

## The Development of Islamic Accounting and Its Relevance to the Development of the Islamic Financial Industry in Indonesia After the Covid-19 Pandemic

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### Abstract

After the Covid-19 pandemic had many impacts on Indonesia, ranging from health impacts to the economy, including the Islamic finance industry. Many loss events occurred, such as payment arrears to default on the effects of Covid-19. The government has issued various policies to stimulate the economic impact. The Indonesian Institute of Accountants considers this impact on the application of Financial Accounting Standards to sharia commercial transactions in Islamic financial institutions. This paper aims to analyze the development of Islamic accounting and its relevance to the development of the Islamic finance industry after the Covid-19 pandemic. This type of research is library research (*library research*) by analyzing sources in the form of books, articles and regulations related to sharia accounting and the sharia finance industry. The results showed that in terms of regulations in Indonesia, sharia accounting began to be regulated in 2002 with the passing of the Financial Accounting Standards Guidelines (PSAK) No. 59 and the Indonesian Sharia Banking Accounting Guidelines (PAPSI). Then in order to be able to answer the need for accounting standards for Islamic financial institutions other than Islamic banking, PSAK 101-106 was passed in 2007, followed by the submission of draft PSAK 107-109 in 2008, and in 2018 PSAK 112 was passed which only became effective in 2021. Developments in sharia accounting are currently relevant to developments in the sharia financial industry. This is because the development of sharia accounting is heavily influenced by the development of the sharia financial industry, especially sharia banking. The financial industry whose operations are based on sharia principles must implement standardized recording, namely the sharia Financial Accounting Standard Statement (PSAK) stipulated by the Sharia Accounting Board of the Indonesian Accountants Association (DSAS-IAI). After the Covid-19 pandemic, IAI continued to accommodate accounting interests for the Islamic finance industry. Beginning of 2020 PSAK 102: Accounting for Murabahah (revised 2019), ISAK 101: Recognition of Tangible Murabahah Income Without Significant Risk Related to Ownership of Inventory and ISAK 102: Impairment of Murabahah Receivables takes effect in early 2020. DSAS-IAI decided to provide guidance on implementation *incurred loss model* in ISAK 102 regarding the impact of the covid-19 pandemic. It is hoped that this paper can contribute to the analysis of the development of Islamic accounting and its relevance to the development of the Islamic finance industry after the Covid-19 pandemic.

**Keywords:** Development, Islamic Accounting, Islamic Finance Industry

### INTRODUCTION

Sharia accounting has existed since the heyday of Islam and is still developing today. Sharia accounting is very important for sharia business. Every organization or business basically requires accounting in order to obtain financial data information which is very important for making business decisions. There are two main reasons why sharia accounting is urgently needed, firstly the demand for the implementation of accounting

in accordance with Islamic sharia and secondly the demand for recording and reporting sharia finance due to the rapid development of sharia business.

The development of sharia accounting has recently expanded, this development has not only occurred in Indonesia but also throughout the world. This is due to the very rapid development of Islamic financial institutions. Basically sharia regulations have been prepared to support the development of accounting. There are two main sources in the concept of sharia accounting, namely the Al-Quran and Al-Hadith.

In Indonesia itself, currently the Islamic finance industry has shown positive developments (Fikriyah & Yudha Alam, 2021), this can be seen from the growing development of sharia-based financial businesses such as Islamic banking, Islamic capital markets, and the Non-Bank Financial Industry (IKNB). Sharia, which consists of Sharia Insurance (Sharia Life Insurance Companies, Sharia General Insurance Companies, and Sharia Reinsurance Companies), Sharia Pension Funds (Employers' Pension Funds-Sharia Defined Benefit Pension Programs, Employers' Pension Funds, Sharia Defined Contribution Pension Programs, and Funds Pensions Islamic Financial Institutions), Islamic Financing Institutions (Sharia Financing Companies, Sharia Venture Capital Companies, and Sharia Infrastructure Financing Companies), Special Islamic Financial Institutions (Sharia Guarantee Companies, Sharia Pawn Companies, Sharia Indonesian Export Financing Institutions (LPEI), Financing Companies Sharia Housing Secondary, dan Sharia Civil National Capital (PNM); and Islamic Microfinance Institutions have the potential to continue to grow..

