DESCRIBING THE UNDESCRIBED
(THE ODD REVENUE SHARING OF PSAK NO. 59)

Hendi Yogi Prabowo[1]

Abstract

The establishment of Indonesian Islamic Banking Accounting Standard in 2002 has indeed solved some accounting – related problems, nevertheless, many others are raising along with the socialization of such a standard. The major current accounting problems are usually related to the lack of understanding toward the "never seen before" theory of accounting. This article discusses one of the most controversial issues related to PSAK (Pernyataan Standar Akuntansi Keuangan/Statements of Financial Accounting Standards) No. 59 named "revenue sharing". The main purpose of this article is to reveal what was once unrevealed in PSAK No. 59's paragraphs of revenue sharing standard. This purpose is important in nature considering the reality that PSAK No. 59 is much too general to be directly implemented in real banking practice. This article analyzes revenue sharing by referring to some previously recognized theories of accounting including AAOIFI's. The other and most important mean to analyze the hidden meaning of PSAK No. 59's paragraphs in this article is PAPSI (Pedoman Akuntansi Perbankan Syariah Indonesia), the technical interpretation of PSAK No. 59. As the analysis goes through two directions; business and accounting, this article is strengthening the thought that accounting is never an exact science, because it is by nature that accounting is socially constructed.

Keywords: *Islamic Bank, PSAK No. 59, AAOIFI, PAPSI, return sharing, revenue sharing, profit sharing*

RETURN SHARING (BAGI HASIL), A NEED FOR DISCUSSION

Not until 1992, has Islamic bank been considered as a serious business, some said that it was just a mean for Moslems to demonstrate their disagreement toward the concept of interest. Such an opinion was gradually eroded since the establishment of Bank Muamalat Indonesia in 1992, evidently, this bank and many of its successors have made it to survive even the worst national condition due to severe economic crisis. Many believe from several perspectives that the essence of the surviving strategy of Islamic bank lies on the use of return sharing (*bagi hasil*) instead of interest. The simple common definition of return sharing is that whenever bank receives its return, some percentages of such return will be given to customers based on predetermined rate (*nisbah*). Unfortunately, life was never that simple, many details deserve special consideration related to the question (a serious one) of "what is return sharing?". Consideration of such details is much too important to

[1] Fakultas Ekonomi Universitas Islam Indonesia

neglect as return sharing is a very sensitive thing, especially related to (among many others) "fairness" in Islamic transaction. The point is, when it comes to sensitive thing such as return sharing, "a simple definition is simply not a definition". Moreover, what society needs is not a simple definition but rather a deep description. If we move from idealistic to realistic realm and look again at return sharing to answer the "what is return sharing?" question, it is likely that we will see return sharing as a complex simple thing.

Among many complexities in return sharing this article will discuss return sharing from two perspectives; business and accounting. Although the center of analysis in this article is accounting, the two perspectives are selected because business and accounting are just like an object and a camera. Whatever business looks like, it will be portrayed by accounting, and the picture will be shown to society to determine whether or not accountability has been preserved. Another and the most important reason is that many (or maybe too many) people do not know much about the true technical meaning of return sharing in Indonesian Islamic Banking that will result in confusion when they have to face the reality. This article will discuss return sharing based on the deep analysis on what people called as the first Islamic accounting standard in Indonesia, PSAK No. 59., complemented by PAPSI as its interpretation.

PSAK NO. 59 IN OVERVIEW

The Formation of Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) previously named Financial Accounting Organization for Islamic Banks and Financial Institution (FAO-IFI) on 1st Safar 1410 H or 26th February 1990 in Algeria was really a starting point of a new age of banking accounting, later on, this organization was registered as non – profit independent organization in Bahrain on 11th Ramadhan 1411 H or 27th March 1991 (AAOIFI, 2001: 5).

