CHAPTER 2

THEORETICAL REVIEW

2.1 Islamic economic

Islamic economics is the study of the economic behavior of humans whose behavior is regulated based on Islamic religious rules and is based on tauhid as summarized in the pillars of faith and pillars of Islam (At Tariqi, 2004). Economics is a matter of guaranteeing the rotation of assets among humans, so that humans can maximize their life functions as servants of God to reach falah in the world and hereafter. Economics is a collective activity.

Islamic economic system is an economic system based on the teachings and values of Islam, sourced from the Al Quran, Sunnah, ijma and qiyas (Afif, 2003). This has been stated in the letter al maidah verse 3. The Islamic economic system is different from the capitalist and socialist economic systems, Islamic economic systems have the characteristics of both the socialist and capitalist economic systems, but regardless of their bad nature. The Islamic economic system is a system that is not born of human reason, but a system based on Islamic teachings originating from al-quran and hadith developed by human thought that meets the requirements and experts in their fields. Islamic economic system has a fundamental difference with other economic systems, wherein the Islamic economic system there is a moral value and the value of worship in every activity.

Islamic economics combines personal interests and the benefit of society in the form of a mutually balanced Islamic economy with a middle position between the individualist (capitalist) stream that sees individual ownership rights as absolute and must not be intervened by anyone and the socialist (communist) streams of individual rights and changing them become joint ownership by placing it under the domination of the state (At-Tariqi, 2004). Among the proofs of the mid nature and balance of Islamic economics include the middle position given to the state to intervene in the economic field. The capitalist flow does not tolerate the state to intervene in economic activities, while the socialist school sees the need for state domination to intervene in these activities with the aim of eliminating private ownership. Islam also strengthens the position of individuals and their rights in ownership that grows out of feelings of social responsibility. Islam builds individual relations with society through a picture of concrete balance, which is as much above all individual and state power, namely the authority of the rule of God. This rule provides tolerance and freedom in creating useful rules, but remains in the corridor of the interests of society and its universal rights.

2.1.1 Islamic Economic Characteristic

The economic characteristics of s haria taught by the Messenger of Allāh bahwa explained that all forms of property possessed by humans in their nature belong to Allah alone and that humans were created to become caliphs. Allah has made humans as caliphs (rulers) in the world. Therefore, let humans discuss how to do about wealth in this world. In terms of consumption, Islam forbids excessive life, too lives luxury and behaves arrogantly and always issues assets according to needs and not desires (Afif, 2003).

Islamic economic characteristics are also bound by aqidah, Sharia (Law), and Moral. Evidence of economic and moral relations in Islam, namely the prohibition against owners in the use of property which can cause losses to other people's property or community interests. Words of the Prophet "May do not harm yourself and others" (Narrated by Ahmad) Prohibition of fraudulent transactions, confirmed in the Word of the Prophet that confirms those who cheat us are not among us / the group of believers. Prohibition of hoarding gold, silver or other monetary facilities so as to prevent the circulation of money and hamper its function in expanding the production field (Abdullah, 2004). The balance between spirituality and material is also a characteristic of Islamic economics. What humans do today is to reach the goal of the hereafter. Islam also gives freedom for each individual to carry out economic activities but certainly does not contradict the rules of the Qur'an and the Sunnah.

One important pillar in Islamic economics is zakat. Zakat is a special characteristic that is not found in any other economic system, its use is very effective in distributing wealth in the community. Zakat is the basic principle to uphold Islamic social structures. Zakat is not an ordinary charity or charity, it is an obligatory charity. Every Muslim who fulfills certain conditions, based on the argument: Surat at-Tawbah 103 which means: "Take zakat from some of their property, with that zakat you cleanse and purify them and pray for them. Verily your prayer will be for them. And Allah is Hearer and Knower.

In Islam one of the things that Allah strongly forbids is usury (interest). Usury is one of the misappropriations of money from their fields. As reflected in surah al-baqarah verse 275 which means "People who eat (take) usury cannot stand but like the establishment of people who are possessed of satans because of (pressure) madness. Such a situation is because they say (arguing), actually buying and selling is the same as usury, even though Allah has justified buying and selling and prohibiting usury. Those who have reached him a ban from his Lord, then continue to stop (from taking usury), then for him what he has taken before (before the prohibition comes); and his business (up to God). The person who returns (takes usury), then that person is the inhabitants of hell; they are eternal in it. "The prohibition of usury in Islam aims to foster an economic building that stipulates that capital cannot work on its own, and that there is no profit for capital without work and no risk of self-placement. Therefore Islam expressly declares war on usury and Muslims must leave it.

The Islamic economic system has several advantages which are reflected in several characteristics. The initial source in Islamic economics is different from other economic system sources because it is an obligation of Allah. Islamic economics is produced from religion, Allah and binds all humans without exception. This system covers all universal and particular aspects and life in one form. In a position as a foundation, the Islamic economy does not change, what changes is only the branch and its particular part, but not in the main and universal side (Sudarsono, 2002). While other economic systems, such as capitalists and socialists, have no law and foundation that can direct individuals and society. In these systems, halal-haram terminology does not exist. Therefore, this system will exploit the use of resources and wealth without rules and limitations (Afif, 2002).

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A sufficient and just economy is one of the characteristics of an Islamic economy (Afif, 2002). The Islamic economy has the advantage of making humans the focus of attention. Humans are positioned as substitutes for Allah on earth to prosper and not only to exploit the wealth and use it alone. This economy is shown to fulfill and fulfill human needs. This is different from capitalist and socialist economies where the focus of attention is wealth. Islam has obliged the state to provide guarantees to all members of society in the form of guarantees of basic needs for all Islamic citizens.

