century. Where double entry bookkeeping had been used several years before and was strengthened by Shehata's

statement, namely: "a cursory study of Islamic history states that accounting in Islam is not a new art and science", it can actually be seen from the first Islamic civilization which already had "Baitul Mall" which is a financial institution that functions as the "State Treasurer" and ensures social welfare. The Muslim community since then has had a type of accounting called "Kitabat al-Amwal" (Money Recording). On the other hand, the term accounting has been mentioned in several Muslim writings. This writing appeared long before double entry was invented by Lucas Pacioli in Italy in 1494. There are several reasons and factors for the birth of double entry in the 15th century. This factor is because the presentation in the previous period was not as complete as it was at that time. Littleton admits that double entry came to the fore because at that time the requirements could be met, namely: requirements related to "material" and "language" issues. Material requirements include personal, capital, trade, and credit. While the language requirements, related to writing, money, and calculations. Although these two requirements have been met properly, they cannot guarantee the acceleration of double entry growth at that time. It can even be said that double entry has failed to become important in its time. This is because the required "energy and entity" is still lacking. The factors that cause the acceleration of accounting developments to date include: The initial motivation that forces someone to get big profits. With the

existence of profit, it is necessary to record, group, and summarize in a systematic way and in monetary terms of transactions and events of a financial nature and explain the results. Entrepreneur's recognition of the importance of social aspects related to profit maximization issues. In this case, company leaders must make decisions that protect balance between the wishes of the company, employees, customers, suppliers, and the general public. Business is carried out with the role of achieving profit as a means to achieve a goal, not the end of a goal. Thus, accounting will provide information that is potentially useful for making economic decisions and if it is provided will provide an extension of social welfare.

Acceleration of accounting growth does not always provide a straight path. This happens because there are assumptions related to accounting itself. The notion of accounting as a value-free science and practice at the end of the 1970s has begun to be shaken. This kind of situation is getting stronger because of the tendency of people's behavior to be carried away by the flow of the information age and globalization. The main characteristic of the information age and globalization is the tendency to harmonize something. Then since the 1980s, there began to be strong attention from accounting researchers in an effort to understand accounting in a broader sense. The above understanding shows that accounting looks like a technology that looks concrete, tangible and free from the values of the society in

which it is practiced. But in the end there was a change to the existence of accounting. Finally, accounting is no longer seen as a static finished product of a society, but rather as a product that changes over time depending on the environment in which it lives and is practiced. As Tricker emphatically states, "(forms) of accounting actually depend on the ideology and morals of society. Accounting is not value free. Accountancy

is a child of culture (society). This view clearly has implications for contemporary accounting studies." Islam as an ideology, society and teachings, of course, is very full of values. Thus, the accounting building that applies in Islamic society must of course adapt to the characteristics of Islam itself. Islamic teachings expressly show, as stated in the Qur'an Surah Al-Baqarah verse 282. This verse can be interpreted in the context of accounting, mainly related to theory and organization. Accounting according to Islam has a form that is full of values of justice, truth and responsibility. Because accounting information has the power to influence the thinking, decision making, and actions taken by a person.

## 2. Theoretical Framework

Accounting If we look at Surah Al-Baqarah verse 282, Allah commands us to write correctly all transactions that have occurred during muamalah. From the results of the writing can be used as information to determine what will

be done by someone. In connection with this several definitions of accounting can be presented here, including: Littleton defines, the main purpose of accounting is to carry out periodic calculations between costs (effort) and results (achievement). This concept is the core of accounting theory and is a measure that is used as a reference in studying accounting. APB (Accounting Principle Board)

statement No. 4 defines as follows "accounting is a service activity. Its function is to provide quantitative information, generally in monetary terms, about an economic entity that is intended to be used in making economic decisions, which is used in choosing among several alternatives." AICPA (American Institute of Certified Public Accountants) defines it as follows: "Accounting is the art of recording, classifying, and summarizing in a certain way and in monetary terms, transactions and events which are generally financial in nature, and including interpreting the results thereof."

In the book A Statement of Basic Accounting Theory it is stated that accounting is "the process of identifying, measuring, and conveying economic information as information material in terms of considerations in drawing conclusions by its users."

In this case, it is not conveyed about the meaning of sharia accounting because the most important thing is whether in the accounting process there are implications for the values contained in the verses of the Qur'an.

