

# REVEALING THE CONFORMITY PREPARATION FOR COOPERATIVE FINANCIAL REPORT OF SHARIA FINANCIAL SERVICES BASED ON PSAK SHARIA IN MUNICIPALITY AND BLITAR DISTRICT

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**Abstract** With the development of business or activities of the Islamic Financial Services Cooperative (KJKS) in Blitar municipality and district which is indicated by an increase in managed assets and the amount of income obtained from its business activities, KJKS managers must be able to account for all operational activities to members. Municipality and Blitar district governments through the Cooperative service and UMKM Blitar also demand accountability from KJKS management in the form of financial reports that can be used to evaluate and monitor performance. In the theory of information asymmetry, managers or leaders of Islamic Financial Services Cooperatives are most likely to make irregularities in the preparation of financial statements, even though the preparation of financial statements is governed by an accounting standard.

The research entitled " Revealing the Conformity Preparation for Cooperative Financial Report of Sharia Financial Services based on PSAK sharia in Municipality and Blitar District" aims to evaluate KJKS financial statements and accounting treatment of Islamic finance (murabahah, mudharabah, musyarakah) conducted by KJKS. Output target this research in the form of recommendations concerning the preparation of financial statements sharia accounting and Islamic financing (murabahah, mudharabah, musyarakah) based on PSAK Sharia.

The paradigm used in this research is the interpretive paradigm, and the approach used is a descriptive approach. The research design was used to answer research questions about how the suitability of financial services cooperatives financial statements are: (1) selection of research methods, (2) selecting key informants related to research, (3) data collection, (4) data validity, and (5) data analysis.

*Keywords : Sharia Financial Reports, Sharia PSAK, Sharia Financing.*

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## I. INTRODUCTION

Islamic values-based cooperatives were first born in the form of a business association called Sarikat Dagang Islam. SDI was founded by H. Samanhudi in Solo, Central Java, which consisted of Muslim traders and the majority of batik traders. The sharia cooperative began

to *boom* along with the development of the sharia industry in Indonesia which began with the establishment of the first Syariah Bank in 1992. Legally, the Sharia Financial Services Cooperative was sheltered by the Decree of the Minister of Cooperatives and SMEs No. 91 of 2004 concerning the Guidelines for Implementing Sharia Financial Services Cooperative Business

Activities. KJKS is a cooperative business entity that runs its business using sharia principles. The emergence of KJKS provides opportunities for the development of Islamic economics, especially in the micro sector, such as MSMEs and small traders.

With the largest Muslim population in the world, Indonesia has become a state of *Islamic Micro Finance* with 22 thousand sharia cooperative outlets and Baitul Maal Wat Tamwil (BMT). This number is quite significant considering that legally sharia cooperatives were only established in 2004 (Fossei, 2013). As of the end of April 2012, there were 2,362 KJKS / UJKS in total and the number of BMTs reached 3,900 in 2010 (Hatta Rajasa in Fossei, 2013).

In collecting and channeling funds, KJKS can use several types of contracts. For activities in collecting funds, KJKS can use the *Wadiah* and *Mudharabah* contract, while the fund distribution activities can use the *Murabahah*, *Mudharabah* agreement, *Musyarakah*, *Ijarah*, and *Qardhul Hasan*.

In Islam, accounting is based on QS. Al-Baqarah: 282 is not only beneficial for decision making but also closely related to recording transactions regarding existing rights and obligations with the aim of upholding justice. Therefore, reviewing the science of Islamic accounting is very important.

The Indonesian Institute of Accountants has issued 6 sharia accounting standards, namely PSAK 101 (presentation and disclosure of sharia entity financial statements), PSAK 102 (*murabahah*), PSAK 103 (*greetings*), PSAK 104 (*istishna*'), PSAK 105 (*mudharabah*), and PSAK 106 (*musyarakah*). The PSAK was issued in lieu of PSAK 59 concerning accounting for Islamic banking. PSAK 101 - 106 is used as the basis for Islamic financial accounting for transactions practiced by non-bank sharia financial institutions such as BMT or KJKS.

With the issuance of PSAK sharia that regulates of sharia financing transactions, the KJKS must apply sharia principles in its

accounting treatment. Islamic accounting not only provides information for decision making, but also to avoid fraudulent practices such as *earnings management*, *income smoothing*, *window dressing*, *lapping*, and other techniques that can be used by management / managers in preparing financial statements.

