



## Empirical Proof of Traditional Market Trader Readiness in Preparing Financial Statement as a Mudharabah Transaction Media

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### Abstract

In her research, Anisykurlillah et al. (2016) have formulated a model of gross profit calculation report that is used by tool to reduce the problem of agency in Mudharabah financing transactions between Baitul Maal Wat (BMT) and market traders. This study was conducted to apply gross profit calculation report generated by Anisykurlillah. It was an experimental method in which researchers applied the model developed by Anisykurlillah et al. (2016). A sample of the research was determined by purposive sampling method with criteria of BMT Mitra Hasanah member Semarang, Indonesia, receiving Mudharabah financing, and Mudharabah funds are used for trade finance in the traditional market. The research method used real experiment methods. The result showed that market traders were able to generate the report of gross profit calculation that could be used as media in calculating profit sharing for BMT and traders. Nevertheless, the report generated was less reliable and relevant. It was caused by the determination of sale price calculated based on the traders' memory. Thus, it is needed a tool that can record goods sale and purchase, so that the resulting report is more reliable and relevant.

**Keywords:** Mudharabah Financing; Baitul Maal Wat Tamwil; Report Gross Profit Calculation

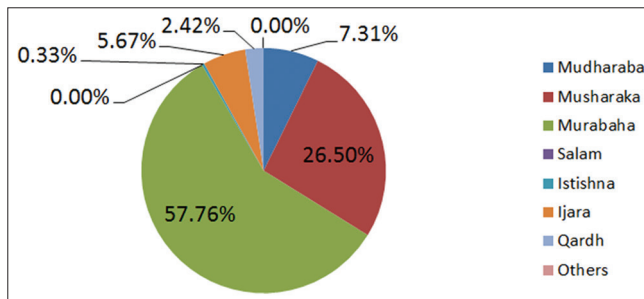
### 1. Introduction

One of the problems still faced by Islamic banking is financing distribution which based on profit sharing is still not optimal. It is seen from the percentage of transactions-based financing, namely, Murabaha financing which has very large portion. Data from Bank Indonesia as June 2015 are as follows Figure 1.

A large percentage of Murabaha financing reflects the performance that is far from its Ruhiyah. This is because, in philosophy, a transaction that is a characteristic of Islamic banking is Mudharabah financing (Maharani, 2008). It is due to Mudharabah contract is fairer than others contracts (Ruhaini and Abdul, 2010; Satriawan and Ariffin, 2012).

Some parties consider that the problems due to lack of Mudharabah financing caused by: (1) The existence of information asymmetry in Mudharabah financing, (2) the existence of agency in Mudharabah financing (Muhammad, 2006; Bacha, 2006), and (3) the existence of moral hazard (Warda, 1999). Information asymmetry on Mudharabah financing occurs since on the Mudharabah transaction, bank provides financing amounting to 100% of the funds needs to the customer. The customers as bank partner have a duty to manage the funds. It is like a relationship between agent and principal on the concept of theory agency. To reduce the information asymmetry, it is required a link media between Mudharib and Shohibulmaal. The media is accounting. Disclosure in accounting is able to reduce information asymmetry (Gonedes, 1980; Greenstein and Sami, 1994; Welker, 1995).

Figure 1: Percentage of Islamic bank financing



AQ4 Source: Bank Indonesia (2016)

Nevertheless, the implementation of accounting on business entities has experienced many obstacles, especially on entities, which categorized into a small business. Small business entities have experienced many problems in the implementation of accounting (Rudianto and Siregar, 2012; Kurniawati et al., 2012). If the problem is associated with Mudharabah problem, then Mudharabah financing is badly potential to cause a great risk when it is given to small businesses because of the high information asymmetry. It is a problem which still being experienced by the Islamic Financial Service Cooperative (Baitul Maal Wat Tamwil [BWT]). That is the implementation of Mudharabah transactions on BMT experiences greater obstacles than Islamic banks. It is due to the consumers of BMT are small businesses. Further, the impact of this problem is the practice of Mudharabah financing that is not in accordance with Islam. Fitrianiingsih (2010) and Sari (2015) in their research found that the implementation of Mudharabah is not in accordance with Islam.