Indonesia, on May 1, 2002, finally established "*Pernyataan Standar Akuntansi Keuangan*" (PSAK) No.59 and"*Kerangka Dasar Penyusunan dan Penyajian Laporan Keuangan* (KDPPLK) Ban*k Shari'a*" or "Statements of Financial Accounting Standards of Indonesia No. 59. and Framework for The Preparation and Presentation of Financial Statements for Islamic Banks in Indonesia". The chronology of the establishment of this standard is as follows (Yanto, 2003):

January – June 1999

Society began to give recommendations about Islamic banking accounting.

July 1999

The recommendations were entered into SAK (*Standar Akuntansi Keuangan*/ Financial Accounting Standard) consultative board

August 1999

Islamic bank standards – setter team was formed

December 2000

The standards – setter team completed the exposure draft

June 1, 2001

The exposure draft was legalized to be "*Pernyataan Standar Akuntansi Keuangan*" (PSAK) No.59 and "*Kerangka Dasar Penyusunan dan Penyajian Laporan Keuangan* (KDPPLK) Ban*k Shari'a*" or "Statements of Financial Accounting Standards of Indonesia No. 59. and Framework for The Preparation and Presentation of Financial Statements for Islamic Banks in Indonesia".

May 1, 2002

Legalization of *PSAK No. 59* and *KDPPLK Bank Shari'a* by the authorized parties including *Dewan Shari'a Nasional* (DSN) or National Sharia Board*.*

January 1, 2003

The beginning of the implementation of *PSAK No. 59* and *KDPPLK Bank Shari'a.*

Based on above chronology, technically, Indonesian Islamic banking accounting will be directed by a single standard to ensure the uniformity of the result. Beside PSAK No. 59 and KDPPLK Bank *Shari'a*, there are also other regulations that govern the operation of Islamic Banks focusing more on legal-economic perspective rather than accounting. Such regulations are;

1. Law No. 7/1992, amended by Law No. 10/1998 about Banking
2. The Decision Letter of Bank Indonesia No. 32/34/Kep/Dir./1999 about General Bank based on *shari'a* principles
3. The Decision Letter of Bank Indonesia No. 32/36/Kep/Dir./1999 about Public Credit Bank based on *shari'a* principles

ISLAMIC BANKING ACCOUNTING IN PSAK NO. 59'S VIEW

Inspired by AAOIFI's standard, PSAK No. 59 is also adopting the basic ideas of Islamic banking accounting previously developed by AAOIFI. These ideas range from philosophical to theoretical aspects. This article will focus more on technical rather than philosophical aspects. Technically, an Islamic bank from PSAk No. 59's view has two very basic activities; accumulation and utilization of capital. The principles used in <u>capital accumulation</u> are:

***Mudaraba*,** defined as:

> Partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Islamic bank as a *mudharib*. The Islamic bank announces its willingness to accept the funds of investment account holders, the sharing of profits being as agreed between the two parties, and the losses being borne by the provider of funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Islamic bank. In the later case, such losses would be borne by the Islamic bank. A *mudaraba* contract may also be concluded between the Islamic bank, as a provider of funds, on behalf of itself or on behalf of investment account holders, and business owners and other craftsmen, including farmers, traders, etc *Mudaraba* differs from what is known as speculation which includes an element of gambling in buying and selling transactions (AAOIFI, 2001: 185).

Wadiah, defined as:

> Customer's fund entrusted to the bank, must be eligible for withdrawals at any time, not entitled for profit sharing, but instead, it is a fee-based transaction (PSAK No. 59: Par. 134).

Other *shari'a* - based principles.

The principles used in <u>capital utilization</u> are:

***Mudaraba*,** defined as:

> partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Islamic bank as a mudharib. The Islamic bank announces its willingness to accept the funds of investment account holders, the sharing of profits being as agreed between the two parties, and the losses being borne by the provider of funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Islamic bank. In the later case, such losses would be borne by the Islamic bank. A *mudaraba* contract may also be concluded between the Islamic bank, as a provider of funds, on behalf of itself or on behalf of investment account holders, and business owners and other craftsmen, including farmers, traders, etc. *Mudaraba* differs from what is known as speculation which includes an element of gambling in buying and selling transactions (AAOIFI, 2001: 185).