In connection with the development of KJKS as indicated by the increase in managed assets and the amount of revenue earned from its business activities, the municipality and district Blitar government through the cooperative and UMKM Service requested accountability from KJKS management in the form of annual financial reports. This was done to monitor and evaluate KJKS performance. The office of cooperatives and MSME still doubts the suitability of reporting and accounting records based on PSAK Sharia in KJKS financial statements because of the issue that they make Islamic financial statements only as formalities. This happened because the education of KJKS managers in preparing financial sharia statements didn't have accounting qualifications. Based on these issues and phenomena, it is important to "Revealing the Conformity Preparation for Cooperative Financial Report of Sharia Financial Services based on PSAK sharia in Municipality and Blitar District".

## II. LITERATURE REVIEW

### Information Asymmetry Theory

Information asymmetry is a situation where managers have access to information on the prospects of entities that are not owned by parties outside the entity. According to Jensen and Meckling (1976) in Rahmawati et al (2006), adding that if the two groups are people who try to maximize their utility, then there are strong reasons to believe that managers (agents) will not always act best for the benefit of outside parties. In connection with the information asymmetry theory, the manager or manager of the Islamic Financial Services Cooperative (KJKS) is likely to make

irregularities in the preparation of financial statements, even though the preparation of financial statements is governed by an accounting standard.

### **Islamic Financial Services Cooperative**

Decree of the Minister of Cooperatives and Small Businesses Intermediate Republic of Indonesia Number 91 / kep / IV / KUKM / IX / 2004 on manual implementation of Cooperative Financial Services Sharia is the realization of the government's concern for the role to give legal protection to the fact that thrives in economic society of Indonesia's, especially in an environment of cooperative and Small Business Middle class. Based on the Decree, the Islamic Financial Services Cooperative (KJKS) is a cooperative whose business activities are engaged in financing, investment and savings and loans according to the profit sharing pattern (sharia).

### **Sharia Financial Report**

Islamic financial statements provide information regarding financial position, performance and changes in the financial position of a sharia entity that is beneficial to a large number of users in economic decision making (Wiroso, 2011: 37). The components of sharia financial statements must be made by a sharia entity, as stipulated in PSAK 101 concerning the Basic Framework for Preparation and Presentation of Sharia Financial Statements, namely :

1. Financial Position Report.
2. Income statement.
3. Statement of Changes in Equity.
4. Cash flow statement.
5. Report on Changes in Bound Investment Funds.
6. Revenue and Profit Sharing Reconciliation Report.
7. Report on Sources and Use of Zakat.
8. Source Report and Use of Virtue Funds.
9. Note to Financial Statements.

PSAK 101 also regulates accounting policies in preparing sharia financial

statements. The accounting policy used in the preparation of financial statements according to PSAK 101 is the accrual basis, where the recording of sharia financing transactions for the preparation of financial statements is recorded in accordance with the events or events of transactions, except cash flow statements and income calculations for the purpose of distributing business results. For the calculation of the distribution of business results based on revenues that have been realized into cash (cash basic).

### **Murabahah**

Murabahah is one of the principles in buying and selling, in addition to greetings and istishna '. The Fatwa of the National Sharia Council explains that murabaha is selling an item by confirming its purchase price to the buyer and the buyer pays it at a higher price as profit (Wiroso, 2011: 73).

In PSAK 101 concerning Murabahah Accounting, it is explained some of the meanings related to Murabahah transactions as follows :

1. Murabahah is selling goods at a selling price of the acquisition price plus agreed profits, and the seller must disclose the acquisition price of the item to the buyer.
2. Cost is the amount of cash or cash equivalent paid to obtain an asset up to the asset in the condition and place that is ready for sale or use.
3. Murabahah assets are assets obtained for the purpose of resale using murabahah contracts.
4. Advance is the amount paid by the buyer to the seller as proof of commitment to buy goods from the seller.
5. Murabahah discounts are a reduction in prices or receipts of any kind obtained by sharia financial institutions as buyers of suppliers.
6. Pieces m urabahah is a reduction in the end buyer's obligation given by the Islamic financial institutions as the seller.

### **Mudharabah**

Mudharabah is a transaction that must be carried out on the basis of trust. According to SFAS 105, mudaraba is a contract of business cooperation between the two parties in which the first party (owner of the funds) provide all the funds, while the second party (the fund manager) to act as the manager, and keuntun g of an effort divided among them according to the agreement, while the financial loss only borne by the fund owner.

Recognition, measurement, presentation and disclosure of mudharabah transactions previously stipulated in PSAK 59 concerning Accounting for Islamic Banking is replaced by PSAK 105 concerning Accounting for Mudharabah. Mudharabah accounting coverage on PSAK 105 is regulating mudharabah accounting for fund owners ( *shahibul* ) and fund managers ( *mudharib* ).

