A Financial Report Model For Traditional Market Traders To Increase *Mudharabah* Financing In *Baitul Maal Wattamwil* (*BMT*)

Review of Integrative Business & Economics Research

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ABSTRACT

Mudharabah and *Musharakah* are the financing systems. Some researches suggest that *mudharabah* financing is at asymmetric information, which led to the agency problems. One effort to reduce this asymmetric information is by performing financial statements disclosure. The sample includes the members who obtain financing from *BMT* of *Mitra Hasanah*. This research is conducted to develop the financial statements disclosure in accordance with the needs of both parties. Steps taken in this study are by identifying the users' needs and developing the model. The results show that traders are basically able to make the gross profit calculation report but are still unable to prepare the income statements. The difficulties are in determining fees the merchants should pay to the owner and family and upon the recognition of accrual expense. However, gross profit calculation report basically can be used to determine the shares upon the rights of traders and BMT. The research suggests that BMT should preferably give *mudharabah* financing in accordance with sharia law and use gross profit calculation report as as its basis to distribute the shares between *mudharib* and *shohibulmaal*.

Keywords: Asymetric Information, Gross Profit Calculation Report

1. INTRODUCTION

In Indonesia, Islamic banking develops very rapidly. Based on Islamic Banking Outlook In 2013, it shows that Islamic banking in Indonesia experiences rapid development, institutionally both in total assets and market shares. Moreover, in terms of financing, Islamic banking has significant growth. However, in term of financing percentage, Islamic banking is still dominated by *murabahah* financing.

The magnitude conditions upon *murabahah* financing become a problem that must be solved immediately. In philosophical view, a transaction characterized in Islamic banking is *mudharabah* (Maharani, 2008). Financing based on profit and loss sharing requires profits (return sharing) between capital owners (*shohibul maal*) and debitur (*mudharib*). If a business gets some profits, *shohibul maal* may receive the shares. In the other hand, if a business suffers from

ISSN: 2304-1013 (Online); 2304-1269 (CDROM)

a loss which is not caused by the manager, *shohibul maal* will also loose the capital invested. This system is the concept of fairness in the spirit of Islamic transactions.

The facts show that *mudharabah* and *musyarakah* financing based on profit and loss sharing in Islamic banking have a small percentage if compared to the other financing. There are several problems faced by Islamic banks in providing the finance. They are: (1) the existence of asymmetric information in *Mudharabah* financing; (2) the existence of financing agencies in *mudharabah* (Muhammad, 2006); (3) the existence of moral hazard.

Based on the descriptions above, it shows that the problems are on financing distributions. If a contract is given to micro sectors (small traders), they still have difficulties in preparing the financial statements. On the other hand, a financial report should available as the basic instrument to distribute the shares. The object of this study is the members of Micro Islamic Finance (*BMT*) of Mitra Hasanah of Semarang. BMT Mitra Hasanah is taken as the object of this this study due to their rapid development of business as one sharia based of *BMT* mainly focusing on trade sector business development.

Based on the background above, asymetric information leads to the lack of financing in Islamic banking. Business manager has more information upon owners' capital business performance. It means that information upon owners' capital businesses performance is based on a report prepared by the manager. The report then becomes the basic information for the calculation of shares between two parties. This condition leads to the presence of manager's moral hazard (*mudharib*) who is paid to minimize the profit, in order to lower the shares of *Shohibul maal*.

Therefore, intermediary media, that is accounting, between mudharib and Shohibul maal is very much necessary. The accounting disclosures may reduce the asymmetric information (Gonedes, 1980; Greenstein and Sami, 1994; Welker, 1995 on Khomsiyah and Susanti, 2003). Shohibul maal may use the accounting disclosures to assess *mudharib's* performance upon traditional market traders that *Shohibul maal* has similar information with mudharib's.

2. LITERATURE REVIEWS

2.1. *Mudharabah*

The Guidelines on Financial Accounting Standards (PSAK) No. 105 define that *mudarabah* is a business partnership contract between two parties in which the first party (the fund owner/*Shohibul maal*) provides all funds, while the second party (mudharib) acts as the fund manager, and the profits are shared between them according to the agreement, but the financial loss is borne only to the fund owner. Losses will be borne to the fund owner since the causes are not the fund manager's faults.

PSAK No. 105 Article 18 has set a number of conditions that if these conditions happen, then the business loss is a form of fund manager's negligence. The conditions are:

a. The contract (agreement) is not adhered to *mudharib*.
b. That there are no conditions beyond the ability of *mudharib* (force majeure) are prevalent or those have been determined when the contract is agreed.
c. Shares are based on court decision.