Islamic financial institutions such as Indonesian Islamic banking consisting of Islamic Commercial Banks (BUS), Islamic Business Units (UUS), and Islamic People's Financing Banks (BPRS) are currently showing positive growth. In 2021, the condition of sharia banking resilience will become more solid. This is reflected in the CAR ratio of Islamic Commercial Banks (BUS) of 25.71%. Meanwhile, the intermediary function of Islamic banking is running well. Disbursed financing (PYD) and third party funds (DPK) grew positively by 6.90% (yoy) and 15.30% (yoy), respectively, so that the growth of Islamic banking assets during this period was 13.94% (yoy ). Total assets, PYD, and Islamic banking DPK reached IDR 693.80 trillion, IDR 421.86 trillion and IDR 548.58 trillion respectively by the end of 2021. (Finance, 2021)

The development of the Islamic capital market in terms of products and value during 2021 shows quite positive growth. On 30 December 2021, the Indonesian Sharia Stock Index (ISSI) closed at 189.02 points, an increase of 6.50% compared to the ISSI index on 30 December 2020 of 177.48 points. The increase in the index was in line with ISSI's market capitalization value which grew positively by 19.10% from the previous IDR 3,344.93 trillion to IDR 3,983.65 trillion. This increase is in line with the growth of the JCI at the end of 2021. (Finance, 2021)

Until the end of 2021, Sharia IKNB as a whole is still recording growth, both in terms of total assets and business entities. In terms of assets, Sharia IKNB assets reached IDR 120.81 trillion with an asset growth rate of 3.90% (yoy). In addition, IKNB Syariah also experienced an increase in the number of business entities as a whole. At the end of 2021, there were 207 Sharia IKNB entities, consisting of 113 companies operating in full-fledged sharia principles and 94 sharia business units. The largest increase in the number of business entities was in the Sharia Insurance Company sector, Sharia Pension Funds, Sharia Guarantee Companies, and Sharia Microfinance Institutions. (Finance, 2021)

Of course, in terms of recording or accounting, these Islamic financial institutions must also comply with sharia. So it really needs accounting with a sharia-compliant recording system. Accounting in Indonesia if it is mapped almost entirely adopts accounting from the West. Even conventional (Western) accounting in Indonesia has been adapted without any significant changes. Of course, this can be seen from the education system, accounting standards to accounting practices in various forms of business. All accounting standards are based on the theoretical basis and accounting technology of the IASC (International Accounting Standards Committee). In the business world, all activities and accounting systems also refer to Western accounting.

Currently, Indonesia is intensifying the implementation of sharia accounting to meet the needs of an Islamic economic system that continues to develop in society. Several sharia accounting regulations have been prepared so that sharia financial institutions can adjust the recording that should be carried out in accordance with the demands of Islamic business. The purpose of implementing sharia accounting is of course to achieve socio-economic justice, and also as a form of obedience in carrying out worship as the fulfillment of obligations to Allah SWT relating to financial recording and reporting. In addition, the purpose of establishing sharia accounting is the creation of a business

civilization with humanist, emancipatory, transcendental and theological insights. Thus, through sharia accounting, social reality will be constructed through content starting from monotheism and submission to divine power networks, all of which are carried out from a perspective khalifatullah fil ardh. (Ilyas, 2020)

However, the current conditions, namely after the Covid-19 pandemic, are very different from previous conditions. After the Covid-19 pandemic had many impacts on Indonesia, ranging from health impacts to the economy, including the Islamic finance industry. Many loss events occurred, such as payment arrears to default on the effects of Covid-19. The government has issued various policies to stimulate the economic impact. The Indonesian Institute of Accountants considers this impact on the application of Financial Accounting Standards to sharia commercial transactions in Islamic financial institutions. Other research related to the development of sharia accounting has been written by several researchers including the writing by Ahmad Taufiq Harahap in 2017 with the title Development of Sharia Accounting in Indonesia in Warta Journal Edition: 53. The results of the research state that in this context, accounting development is a response and evaluation of business development. In this context, accounting develops according to and is influenced by environmental (business) developments. Developing accounting includes financial accounting and management accounting but also social accounting, human resource accounting, and behavioral accounting. (Harahap, 2017)