## General Principles of Sharia Accounting

The values of responsibility, justice and truth are always inherent in the sharia accounting system. These three values, of course, have become universal basic principles in sharia accounting operations. The meanings contained in the three sharia accounting principles are:

1. The principle of accountability (accountability). Accountability is always related to the concept of trust which is the result of human transactions with the Khaliq starting from the womb. The implication in business and accounting is that individuals involved in business practices must always be held accountable for what has been mandated and what has been done to the parties concerned. The form of accountability is usually in the form of financial statements.
2. The principle of justice. The principle of justice is not only a very important value in the ethics of social and business life, but is also a value that is inherent in human nature. This means that humans basically have the capacity and energy to do justice in every aspect of life. In the context of accounting, affirming the word Fair in paragraph 282 of Surat Al-Baqarah, can simply mean that every transaction made by the company is recorded correctly. Thus, the word justice in the context of accounting applications contains two meanings, namely: First, it is related to moral practice, namely

honesty, which is the dominant factor. Without this honesty, the accounting information presented will be misleading and detrimental to the public. Second, the word fair is more fundamental (and remains grounded in ethical/sharia and moral values).

3. The principle of truth. This principle of truth cannot be separated from the principle of justice. In accounting we will always be faced with problems of recognition, measurement and reporting. This activity will be carried out well if it is based on the truth value. This truth will create justice in recognizing, measuring and reporting economic transactions.

## 3. Discussion

Based on the urgency and usefulness of this research, rational efforts to determine the truth of the nature and existence of accounting need to be investigated with appropriate research methods. The accuracy of the research method will be reflected in the stages of research that are passed. This approach was written to find the rationality and truth of the nature, knowledge and practice of accounting, so a critical theory study will be used, the implementation of which is carried out in two stages, namely:

- a. Descriptive Stage The descriptive stage is the stage of presenting data based on changes that occur in society. This stage is also the stage to know the nature of something. This approach is intended to find the essence of terms

in expressing accounting concepts in the Qur'an objectively. A business entity or organization or institution that aims to seek profit or non-profit (non-profit) requires information for the decision-making process and company development. This is where accounting plays a role. Accounting is an integral part of a management task force in achieving its goals. Accounting will provide management with much needed information in carrying out its functions, namely planning, organizing, directing and supervising. These functions are phenomena that will become scientific studies, especially those related to education essence from the point of view of Islamic sharia.

b. Evaluative Stage The method used in the evaluative stage is a rational critical analytic method. This method is applied considering that at this stage an attempt is made to compare the concept of western accounting with the concept of Islamic accounting. Just as in an effort to study or build social theory, including accounting theory, analytical, critical and rational thinking processes are highly demanded. In accounting research, the critical approach is one of the suggested approaches to be applied. In connection with the development of a new economic system, namely the Islamic economic system, of course this condition demands the relevance of all accounting instruments, models, systems and paradigms. In other words, this condition must be accompanied by the emergence of openness and awareness of scientists to discover

and develop new knowledge in accordance with existing disciplines. Through a critical theory approach, we will see that a theory does not only lie in efforts placing ideology as a form of thought but will also try to examine how social conditions, such as the accounting system developed by the capitalists, fulfill the satisfaction of life needs, and freedom from the social conditions of vulnerable people. Based on the description above, through this critical theory approach, you will be able to find a rational framework for the nature and application of accounting theory that is more in line with the local Islamic culture which is full of values.

A. Economic Development in Islamic Perspective Islam is a religion that teaches its people to always work, be optimistic, creative, dynamic and innovative. This teaching is intended so that Muslims can always adapt to the acceleration of developments that occur in society. With these teachings, Islam has become a religion that has dynamic power in this modern world. In relation to the development of the Islamic economy, the fundamental problem that arises is the relationship with the future steps of Islamic economic development. The results of economic development are usually manifested in the form of products that should be owned by citizens and distributed fairly. So that there are two main concepts in the framework of the Islamic economic system, namely the framework of ownership and

justice. Ownership and equity in economic development can truly be realized if there is no accumulation of capital and centralization of power. This will also lead to the concept of Islamic economic ethics. The process of building a new system based on Islamic economic ethics, must be carried out in accordance with Islamic rules. Development efforts so far are still separated from the breath of Islam. Although the breath of Islam is displayed, at best what is depicted is one of the following two forms: a. Some care only about seeking legitimacy for the policies that have been taken.