### **Musyarakah**

Musyarakah is a contract of cooperation between capital owners that mixes their capital for profit. In musyarakah each partner (sharia financial institutions and customers) both provide capital to finance a particular business, both already running and new (Wiroso, 2011: 394).

In PSAK 106, there are several terms and terms relating to musyarakah accounting, namely as follows :

1. Musyarakah is a partnership agreement between two or more parties for a particular business, where each party contributes funds provided that profits are divided by agreement while the risk is based on the portion of the contribution of the funds.
2. Permanent musyarakah is musyarakah with the provision that the fund portion of each partner is determined according to the contract and the amount is fixed until the end of the contract period.
3. Decreasing musharaka is musyarakah, provided that part of the entity's funds will be transferred in stages to partners so that part of the entity's funds will decrease and at

the end of the term the partner contract will become the full owner of the business.

In musyarakah each partner has a share of capital in musharaka. In principle, each investor has the right to manage a joint venture, but partners can also give power to other partners to manage the business. If partners only carry out capital participation, they are called passive partners, while partners who in addition contribute capital also manage the musharaka business are called active partners (Wiroso, 2011: 398). In SFAS 106 menga t ur that as an active partner musyarakah business manager must have separate accounting records from other business records, because the business Musharaka is a joint effort between partners, both partners active and passive partners.

## **III. RESEARCH METHOD**

### **Types of Research**

This research used qualitative research methods. According to Bogdan and Taylor (1975) cited by Moleong (2010: 4) defines qualitative methodology as a research procedure that produces descriptive data in the form of written or oral words from people and observable behavior.

### **Research Paradigm**

The paradigm used in this research is the interpretive paradigm. The interpretive paradigm departs from an attempt to find an explanation of social or cultural events based on the perspectives and experiences of the person being studied (Ernams, 2008). The interpretive paradigm focuses on the mindset, ethics, and human behavior which are considered as actions that involve intentions, awareness, and certain reasons that depend on the meaning and interpretation of humans in understanding and viewing social phenomena (Bungin, 2007: 56).

The approach used in this study is a descriptive approach. Subana (2005: 89) suggests a descriptive approach that is telling and interpreting data relating to facts,

circumstances, variables, phenomena that occur when the study takes place and present it as is.

### **Research Design**

Research design is a design that describes how the research was conducted in order to get what is the purpose of the study (Yin, 2009). The research design was used to answer the research questions about how the suitability of the Sharia Financial Services Cooperative Cooperative financial statements is submitted :

1. Selection of research methods.
2. Selection of key informants related to research.
3. Data collection.
4. Data validity.
5. Data analysis.

### **Stages of Data Collection**

1. Preliminary survey  
Dig up-to-date information both through articles, internet, print media, and others to obtain an overview of Islamic financial statements, murabahah, mudharabah and musyarakah financing.
2. Library survey  
Activities to collect and study finished data obtained from books, research journals, Sharia PSAK, and the fatwa of the National Sharia Council.
3. Field data collection  
The process of collecting data is done by observation, interviews, recording and documentation.

### **Data Collection Technique**

1. Observation  
Observations are made to obtain data or information related to the situation that occurred.
2. Interview  
Interviews are researchers face to face and question and answer directly with the informant with the aim to find out, get a complete picture of the views and the establishment of the informant on a phenomenon. In addition, researchers also

use a method of discussion that allows reciprocal questions in the process of collecting data. Interviews are called semi-structured interviews.

3. Recording  
The limited memory of researchers makes researchers need a recording device in the process of collecting data.
4. Documentation  
Documentation is used as a source of supporting data in research. These documents include sharia financial statements and journals of murabahah, mudharabah, and musyarakah financing transactions in the Sharia Financial Services Cooperative in Blitar City and Regency.

### **Characteristics of Informants**

The first informant is the Cooperative Manager who is responsible for financial reporting activities and Islamic finance transactions that are carried out. In this research, the data collected is narrative data.

The second informant is the Cooperative Accountant from the part that serves the realization. The researcher hopes to obtain more in-depth data regarding the treatment of accounting which consists of recognition and measurement, presentation and disclosure of murabahah, mudharabah, and musyarakah financing.