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A *Mudharabah* effort began when venture capital owned by *Shohibul Maal* has been received by *mudharib*. The *Mudharabah* effort is specified with a period of time when a contract or agreement between two parties is made. *Mudharabah* payback may be returned in instalment or totally in cash when *mudharabah* time ends.

The concept of profit sharing between *mudharib* and *Shohibul maal* is based on profits which are proportionally shared between the two parties agreed in the contract. The proceeding proportions often refer to a profit sharing ratio determined based on certain percentage of *mudharib's* income statement report given to *Shohibul maal*. The basic sharing benefits may be derived from; (1) profit sharing; and (2) gross profit (PSAK No. 105 Article 11). Basically, there are two types of profit distributions used. However, the method should be determined by both parties when the contract is agreed. It is necessary that the transaction has no *mudharabah* tendency that harms one of the parties.

2.2. Agency Problems In *Mudharabah* Financing

Agency problems arise because the authority delegation or a specific duty from a party against the other one. The development of theory on agency (the theory of agency) is that the first company in which the owner (in this case called the principle) gives the authority to the manager (in this case called agents) to organize the company. This authorization is due to the complexity of company's businesses which requires a certain party in charge of organizing the company intensively.

In agency theory, every individual should act to maximize benefit (utility) for himself (Irfan, 2002). Agency problems arise due to the obtained information which frequently does not have the same principle with that reported by the agent. The agent acting as the manager of the company has a lot of information about the company, either related to the current performance or the progress in the upcoming period. The agent is reluctant to provide all information he has in accordance with the principle.

Agency problems also occur in *mudharabah* (Muhammad, 2006). In *mudharabah* contract, the principle is a party that is not directly active in the management of business, called *Shohibul maal*. Agent is a party that is directly involved in the management of business, called *mudharib*. In this case, *mudharib* has the tendency to maximize profits for himself and neglect the welfare of *Shohibul maal*.

The basic sharing distribution between *mudharib* and *Shohibul maal* upon *mudharabah* transactions is the business income statement (according to the contract) which is periodically reported by *mudharib*. If the problems are associated with agency, *mudharib* may use the sharing income statement to maximize the profits. It means that financial statements used as basic sharing distribution between *mudharib* and *maal Shohibul* is more profitable.

2.3. An effort to Reduce the Asymmetric Information

Asymmetric information between *Shohibul Maal* and *mudharib* on *mudharabah* transactions occurs since business management becomes *mudharib's* responsibility. In the given period, *mudharib* is obliged to report the results of his efforts as the basic sharing distribution between *mudharib* and *Shohibul maal*.

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Based nn this information, it shows that *mudharib* has more information upon the businesses run by *Shohibul maal* which then results in asymmetric information between *mudharib* and *Shohibul maal*.

Asymmetric information on *mudharabah* transactions may result in different preferences between *mudharib* and *Shohibul maal* upon business performance and prospects. *Mudharib* has complete information upon the current and future business performance that they are running. *Shohibul maal* has only limited information which is only due to *mudharib's* reports. In case of agency problems, *mudharib* may utilize the limited information owned by *Shohibul Maal* to get self-centered and heed advantages from *Shohibul maal*. This is one problem in sharing distribution between *mudharib* and *Shohibul maal*.

Several studies related to efforts in reducing the asymmetric information found that financial statements disclosure may reduce the asymmetric information (Gonedes, 1980; Greenstein and Sami, 1994; Welker, 1995; Lang and Lundholm, 1996 in Khomsiyah and Susanti, 2003). In addition, disclosure presentation may provide insight for readers upon risk management policies of financial statements (in particular investors) to control the company that investors may not be lost in making their investment policies (Subekti, 2001). Thus, financial statements are greatly required to reduce the asymetric information.

2.4. The Development of Accounting Model

The definition of accounting according to the American Accounting Association is a process of identifying, measuring, and communicating economic information used by the users of information to make assessments and decisions. AICPA defines that accounting is an art of recording, classifying, and summarizing the significant issues, in terms of money: transactions and the happening events while in terms of monetary: interpreting the generated information.

Accounting Output is a form of financial statements: balance sheet (statement of financial position), comprehensive income statement, equity changes statement, cash flow statement, and financial statements notes. Those financial reports may be used by stakeholders (investors, government, company employees, creditors, suppliers and others who have an interest in the company concerned) in decision-making.