2.2 Islamic Financial Institutions

Islamic Financial Institutions or more popularly known as Shari'ah Financial Institutions are financial institutions whose operating principles are based on the principles of the Islamic Shari'ah. In its operations, Islamic financial institutions must avoid usury, gharar and maisir (Muhammad, 2006). The main purpose of establishing an Islamic financial institution is to fulfill Allah's commands in the field of economy and muamalah and free the Islamic community from activities that are prohibited by Islam. To carry out this task and resolve the problem that traps Muslims today, it is not only the duty of someone or an institution, but it is the duty and obligation of every Muslim. Applying Islamic principles in the economy and society is very necessary to treat diseases in the economic and social world faced by society.

The Government refined Law No.7 / 1992 by issuing Law No. 10 of 1998. Law No.10 provides the widest opportunity for the establishment of Islamic financial institutions. Even in this Law Islamic Financial Institutions occupy positions and positions that are equal to their existing partners. Latifa (2001) stated that, in its operational process, Islamic Financial Institutions must have the following characteristics:

1. Justice, which is sharing profits on the basis of real sales according to the contributions and risks of each party

2. Partnership, which means the position of investor customers (depositors), and users of funds, as well as financial institutions themselves, are equal as business partners who work together to gain profit.

3. Transparency, Islamic financial institutions will provide financial reports openly and continuously so that investor customers can find out the condition of their funds.

4. Universal, which means not distinguishing ethnicity, religion, race, and class in society according to Islamic principles as rahmatan lil alamin.

Islamic Financing is the process of allocating funds provided by Islamic financial institutions either conventional or sharia to help provide funding and capital support based on agreements and agreements between 2 parties in accordance with a predetermined time. Financing in a sharia financial institution is certainly different from financing a conventional financial institution, because in a given sharia financial institution the financing must have a clear purpose and direction and the customer must be carefully monitored so that the use of the funds provided can be in line with the intended use, and can be accounted for and in accordance with the agreement at the time of the contract between 2 parties involved in the process, namely the party giving the capital and the customer as a business actor.

2.2.1 The principle of implementation in Islamic financial institutions

Islamic financial institutions are expected to be a place for citizens to conduct financial transactions based on the teachings of Islam and in accordance with the Prophet's Shariah. In this case, Islamic financial institutions must have principles and characteristics that are in accordance with Islamic rules. Based on Marvin, Lativa (2001) the Islamic rules in financial institutions are:

1. Prohibition of Riba

Riba is something that is highly forbidden in religion and Islamic Shari'a, because it can cause harm to customers, therefore Islamic institutions are expected to avoid all things that are related and can lead to riba.

2. Tijarah principle

In the principle of tijarah, seeking profit is something that is justified in Islamic sharia. To achieve this, sharia financial institutions must have a fair, transparent and professional management to reach the goal more effectively

3. The principle of preventing hoarding of money

In this principle, hoarding of money must be avoided by Islamic institutions so that later the community can feel the immediate benefits obtained from the existence of sharia institutions to maintain economic stability

4. Principles help each other

The principle of mutual help or ta'awun is very necessary because it is among fellow human beings, because by helping each other we can improve the quality and welfare of life through economic cooperation.

5. Principle of paying zakat

On the principle of zakat payment, sharia financial institutions also have the aim of raising funds from the community or as social institutions. Islamic financial institutions can collect funds from internal and external sources or have functioed as amil zakat institutions.

2.3 Mudharaba

Mudharabah comes from the word dharb which means to hit or walk. In the field of Islamic economics, the notion of hitting or walking more precisely is the process of a person banging his feet in running his business mudaraba is a contract of business between two parties where the first party /owner of funds to provide all funds, while the second party/fund manager acts as the manager, business is divided among them according to the agreement while the financial loss is only paid by the fund manager (Suwiknyo, 2009). Mudharabah is a form of limited partnership and defines it as a partnership contract based on the principle of profit-sharing by way of giving one's capital to other parties to do business and both parties dividing profits or bearing the burden of losses based on the contents of the collective agreement. In other words, mudharabah is a partnership between capital owners and capital managers who have business capabilities and manage the distribution of profits determined according to the percentage they agree on, while all losses are borne by the capital owner. The capital manager is not subject to a burden for losses because the loss is the loss of profits from the services he does in the form of wages he should have earned (Neneng, 2015).

The scholars stated that if there is a loss in the mudharabah contract, then the loss is borne entirely by the capital owner. Antonio (2001) explains that in the mudharabah financing process the amount of capital handed over to customers who will manage capital, the capital must be given in cash in the form of money, if the delivery is done in stages, there must be prior agreement regarding the mechanism between Shohibul Maal and Mudarib. Mudharabah capital management can be calculated with the principle of revenue sharing, gross profit, and profit sharing. The capital provider also has the right to supervise business activities carried out by the customer but may not be involved in the business activities carried out by the customer, and the distribution of business profits is shared according to the agreement and agreement in the contract. The provider or capital owner must bear all losses from the customer's business activities except if there is fraud and fraud committed by the customer as the manager and executor of business activities.

