

# How is the implementation of Islamic accounting system for profit-sharing investment in Islamic banks?

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## ABSTRACT

This study aims to examine the profit-sharing system in the *mudharaba* savings program at Islamic banks, specifically focusing on Bank Syariah Indonesia (BSI), Bireuen Branch. The research utilizes both primary data, collected through interviews with key informants, and secondary data from books, journals, and scholarly publications. The study was conducted over a three-month period. A qualitative research approach was employed, involving observation, interviews, and documentation. Data analysis techniques included data collection, data reduction, data presentation, and conclusion drawing. To ensure validity, the study applied credibility, transferability, dependability, and confirmability tests. The findings indicate that the profit-sharing mechanism in the *mudharaba* savings program at BSI follows a revenue-sharing calculation based on gross profit, without accounting for the bank's operational expenses. In the event of a loss, the customer bears the financial burden. Furthermore, the implementation of profit-sharing accounting at BSI adheres to Sharia principles, and the accounting procedures for each savings product align with the Fatwa issued by the National Sharia Council (*Dewan Syariah Nasional*). These results contribute to a better understanding of the application of Islamic banking principles in profit-sharing arrangements.

## KEYWORDS

*Mudharaba* savings; profit sharing; Islamic banking; sharia principles; Bank Syariah Indonesia

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## 1. Introduction

In the present era, the development of banking that applies Sharia principles, commonly known as Islamic banking, is no longer a new concept in Indonesia. The rapid growth of Islamic banks in Indonesia has been significantly influenced by the increasing awareness among the public about the dangers of usury (*riba*). In Aceh, the development of Islamic

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banking has been further supported by the enactment of Qanun (Regional Law) No. 11 of 2018 on Sharia Financial Institutions, which mandates all financial institutions in Aceh to operate based on Sharia principles. The public trusts the banking sector to provide services for storing money or assets, offering a sense of security and guarantees for the funds held. Islamic banks operate without using interest, instead adopting the profit-sharing principle.

In Islamic finance, interest in money is categorized as *riba*, which is haram (forbidden) under Islamic law. This has led to the proliferation of Islamic banks operating under a profit-sharing model. However, the profit-sharing system applied in Islamic banks is often considered to lack fairness, as it is perceived to create inequality in the distribution of profits and losses among economic actors (Fadhila, 2015).

According to Timami (2013), many people still perceive Islamic banks as no different from conventional banks because the products offered by Islamic banks are seen as conventional banking products with Islamic terminology and contracts. This perception arises because the profit-sharing system still resembles the conventional interest-based system.

An example of this is found in the *mudaraba* product. In the execution of *mudaraba* contracts, the determination of the profit-sharing ratio (*nisbah*) is crucial. Islamic economic theory states that the ratio is determined based on the agreement between the two contracting parties. Therefore, the profit distribution depends on the business's success: when the business generates substantial profits, both parties receive a larger share, while in less profitable scenarios, both parties receive a smaller share.

The profit-sharing system applied in the Islamic bank savings program follows Islamic law and the Financial Accounting Standards (PSAK) for Islamic finance. The profit-sharing principle serves as the main operational foundation for *mudaraba* financing products. Within Islamic financial institutions, profit-sharing is implemented using two systems: profit/loss sharing and revenue sharing. At Bank Syariah Indonesia (BSI) Bireuen Branch, *mudaraba* savings transactions have consistently grown over the years (see Table 1).

**Table 1.** *Mudaraba* Savings Transactions in 2019-2021

Year	<i>Mudaraba</i> Savings (million IDR)
2019	48.064.346
2020	59.008.934
2021	65.102.491

Source: Annual Report of PT. Bank Syariah Indonesia Tbk (2022)

According to annual report data, the *mudaraba* savings transactions in 2019 amounted to IDR 48,064,346. In 2020, these transactions increased to IDR 59,008,934; in 2021, they increased to IDR 65,102,491. This annual growth in *mudaraba* transactions indicates the increasing activity of these savings programs. These transactions reflect a

growing financial potential, which, if well managed and allocated, could provide more significant development opportunities, making it a compelling subject for research into how accounting practices contribute to improving decision-making efficiency.