Musharaka, defined as:

> Partnership between the Islamic bank and and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have his due share of profits. However, losses are shared in portion to the contributed capital. It is not permissible to stipulate otherwise (AAOIFI, 2001: 211).

Murabaha, defined as:

> Sale of goods at cost plus an agreed profit mark up. Its characteristic is that "the seller should inform the purchaser of the price at which he purchased the product and stipulate an amount of profit in addition to this. (AAOIFI, 2001: 149).

***Salam*,**defined as:

> Purchase of commodity for deffered delivery in exchange for immediate payment according to specified conditions or sale of a commodity for deferred delivery in exchange for immediate payment (AAOIFI, 2001: 261).

***Istisna'a*,** defined as:

> A sale contract between *al-mustasni'* (the ultimate buyer) and *al-sani'* (seller), whereby *al-sani* based on an order from *al-mustasni'* undertakes to have manufactured or otherwise acquired al-masnoo (subject matter of the contract) according to specification and sell it to *al-mustasni'* for an agreed upon price and method of settlement whether that be in advance, by installments or deferred to a specific future time, it is a condition of *istisna'a* contract that *al-sani'* should provide either the raw material or the labour (AAOIFI, 2001: 355).

***Ijarah*.** defined as:

> The transfer of ownership of a service for an agreed upon consideration.(AAOIFI, 2001:306)

Other *shari'a*-based principle

Getting deeper into the standard, accounting for Islamic bank (from revenue/expense perspective) can be classified as follows:
Main operation ativities

a. Financing (*mudaraba* and *musharaka*)
b. Trading (murabaha, *salam*, parallel *salam*, *istisna'a*, and parallel *istisna'a*)

c. Leasing (*ijarah* and *ijarah muntahia bittamleek*)
d. Other Main operation activities (SWBI (Sertifikat *Wadiah* Bank Indonesia/*Wadiah* Cerficate of Bank Indonesia), IMA (Investasi *Mudharabah* Antarbank/Inter-bank *Mudaraba* Investment), and Other *shari'a* – based marketable securities).

Other operation activities (*wakalah, kafalah, hiwalah, rahn,* restricted investment, qardh, foreign exchange, and administrative activities)
Non – operation activities (sale of fixed assets, etc.)
Non-revenue/Non-expense (return sharing, zakah, etc.)

From above classification, the focus of discussion in this article is the main operation activities as it is the basis for determining one most well known concept in Islamic banking called "*bagi hasil*" or return-sharing which can be defined as either revenue or profit sharing.

REVENUE SHARING, THE CONTROVERSY

When the first Indonesian Islamic bank was established, people were beginning to wonder "How different is this bank in operation compared to its conventional counterparts?". Return sharing or *bagi hasil* later became one distinct characteristic of an Islamic bank and at the same time opposing the well-established concept of interest. Return sharing is not a new concept at all in world's Islamic banking history, but in terms of application, one may have different interpretation compared to the others. Stated in PSAK No. 59:

> Return sharing from *mudaraba* can be done in two ways, profit sharing and revenue sharing…(PSAK No. 59, 2002: Par. 25).

The standard setters of PSAK No. 59 decided to use revenue sharing along with profit sharing for some good purposes, or at least what they thought as so. The standard setters expressed in PAPSI (Pedoman Akuntansi Perbankan Syariah Indonesia/Indonesian Islamic Banking Guidance) are aiming at using revenue sharing for the bank as a *mudharib* (fund manager) and leaving profit sharing for the bank as *shahibul mal* (fund owner) Referring back to the original source of Indonesian Islamic banking accounting, AAOIFI, or any other countries in the world influenced by this body, the concept of revenue sharing is somewhat uncommon. For decades, return sharing is always associated with profit sharing as it is considered fair from religion as well as business.