Accounting is basically a language performance issued by the organization manager of stakeholders. Some parties consider information generated though accounting will be higher when meeting the standards. However, some parties consider the standards in accounting is not necessary since the company has incentives to voluntarily report the capital market as they compete in resources with other companies in the competitive markets. The company's failure in accounting reports may be interpreted as "bad news" for the company (Ghozali and Chariri, 2007).

There are two approaches in the development of standards of accounting models: free market and regulatory approach. Free market approach is based on the basic assumptions that accounting information is an economic commodity which is similar to the other goods or services. The amount of information provided by accounting is highly dependent on the strength of demand and supply (Ghozali and Chariri, 2007).

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Regulatory approach finds that great market failures or asymmetric information related to the presentation of financial information for the interested parties may reduce investor confidence (Ghozali and Chariri, 2007). The approach used in the development of accounting model is the free-market approach. It is because the development of accounting model is focused on meeting the needs of *mudharib* and *Shohibul Maal* in determining sharing of *mudharabah* financing. The accounting developed is just for the reporting purposes, and proceeding share proportions between *mudharib* and *Shohibul maal*.

2.5. Frameworks

From the explanations above, it shows that the main problem in *mudharabah* transactions is the asymmetric information on sharing reports that are periodically presented by *mudharib* to *Shohibul maal*. This asymmetric information may lead to the conflicts of agency between two parties. Accounting disclosure is required to be agreed by both parties that thay will have almost the same information upon their business income statement which has very important position in *mudharabah* transactions. Income statement, in the efforts, will become the basic sharing calculation of both parties. If asymmetric information between two parties is still high, the agency problems will likely to be higher as well.

3. RESEARCH METHODS

The Object of this research is the traditional market traders, finance receiving members of *BMT* Mitra Hasanah of Semarang. The object of research is not only restricted by the finance receiving members because the ultimate goal of this research is to increase the amount of finance ideally for Islamic financial institutions. By involving those members, the financing agreement is possible to replace the members’ concerned financing agreement.

Two people from BMT Mitra Hasanah are selected as the informants. The information needed by informants coming from BMT Mitra Hasanah is the implementation of *mudharabah* financing, financial terms, and the roles of *mudharabah* financial statements filling. To obtain above information, the researchers appoint BMT manager and head of financing or accounting department as the informants.

The information from BMT members is obtained by understanding the financing model, members’ accounting roles, and members' required accounting ability upon the data. The number of samples determined in this study is not measured while the number of informants is determined based on the results of data collected in the field. The number of samples used as the information resources will be extended in the event that researchers are not able to formulate some answers due to the information above. In contrast, the number of informants may not be extended if all the necessary information has been obtained.

Based on the results of field data collection, ten BMT members are obtained as research informants. Those ten informants are BMT members receiving finance from BMT Mitra Hasanah. The informants are stationery business owners with the initials of AN, cracker sellers with the initials of SF, sewing machine sellers with the initials of KP, plastic sellers with the initials of MH, vendors in market with the initials of MK, fruit vendors with the initials of

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SK, basic commodities and herbs sellers with the initials of SW, herbal sellers with the initials of SL, haberdashers with the initials of SY, and grocery sellers with the initials of MR.

This research uses Research and Development (R & D) approach. The research and dissemination are followed by developing a model through a cyclic requirement of digging, designing, testing, stabilizing, and implementing the model. The cyclic process is systematically conducted and is intertwined with each other.

The development of a model begins with digging the users' needs. Data collection method is conducted using a qualitative method. The qualitative data sources are directly renumerated in the field by the researchers. The data sources in this study are market traders who are also the members of BMT Mitra Hasanah.

This research was conducted in three stages. The first stage is to find the accounting disclosure requirement charts required by BMT Mitra Hasanah and its members. At this stage, some activities are performed, such as: (1) collecting data through direct observation, informants' in-depth interviews, and documentation, (2) organizing the collected data, and (3) analyzing and formulating results from the collected data. At this stage, the data is analyzed using a fixed comparison model (constant comparative method). Steps in the fixed ratio model are (1) reducing the data, including unit (s) identification and company coding; (2) categorizing the data, such as naming and labeling each category; (3) synthesizing the data, that is, synthesizing relevance categories; (4) developing the working hypotheses, resulted from the formulation of statements and of similar proportions to answer the questions. The second stages is preparing and designing the model (hypothetical).

4. RESULTS AND DISCUSSIONS

4.1. Understanding Model of *Mudharabah* Financing

Mudarabah financing is a partnership contract between two parties in which the first party (the fund owner or *Shohibul maal*) provides all funds, while the second party (the fund manager or *mudharib*) acts as the manager, and shares the profits between them according to the agreement while financial losses held only by the fund owner (Indonesian Accounting Committee, 2013).