### **Data Validity Check Procedure**

According to Lincoln and Guba, in order to guarantee the validity of the results of qualitative research (Bungin, 2007: 59-63), there are 4 standards, namely :

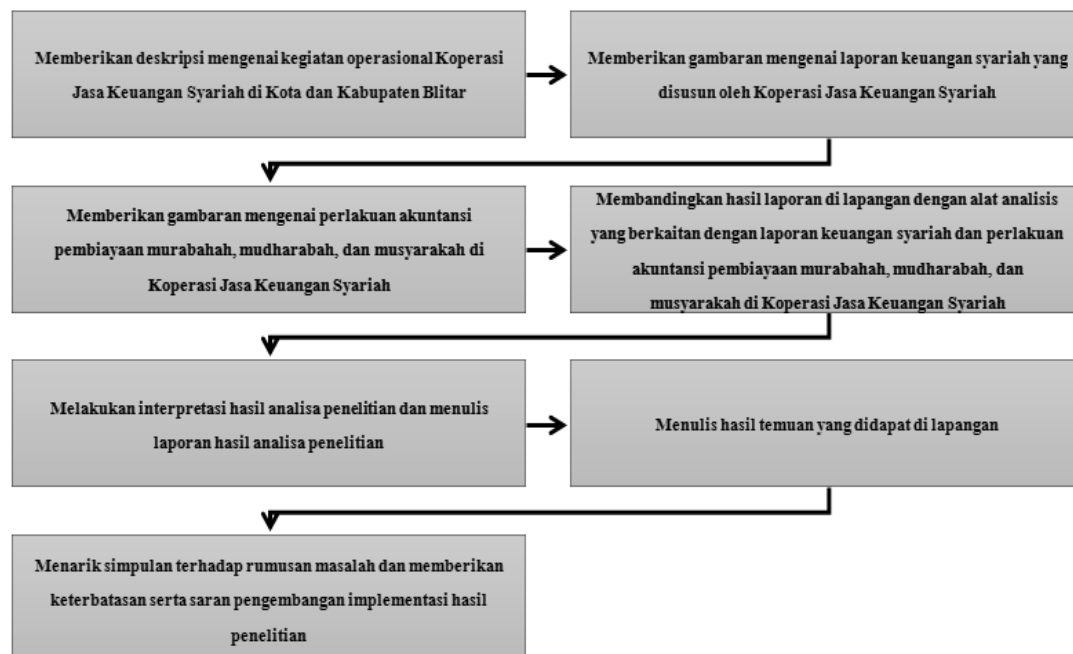
1. Credibility Standard  
The researcher used a *peer debriefing* technique that involved colleagues to discuss, provide input, and even critique starting from the beginning of the research process until the results of the study were arranged.
2. Standard Confirmability  
Confirmability is used to find out whether the results of the study can be verified where

the results of the study are consistent with the data collected and included.

3. Standard of transferability  
The standard of transferability is a modification of external validity in quantitative research.
4. Standard dependability  
One effort to meet dependency standards is by conducting an audit (inspection) and conducting a *review* of all research results.

### Data Analysis Technique

Data analysis is a way or steps to process primary data and secondary data that are useful for research to achieve the ultimate goal of research. Steps taken to discuss the results of the study :



### Analysis Tool

The analytical tool used in this study, namely the Statement of Financial Accounting Standards (PSAK) No.101, 102, 105 and 106 concerning:

1. The basic concept of compiling and presenting Sharia Financial Statements.
2. Murabahah Accounting.
3. Mudharabah Accounting.
4. Musyarakah Accounting.

## IV. RESULTS AND DISCUSSION

In Indonesia, actually Islamic values-based cooperatives were born first in the form

of a business association called Sarikat Dagang Indonesia (SDI). SDI was founded by H. Samanhudi in Solo, Central Java, which consisted of Muslim traders and the majority of batik traders. The sharia cooperative began to *boom* along with the development of the world of sharia industry in Indonesia which started from the establishment of the first Sharia Bank in 1992. Legally, the Sharia Financial Services Cooperative was overseen by the Republic of Indonesia Minister of Cooperatives and SMEs Decree Number 91 of 2004 concerning Activities Implementation Guidelines Islamic Financial Services Cooperative Business.

Sharia Financial Services Cooperative (KJKS) is a cooperative business entity that runs its business using sharia principles. The emergence of KJKS provides opportunities for the development of Islamic economics, especially in the micro sector. The micro sector that is not touched by banks such as SMEs and small traders, can be embraced by KJKS.