Anisykurlillah et al. (2016) have tried to solve this problem by developing a model of financial statement, which can be applied by small businesses, the traditional market traders. Reasons for choosing traditional market trader as an object of this study as the market trader is a major market segment of BMT (Republika, October 28, 2010). The development model of this financial statement has at least two reasons: (1) Traditional market is financing receiver member who has greatest percentage than other members, and (2) the financial statement is the only tool in the determination of profit sharing between BMT and members (Anisykurlillah et al., 2016). It means that the ability of traditional market traders in generating financial statement is a major success key in Mudharabah transactions. The success of this transaction is marked with fair profit sharing and the suitability of transactions with Islamic law (sharia compliance).

This research was conducted to explore the obstacles or weaknesses of model implementation developed by Anisykurlillah et al. (2016) as well as to evaluate the model. This research is extremely required to produce a more perfect model. So that both parties, BMT and market traders are able to gain benefit holistically concerning benefits both materially and spiritually.

### 1.1. Mudharabah financing

Guidelines of Financial Accounting Standards No. 105 defines that Mudharabah is a contract of business cooperation between two parties in which the first party (owner of the fund/Shohibulmaal) provides all of the funds, while the second party (manager of the fund/Mudharib) acts as the manager. The profits divided between them according to the contract, while the financial loss is only borne by the owner of the funds. Losses will be borne by the owner of the funds so long as the cause of loss is not the fault of the fund manager. If the loss of business caused by manager’s negligence, then the loss is borne by the fund manager (IAI, 2015).

In Mudharabah transactions, profit sharing between Mudharib and Shohibulmaal uses the system of profit sharing. The system of profit sharing is the distribution of profits on the terms of a specific portion (called by the ratio) has been agreed by the time of the contract. Profit, which will be shared must be the profits that have been received (cash basis). Guidelines of Financial Accounting Standards

No. 105 Paragraph 11 have set that the determination of profit sharing can come from: (1) Net profit sharing, and (2) gross profit sharing. Basically, these basic types of profit sharing can be used, however, the practice widely used is the calculation of profit sharing based on gross profit. It is done as for Shohibulmaal; net profit sharing method has a greater risk than gross profit sharing. Using the method of gross profit, BMT does not bear the operating cost incurred by the trader.

Amount determination of profit sharing, which becomes the rights of both parties based on the result of real business reported by the traders in the form of financial statement. The consequence of Mudharabah transaction is the traders must report the results of their performance periodically to the BMT.

The explanation above concludes that the accounting output, financial statement, must be used in Mudharabah transaction. Gross profit and net profit are the output of accounting, which is information generated from income statement. It means for all the parties, which do Mudharabah transaction, primarily Mudharib, should be able to generate the income statement.

## **1.2. Agency problem**

The characteristics of Mudharabah transactions are exclusion from the capital owner in managing their investments. Moreover, investors income based on the real business reported by funds manager in the financial statement. Management separation between capital owners and fund managers will give rise to agency problems, there is a tendency of fund manager reported the results of his business in accordance with manager's desire. In the view of agency theory, agent tends to maximize self-interest than principal interests. In Mudharabah transactions, the agent is a potential fund managers concerned with self-interest rather than the interests of funds owner.

The possibility of this agency problem occurs on Mudharabah transaction (Muhammad, 2006; Bacha, 2006). It is due to funds management becomes the responsibility of Mudharib and revenue of Shohibulmaal based on a report prepared by Mudharib. It means that Mudharib has high interest in the financial statement produced. The greater profit reported, the greater cost of profit sharing paid to the owner of the funds. Conversely, the lower profit reported the lower cost of profit sharing paid.