Based on above understanding, there are several major characteristics in mudarabah transactions:

1. One of the parties as fund owner, and other one as the fund manager. The absolute financing capital ownership comes from the fund owner.
2. Share distributions for both parties are based on a ratio agreed by them when the contract is initially agreed. The ratio is in the form of profit percentage and the actual income from the running businesses.
3. In the event of business bankruptcy which is not caused by the fund manager's negligence, the financial loss fully becomes the fund owner's responsibility.

The interview results show that most *mudharabah* financing recipients do not understand the concept of *mudharabah* financing. Here are some statements coming from several sources:

Mr. MR reveals:

"I do not understand the concept of profit sharing, but the important is my monthly installment is easy, sir".

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The above statement is similarly expressed by Mrs. SL, Ms. MK, and Mr. SK.

While Mrs. SW reveals:

> "So far, we have already had a sharing system. We share our profits with *BMT* for about 1.8% per month.

The above statement is similarly expressed by Ms. KP.

From those statements, it shows that all respondents do not know the concept of *mudharabah* financing system that the profit sharing is based on the profits as its main characteristics. According to the interview results, those who receive the finance explain that the financial profit sharing is flat by 1.6% per month. The informants understand that the received *BMT* fund may be used for additional working capital which is profitable. The business profits will be distributed to *BMT* and its members. *BMT* share is flat by 1.6% to 1.8% per month (calculated based on the amount of fund received).

Based on above findings, it shows that the concept of *mudharabah* and the concept of profit and loss sharing understood by *BMT* members are wrong. The justification is based on the following reasons:

1. Profit-sharing agreement between *Shohibul Maal* (*BMT*) and *mudharib* (BMT's customers) is by a certain percentage of loans, not from a certain ratio (as agreed) times the actual business profit or income.
2. The concept of profit sharing (profit and loss sharing) demands a sharing of profit from operating business while losses are not caused by the members' negligence.
3. The concept of *Mudharabah* is that one party becomes *shohibul maal* and the other one becomes *mudharib*. It means that the manager must perform recording of sharing between efforts funded by BMT and efforts coming from the other sources. This sharing is based on profit calculation given to BMT. This finding is still less ideal.

When analyzed further, the concept *mudharabah* described above is similar with the concept of interest. The interest rate is calculated based on a certain percentage of the credits earned. Similar with the concept of *mudharabah* above, the profit sharing rate is calculated based on a certain percentage of financing received by BMT members. Based on this analysis, it is normal that one informant states that interest and profit sharing are similar. Mrs. SF states as follows:

> "For me,...interest, profit, and loss sharing (PLS) I receive are practically the same. The difference is, yes, the terms only. One uses the term of interest, while the other one uses the term of loss sharing."

BMT management interview justifies above findings. Here is the interview with SP as BMT manager.

> "All BMT members wanting to apply for *mudharabah* financing should make a modest note on their businesses that at least there are income and profit. The note determines the ratio of profit sharing. Once calculated, it shows the profit rate (red - rate of return) which is estimated about 1.6% to 2% per month ".
>
> "Once the business is running, the customers (red - customers) pay the rate above (red – based on its rate of return)".

4.2. The Roles of Financial Statements

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Mudharabah uses return sharing distribution system for both parties involved in a concerted effort or performance record frequently referring to financial statements. At this stage, both respondents from BMT members and BMT managers assume that the financial statements have very important roles in *mudharabah* transactions. The following statements are from Mr. SP as *BMT* managers.

"Yes, that’s because, basically all efforts must have financial statements. If there are no financial statements, how do they plant crops? But unfortunately, not everyone is able to make a financial report.”

“If we give them the fund while they do not have financial statements that we do. ... The members should be regularly monitored. When we visit them, we're able to see the profits of their efforts. If there are more goods, we may think that the development of his efforts is not obvious. If there are only some remaining goods, yes there are potential financial difficulties, sir".

“So we just periodically monitor the profits sir".

Here are some statements from Mrs. MK

"I can not sir. In fact I do not know what isincome statement." "It is difficult (red - calculating profit every day), sir, since the price of goods is different".

"I do not count money, every day. Yes, principally it is important. I can pay my debt back and my daily living costs."

Similar answers are also given by Mr. MR. Mrs. SL states differently:

"not yet (red - making an income statement), it is complicated" " I may count the profit. Yes ... from price differences and selling prices of goods ".

"It is usually 10% of my omset, sir".