Subsequent research written by Uun Dwi Al Muddatstsir and Early Ridho Kismawadi in 2017 with the title Sharia Accountants in the Modern Era, Is it Urgent in Indonesia? in the journal Ihtiyadh Vol. 1 No. 1. The results of the study show that sharia accountants are the answer to all forms of work in the accounting field that can respond to the challenges of modern times because they are in accordance with the regulations taught and in accordance with the beliefs of Muslims who are the majority of people in Indonesia. (Al Muddatstsir & Kismawadi, 2017)

Furthermore, research conducted by Widiana in 2018 with the title Analysis of the Development of Regulations and Implementation of Sharia Accounting in Indonesia in the journal Law and Justice Vol 2 No. 2. The results of the study show that starting in 1991 the establishment of Bank Mumalat whose design had been studied long before the year it was founded. Furthermore, laws were issued that regulate the legality of Islamic economics and accounting. In order to accelerate its development, the government made

several amendments to sharia laws and regulations and conducted a review of sharia accounting so that the PSAK Syariah was issued, the Indonesian Sharia Banking Accounting Guidelines (PAPSI), and the existence of an MUI fatwa as the basis used in sharia accounting. (Widiana, 2018 )

Based on previous research found by the author there is a difference with this paper. This research has novelty in the current state of the Indonesian economy after the Covid-19 pandemic and research data sources. Because economic conditions continue to develop from time to time, this research needs to be studied further in order to obtain the latest and most accurate information so that it is useful for various parties. This study aims to analyze the development of Islamic accounting in Indonesia and its relevance to the current development of Islamic financial institutions after the Covid-19 pandemic. With this research, it is hoped that it can contribute to the development of Islamic accounting in Indonesia today and its relevance to the development of Islamic financial institutions and is useful for stakeholders who have an interest in Islamic accounting, such as Islamic financial practitioners, the government which is of course related to rules regarding Islamic accounting and for researchers. furthermore.

## ***METHODS***

The research method used is Literature Review or literature review. Literature research or literature review (literature review, literature research) is research that examines or reviews critically the knowledge, ideas, or findings contained in the body of academic-oriented literature (academic-oriented literature), as well as formulating their theoretical and methodological contributions to specific topics.

The nature of this research is descriptive analysis, namely the regular breakdown of the data that has been obtained, then given an understanding and explanation so that it can be well understood by the reader. Sources of data in this study were in the form of articles, previous research journals and books that were relevant to the title raised in this study.

## **RESULT AND DISCUSSION**

### **History of the Emergence of Sharia Accounting**

The declaration of the Islamic state in Medina (622 AD is fixed with 1 H) is based on the concept that all Muslims are brothers and without discriminating in any way. (Maulina, 2022) So that state activities are also carried out in cooperation with each other. The

Islamic State at first had almost no income or expenditure. So Rasulullah SAW established a secretariat that was still simple.

Furthermore, when the order was sent down regarding the obligations of zakat and ush (agricultural tax from Muslims) and the expansion of the area until the emergence of the jizyah (protection tax from non-Muslims) and kharaj (non-Muslim agricultural product tax), the Prophet Muhammad established baitul maal in the early 7th century. Baitul maal this is the beginning of the implementation of sharia accounting during the reign of Islam. Then baitul maal developed during the time of the prophet's companions in line with the development or expansion of the territory of Islamic rule.

During the reign of Abu Bakr, management baitul maal still very simple, that is, receipts and expenditures are carried out in a balanced manner and there is almost no leftovers. Significant changes occurred during the time of Umar bin Khattab by introducing the term Diwan. Furthermore, at that time the initial term of bookkeeping was known as jaridah or in English known by the name journal which means news. The accounting function has been carried out by various parties in Islam such as Al-Amel, Mubasher, Kateb. Development baitul maal which was more comprehensive was continued during the time of the caliph Ali bin Abi Talib and there was a surplus which meant management baitul maal get better. (Nurhayati, 2019)

#### Development of Sharia Accounting in Indonesia

Sharia accounting is part of business activities with Islamic concepts that contain muamalah in Islamic studies. (Putri, 2019) Muamalah activities are activities related to humans but have a value of accountability before Allah SWT. Allah SWT. places this problem in surah Al-Baqarah verse 282:

It means: " you who believe, when you pray not in cash for the specified time, you should write it down. and let a writer among you write it correctly and let the writer not refuse to write it as God teaches him, then let him write, and let the debtor dictate (what will be written), and let him fear God his Lord, and let him not reduce even a little from the debt. If the debtor is a person of weak mind or weak (condition) or he himself is not able to dictate, then let his guardian dictate honestly and witness it with two male witnesses (among you). If there are not two men, then (maybe) one man and two women from among the witnesses you are pleased with, so that if one forgets then the other will remind him. the witnesses should not refuse (to testify) when they are called; and don't

get tired of writing down the debt, both small and large, until the deadline to pay it. Such a thing is fairer in the sight of God and strengthens the testimony and is closer to not (causing) your doubts. (Write your mu'amalah), unless it is a cash trade that you conduct between you, then there is no sin for you, (if) you do not write it down and witness it when you buy and sell; and the writer and the witness should not make it difficult for each other. If you do (that), then Verily that is a wickedness on your part and fear Allah; God teaches you; and God knows all things."

Accounting has undergone a long metamorphosis to become the modern form it is today. (Alhogbi, 2017). In other words, current accounting has developed. This is in line with the results of research by Widiana (2018) which states that several stages in the development of regulations and the application of sharia accounting in Indonesia show progress. (Widiana, 2018). Initially, Indonesia had just pioneered the Islamic economy and Islamic accounting system. Then in the middle stage, regulations regarding sharia accounting were issued which were specifically intended for sharia banking because the first appearance of sharia economics in Indonesia was practiced by Islamic banking financial institutions so that the government focused more on regulations for sharia banking.

The development of Islamic accounting in Indonesia cannot be separated from the process of establishing Islamic banks to the development of Islamic financial institutions. The establishment of Bank Muamalat Indonesia (BMI) in 1992 became the initial basis for implementing Islamic teachings as guidelines for muamalah in Indonesia. The establishment of BMI is also not easy to do. It has gone through a series of very long and mature processes. It started with the struggle of a group of people and Islamic thinkers in an effort to invite the Indonesian people to do muamalah in accordance with the teachings of Islam. This group was initiated by several Islamic figures, the Indonesian Muslim Intellectuals Association (ICMI), and the Indonesian Ulema Council (MUI) in 1990. It's just that for 10 years (1992-2002) Islamic banks in Indonesia did not have a special PSAK. (Muhammad & Dwi Suwiknyo, 2009) So that anxiety began to arise due to the vacuum of the sharia accounting process felt by the management of Bank Muamalat Indonesia (BMI) in 1992.

There is an anomaly when Islamic banks make financial reports, where the accounting process still refers to conventional accounting standards or general

accounting. So it does not refer to accounting based on Islamic sharia. Ideally, financial reports from Islamic financial institutions must refer to or be guided by sharia provisions. So the idea of forming a sharia accounting standard emerged.

The development of sharia accounting in Indonesia has subsequently begun through academic studies and research related to sharia accounting. In terms of regulations in Indonesia, sharia accounting began to be regulated in 2002 with the enactment of the Guidelines for Financial Accounting Standards (PSAK) No. 59 and the Indonesian Sharia Banking Accounting Guidelines (PAPSI) which took effect in 2003. (Muhammad, 2008) This means that during a span of 10 years new Islamic banks can apply Islamic accounting.

However, after 3 years of use, many people feel that PSAK 59 can only be applied to three types of entities as contained in the scope of PSAK 59, which is only used for Islamic Commercial Banks (BUS), Islamic Business Units (UUS) and Islamic People's Financing Banks (BPRS). So to be able to answer the need for accounting standards for Islamic financial institutions other than Islamic banking on October 18, 2005 IAI responded to this unrest by forming a Sharia Accounting Committee (KAS) whose task was to formulate Islamic Financial Accounting Standards. In 2006 the Financial Accounting Standards Board (DSAK) agreed to disseminate the Exposure Draft Sharia PSAK which contains the Basic Framework for the Preparation and Presentation of Islamic Financial Statements (KDPPLKS) and PSAK101-106.(Muhammad, 2008)

