

ACCOUNTING FOR ISLAMIC-BASED TRANSACTIONS – INDONESIAN EXPERIENCES

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Legal Basis

Al Baqarah (The Cow) 275

- *Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah . But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein.*
 - This verse suggests trade is not an interest based transaction
 - There shall be clear distinction between interest based transactions and Islamic products

Basic Concept

- Conventional Accounting Standards:
 - Substance over Form
- Islamic Accounting Standards (derived from the most popular method of Sharia Writing – Rule based/Fiqh Ahkam)
 - Form and Substance are considered altogether. This sometimes becomes a bit “cumbersome”, but if properly applied will give relevant information to users of financial reports.

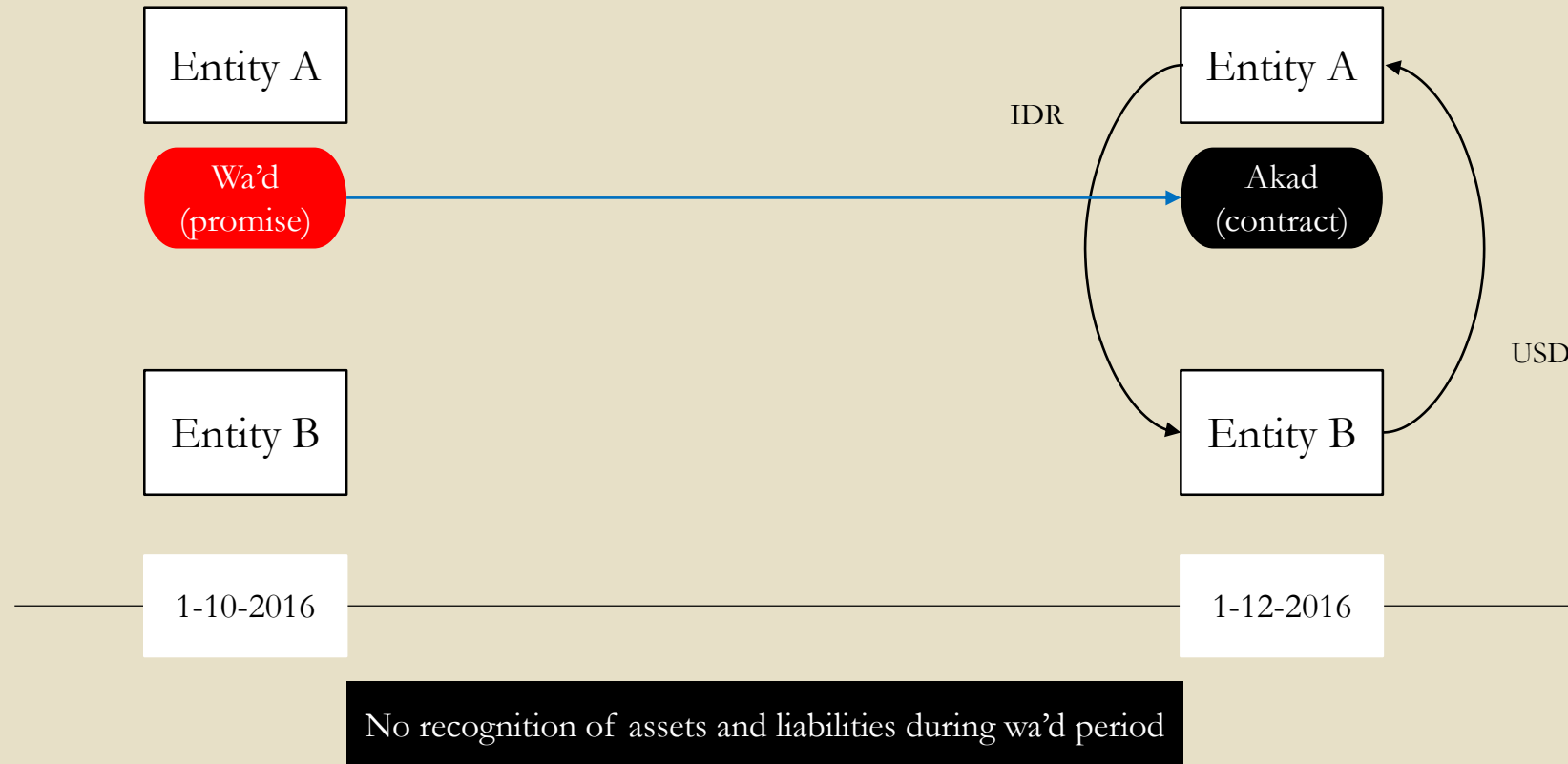
Examples of Islamic Transactions

- Many Islamic-based transactions are unique and may have no clear comparative in the conventional transactions (non Islamic-based transactions)
- Below are examples of the unique Islamic Products
 - Wa'd
 - Murabaha
 - Takaful
 - Temporary investment fund