There are some perspectives taken in determining revenue sharing as the basis for return sharing. From accounting view, due to the complexity of the operation in Islamic bank that makes it very difficult to match every rupiah earned from operation funded by customer's money with every rupiah of expenses (to determine profit from operation funded by customers' fund), it will be a lot easier for accountants in each bank to calculate and record return sharing by using revenue sharing instead of profit sharing. From marketing view, just as what math says about revenue sharing, as long as the bank keeps on running, the possibility of customers' account to get decreased by the loss in *mudaraba* contracts is next to impossible which makes this system worth competing with interest system. On the contrary, every customer must be ready to suffer from the loss in *mudaraba* contract if the bank uses profit sharing. Despite what bankers say about this, revenue sharing can give safety to customers' fund in whatever condition that might happen during the operation of the bank. This fund safety has been the tradition in Indonesian banking for decades. So, any bank does not submit to this tradition will not stand a chance in Indonesian banking competition.

From above explanation, it looks like that revenue sharing is a bliss, or is it? For this reason, we may have to take a look at the other side of the story. Looking at the other side of the story means looking from the eyes of the cons, the cons for the idea of revenue sharing believed that it is not fair from both religious and business sides. This is so because an Islamic bank has to bear all the expenses while letting its customers to enjoy their share from the revenue without having to suffer the expenses related to that revenue. From business side, despite the safety enjoyed by customers, in a condition where loss presents, bank will still have to pay a portion of revenue to its customers as a consequence of adopting revenue sharing. From business point of view, this is no way to run a business. The next question related to the standard setters should have been "what was in their mind when they decided this?" The next part of this article will answer this question.

REVENUE SHARING, THE TRUTH

This part of this article will try to find the missing part of the puzzle of PSAK No. 59's revenue sharing. Before putting back the missing puzzle to make clear the picture, we better take a closer look on what PAPSI as the interpretation of PSAK No. 59 said about the mechanism of determining revenue sharing for the bank as a fund manager or *mudarib*. The importance of analyzing PAPSI exists from the fact that PSAK No. 59 gives only a general view, for some cases, too general, and of course this is no good for practitioners as they will demand a more "user-friendly" accounting guide. The procedure recommended by IAI (2003: 200) through PAPSI, to calculate return sharing in the form of revenue sharing is as follows:

1. Determine revenue from main operation in accrual basis.
2. Make reconciliation to calculate available cash for distribution out of income from main operation.
3. Determine revenue from main operation in cash basis.
4. Determine the portion financed by customers' fund based on *mudaraba* and *wadiah* principles and other types of fund (if available).
5. Distribute the above portion in two ways:
    a. Cash are distributed according to predetermined ratio regardless the portion previously calculated.
    b. Only cash from *mudaraba*-based customer fund is used as the basis for revenue sharing based on predetermined ratio.

Getting deeper into the calculation of revenue from main operation, PAPSI defines such revenue as consists of revenue from financing (*mudaraba* and *musharakah*), trading (*murabaha, salam,* and *istisna'a*), leasing (*ijarah*), and other main operation (marketable securities). What some people or even experts don not know about is that although the term used is "revenue from main operation", actually every component of such a revenue must be deducted first by almost all expenses related to that revenue which makes this kind of revenue closes to "profit from main operation" or at least we should have called it "net revenue from main operation". The word "net" means, contradicting the common believe about revenue sharing, customer as the fund owner or *shahibul mal* will still have to bear some amount of expenses before they can enjoy their so-called "revenue sharing". This also means that from business point of view, one needs not to be worry very much about the burden of a bank from adopting revenue sharing, and this is why standard setters did not put any resistance against revenue sharing idea.