In the case above, it can be interpreted that Mudharabah transaction found information asymmetries that produce different preferences between Mudharib and Shohibulmaal (Anisykurlillah et al., 2016). Mudharib, which has duty to manage Mudharabah funds has Mudharabah fund use result information which is greater than Shohibulmaal.

To reduce this agency problem, some parties recommend there liable financial statement, which is free from material misstatement. The financial statement generated has been audited by the owner of the funds or have been audited by a public accountant. Furthermore, the disclosure in the financial statement may also reduce information asymmetry (Gonedes, 1980; Greenstein and Sami, 1994; Welker, 1995; Lang and Lundholm, 1996; Khomsiyah, 2003), so it is needed an agreement between Mudharib and Shohibulmaal about disclosure required by both parties.

## **1.3. BWT Tamwil**

BMT Tamwil is derived from two concepts, namely, Baitul Maal and Baitul Tamwil. Baitul Maal literally means social institutions and Baitul Tamwil means commercial institutions. That is, BMT Tamwil has concept as an institution, which carries out social and commercial functions.

At the first BMT was arise, it is a form of savings and credit cooperative that its operationalization abolishes the system of interest or similar concepts. BMT is an Islamic microfinance institution in the form of cooperative. However, on the next developments, with the emergence of the Decree of State Minister for Cooperatives and small and medium enterprises No. 91/Kep/M.KUKM/IX/2004 on Guidelines for Implementation of Islamic Financial Service Cooperative Business Activities, BMT can use the legal entity as the Islamic Financial Services Cooperative.

Although the decree of State Minister for Cooperatives and small and medium enterprises has been out, the concept of BMT is still widely used by the perpetrators of this institution. It is due to the word BMT is more familiar than Islamic Financial Services Cooperative.

Compliance to the Islamic operating principles on the BMT is on the same concept with Islamic banks, namely, in the whole process of collection and distribution should use Islamic transactions. The difference between Islamic bank and BMT is the criteria of the customers. Islamic banks have general public consumers, while consumers of BMT are in the form of members. That is, BMT has a narrower consumer scope than Islamic banks.

Cooperative membership is done by depositing principal savings and mandatory savings which have been set out in the Articles of Association and Bylaws of BMT. Both types of savings are recognized by BMT as part of BMT equity. In addition, both types of these savings are an absolute requirement to become a cooperative. This means that people will save their money in the BMT and the people who will apply for the financing from BMT obliged to pay principal savings and mandatory savings.

#### **1.4. Model of gross profit calculation report**

Mudharabah contract is a partnership contract between Shohibulmaal and Mudharib where returns for both divided by a certain ratio on net profit or gross profit from business results. The method of profit sharing calculation based on the net profit or gross profit must be determined by contract of both parties and must have been approved at the time of the contract. It is due to the ratio of profit sharing is one of the pillars on Mudharabah contract.

If we compare between the division method of profit sharing based on net profit and gross profit and the division method of profit sharing based on net profit has advantages that are fairer than the ratio of profit sharing based on gross profit. This is because, on the method of net profit, the profits shared between both parties are net profit gained from all company's operating cost. Furthermore, the division method of profit sharing based on gross profit, Mudharib can receive the amount of the lower profit sharing than company's operating costs. As a result, Mudharib accepts losses. However, the division method of profit sharing based on the net profit requires more detailed reports than the method of gross profit.

Based on the observations of the researcher, the basis for the calculation of profit sharing that has been done at this time in Mudharabah transactions is more using gross profit. It is due to (1) greater risk for the funds' owner, namely, potential loss of profit sharing division based on the net profit is greater than gross profit, (2) difficulty to admit certain amount of relevant costs, such as salary and managers allowance and other forms of facilities given to Mudharib, and (3) the potential for very large fraud occurs through understatement or over statement recognition in the financial statement.

Anisykurlillah et al. (2016) in her study mentions that Mudharib is very difficult in determining operating cost which is recognized as cost of Mudharabah fund management. In other words, Mudharib is less able to produce an income statement that presents net profit as one of the information generated. It is due to Mudharib feels difficult in determining very reasonable cost on Mudharib's accurate salary costs and charges.