2.3. Nature of mudharabah according to islam

In muamalah fiqh, mudharabah terminology is expressed by the ulama of the school, which is as follows: according to the Hanafi school, mudharabah is a form of agreement in conducting cooperation to obtain profits with capital from one party and work (business) from another party. Meanwhile, according to the Maliki school, mudharabah is the transfer of money upfront by the owner of the capital in the amount of money determined to a person who will run the business with that money accompanied by a portion of the profits from his business. According to the Shafi'i School, the definition of mudharabah is that the capital owner hands over an amount of money to the entrepreneur to run in a commercial business with the profits being the joint property of the two. Meanwhile, according to the Hambali school, mudharabah is the surrender of goods or the like in clear and certain amounts to the person who commits them by obtaining a certain portion of his profits (Muhammad, 2004). In addition to the four schools above, another opinion regarding mudaraba was also expressed by Ibn Rusyd.

Sayyid Sabiq and Abdurrahaman Al-Jaziri. According to Ibn Rushd in the book "Bidayat al-Mujtahid wa Nihayat al-Muqtashid", Ibn Rushd equated the term mudaraba with qiradh or muqaradhah, these three terms have the same meaning as the partnership of capital and business. In the book Ibn Rushd did not discuss too much about the definition of mudaraba because it had been fully discussed by other scholars, especially the Imam of the school. According to Sabiq (2008), mudaraba is a contract between the two parties in which one of the parties. spend some money to other parties to trade, and profit divided in half as agreed. Whereas Abdurrahman Al-Jaziri defines mudharabah as a contract between two people which contains an agreement that one of them will provide productive business capital, and business profits will be given in part to the owner of a certain amount of capital in accordance with a mutually agreed agreement.

The related verse about mudaraba. The verse about mudaraba law in Islam are al muzammil verse 20 :

Surely your Lord knows that you stand (praying) for less than two-thirds of a night, or one-tenth of a night or a third and (likewise) a group of those who are with you. And God sets the size of night and day. God knows that you cannot determine the limits of time, so He gives you relief, so read what is easy (for you) from the Qur'an. He knows that there will be among you those who are sick and those who walk on the earth looking for some of the gifts of God and other people are fighting in the way of Allah, so read what is easy (for you) from the Qur'an and establish prayer, raise zakat and give a loan to God a good loan. And whatever good you do for yourself, you will get (reply) to Allah in return for the best and the greatest reward. And ask forgiveness from Allah; surely Allah is Forgiving, Most Merciful. " this verse means that Allah provides relief and alternative substitutes for Salat al-Lail which is not able to be done perfectly. Sweat pouring from hard work, a tired brain after being squeezed, no less the value of worship from standing, bowing and prostration before Mihrab. As jihad and likened to the Koran with warfare in terms of God's permission for those who do it not to perform the al-Lail prayer, such trade is only accompanied by a pure soul while avoiding all immoral behavior such as deception, cruelty, usury lies , and others.

Prophet Muhammad's also said in Hadith, narrated by Thabrani, which means:

Abbas bin Abdul-Muttalib if he surrendered property as mudharabah, he prescribed to mudharib so as not to sail the ocean and not go down the valley, and do not buy livestock. If the requirement is violated, he (mudarib) must bear the risk. When the conditions set by Abbas were heard by the Messenger of Allah, he justified them "(HR.Thabrani from Ibn Abbas). Basically, all forms of muamalah may be done unless there is an argument that forbids it". This principle of fiqh proposal explains that the law of a requirement depends on the main legal case, if the legal origin of a case is prohibited then the law of origin stipulates the conditions also prohibited and vice versa. In muamalah cases, the original law is permissible unless there is an argument which prohibits, then a person is not permitted to prohibit a condition agreed upon in the muamalah contract unless there is an argument which shows a prohibition on these conditions. The law of ijma 'on the mudharabah contract according to Zuhayli (2007) explained that the companions gave (to someone as mudharib) the orphans' property as mudharabah and no one denied them. Ijma 'is included in the type of ijma' sukuti, because the friends are silent or express their opinions and no one denies, so that it can be seen as ijma 'which can be used as a basis for establishing a law. Whereas qiyas law in mudharabah contract is analogous to Al-Musaqat contract, where some of the parties have sufficient capital but do not have the required expertise or competence, and on the other hand have good expertise or competence but do not have adequate capital to manage a business (Zuhayli, 2007) Thus, through this agreement will bridge the parties who have the capital and expertise to cooperate with each other according to ability, so they can meet their needs in accordance with the values and principles of sharia revealed by Allah SWT.

2.3.2 Rules and Type of Mudharabah

Mudharabah financing has provisions that must be complied with by mudharabah service providers and their customers. Some rules that must be obeyed and implemented in the mudaraba process based on fatwa DSN MUI No. 07/DSN-MUI/IV/2000. There are some rules in mudharabah financing systems. The rules are:

a. Distribution of mudharabah financing is carried out through Islamic financial institutions to a party to help implement and increase the productivity of business activities

b. Islamic financial institutions finance 100% of business needs and customers or mudarib are as executors of business activities

c. The return process, type of business, and determination of the profit sharing process are based on an agreement between the two parties.

d. The amount of funding must be clearly stated in cash

e. Mudharib or customers carry out business activities in accordance with a mutual agreement with sharia financial institutions as mudharabah lenders, sharia institutions also cannot participate in managing business activities carried out by mudharib, but sharia institutions have the authority to oversee the process of implementing business activities carried out by customers / mudarib.

f. Islamic financial institutions must bear all losses due to mudarabah, unless the customer commits fraud in the mudaraba process which results in losses in his business activities.

g. Guarantees in the mudharabah process can be disbursed when the mudarib party commits violations and fraud and does everything that violates the rules that are not in accordance with the contract.

h. Operational costs borne by mudarib.

i. The criteria for distributing business profits, financing procedures and the mudharabah mechanism are regulated by sharia financial institutions and are assisted by the Fatwa of the sharia council.