Given the abovementioned issues, the researcher is interested in examining whether the profit-sharing system still resembles the interest system used by conventional banks. The goal is to provide a more comprehensive understanding of the application of Sharia accounting within the profit-sharing system of the *mudaraba* savings program at Bank Syariah Indonesia (BSI) Bireuen. Based on the background and research problem, the research questions for this study are as follows:

- RQ 1: How is the application of profit-sharing accounting in the *mudaraba* savings program at Bank Syariah Indonesia (BSI) Bireuen?
- RQ 2: Has the application of profit-sharing accounting adhered to Sharia principles in the savings program at Bank Syariah Indonesia (BSI) Bireuen?

## 2. Literature review

### 2.1. Islamic accounting

Islamic accounting can be defined as the process of accounting for transactions that align with the provisions of Allah SWT. It is necessary to support activities carried out following Sharia law. According to Sumar'in (2012), Islamic accounting refers to the recording, classifying, and summarizing financial transactions measured in monetary units and reporting the results based on Sharia principles. Accounting theory aims to explain a process using accounting knowledge, understanding, and expertise and applying appropriate accounting policies to address future conditions. The primary goal of accounting theory is to clarify and predict accounting practices (Pattiasina, 2017).

### 2.2. Islamic banking

According to Ayuningtyas (2016), Islamic banks provide credit and payment services, and all activities are conducted according to Sharia principles. Islamic banks also have several key functions: gathering and channeling funds and fulfilling social roles through institutions such as Baitul Mal, which handles *zakat* (charity), *infak* (donations), *sadaqah* (charitable giving), *hibah* (grants), and other social funds.

In its operations, Islamic banking is guided by fundamental principles that must be adhered to. These principles ensure that Islamic banking activities align with Islamic law and are legally compliant as financial institutions. The key principles include prohibitions against transactions involving haram (forbidden) goods or services and the prohibition of transactions involving interest or methods of earning profit inconsistent with Islamic teachings.

### 2.3. Profit sharing

Profit-sharing refers to a system in which the profits of a business are shared between investors and fund managers, specifically between Islamic banks and depositors, as well as between the bank and its client receiving funds. According to Hafira et al. (2023), profit-sharing constitutes income derived from *mudaraba* and *musyarakah* financing investments, including returns on financing for the procurement of goods via *murabaha*, *ijarah* in the form of markup and rental income, administration fees from loans, and fees from using services. A fair profit-sharing rate is essential for attracting customers to Islamic banks. In a profit-sharing financial system, if the lender loses their loan, the profits from the financed business are not guaranteed and are not the lender's responsibility.

In Islamic bank financial statements, several accounts are influenced by the profit-sharing calculation, including (a) Margin income and profit-sharing revenue, calculated based on income earned during the current month; (b) Third-party fund balances, calculated using the average daily balance for the relevant month; (c) Financing, calculated based on the average daily balance for the relevant month; (d) Investments in securities or placements in other Islamic banks; (e) Determining when profit-sharing is distributed to fund owners, whether weekly, monthly, on value dates, maturity dates, end-of-year dates, etc.; (f) Using weights to calculate the third-party fund amounts. Furthermore, *mudaraba* savings accounts, which employ a profit-sharing system, provide returns to depositors for their willingness to save with Islamic banks.

## 3. Methods

### 3.1. Research type

This study employs a qualitative research approach. According to Rampen & Pandowo (2022), qualitative research is based on postpositivist philosophy and is used to study objects in their natural settings. Moleong (2019) further defines qualitative research as an approach aimed at understanding phenomena from the perspective of the subjects, such as their behavior, perceptions, motivations, and actions. A qualitative approach was chosen for this study because the research targets and the scope of the study were deliberately narrowed to allow for in-depth exploration of the data, ensuring no broadening of the research object occurred.

### 3.2. Research methodology

The research was conducted at Bank Syariah Indonesia (BSI), Simpang IV Bireuen Branch, Bireuen Regency, and spanned three months. The data sources include primary data from interviews with key informants and secondary data from books, journals, and

scholarly writings. The research methodology involves observation, interviews, and documentation. Data analysis techniques applied in this study include data collection, reduction, presentation, and conclusion drawing. To ensure the validity of the research, tests for credibility, transferability, dependability, and confirmability were conducted.

The analysis employed several strategies, including interviews, where the evaluation was based on question-and-answer sessions with BSI representatives. Observation and documentation were used to reinforce the findings and provide evidence for the research. Interviews with BSI's Manager were particularly effective in obtaining meaningful insights. The study also distinguishes between conventional banking systems, which apply interest to customer deposits based on agreements, and Islamic banks, which implement profit-sharing systems in accordance with Islamic teachings.