Others use it as a point of reference for criticizing policies and development. Such is the description of the dynamics of the Muslim community in carrying out community development in general and economic development in particular. All of this is done in order to find a format for development and community journeys that are in accordance with the rules of the Qur'an and As-Sunnah.

B. Urgency of Sharia Business (Financial) Institutions Islamic business institutions (Sharia) are one of the instruments used to enforce Islamic economic rules. Actually, sharia business is not only related to the prohibition of related business, such as problems with alcohol, pornography, gambling, and other activities that according to Islamic views are immoral and

anti-social. However, sharia business is shown to make a positive contribution to the achievement of the socio-economic goals of a better society. Sharia business is run to create a good business climate and free from fraudulent practices. Sharia-based business in this country is starting to appear to grow. This growth was evident in the financial sector. Where we have recorded three Islamic commercial banks, 78 Sharia BPRs and more than 2000 units of Baitul Mal wa Tamwil. This institution has managed millions and even billions of rupiah in public funds in accordance with sharia principles. This principle is very different from the principles adopted by non-sharia financial institutions. The principles referred to are:

1. prohibition of applying interest on all forms and types of transactions;
2. Carrying out business and trading activities based on fairness and halal profits
3. Issuing zakat from the results of its activities
4. Prohibition of running a monopoly;
5. Cooperating in building the community, through business and trade activities that are not prohibited by Islam.

C. Islamic Bank Products In accordance with the functions and types of funds that can be managed by Islamic Banks which developed the concept of interest-free, subsequently gave birth to various types of products for

collecting and distributing funds by Islamic Banks. As a brief description of the Islamic Bank's products, it can be described as follows:

#### 1. Islamic Bank Funding Products

Savings or savings services in the form of deposits or savings held are forms of deposits or savings that are bound and not bound by a certain period of time and conditions for participation and withdrawal.

The contracts that underlie the validity of deposits in Islamic Banks are:

- a. Wadiah Deposits are deposited funds that can be withdrawn by the owner or member at any time by issuing a kind of book-entry securities or transfers and other payment orders. There are two types of deposits with wadiah contracts, namely: Wadiah Amanah and Wadiah Yadhomanah.
- b. Mudharabah Savings are deposits or savings of the owner of the funds whose deposits and withdrawals can be made in accordance with a pre-agreed agreement. In addition to the two types of savings or savings, Islamic Banks also manage worship funds such as Zakat, Infaq and Shodaqoh (ZIS), which in this case Islamic Banks can function as amil.

#### 2. Funding Products

Islamic banks are not just financial institutions that are social in nature.

However, Islamic Banks are also business institutions in order to improve the economy of the ummah.

Accordingly, the funds collected from the community must be channeled in the form of loans to people in need. The loan in question is commonly referred to as financing.

Financing is a facility provided by an Islamic Bank to people who need it to use the funds that have been collected by the Islamic Bank from people who have a surplus of funds.

There are various types of financing developed by Islamic Banks, all of which refer to two types of contracts, namely: Syarikah Contracts and Sale and Purchase Contracts.

These two contracts were developed according to the needs desired by Islamic banks and customers. Among the financing that has been commonly developed by Islamic banks and other Islamic financial institutions are:

- a. Bai'u Bithaman Ajil (BBA) Financing. Sale and purchase

contract financing is a financing agreement agreed between an Islamic Bank and a customer, in which the Islamic Bank provides funds for an investment and/or purchase of capital goods and businesses of its members, which is then processed in installments or installments. The amount of obligations that must be paid by the borrower is the price of capital goods and mark-ups agreed.

b. Murabaha Financing (MBA). In buying and selling contract financing, murabahah financing is basically an agreement between an Islamic Bank as a provider of capital and a customer as a borrower. Where the return process is paid at the due date of the return.

c. Mudharabah Financing (MDA). Financing by syirkah contract is a financing agreement between an Islamic Bank and a customer in which the Islamic Bank provides funds for the provision of working capital while the borrower attempts to manage the funds for business development.

d. Musharaka Financing (MSA). Financing with a syirkah contract is the participation of an Islamic Bank as the owner of capital in a business in which the risks and profits are shared in a balanced manner with the portion of the investment. e. Al-Qordhul Hasan (QH) financing. Financing by contract of worship is a financing agreement between an Islamic Bank and a customer. Through the products produced by Islamic Banks in the form of fund collection products and distribution of funds, they can be operated in accordance with true Islamic sharia, so as to be able to deliver to Allah's pleasure alone.