In general, there are two types of mudaraba, namely mudharabah muthlaqah and mudharabah muqayyadah. The explanation of these 2 types are:

1. Mudharabah Muthlaqah

Mudharabah Muthlaqah is a form of cooperation between Shahibul mall and Mudarib whose scope is very broad and is not limited by the specifications of the type of business, time, and business area. In the discussion of fiqh, it is often exemplified by the expression if 'al ma syi'a (do as you please) from shahibul mal to mudharib which gives enormous power (Antonio, 2001).

In its implementation the form of mudharabah muthlaqah is not interpreted as unlimited freedom, because it still has to pay attention to the other conditions allowed by Islam. The negligence and fraud that might occur from this form of mudaraba muthlaqah requires the mudarib to be responsible for the consequences it causes. If there is a loss for the business, then the loss is not a burden on the related mudharabah agreement (Neneng, 2015).

2. Mudharabah Muqayyadah

Mudharabah Muqayyadah is a mudharabah financing contract whereby the owner of the fund (Shahibul Mall) gives a limit to the fund manager (mudharib) regarding the place, method and object of investment. In this type of financing the entrepreneur must follow the terms and limitations made by the capital owner. In other words, in terms of mudharabah muqayyadah financing, line of trade, line of industry, or line of service is determined to be done and determined from whom the goods will be purchased (Neneng, 2015). In the practice of modern syari'ah banking, there are now two forms of mudharabah muqayyadah, namely on balance sheet and the iff balance sheet. In mudharabah muqayyadah on balance sheet, the flow of funds occurs from one investor customer to a group of business executors in several limited sectors, for example agriculture, manufacturing, and services. Other investor customers may require funds to only be used for financing around mining, property and agriculture. In mudharabah muqayyadah off balance sheet, the flow of funds comes from one investor customer to one financing customer (which in a conventional bank is called a debtor). Here, the Shari'ah bank acts as an arranger only (Adiwarman, 2014).

2.4 Baitul maal Wat Tanwil

Baitul Maal wat Tamwil (BMT) is one of the non-bank sharia financial institutions that lead to business and social and community activities based on Islamic sharia and is under the supervision of the Ministry of Cooperatives. In his book Ahmad Sumiyanto (2008: 22) states that in Indonesia BMT began to appear in 1992 with the passing of Law No. 7 of 1992 concerning Banking which states the freedom to determine compensation and financial system for profit sharing, also with the issuance of Government Regulation No. 72 of 1992 which provides strict limits that banks are permitted to conduct business activities based on principles profit sharing.

2.4.1 The aim of developing the BMT

a. Encouraging Islamic economics in the activities of micro, small and medium enterprises in particular, and the Indonesian economy in general.

b. Improve economic empowerment programs, especially in micro, small and medium enterprises and cooperatives through the sharia system.

c. Increasing the enthusiasm and participation of community members in BMT Cooperative activities

2.4.2 BMT products and Services

In the daily operational, BMT Funding Products consist of several fund raising product. There are several fund raising products that can be developed by an Islamic financial institution including BMT (baitul maal wat tamwil). The forms of collecting funds held by BMT are:

a. Special Principal Deposits (Equity Capital)

Namely, the savings held by individuals and institutions with the amount of each deposit must not be the same. This deposit can only be withdrawn after a period of one year through annual meetings. For this deposit, the depositor will get a profit in accordance with the amount of capital.

b. Principal Deposits

That is the savings that must be paid when becoming a member of the BMT. The amount of principal savings must be the same. Payment can be paid in installments, so that you can attract more members. As proof of membership, principal savings must not be withdrawn while being a member. If this deposit is withdrawn, then the membership will automatically stop.

c. Mandatory Savings

This savings becomes a source of capital that continues to flow every time. The size is very dependent on the needs of the capital and its members. The amount of the savings required by each member is the same. Both principal and mandatory deposits will be taken into account in the distribution of SHU (remaining operating results).

d. Wadi'ah Deposit Agreement

Is a contract for safekeeping of goods or money on BMT, by giving securities, transferring, or transfer and other paying orders.In this case, BMT is obliged to maintain and maintain the goods properly and return them at any time when the requester wants it.

e. Mudharabah Deposits

Mudharabah savings is a contract of capital cooperation between fund owners (Shahibul Maal) and fund managers (mudharib) on the basis of profit sharing. In terms of raising funds, BMTs function as mudharib (fund managers) and depositors as shahibul maal.

BMT Fund Financing Products (Baitul Maal Wat Tamwil).also has some types of financing. There are several types of financing products contained in BMT, the financing is as follows:

a. Mudharabah Financing

Mudharabah financing is a business partnership between two parties, of which the first party (Shahibul Maal) provides all of its capital while the other party becomes the manager. The business profits from the financing are divided according to agreements and agreements according to those in the contract.

b. Musyarakah financing

Musyarakah financing is a contract of cooperation between two parties, namely BMT with members, whose capital comes from both parties and both agree on the benefits and risks. In this case, the BMT will include capital into the project or business submitted after knowing the size of the participation of members. In this contract, BMT can be actively involved in members' business activities.

Financing with the principle of buying and selling

Financing with the principle of buying and selling according to Ahmad Sumiyanto (2008) there are several types, these financing products are:

(a) Financing of murabahah

Is selling with original capital along with clear additional benefits.