In the profit-sharing system, several mechanisms are in place: (1) customers deposit their funds with the bank under the *mudaraba* principle; (2) the bank manages and channels these funds into financing products; (3) profits from the financing products are returned to the bank; and (4) the bank distributes the profit share to the customers, either in cash or credited to their accounts, as agreed.

Based on direct interviews with Mr. Ridzky Aburizal Effendi, Manager at BSI, it was found that the profit-sharing accounting practices at BSI align with Sharia principles. Every decision made by the bank is supervised by the *Dewan Syariah Nasional* Supervisory Board, ensuring compliance with Sharia guidelines. Furthermore, observations and documentation revealed that the bank's accounting practices follow PSAK standards, with profit-sharing recorded using a system that facilitates faster and more efficient operations. The profit-sharing calculation utilizes the revenue-sharing method, which is practical, effective, and efficient while respecting the individual freedoms of the parties involved without demanding guarantees other than the honesty required by the bank.

The fundamental philosophy of Islamic banking is based on Islamic teachings derived from the Qur'an, Hadith, and Ijtihad. One of the key functions of Islamic banks is to collect and distribute funds to the community. In its fund collection activities, Islamic banks are open to accepting deposits from the public. Islamic banks provide financing and investment services to distribute funds (Astika & Suarni, 2018). BSI is one example of an Islamic bank that adheres to these principles, regulating the terms of savings account openings and profit-sharing calculations in accordance with Sharia law.

BSI uses the revenue-sharing method in its profit-sharing calculations, which connects the *mudarib* (the bank) and the *shahibul Mal* (the fund owner) under a *mudaraba* contract.

#### 4. Results and discussion

Profit-sharing in Islamic banking arises from financing activities. According to Article 1, Clause 25 of Law No. 21 of 2008 on Islamic Banking, financing is defined as the provision of funds or receivables, which includes profit-sharing transactions such as *mudaraba*. It is from this profit-sharing system that BSI generates its revenue. The method used to calculate profit-sharing on *mudaraba* savings at BSI is based on a ratio or nisbah (proportion) mutually agreed upon by both parties. This financing is multiplied by the income generated from the customer (*mudarib*). Accounting policies, such as depreciation, also affect Islamic banks, which influence the profit-sharing system. Depreciation impacts the bank's operating profit when using a profit/loss sharing method. Therefore, BSI adopts the revenue-sharing method for its savings programs so that depreciation does not affect the profit-sharing distribution.

**Table 2.** Profit-sharing ratio of *mudaraba* savings

Bank	Customer
55%	45%

Note: Note: The profit-sharing ratio of *mudaraba* savings may change based on the agreement between the bank and the customer

Source: Annual Report of PT. Bank Syariah Indonesia Tbk (2022)

As shown in Table 2, the profit-sharing ratio for *mudaraba* savings is 55% for the bank and 45% for the customer. Nisbah is a specific percentage stated in the partnership contract, and the profit-sharing amount is calculated based on the *nisbah* agreed upon between the bank and the customer. According to the manager:

"The bank has an ALCO responsible for determining the policy for directing and allocating funds. From there, the financial condition is determined to set the applicable ratio. The rate is no more than 1%."

The interview results indicate that the ratio calculation is determined by the *Dewan Syariah Nasional* and ALCO, where ALCO's responsibility is to determine the direction and allocation policies for funds. The *Dewan Syariah Nasional* regulates every decision made by the bank.

The revenue-sharing system in Islamic banking imposes costs on the operator, according to the views of Imam Shafi'i and Imam Hambali. The prohibition of charging costs in *mudaraba* agreements, whether during business travel or local operations, is based on the principle that the capital manager (*mudarib*) should bear the operating costs.

"... وكيل: يطح ا إنفاق بلدر ما يزيد عل نفلاته كالكراء والباس اللازم للسفر ونحو ذلك مما يلتضيه السفر في العرف ويحسب من الربح فإن لم يحطل الربح فيعتب خسارة."

"...However, some say that it is permissible for the trader (*mudarib*) to take expenses for travel-related costs, such as rent and necessary clothing for travel, etc., as required by travel norms, and these expenses are calculated from the profits. If there are no profits, these expenses are considered losses."