Similar answers are given by Mrs. SL and Mrs. AN. More detailed explanation is given by Mrs. SF. The following statements are from Mrs. SF:

"Actually, I can. We know the selling and purchasing price of each item of goods we sell".

"Yes, sir. I always count it (red - the amount of money when opening and closing the store). These determine the position of money or income we earn sir ".

Based on the interviews, it can be identified that all the informants do not prepare the income statements. This is because the preparation of income statements related to the problem requires resources, time, and energy which are not simple. Thus, the informants find them difficult to make the financial statements. Essentially, they have the capacity to calculate the daily income they earn. They are able to calculate the cost of goods they sell. Some sellers claim that they always make a note when selling their goods, but some sources also do not give a sales note. In addition, all sellers always keep a purchasing note of goods every time their goods are sold. In terms of sale bills and purchase orders, the sellers are able to calculate the business profit they get.

4.3. BMT costumers’ in Preparing the Financial Statements

Based on the previous analysis, it shows that BMT Customers are unable to make the financial statements. However, basically the customers have the capability to calculate their profits. According to the informants, they calculate

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their financial statements based on the difference between the price of goods and cost when the goods are sold. All sales are calculated based on the amount of money available when the store is closed, the cash net when the store opens, and all payments they make, including the payments of levy, purchases, consumptions and others. For those with sale bills and good purchases, profit calculation is made using the entire sale bills and purchase orders of goods.

The following statements justify the findings above. Mr. MK and Mrs. SL state:

"I can count my profit. Yes ... from the difference between the price of goods and cost when the goods are sold"

“It is usually 10% of my omset, sir".

"I always count it in cash everyday.

Mrs. AN and Mrs. SF state:

"Is it possible for us to really know the selling price and the cost when the goods are sold?"

"Oh yes, I always count it (red - the amount of money when the store opens and is closed) to determine the position of money or income we earn, sir".

4.4. Customers’ Ability in Preparing the Financial Statements.

Based on the results of previous analysis, we may conclude that the informants are able to make income statements. Some information is obtained from understanding the resources of income statement that the price of sale is reduced by cost of goods when they are sold. Thus, the income statement is in form of merchant gross profit calculation report. To calculate net income, they find it difficult to prepare it, especially in determining the occrual cost and salary expenses. Some informants find it difficult to calculate salary expenses for themselves (even some informants are assisted by their partners). The simulation Results on these preparations upon all sources of income generated from the real figures are less that the profit repoterd has poor reliability.

Due to the gross profit calculation report, the calculation of sales cost is conducted based on direct identification of goods sold. Those are due to some difficulties in calculating the resource inventory of goods at the beginning and at the end. All of them use manual system to determine the amount of good that may only be calculated using manual calculation.

4.5. Implementation of Gross Profit Reports in *Mudharabah* Transactions

Based on the Guidelines for Accounting Standards No. 105 on *mudharabah* accounting, it mentions that in term of *mudharabah* the distribution of profits between *mudharib* and *Shohibul Maal* are defined as profit sharing principle and revenue or gross profit sharing. The profit sharing uses business’ net income as a basis to share the amount of profit for *Shohibul maal* and *mudharib*. The principle of gross revenue or profit sharing uses the amount of income (business services) or business gross profit (trade business) as the basis to share the amount of profit to mudharib and Shohibul maal.

Thus, the concept of gross profit calculation report may be used as the basis for distributing profits between *mudharib* and *Shohibul maal*. In the other words, the principle of gross profit margin of financing may be used to increase financing.

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5. CONCLUSION

Based on the analysis above, it can be concluded that traditional traders and BMT manager do not make their financial transactions in accordance with sharia law. Understanding the concept of profit sharing which is the main characteristic of *mudharabah* transactions has not been ideally performed. This condition is conducted since traditional market traders have not prepared the financial statements, particularly income statement which is the main basic proceeding shares between merchants and *BMT*. However, traditional market traders are basically able to make gross profit calculation reports. For income statement calculation, the traditional market traders still find it difficult in calculating costs especially costs of employee salaries and accrual. This is because the store management is directly operated by the owner himself and his family. The gross profit calculation report can be used as the basic sharing distribution between BMT and traditional traders. Based on PSAK number 109, *Mudharabah* Accounting may be calculated by two methods: net income (profit sharing) and gross profit (gross sharing).

This sudy suggests that BMT financing should be given to merchants in accordance with the rules of sharia. This is basically conducted because merchants are able to make gross profit calculation reports that can be used as a basic sharing distribution between merchants and BMT.

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