(b) Bai 'as Salam

Is the contract of purchase of goods where the goods purchased are delivered in the future, whereas payment is made in cash in advance.

(c) Bai 'al istishna'

Transaction bai 'al istishna' is a sales contract between the buyer and the BMT itself. Financing under the lease principle principle in baitul maal is the same as the principle of buying and selling, but the difference is in the transaction object.

Financing with the principle of this lease is the transaction object is a service. Financing under service principles according to Ahmad Sumiyanto (2008) there are several types, these financing products are:

a. Al Wakalah

Wakalah means surrender, delegation and giving a mandate or mandate. In the BMT KJKS contract accepts the mandate from investors who will invest their capital in members.

b. Kafalah

Kafalah means a guarantee that is given by the insurer to another party to fulfill its obligations to the other party that is borne. KJKS BMT can act as the top guarantor business transactions carried out by its members.

c. Hawalah

Hawaiian or hiwalah means the transfer of debt from the person who owes the insurer.

d. Rahn

Rahn is holding one of the borrower's property as collateral for financing received.

2.4.3 The concept of financing for BMT

Ahmad Sumiyanto (2008) explained the concept of financing products issued by BMT can be differentiated into:

1. Based on the way the utilization of BMT financing products can be grouped into:

a) Investment Financing

Investment financing is the financing used for the fulfillment of capital goods and other facilities that are closely related to this.

b) Working Capital Financing

Working capital financing is financing aimed at fulfilling, increasing production, in a broad sense and involving all economic sectors.

2. Based on The nature of BMT financing products in the form of:

a) Productive Financing

Productive financing is financing aimed at fulfilling productive needs in a broad sense, such as fulfilling working capital, increasing sales, increasing agriculture and plantation.

b) Consumptive Financing

Consumptive financing is financing that is used to fulfill consumer needs, both those used for a while and those used for a relatively long term.

Based on the DSN MUI fatwa. 07 / DSN-MUI / IV / 2000 there are harmonies and terms regarding mudharabah financing. The terms are Providers of funds (sahibul maal) and managers (mudharib) must be proficient in law and the statement of the consent and consent, taking into account the following matters:

- Bid and acceptance must explicitly indicate the purpose of the contract.

- The receipt is made at the time of the contract.

- The contract is written in writing, by correspondence, or by means of modern means of communication.

Profit ratio in Mudharabah Financing Process

Profit ratio is a characteristic of sharia business activities. The ratio is a reward that is entitled to be received between the fund owner and the fund manager. The owner of the fund is rewarded for capital investment, while the fund manager gets compensation for his work. Mudharabah financing has become one of the solutions in providing capital and assistance to support business processes and activities in the community. Many people are applying mudarabah loans to financial institutions as a means to obtain additional business capital, and many people are also helped by the mudarabah financing process. Mudharabah implementation also has several advantages and benefits, according to Antonio (2001: 97), some of the benefits that can be obtained from the mudarabah financing are:

a. The bank will get a profit when the benefits of the customer's business activities have increased.

b. The bank pays the profit-sharing to the customer according to the income from the business of the bank so that it does not burden the bank to pay the profit share regularly to the customer.

c. Reimbursement of the financing business principal is adjusted to the cash flow of the customer's business activities, so as not to burden the customer in the payment process.

d. Banks can conduct a detailed selection of community businesses that will be given mudharabah capital loans to guarantee the benefits that are halal, safe, and realistic to share.

The type of business that aims to obtain the benefits contained in mudharabah should be carried out in a lawful manner and in accordance with Islamic Shari'a and to ensure that all business processes or activities are carried out in a lawful and permissible manner in Islam.

2.5 Financial Accounting Standards (PSAK) No.105 concerning mudharabah

PSAK No. 105 regarding mudharabah accounting was issued by the Financial Accounting Standards Board of the Indonesian Accountants Association (DSAK IAI) on June 27, 2007. PSAK No. 105 is a sharia financial accounting standard that regulates Recognition, Measurement, Presentation and Disclosure of Mudharabah transactions. According to Bank Indonesia Regulation Number 7/47 / PBI / 2005 concerning Transparency of the Financial Condition of BPRS, BPRS are required to register their business activities based on the Statement of Financial Accounting Standards applicable to Sharia Banking. The following are details of the accounting treatment of PSAK No. 105 issued by the Indonesian Accounting Association (IAI, 2007).

2.5.1 Characteristic of Mudharabah According to PSAK 105

The understanding of the terms used in this Statement in PSAK 105 paragraph 04, Explain that Mudharabah is a contract of business cooperation between two parties in which the first party (the owner of the fund) provides all funds, while the second party (fund manager) acts as the manager, and the profits are divided among them according to the agreement while the financial loss is only borne by the fund owner.

Mudharabah muthlaqah is a mudharabah in which the fund owner gives freedom to the fund manager in managing his investment. Mudharabah muqayyadah is a mudharabah in which the owner of a fund gives a limit to the fund manager, among others concerning the place, method and or object of investment. Musyarakah Mudharabah is a form of mudharabah in which the fund manager includes capital or funds in investment cooperation. The entity can act either as a fund owner or fund manager Explained in paragraph 5 PSAK 105.

Mudharabah consists of mudharabah muthlaqah, mudharabah muqayyadah, and mudharabah musytarakah. If the entity acts as a fund manager, the funds received are presented as temporary syirkah funds that explained in paragraph 06 PSAK 105. In mudharabah muqayadah, examples of limitations include in paragraph 7 PSAK 105 Are:

a) Do not mix funds from the fund owner with funds others.

b) Do not invest funds in installment sales transactions, without guarantors, or without collateral.

c) Require fund managers to invest themselves without going through third parties.