Accounting for Wa'd

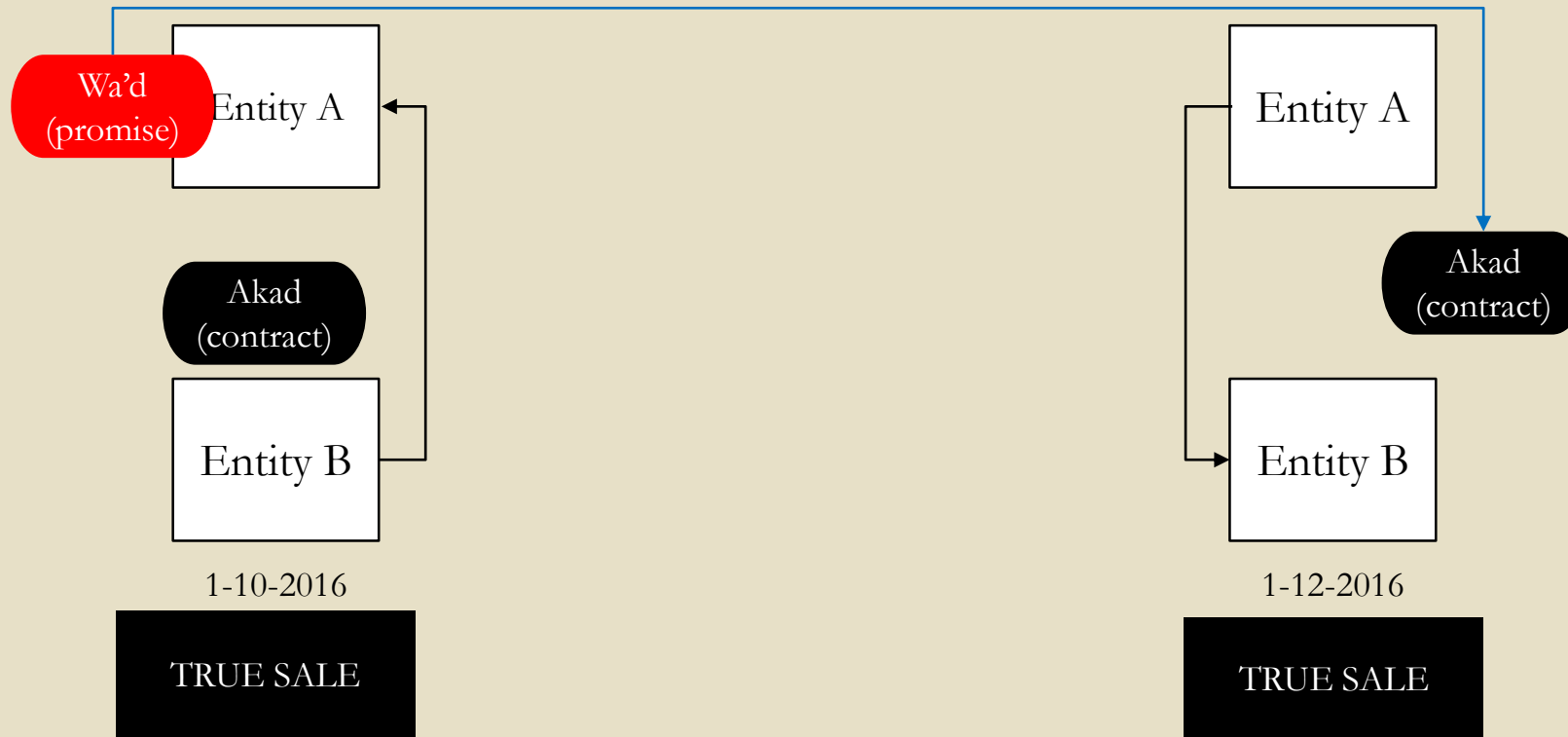
- Islamic law/sharia in Indonesia prohibits trading money with deferred payments and certain transactions which sell and buy back between same parties. They are allowed if traded in cash.
 - Hedging of foreign exchange risk and repo of marketable securities are using wa'd (promise), not akad (contract)
 - A wa'd is a unilateral promise or undertaking which refers to an expression of commitment given by one party to another to perform certain action(s) in the future

Islamic Hedging



Does IFRS 9's requirement for accounting hedge apply to the transaction?

Islamic Repo



Does IFRS 9's requirement for repo apply to the transaction?

Accounting for Murabaha

- Financial Service Authority (Otoritas Jasa Keuangan) has given a permit to Islamic bank to act producer and seller of real products and services in murabaha transaction (al murabaha al haqiqi) at end of 2016
- Illustration for property/mortgage transaction:
 - An Islamic bank acquires a plot of land;
 - The Islamic bank builds/develops houses on the land; and
 - The Islamic bank sells the houses to customers either in cash or under installment.
 - Sharia allows the bank to quote different price for different payment methods
 - Need to define performance obligation and recognition of margin

Temporary Shirkah Fund

- Conventional saving and deposit accounts promising fixed income are prohibited in Islam. Those accounts must be structured as investment accounts with profit sharing, or simply as wadiah, a sort of checking accounts which promise no return/interest.
 - Bank assumes no direct risk upon the utilization of the accounts, and no obligation to return in fixed amount to the deposit owners. Return to the deposit owners shall be variable in accordance with profit sharing, and can be negative (in very rare cases). The bank assumes no obligation to repay the deposit if the venture is bankrupt with no value to the investors (in very rare cases)
- This account may not meet definition of liability nor equity.



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