However, Imam Shafi'i's opinion states that it is permissible for the manager to take additional costs related to travel and business expenses as long as they are necessary for the business. These costs are calculated from the profits, but they are treated as a loss if no profits are generated.

As Yuliana (2013) stated, referring to Law No. 21 of 2008, which defines the position of profit-sharing principles in Islamic banking:

"The principles of Islamic banking are part of Islamic teachings related to economics. One of the principles in Islam is the prohibition of *riba* in all its forms, and it utilizes profit-sharing as a system. With profit-sharing, Islamic banks can create a healthy and fair investment climate because all parties share both the profit and the potential risks, creating a balanced position between the bank and its customers. In the long term, this will promote national economic equality because the capital owners and the fund managers enjoy the profits."

This statement indicates that a profit-sharing principle is valid when both the bank and the customer share the profits and the potential losses. The Fatwa issued by the *Dewan Syariah Nasional* on funding has set general rules for *mudaraba*-based savings, which include: (a) The customer acts as *sahibul maal* (owner of the funds) and the bank as *mudarib* (fund manager); (b) The bank, in its role as *mudarib*, can undertake activities that align with Sharia principles, including engaging in *mudaraba* agreements with other parties; (c) The capital must be expressed in a fixed amount and in cash, not receivables; (d) Profit-sharing must be defined by a *nisbah* and formalized in the savings agreement; (e) The bank, as *mudarib*, covers operational costs from its share of the profit; and (f) The bank is prohibited from reducing the customer's profit share without prior consent.

As explained by the bank manager:

"The application of accounting relates to the bank's liabilities that result in profit-sharing costs for customers derived from income. The profit-sharing is determined after the funds are available, distributed, and returned over a certain period. Unlike conventional banks, where the rate is predetermined, profit-sharing in Islamic banks depends on the monthly performance."

The interview reveals that implementing accounting for profit-sharing follows the guidelines provided by the bank's headquarters, where fund allocation is based on prudential principles to ensure effective operations. Banking is one of the most regulated industries, subject to state laws and regulations developed from banking practice.

The implementation of Sharia accounting at BSI in the savings program aligns with Sharia accounting principles, including the principle of fund collection using *mudaraba*, the principle of profit-sharing, and the principle of Sharia accounting calculation. The bank manager also mentioned the challenges faced in implementing Sharia accounting:

"Generally, we have already applied PSAK, and our accounting follows the Sharia accounting guidelines. The challenges are minimal; however, the monitoring by the *Dewan Syariah Nasional* needs to be improved, and honesty from customers in the profit-sharing process is essential."

Based on the interview, the challenges faced by the bank are minimal, as every decision must adhere to Sharia accounting principles and is monitored by the *Dewan Syariah Nasional*. Observations also revealed that the main challenges lie in the community's limited understanding of Islamic banking activities. The lack of information about Islamic banking causes many misconceptions about its operations. Therefore, there is a need to enhance public understanding of Islamic banking.

Improving public awareness is necessary because Islamic banking in Indonesia is still in its development phase. Public understanding of the systems and principles of Sharia-based banking services is largely insufficient. Thus, the products, services, and basic principles of the bank-customer relationship in Islamic banking need to be disseminated more widely. Innovations in Islamic banking products are expected to remain in line with Sharia values and withstand current banking conditions, where competition among banks is becoming more intense, thereby improving their capabilities, marketing, and services.

Based on the findings, the application of Sharia accounting and the profit-sharing system in the savings program at BSI is consistent with prior research references. However, some branches of BSI in Indonesia apply the Profit and Loss Sharing method. At the same time, most of them use the revenue-sharing method due to its practicality, effectiveness, efficiency, and individual freedom in business operations, without demanding guarantees for honesty as conventional banks do.

## 5. Conclusion

The profit-sharing accounting system applied to the *mudaraba* savings program utilizes a revenue-sharing calculation, where the calculation is based on revenue or gross profit as a reference. This approach does not account for the bank's expenses, and in the event of a loss, the customer assumes the responsibility. The implementation of profit-sharing accounting at BSI fully complies with *sharia* principles, and the accounting system for each savings product aligns with the Fatwa issued by the *Dewan Syariah Nasional*.

## Disclosure statement

The authors declare that there is no conflict of interest regarding the publication of this paper.

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