Paragraph 8 PSAK 105 explains that, In principle, in the distribution of mudaraba there is no guarantee, but so that the fund manager does not make a deviation, the owner of the fund can request a guarantee from the fund manager or a third party. This guarantee can only be disbursed if the fund manager is proven to have violated the agreed-upon matters in the contract. Mudharabah refunds can be made in phases together with the profit sharing distribution or in total when the mudharabah agreement is terminated and its explained in paragraph 9 PSAK 105. Paragraph 10 PSAK 105 Explain that If the management of the mudharabah fund generates profits, then the portion of the profit sharing amount for the fund owner and fund manager is determined based on the agreed ratio of the results of the business obtained during the contract period. If from the management of the mudharabah fund raises loss, financial loss is borne by the fund owner.

2.5.2 Recognition according to PSAK 105

According to Muhammad (2008: 96) "(recognition) is the process of forming a post that meets the definition of elements of the Recognition criteria stated in paragraph 110 in the balance sheet or income statement, Recognition is done by stating the post both in words and in the amount of money and put it on the balance sheet or income statement. Posts that meet these criteria must be recognized in the balance sheet or income statement. Failure to acknowledge such posts cannot be rectified through the disclosure of accounting policies used or through explanatory notes or material.

PSAK No. 105 Paragraph 12 concerning Recognition of Mudharabah Financing. Mudharabah funds channeled by the owner of the fund are recognized as mudharabah investments at the time of cash payments or submission of non-cash assets to the fund manager. The Decrease in value if mudharabah investments are in the form of non-cash assets can be divided into two. The first one is decreases in value before the business begins. If the value of the mudharabah investment falls before the business starts due to damage, loss or other factors not the negligence or error of the fund manager, then the decline in value is recognized as a loss and reduces the balance of the mudharabah investment (PSAK 105 paragraph 14). The second one is the decrease in value after the business begins. It happens if part of the mudharabah investment is lost after the start of the business without any negligence or error of the fund manager, then the loss does not directly reduce the amount of mudharabah investment but calculated at the time of the sharing of profits (PSAK 105 paragraph 15).

Mudharabah business is deemed to have started since the mudharabah funds or business capital have been received by the fund manager (PSAK 105 paragraph 16). In a mudharabah investment given in a non-cash asset and a non-cash asset, the value is impaired when or after the goods are effectively used in mudharabah business activities, the loss does not directly reduce the investment amount, but is calculated when the profit sharing (PSAK 105 paragraph 17).

Failure to fault fund managers, among others, is indicated when the requirements specified in the contract are not fulfilled, when there is no usual force majeure and / or predetermined condition in the contract, and when Results of decisions from authorized institutions. If the mudharabah contract expires before or when the contract is due and has not been paid by the fund manager, then the mudharabah investment is recognized as a receivable (PSAK 105 paragraph 19). If mudharabah investment exceeds one reporting period, business income is recognized in the period of the occurrence of the right of profit sharing according to the agreed ratio (PSAK 105 paragraph 20). The Losses that occur in a period before the mudharabah contract expires are recognized as losses and an allowance for investment losses is formed.

When the mudharabah contract expires, the difference between as stated in PSAK 105 pharagraph 21 Are Mudharabah investment after deduction for investment allowance and the return of mudharabah investment recognized as profit or loss. Paragraaph 22 PSAK 105 explains that recognition of mudharabah business income in practice can be known based on the profit sharing report on the realization of business income from the fund manager. It is not permissible to recognize income from the projection of business results Losses due to negligence or error of the fund manager are borne by the fund manager and do not reduce mudharabah investment, And that’s explained in paragraph 23 PSAK 105. The portion of business income that has not been paid by the manager and recognized as a receivable (PSAK 105 paragraph 24). Based on the description above, it can be concluded that Recognition is done by stating the post both in words and in the amount of money and listing it in the balance sheet or income statement. Recognition of Mudharabah Financings, happened when Mudharabah funds channeled by the owner of the fund are recognized as mudharabah investments at the time of cash payment or delivery of non-cash assets to the fund manager. If the mudharabah contract expires before or when the contract is due has not been paid by the fund manager, then the mudharabah investment is recognized as a receivable.

2.5.3 Measurement according to PSAK 105

According to Muhammad (2008: 100) "Measurement is the process of determining the amount of money to recognize and include every element of the financial statements in the balance sheet and income statement". PSAK No. 105 concerning Measurement of Mudharabah Financing is explained as follows In PSAK 105 paragraph 13: Mudharabah investment in the form of cash is measured at the amount paid. Mudharabah investments in the form of non-cash assets are measured at the fair value of non-cash assets at the time of delivery. If the fair value is higher than the carrying value recognized, the difference is recognized as deferred gain and amortized over the period of the mudharabah agreement. If the fair value is lower than the carrying value, the difference is recognized as a loss.

The value of mudharabah investment in the form of non-cash assets must be approved by the fund owner and the fund manager at the time of the contract. There are two reasons for not using the historical cost basis for measuring non-cash assets, (Nurhayati and Wasilah, 2015). The Use of values agreed to by the contracting party to achieve a financial accounting goal, and the use of agreed value (agreed value) by the party who contracts for the value of non-cash assets towards the application of the concept of representational faithfulness in reporting.