Finally, in 2007 PSAK 101-106 was ratified, then followed by the submission of draft PSAK 107-109 in 2008, and in 2018 PSAK 112 was ratified which will only become effective in 2021. The DSAK has even agreed on group number (block number) for Sharia PSAK, namely Numbers 101 to Number 200. This shows the seriousness of the Indonesian Institute of Accountants (IAI) in responding to developments in Accounting practices in Islamic Financial Institutions in Indonesia. So it can be seen that the current development of sharia accounting is heavily influenced by the development of the sharia financial industry, especially sharia banking. This is because the Islamic financial industry whose operations are based on sharia principles is required to apply standard recording, namely the Statement of Sharia Financial Accounting Standards (PSAK) established by the Sharia Accounting Board of the Indonesian Accountants Association



(DSAS-IAI), it is impossible for Islamic financial institutions in their records to still refer to to conventional accounting standards.

After the Covid-19 pandemic, IAI continued to accommodate accounting interests for the Islamic finance industry. Beginning of 2020 PSAK 102: Accounting for Murabahah (revised 2019), ISAK 101: Recognition of Tangible Murabahah Income Without Significant Risk Related to Ownership of Inventory and ISAK 102: Impairment of Murabahah Receivables takes effect in early 2020. DSAS-IAI decided to provide guidance on implementation incurred loss model in ISAK 102 regarding the impact of the covid-19 pandemic.

The development of regulations regarding sharia accounting in Indonesia is supported by various accounting structures. This is in line with the research results of Ilyas (2020) which states that the accounting structure describes the elements or parties and the means involved in determining or providing financial information and the interrelationships between these elements. Parties involved or interested include actors and institutions such as standard setters, professions, government, capital market advisory bodies, companies as entities, analysts, managers, public accountants and report users. The means that shape the accounting structure include, for example, government regulations, accounting standards, financial reports, and reporting conventions. (Ilyas, 2020)

Sharia accounting in reality is a demand from human duties as caliphs on earth who are obliged to provide benefit. This is also in line with research by Susilowati (2017) which states that accounting with Islamic values based on responsibility, justice and truth in accordance with the Qur'an and Al-Hadith is a reality that must be pursued. The life of mankind based on religion (Islam) that expects welfare and prosperity and happiness in the world and in the hereafter based on human relations with God (hablum minallah) and human relations (hablum minannas), then it requires ideal practices and in accordance with sharia laws. So that there is peace of life and life (muaccondition and muamalah) in accordance with the foundation of his life. (Susilowati, 2017).

## **CONCLUSION**

In Indonesia, the beginning of sharia accounting was due to the emergence of unrest over the vacuum of the accounting process felt by the management of the first

Islamic bank, namely Bank Muamalat Indonesia (BMI) in 1992. So the idea of establishing sharia accounting standards emerged. The development of sharia accounting in Indonesia has subsequently begun through academic studies and research related to sharia accounting. In terms of regulations in Indonesia, sharia accounting began to be regulated in 2002 with the enactment of the Guidelines for Financial Accounting Standards (PSAK) No. 59 and the Indonesian Sharia Banking Accounting Guidelines (PAPSI). This means that during the span of 10 years new Islamic banks can apply Islamic accounting. Then in order to be able to answer the need for accounting standards for Islamic financial institutions other than Islamic banking, PSAK 101-106 was passed in 2007, followed by submission of draft PSAK 107-109 in 2008, and in 2018 PSAK 112 was passed which only became effective in 2021. So that it can be seen that the current development of sharia accounting is heavily influenced by developments in the sharia financial industry, especially sharia banking. This is because the sharia financial industry whose operations are based on sharia principles is required to apply standard recording, namely the sharia Financial Accounting Standard Statement (PSAK) established by the Sharia Accounting Board of the Indonesian Accountants Association (DSAS-IAI). After the Covid-19 pandemic, IAI continued to accommodate accounting interests for the Islamic finance industry. Beginning of 2020, PSAK 102: Accounting for Murabahah (revised 2019), ISAK 101: Recognition of Tangguh Murabaha Income Without Significant Risk Related to Ownership of Inventory and ISAK 102: Impairment of Murabahah Receivables. DSAS-IAI decided to provide guidance on implementation incurred loss model in ISAK 102 regarding the impact of the covid-19 pandemic. It is hoped that this paper can contribute to the development of Islamic accounting and its relevance to the development of the Islamic financial industry after the Covid-19 pandemic.

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