From accounting point of view, although everything looks just fine, there is also a puzzling question related to AAOIFI's standard about accounting treatment for return sharing (AAOIFI uses profit sharing as the basis). AAOIFI decided that return sharing is neither revenue (in case of loss) nor expense (in case of profit). PSAK No. 59 also adopts this accounting thought, which makes PAPSI classified revenue sharing paid into neither revenue nor expense. For most Indonesian accountants who always believe that an income statement can only consists of revenue and expense, the "neither revenue nor expense" classification will sound like one of Ripley's Believe It or Not stuffs. But actually it is not Ripley's at all, it is just what true accounting is all about. No one ever said accounting was an exact science (Revsione, Colins, and Johnson, 1999: 1) because it is socially constructed, so if society wants the color or shape of accounting changed, so be it. As time goes by, accounting will keep on changing, the only thing that remains the same is the notion of accountability defined by Shahul Hameed as;

> The duty of an entity to use (and prevent the misuse) of the resources entrusted in an effective, efficient and economical manner, within the boundaries of the moral and legal framework of the society and to provide an account of its actions to accountees who are not only the persons who provided it with its financial resources but to groups within society and society at large (Shahul Hameed, 2000)

It is because of this notion of accountability, accounting needs to cope with societies' will. Talking about society, we cannot avoid ourselves from talking about culture. Gernon and Meek put;

> Sometimes "culture" is defined as the collective programming of the human mind. In other words, it is the values and attitudes shared by members of society. So all the things we learn, observe, feel, believe, or prioritize have cultural dimensions. Gernon and Meek, 2001: 8).

As humans are destined to be dynamic creatures, accounting must also evolve in the same phase. Evolution of accounting must be in line with societal values which reflect the will of society. Strengthened by Mathews and Perera:

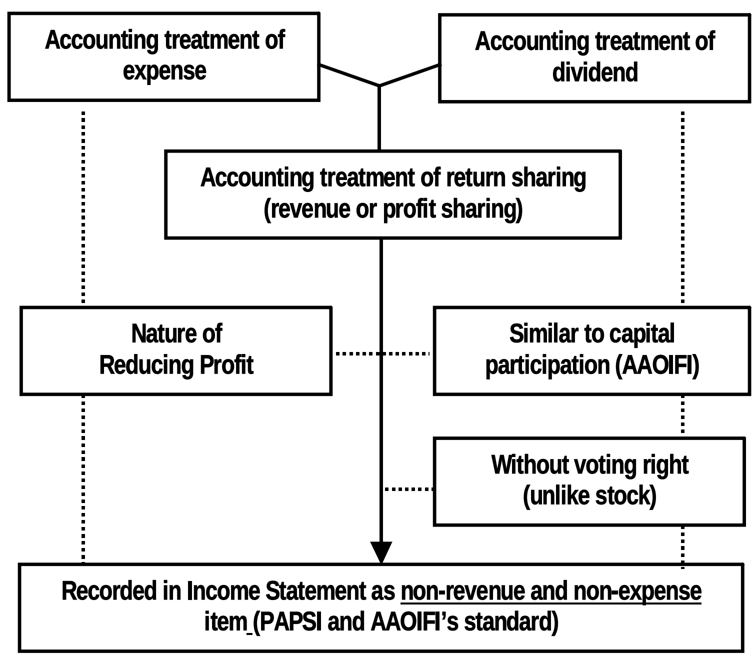
> Obviously any exercise aimed at analyzing the cultural influence on accounting should identify (a) a set of specific societal values or cultural factors which are likely to be directly associated with accounting practices, and (b) the mechanism in which the association between societal values and accounting practices takes place, for it is only then that their impact can be examined through a logical process. (Mathews and Perera, 1996: 349).