Mudharabah investments in the form of non-cash assets are measured at the fair value of non-cash assets at the time of delivery of the possibility there are two:

The first one is If the fair value is higher than the carrying value, the difference is recognized as deferred gain and amortized over the period of the mudharabah agreement, and the second one is if the fair value is lower than the carrying value, the difference is recognized as a loss and recognized when the non-cash asset is handed over.

Measurements are made by determining the amount of money to recognize and include each element of the financial statements in the balance sheet and income statement. Measurement of Mudharabah Financings can be classified into

a. Mudharabah investment in the form of cash is measured at the amount paid.

b. Mudharabah investments in the form of non-cash assets are measured at the fair value of non-cash assets at the time of delivery. If the fair value is higher than the carrying value recognized, the difference is recognized as deferred gain and amortized over the period of the mudharabah agreement. If the fair value is lower than the carrying value, the difference is recognized as a loss.

2.5.4 Presentation according to PSAK 105

Presentation related to how a transaction is presented in financial statements. PSAK No. 105 paragraph 36 Presentation of Mudharabah Financing is explained as follows: The owner of the fund presents mudharabah investments in the financial statements in the amount of the carrying value, namely the value of the mudharabah investment less the allowance for losses (if any).

According to Muhammad (2008), there are several reasons for the importance of the preparation of standards regarding the presentation of financial statements for Sharia Financial Banks and Institutions, including Several studies conducted to identify concepts and methods of the presentation of financial statements carried out by several Islamic banks in the world shows that there are variations and differences in presenting their financial statements. Therefore, it is very necessary for a standard to bring together the form of financial report presentation among Islamic banks. The standard certainly also regulates the provisions for Islamic banking to present information relating to investment activities which of course is in accordance with sharia principles.

Shareholders of Muslim, depositors, and consumers of Islamic banking tend to have better confidence in using Islamic banking services because they feel that Islamic banking is able to fulfill its desire to benefit from investment in a way that is in accordance with sharia principles. Nevertheless, this belief can arise due to various factors such as the adequacy of information presentation that allows users of Islamic banking services to evaluate the performance of Islamic banking and its ability to achieve its economic goals. They generally evaluate the performance of Islamic banking by comparing these banks with other similar banks. There is no doubt that performance appeal among various Islamic banks depends on the freedom of disclosure of information published in their financial statements, methods of presentation in their reports, and clarity of information. Based on the description above, it can be concluded that the presentation relates to how a transaction is presented in a financial report consisting of the financial recording stage. The presentation of Mudharabah Financing is presented in the financial statements in the amount of the carrying value, namely the value of the mudharabah investment minus the allowance for losses (if any).

2.5.5 Disclosure according to PSAK 105

Disclosure is the final step in the accounting process by presenting information deemed necessary to provide information to various parties who have an interest in the state of the company. (Suwardjono, 2006). PSAK No. 105 paragraph 38 fund owners disclose matters related to Mudharabah transactions, but not limited to:

a) The contents of the main agreement on the mudharabah business such as the portion of the funds, the distribution of revenue from the business, mudharabah business activities, etc.

b) Details of the amount of mudharabah investment by type;

c) Disclosures required in accordance with PSAK 101: Presentation of Sharia Financial Statements.

Companies in general are in the spotlight of many parties, both from the public in general and the government, companies with a larger size are relatively more monitored by government institutions, so they try to present better disclosure to minimize government pressures. Therefore, large companies are required to disclose more information than small companies. Disclosure of financial statements has several objectives.

2.6 Framework Of Study

Baitul Maal is one of the sharia financial institutions. One of the products produced by Baitul Maal is Mudharabah Financing. Mudharabah financing practices are carried out in which Islamic banks as fund owners provide all (100%) capital to customers as fund managers to run a business whose profits are divided based on the profit sharing ratio agreed by both parties. Mudharabah Financing Practices carried out must be in accordance with existing sharia guidelines or principles. Guidelines governing the accounting treatment of Mudharabah Financing, namely PSAK No. 105. PSAK No. 105 regulates the accounting treatment of Mudharabah Financing which consists of Recognition, Measurement, Presentation, and Disclosure. As a sharia financial institution, BMT should have implemented sharia guidelines or principles. Therefore the accounting treatment of Mudharabah Financing carried out by Islamic banks will be analyzed according to PSAK No. 105. Based on the analysis, it will show the suitability of the Application of PSAK No. 105 towards the accounting treatment of Mudharabah Financing for operational development and improvement. Question of BMT al Muthiin according to PSAK 105 Mudharabah

1. What financing products are offered by BMT Al Muthiin to customers or members?

2. What is the basis for the consideration of Al Muthiin's BMT in providing mudharabah financing to members?

3. What is the submission procedure for obtaining mudharabah financing at BMT AL Muthiin?

4. What expenses do members have to bear when obtaining mudharabah financing?

5. Has BMT Al muthiin implemented the pillars and terms of mudharabah financing based on Islamic shariah ways?

6. What is the process for Mudharabah accounting financing for BMT Al Muthiin?

7. How is the application of Mudharabah Financing Accounting Measurement to BMT Muthiin?

8. How is the implementation of Mudharabah Financing accounting presented to BMT Al muthiin?

9. How is the application of Disclosure of Mudharabah Financing accounting to BMT Al Muthiin?

10. How is the application of Mudharabah Financing accounting recognition to BMT Al muthiin?

2.6.1 Previous research is relevant to this study

1. Silpia Navita Sari (2012)

Sari (2012) conducted a study on Analysis of Recognition and Measurement of Mudharabah Financing based on PSAK No. 105 (Case Study at PT Bank Muamalat Indonesia Tbk). The purpose of the study was to determine the suitability of Recognition and Measurement of Mudharabah Financing against PSAK No. 105 at Bank Muamalat Indonesia. The research method used is descriptive qualitative. The results of the study state that the Recognition and Measurement of Mudharabah Financing at Bank Muamalat Indonesia are in accordance with PSAK No. 105.