Given these difficulties, Anisykurlillah et al. (2016) recommend gross profit as a basis for the calculation of profit sharing between BMT and market traders. Furthermore, Anisykurlillah et al. (2016) have developed a model called the report of gross profit calculation as a tool in determining profit sharing as well as the media to reduce information asymmetry between BMT and the members.

#### **1.5. Framework and hypotheses**

From the description of theoretical framework above, it appears that the main problem in Mudharabah transaction is information asymmetry on the profit sharing statement reported by Mudharib periodically to Shohibulmaal. This information asymmetry will then lead agency conflict between two parties. For that, it required disclosure on accounting which must be agreed by both parties, in order that both parties have nearly same information on the business income statement.

Financial statement has a very important role in bridging the problems above. However, the report generated should be the report which is adjusted to the needs of Mudharib and Shohibulmaal as well as can be produced by Mudharib. The report is a report of gross profit calculation.

To improve the report generated, it is necessary to do model trial. The trial is needed so that the report generated is applicable. Moreover, it is needed to accommodate inputs, especially input from the user (Mudharib and Shohibulmaal).

## 2. Research Method

Object of this research was traditional market traders who were financing receiver members on BMT Mitra Hasanah Semarang. The research object was limited to the members of Mudharabah financing receiver because the ultimate goal of this research was to develop a model that mediated between BMT and the members in the implementation of Mudharabah financing.

Election of members as samples done using a purposive method which was based on the following criteria: (1) Receiving Mudharabah financing, and (2) Mudharabah funds used for trade capital in traditional markets.

This research used experimental real approach. This method was done by experimenting in the form of financial statements for traders in accordance with the transactions they did. Furthermore, the analysis would be done on the quality of financial statements produced.

## 3. Result and Discussion

This analysis was conducted to analyze understanding level of traditional traders on Mudharabah transactions. Members' understanding in Mudharabah transaction greatly influenced the success of BMT in providing Mudharabah financing. This was necessary because Mudharabah transaction was not a familiar transaction for the members.

In addition, Mudharabah transaction required more procedures than conventional transaction. The experience of the BMT manager, most people were more familiar with interest transaction than Mudharabah transaction. Society's view on Mudharabah transaction was this transaction more convoluted than interest transaction. Interest transaction was easier than Mudharabah transactions.

Descriptive analysis of BMT member understanding rating on the Mudharabah transaction showed that the traders understood Mudharabah transactions. In addition, the traders also very avoided interest, and they were very capable in preparing the report of gross profit calculation.

### 3.1. Analysis of traders capabilities in generating cost of goods sold report

This study was conducted to describe the capability of market traders who were members of BMT Mitra Hasanah in preparing the report of gross profit calculation. It was done because the report of cost of goods sold calculation was highly needed in Mudharabah cooperative.

Mudharabah contract was a partnership contract between funds owner (Shohibulmaal) and funds manager (Mudharib) where profits were shared according to the agreed ratio at the beginning of the contract and loss would be the responsibility of funds owner as long as the loss arising was not due to manager's fault. The division of profit sharing between BMT and the members based on the agreed ratio and multiplied with business results which have already realized. It meant how many rights for both parties depending on the business realization which was executed by the funds' manager. Therefore, at the end of the period, funds' manager had an obligation to prepare a report of business performance. One of which was report of gross profit calculation (Anisykurlillah et al., 2016).

This gross profit calculation report had an important role in Mudharabah transaction. At least, this report was as a media for fund manager in reporting the results. In addition, this report could also serve as a media to minimize information asymmetry between BMT and the members. Through this report, BMT was able to obtain performance information on the funds invested in Mudharabah transaction.