Return sharing accounting is just one tiny little change in accounting theory as regulated by AAOIFI and demanded by society;

> Return on unrestricted investment accounts and their equivalent is the share allocation to the holders of those accounts out of investment profits and losses as a result of their participation jointly with the Islamic bank, in the financing of investment transactions during the period covered by the income statement. The return on investment accounts and their equivalent is not considered an **expense** (in case of profit) or a **revenue**

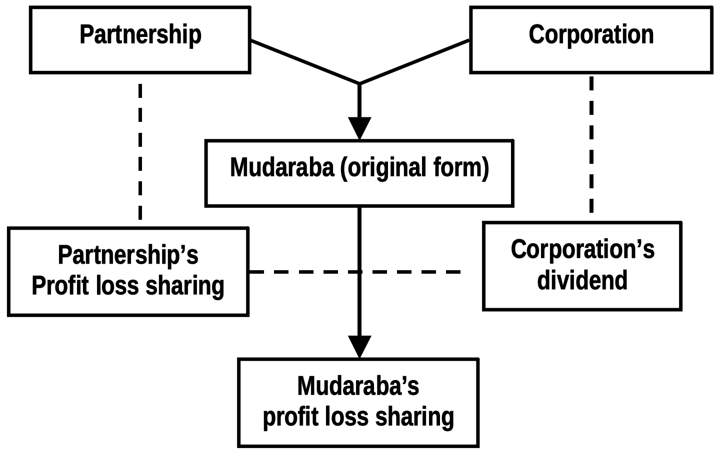
> (in case of loss). Rather, it is considered an allocation of the investment profits and losses accruing to the holders of unrestricted investment accounts from their participation in investment activities carried out jointly with the Islamic bank. (AAOIFI, 2001: 53).

A payment of return sharing is by nature close to cash dividend distribution (despite the reality that *mudaraba* contract is a partnership contract, not a corporation). Cash dividend is a cash distribution of earnings by a corporation to its shareholders. (Warren, Fees, and Reeve, 1996: 511). Further, unpaid cash dividend will be recoded as cash dividend payable as an amount owed by corporation to its stockholders as a result of board of directors' authorization (Kieso and Weygandt, 1995: 629). The same thing goes to return sharing, as an addition to the rule that it should be calculated in cash basis, unpaid amount of return sharing is payable by nature and recorded as non – expense revenue deduction. Related to the term "non – expense revenue deduction", AAOIFI's standard setters (followed later by PSAK No. 59's standard setters) developed a new accounting theory of return sharing (*bagi hasil*) as follows:



Thus, the answer of the question of why return sharing is neither revenue nor expense is lying on the reality that besides having the nature of expense it also has the nature of dividend which makes it standing between the accounting treatment of dividend and expense. Expenses are decreases in economic benefits during the accounting period in form of outflows or depletion of assets or incurrence of liabilities that result in decrease in equity other than those relating to equity participants (SAK, 2000: 17). Cash dividend is cash distribution of earnings by a corporation to its shareholders (Warren, Fees, and Reeve, 1996: 511). Return sharing paid possesses the nature of expense in the sense that it decreases profit in income statements. On the other hand, the nature of dividend is observable in the accounting mechanism of return sharing distribution. In such a mechanism, the balance of fund owner's *mudaraba* financing will remain the same regardless the positive return sharing.

Another good way we can explain the oddity is by looking at the economic activity to realize that a contract of *mudaraba* is a contract of partnership (see the definition). Defined by Floyd and Beams (1996: 619), partnership is an association of two or more persons to carry on as co-owners a business for profit. Further, partnership income may be divided equally among the partners, and equal division is required in the absence of a profit and loss sharing agreement (Floyd and Beams, 1996: 625). Every period (normally every month), an Islamic bank determines the amount of return sharing (usually in form of revenue sharing) to its *mudaraba*-based customers. There is one obvious rule about *mudaraba* financing, which is it can be decreased every time negative return presents, nevertheless, there is no chance for addition even in the presence of positive return. Upon comparing between the definition of *mudaraba* (a partnership of profits between capital and work) and the way *mudaraba* distributes the return (without increasing the initial financing by fund owner) that looks like dividend of a corporation, (Warren, Fees, and Reeve (1996: 14) define corporation as a separate legal entity that is organized in accordance with state or federal statutes and in which ownership is divided into shares of stock), we can simply conclude that basically *mudaraba* has the nature of both partnership and corporation at the same time. Further, we can picture *mudaraba* as follwos:



The big idea is, although in AAOIFI's definition *mudaraba* is a partnership, but it is not partnership like in GAAP's view as it puts distribution of cash as the main focus instead of the calculation of capital. Moreover, each party has their own job description as either fund provider (*shahibul mal*) or fund manager (*mudarib*). One cannot act as both fund provider and fund manager. Finally we must realize that if the accounting system tells us something we did not know, then initially we are uncertain about something. In formal terms, being uncertain about something is expressed in terms of listing things that coupled with a probability assessment over these possibilities (Christensen and Demski, 2003: 3). Proper information will in turn be our ultimate mean in reducing the uncertainty in accounting. One way to present proper information in accounting is to classify all accounts properly so that the idea carried out by those accounts can be understood clearly by the users.

CONCLUSION

The discussion about the benefits offered by Islamic banks to their customers will always be directed first to the existence of return sharing or *bagi hasil* as it is the genuine trademark of Islamic banks. Society sees this return sharing in several perspectives including business and accounting. Pros and cons are the result of this multi-perspectives view about return sharing.

The discussion in this article finally leads up to two main "enlightenments" in business and accounting related to revenue sharing puzzles. From business view, one should not get worry so much about PSAK No. 59's revenue sharing recommended by the standard setters such as BI (Bank Indonesia), IAI (Ikatan Akuntan Indonesia/Indonesian Accountant Association). and DSN (Dewan Syariah nasional/National Shari'a Board). This is so because the burden of this kind of return sharing as what PAPSI said is not as heavy as what people used to believe. From accounting view, the accounting treatment of return sharing recommended by AAOIFI is already on the right track considering the uniqueness of return sharing. In the future, based on the uniqueness of the Islamic banking operation, major changes will happen to accounting along with the development of Islamic banking industry.

REFERENCES

AAOIFI. (2001). *Accounting, Auditing, and Governance Standard for Islamic Financial Institutions*. Bahrain: AAOIFI.

Christensen, J.S. Demski. (2003). *Accounting Theory: An Information Content Perspective*. New York: Mc Graw-Hill J.A.

Floyd a Beams. (1996). *Advanced accounting 6th ed* USA: Prentice Hall.

Hameed, Sahul.______. "From Conventional Accounting to Islamic Accounting: Review of the Development Western Accounting Theory and Its Implications for and Differences in the Development of Islamic Accounting". Islamic-finance.net.

H. Gernon and G. K. Meek. (2001). *Accounting: An International Perspective*, New York: Irwin M. Graw-Hill.

IAI. (2002). *Standar Akuntansi Keuangan*: *Per 1 April 2002*. Jakarta: Salemba Empat

IAI. (2003). *Pedoman Akuntansi Perbankan Syariah Indonesia*. Jakarta: IAI

IAI. (2003). *Kerangka Dasar Penyusunan dan Penyajian Laporan Keuangan Bank Syariah dan Pernyataan Standar AkuntansiKeuangan No. 59 Akuntansi Perbankan Syariah*. Jakarta: IAI.

Kiesso and Weygandt. (1995). *Intermediate Accounting 8th Ed* Canada: John Wiley and Sons, Inc.

M.R. Mathews and M.H.B. Perera. (1996). *Accounting Theory and Development.* Melbourne: Thomas Nelson.

Revsine, Colins, and Johnson. (1999). "*Financial Reporting and Analysis*." New Jersey; Prentice Hall, Inc.

Warren, Fees, and Reeve. (1996) .*Accounting 18th Ed*.USA: South Western Publishing.

Yanto, Sri. (2003). "Standar Akuntansi Perbankan Syariah". Presented in National Seminar of Syariah Accounting, Jogja Hall Hotel Santika, Yogyakarta, March 15.