With the largest Muslim population in the world, Indonesia has become the largest *Islamic Micro Finance* country in the world with 22 thousand sharia cooperative outlets and Baitul Maal Wat Tamwil (BMT). This number is quite significant considering that a new sharia cooperative was legally established in 2004 (Fossei, 2013). Until the end of April 2012, the total number of Islamic Financial Services Cooperatives and Sharia Financial Services Units (KJKS / UJKS) had 2,362 pieces at the national level of 85, provincial level 189 units, and 2,088 regencies / municipalities. Besides KJKS / UJKS, there were also BMTs with a total of 3,900 in 2010. (Hatta Rajasa in Fossei 2013).

The number of KJKS / UJKS members reached 233,558 in April 2012. While the amount of loans disbursed was Rp. 1.64 trillion, while the amount of deposits received is Rp. 1.45 trillion. KJKS and UJKS assets reach Rp. 2.42 trillion, while for BMT the total assets managed are estimated at a value of Rp. 5 trillion, customers served by around 3.5 million people, and the number of workers managing around 20,000 people. (Fossei, 2013).

In the collection and distribution of funds, the Islamic Financial Services Cooperative (KJKS) can use several types of contracts. For fund raising activities, KJKS can use deposited contracts (*Wadiah*) and profit sharing (*Mudharabah*), while fund disbursement activities, KJKS uses sale and purchase contracts (*Murabahah*), profit sharing (*Mudharabah*), inclusion (*Musyarakah*), rent (*Ijarah*), and non profit (*qardhul Hasan*).

With the development of the business or activities of the Islamic Financial Services Cooperative (KJKS) as indicated by the increase in managed assets and the amount of income obtained from its business activities, the KJKS managers must be able to account for all operational activities to members. The form of KJKS manager's responsibility is in the form of financial statements that can be used to evaluate the performance of KJKS managers.

Accounting is very necessary for Sharia Financial Services Cooperatives in preparing financial statements. Accounting is a service activity that serves to provide quantitative information, especially financial ones about economic entities which are estimated to be useful in making economic decisions in making choices among alternative actions (Wiroso, 2011: 15). From these definitions, accounting is a recording of business activities which are further presented in the form of financial statements that are useful for interested parties to make economic policies and decisions.

In Islam, accounting is based on the implications of QS. Al-Baqarah: 282 where accounting is not only beneficial for decision making but also closely related to recording transactions regarding existing rights and obligations with the aim of upholding justice. That is the reason why it is important to study accounting from an Islamic perspective or what is called sharia accounting.

The Indonesian Accountants Association has so far issued six (6) standards related to sharia accounting standards, namely PSAK 101 (presentation and disclosure of sharia entity financial statements), PSAK 102 (*murabahah*), PSAK 103 (*greetings*), PSAK 104 (*istishna'*), PSAK 105 (*mudharabah*), and PSAK 106 (*musyarakah*). The PSAK was issued in lieu of PSAK 59 concerning accounting for Islamic banking. PSAK 101 - 106 is used as the basis for sharia financial accounting for transactions practiced by non-bank sharia financial institutions such as BMT or KJKS.

With the issuance of sharia PSAK that regulates sharia financing transactions, KJKS as a microfinance institution that adheres to sharia principles should have applied the Islamic principle in its accounting treatment in accordance with Sharia PSAK. Islamic accounting not only provides information for decision making, but also to avoid fraudulent practices such as *earnings management*, *income smoothing*, *window dressing*, *lapping*, and other techniques that can be used by management / managers in preparing financial statements.

The number of KJKS in Blitar City / Regency area is 13 KJKS consisting of 1 KJKS in Blitar City, and 12 KJKS in Blitar Regency (Office of Cooperatives and MSMEs, 2015). The KJKS has played an active role in advancing the economy of the community in the Blitar city / district area because its customers come from micro-businesses such as market traders and other businesses. However, this measurement is not easy to because it's not just about the financial aspect but als non-financial of the company management (Zuhroh, Diana, Daengs GS, Achmad, 2018: 397-405 )

## V. CONCLUSION

In connection with the development of KJKS in the Blitar City / Regency area, the Blitar city / regency regional government through the Kota / Blitar Cooperative and UMKM Service requested accountability from the KJKS management in the form of annual financial reports. This was done to monitor and evaluate KJKS performance. Issues related to Islamic financial statements received by the Office of Cooperatives and SMEs, namely that they make the Islamic financial statements are still merely formalities to fulfill their accountability to the government. The Office of Cooperatives and MSMEs still doubts the suitability of reporting and accounting records based on Sharia PSAK in the KJKS financial statements. This happens because the education qualifications of KJKS managers who are responsible for preparing sharia financial statements do not have accounting

qualifications. Based on these issues and phenomena, it is important for me to review the suitability of the financial reporting of Islamic Financial Services Cooperatives in municipality and Blitar district.

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