The research results showed that basically members were able to prepare the report of gross profit calculation well. BMT members, which were traditional market traders, had a good ability to remember every cost of goods sold of each item they bought. Difficulty, which arose in considering cost of goods sold was when the cost of goods up and down by a relatively short time. The increase and decrease of

the cost which was very short ever occurred during unstable economic conditions and applied for basic goods such as bulk oil, rice, eggs, and so forth. But those which were not categorized to basic goods tended to rise.

If there was an increase of goods, traders usually would record it on the side which was easy viewed by the traders. It was usually attached on the top of goods storage locker. It was necessary to be done to reduce losses potential due to the lower selling price than the cost of goods sold.

For the sales of goods, the traders admitted, they usually would give sales invoice to the buyer, but they did not have the copy. Typically, they would give a sales invoice written on the wrap scrap paper of certain products that were not in use such as wrap scrap paper of cigarettes, snacks, and others. Writing of a sales invoice on the paper that was not used led traders did not have recaps of the goods they sold.

To identify the stock of the goods sold, the traders also used their memory. They did not have special tools for assessing the amount of sold goods stock. This “memory” model sometimes caused merchandise was out without trader’s awareness. Goods that have occurred out of items stock usually occurred to the goods which had a low stock rotation. Low stock rotation caused the traders rarely made “contact” with the goods in question. As a result, the stock of these items was often lost from trader’s memory.

Basically, there was no difficulty for traders to prepare the report of gross price calculation. However, they acknowledged that the recording of the goods sold, recording of sales, recording of the cost of sold goods were not a common action to be done. Consequently, when they prepared the report of gross profit calculation, they admitted that it was too complicated, added jobs, and troublesome. It was usual, because with this recording, as if the trader was in a new community, where people who were in the new community tend to be less comfortable at the beginning. However, by the time flew, it would allow them to feel comfortable because they gained a lot of benefits from the report of the cost of goods sold calculation.

#### 4. Discussion

Based on the findings above, basically the market traders were able to compile report of gross profit calculation quite well. The report of gross profit calculation which was generated by market traders could be used as a medium in calculating profit sharing between BMT and traders. The concept of profit sharing was in line with sharia law and Guideline of FAS No. 105. That is, sharia compliance could still be covered in Mudharabah transactions between BMT and the members.

Other finding also noted that the preparation of gross profit calculation report for the trader was a complicated job. The process of gross profit drafting which required records of all the transactions relating to the sale and purchase of the goods was very troublesome for the traders. It was because all this time traders did not do recording. Information of cost of goods sold as a basis for determining selling price came from trader’s memory. When a trader bought merchandise, they would do recording by memorizing cost of each item they bought. The traders claimed that this memory could be done when the trader has run this profession in a long time. Therefore, report of the cost of goods sold generated was less relevant and reliable.

To improve the quality of the resulting financial statement, it was required a tool that facilitated traders in doing recording on the transaction, i.e., with the information system which was able to generate report in real time. This means that it was possible to conduct advanced research that results in a system that could be used by traders in preparing the report of gross profit calculation.

#### 5. Conclusion

Research result temporary shows that members’ understanding on the Mudharabah transaction is well categorized. In addition, members also consider that interest is a transaction that should be avoided. That is, the members highly want a transaction that is free from interest. These findings reinforce both parties to do Mudharabah transaction because Mudharabah transaction freed from interest.

The study is finding also shows that members have a pretty good ability in preparing the report of cost of goods sold calculation. Traders acknowledged that they know cost of goods sold they sold.



Due to it is based on their memories, thus enabling the financial statement which is less reliable and relevant. Nevertheless, this report basically enough can be used as a basis for determining profit sharing in Mudharabah transactions so that transactions executed are in accordance with sharia compliance.

Results of other studies also noted that this gross profit calculation report makes traders difficult. They are less familiar with this recording. Thus, it is desperately needed an information system that can be used as a tool for them in the recording of transactions performed.

The findings of this study can proceed with advanced research that produces a product that can be used by traders to facilitate them in making records of all transactions relating to the sale and purchase of goods so that the publishing process of price calculation report becomes easier for traders.

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