D. Islamic Accounting in Islamic Financial Institutions As previously described, changes in society have brought about quite basic changes to the accounting organization. Therefore, it is undeniable that the presence of Islamic financial institutions in particular and the Islamic business system (based on sharia) will certainly influence and determine



accounting organization to be used. This arises, because the characteristics of Islamic society demand different aspects from what happens and applies in capitalist society. This also means that the accounting system that applies in the Islamic financial institution system is clearly different from the accounting system that applies to the conventional financial institution system.

The purpose of accounting information in Islamic financial institutions arises for two reasons, namely:

1. Islamic financial institutions are run under a sharia framework, as a result of the different nature of transactions from conventional financial institutions;
2. Users of accounting information in Islamic financial institutions are different from users of accounting information in conventional financial institutions.

In connection with the above, it can be described as follows:

1. Users of accounting information.  
The main users of accounting

information in the Islamic financial institution system include:

- a. Shareholder
  - b. Depositors
  - c. Unrestricted investment account holders
  - d. Restricted investment account holders
  - e. Entrepreneurs, companies or agencies related to banks;
  - f. Sharia Supervisory Board
  - g. Government agencies, Central Banks, Minister of Finance, Zakat Administration/Management Agency;
  - h. Wide community
  - i. Non-Muslim Observer
  - j. Researchers;
  - k. Employees of the institution concerned.
2. Information needed by users, including:
    - a. Information that can assist in assessing the implementation of bank operations with written rules and sharia principles;
    - b. Information that can assist in assessing the institution's ability to maintain assets, maintain liquidity, and increase profits;

c. Information on the institution's initiatives on its responsibilities towards workers, customers, communities and the environment; and

d. Information that can assist in management accountability.

Case Example: Between Conservative Accounting, Sarbanes Oxley, and Sharia Accounting From today's lecture discussion on Sharia Accounting, I could not conclude it better except with the following illustration. For example, you are an accountant for a multinational company that sells its products only in cash transactions, all assets are purchased without debt, just don't use interest or usury so that the illustration makes sense. There are 3 shareholders of the company, one European (Anglo-Saxon), one American, and one Arab. The company wants to submit a proposal for additional working capital to the three investors so that they will find their fortune more intense. So you as an accountant prepare financial statements for the attachment of the proposal to each investor. The first time, you fly to Europe to submit a proposal plus financial statements to investors from Europe. "I want to know, what have I used my money for all this time? Isn't it healthy for you to work hard," said the European Caucasian. "I ask for financial ratios, starting from RoI, RoA to RoIC, RoNA, all of which you show me, okay?", he said. As an accountant who graduated from

STAN who studied Financial Management and Accounting from the west, you quickly compile all financial reports on a conservative accounting basis. After being shown to the European investor, he immediately smiled and said, "Good.. good.. you people have worked well.. You are the one I give additional funds so that the fortune will be more joss...". Have a successful visit to Europe, the additional funds from the European Caucasians will be disbursed in the not too distant future. The next day you fly to New York to meet the second investor. Arriving there, you immediately show the proposal for additional funds and financial statements that you compiled for European Caucasians yesterday. "Hmm.. it's great that you have a performance! But unfortunately, I'm still not sure about the internal control in your company. I want an internal control report that is compliant with Sarbox!", responded the American foreigner. Luckily I learned Sarbox at D IV STAN, you thought. Finally, an internal control report that meets the requirements of the Sarbox standard is prepared, then submitted to American foreign investors. "Quite good!" said the Caucasian, "Your control is ok! I want to increase capital..". With a smiling face of success, you go home with additional working capital pocketing again. On the third day, on a corporate jet, you head to Saudi Arabia to meet the wealthy sheikh who holds the largest stake in your company. After having ahlan-wasahlan with the host, you can

confidently issue a proposal for additional funds, reports

financial statements (along with their ratio analysis), and internal control reports. "Hmm.. so my money has been managed well so far... Internal control is also good. But I want to ask you, is this business lawful yet?", the sheikh without further ado asked for clarification. Wow this pegimane .. you think. Because you have been trained not to run out of your mind, you immediately order your subordinates to prepare financial statements based on sharia accounting, all accrued income is cut down after being cash-based. All

contracts are attached to show that there is no violation of the Shari'a. All these reports were presented before the Sheikh of the Oil King. "Thoyyib.. thoyyib.. If this is the case, I want to make more money for you..."

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