The equation of this study with relevant research is to equally analyze Mudharabah Financing using PSAK No. guidelines. 105. The difference between this research and relevant research is that relevant research only analyzes Recognition and Measurement of Mudharabah Financing while this study analyzes Recognition, Measurement, Presentation, and Disclosure of Mudharabah Financing.

2. Wahyu Astri Kurniasari (2013)

Kurniasari (2013) conducted a study on Evaluating the Application of Accounting for Mudharabah Financing with PSAK No. 59 and PSAK No. 105 in the KJKS-BMT Bina Ummat Sejahtera Yogyakarta. The purpose of the study was to determine the Recognition, Measurement, Presentation, and Disclosure of Mudharabah Financing in the KJKS-BMT Bina Ummat Sejahtera Yogyakarta.

Method research used is descriptive qualitative. The results of the study state that the accounting treatment of Mudharabah Financing in KJKS-BMT Bina Ummat Sejahtera Yogyakarta which includes accounting recognition of Mudharabah Financing which consists of Recognition of investments, Recognition of losses, Recognition of receivables and Recognition of expenses is in accordance with PSAK No. 59 and PSAK No. 105, but the recognition of profits is not in accordance with PSAK No. 59 and PSAK No. 105 because it is calculated based on projections.

Accounting measurements for Mudharabah Financing are in accordance with PSAK No. 59 and PSAK No. 105. The accounting presentation of Mudharabah Financing is in accordance with PSAK No. 59 and PSAK No. 105. Disclosure of accounting for Financing Mudharabah has not fully complied with PSAK No. 59 and PSAK No. 105. The nonconformity is the absence of Disclosure of the allowance for losses on Mudharabah investments and Disclosure of losses due to a decrease in the value of Mudharabah assets. The equation of this study with relevant research is to equally analyze Mudharabah Financing using PSAK No. guidelines. 105. The difference between this research and relevant research is that relevant research uses PSAK No. 59 and the subject is not Islamic banking but non-bank financial institutions namely BMT.

3. Lutfiana (2015)

Lutfiana (2015) conducted a study on the Analysis of the Implementation of DSN Fatwa Number: 07 / DSN-MUI / IV / 2000 concerning Mudharabah

Financing (Study in the Weleri KJKS Weleri). The purpose of the study was to determine the implementation of the DSN Fatwa Number: 07 / DSN-MUI / IV / 2000 on the implementation of Mudharabah Financing in Weleri KJKS. The research method used is descriptive qualitative. The results of the study state that Mudharabah Financing is practiced at KJKS Sinar Weleri is not in accordance with sharia principles on Fatwa DSN Number: 07 / DSN-MUI / IV / 2000 specifically related to the handling of members who are losing money and profit sharing that still uses revenue sharing. The equation of this study with relevant research is to equally analyze Mudharabah Financing. The difference between this research and relevant research is that relevant research uses Fatwa DSN review Number: 07 / DSN-MUI / IV / 2000 while this study uses PSAK No. guidelines. 105. The subject of relevant research is not Islamic banking but non-bank financial institutions, namely KJKS.

4. Laili Tsulutsul Uula Darobi (2016)

Darobi (2016) conducted a study on the Overview of Islamic Law on Mudharabah Financing Practices at BMT Ummat Wonosari Gunungkidul Yogyakarta. The purpose of the study was to determine the practice of Mudharabah Financing for profit-sharing agreements by both parties in determining the benefits of mudharabah contracts in terms of Islamic law and to find out Mudharabah financing practices by using guarantees to realize the economic benefits of the community. The research method used is descriptive qualitative. The results of the study state that the practice of Mudharabah Financing at Ummat Wonosari BMT is not in accordance with existing Islamic law because the percentage of profit is taken from the amount of financing capital and uses collateral to overcome losses during the running of Mudharabah Financing. The equation of this study with relevant research is to equally analyze Mudharabah Financing. The difference between this research and relevant research is that relevant research uses guidelines for reviewing Islamic law while this study uses the guidelines of PSAK No. 105. The subject of relevant research is not Islamic banking but non-bank financial institutions namely BMT.

5. Mahayu Okta irlanda (2017)

Irlanda (2012) conducted a study on the analysis of the application of PSAK 105 on Mudharabah Financing to BPRS to Build Citizens' Degrees and BPRS Madina Mandiri Sejahtera Yogyakarta. The purpose of the study was to determine the suitability of the Recognition of Measurement, presentation, and treatment of Mudharabah Financing against PSAK No. 105 in the BPRS to build a degree and BPRS Madina mandiri sejahtera. The research method used is descriptive qualitative. The results of the study state that Recognition is not in accordance with PSAK 105, and Measurement of Mudharabah Financing in both SRBs is in accordance with PSAK No. 105. Meanwhile, the presentation and disclosure of mudharabah financing on both SRBs is in accordance with the accounting standards of PSAK 105. The equation of this study with relevant research is to equally analyze Mudharabah Financing using PSAK No. guidelines. 105. The difference between this research and relevant research is that relevant research only analyzes Recognition and Measurement of Mudharabah Financing while this study analyzes Recognition, Measurement, Presentation, and Disclosure of Mudharabah Financing.