

## Mudharabah Accounting

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### ABSTRACT

The development of the sharia economy in Indonesia has encouraged the implementation of various contracts based on Islamic principles, one of which is the mudharabah contract. Mudharabah is a collaboration between the capital owner (shahibul maal) and the manager (mudharib) with a profit-sharing mechanism based on an agreed ratio without the determination of interest as in conventional systems. This contract is used in sharia financial products such as savings and deposits because it is considered to reflect the principles of justice, transparency, and is free from usury. The legal basis for mudharabah is supported by the Qur'an, hadith, the practices of the Companions, the consensus of scholars, and the provisions of the National Sharia Council (DSN-MUI). In its application, mudharabah has certain characteristics, pillars, and types, including *mudharabah mutlaqah*, *muqayyadah*, and *musytarakah*, which differentiate the structure and authority of capital management. In addition, the mudharabah transaction system in sharia financial institutions has a flow that includes application, provision of capital, business management, profit sharing, and capital repayment. From an accounting perspective, mudharabah recording is regulated by PSAK 105, which covers recognition, measurement, presentation, and disclosure for both fund owners and fund managers. This standard aims to ensure accountability, transparency, and compliance with sharia principles. Thus, mudharabah is a crucial instrument in supporting the development of a fair, trustworthy, and welfare-oriented Islamic financial system.

**Keywords:** mudharabah, sharia contract, sharia accounting, PSAK 105, profit sharing.

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## **BACKGROUND**

The development of the Islamic economy in Indonesia is growing rapidly thanks to its large Muslim population and the growing need for a Sharia-compliant financial system. One of the main contracts used is mudharabah, a partnership between a capital owner (shahibul maal) and a manager (mudharib), where profits are shared based on an agreed-upon ratio (ratio), rather than a fixed interest rate as in conventional banks. This contract is widely used in savings, time deposits, and business financing products because it reflects the principles of profit-sharing and fairness in Islamic economics.

Unlike the fixed-return interest system, mudharabah implements profit and loss sharing, which is more equitable for both parties. However, its implementation faces challenges such as information asymmetry, moral hazard risks, and a lack of transparency in financial reporting. Therefore, mudharabah accounting is crucial to ensure Sharia compliance and accountability.

In Indonesia, the implementation of mudharabah accounting is regulated in PSAK 105, but differences in practice are still found in Islamic financial institutions, especially in the recognition of temporary syirkah funds, distribution of business profits, and cancellation of contracts before maturity.

This paper discusses the mudharabah contract within the context of Islamic economics and applicable accounting standards. This paper aims to provide a comprehensive explanation of the definition of the mudharabah contract and its legal basis, based on Islamic perspectives and financial regulations in Indonesia. Furthermore, it outlines the characteristics, pillars, and classification of the mudharabah contract, distinguishing it from other contracts in the Islamic financial transaction system.

Furthermore, the discussion also includes an analysis of the operational mechanisms and implementation flow of mudharabah, particularly in the context of its application to savings and deposit products of Islamic financial institutions. This analysis is considered crucial for providing a deeper understanding of the implementation of the profit-sharing principle in Islamic banking practices.

In addition, this study examines the accounting treatment for mudharabah contracts as stipulated in PSAK 105, which covers aspects of recognition, measurement, presentation, and disclosure in financial statements. This includes a discussion of the accounting treatment in the event of contract cancellation before the end of the agreement period.

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Thus, the main objective of this writing is not only limited to conveying theoretical concepts, but also providing an applicable description of the implementation of mudharabah contracts in accordance with sharia and in line with applicable accounting standards, so that it is hoped that it can become a scientific reference in understanding the implementation of mudharabah in a more systematic and accountable manner.

### **Understanding Mudharabah**

Mudharabah is a fundamental contract in the Islamic financial system, based on cooperation between capital owners and business managers. Etymologically, the term *mudharabah* comes from the Arabic words *ḍaraba–yaḍribu–ḍarban*, meaning to undertake a business venture or to mobilize capital for productive purposes. This meaning illustrates that in mudharabah, capital is not passive but rather is invested through business activities to generate halal profits in accordance with sharia.

Terminologically, mudharabah is defined as a form of business cooperation between *shahibul maal* (fund owner) and *mudharib* (fund manager), where the capital owner provides all the business capital, while the manager carries out business activities using his expertise, skills, and energy without having to contribute capital. DSN-MUI Fatwa No. 07/DSN-MUI/IV/2000 explains that mudharabah is a contract that shares profits based on an agreed ratio, while losses are fully borne by the capital owner unless it can be proven that the business manager committed negligence or violated the contract. In line with this, PSAK 105 emphasizes that the profit-sharing mechanism in mudharabah does not use a fixed nominal amount like interest in the conventional financial system, but rather based on a mutually agreed percentage.

Thus, the concept of mudharabah reflects the principle of profit- *and-loss-sharing partnership*, which places both parties in a proportional relationship based on their respective contributions. This contract also reflects the values of justice, trustworthiness, and transparency that are at the heart of Islamic economic practices.

### **Legal Basis for Mudharabah**

Mudharabah has strong legal legitimacy in Islamic law. Its legal basis is found in various sources of Islamic law, ranging from the Quran, Hadith, to the consensus of scholars. Linguistically, the word *dharaba*, the root of mudharabah, appears 58 times in the Quran in the context of seeking halal sustenance, one of which is in Surah Al-Baqarah verse 273, which describes the activity of "*dharban fil ardh*," namely working to earn a living.

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Apart from the Qur'an, the hadith of the Prophet Muhammad SAW shows the existence of mudharabah practices during the time of the Prophet, including through Thabrani's history regarding Sayyidina Abbas bin Abdul Muttalib's practice in managing business capital. The practice of this contract was also continued by friends, including the son of Caliph Umar bin Khattab, who showed consistent acceptance of mudharabah contracts in the Islamic economic system.

Furthermore, scholars have reached a consensus that the mudharabah contract is valid and permissible in muamalah transactions, including in the management of orphans' assets, as long as it is carried out in a trustworthy manner. In Islamic legal methodology, mudharabah is also analogous to the *musyarah contract*, which is a cooperative agreement for managing agricultural land with a profit-sharing mechanism, thus strengthening its legal justification through qiyas.

Based on this basis, mudharabah is one of the contracts that is legally and theologically recognized as a legal instrument in sharia economics.

### **Characteristics of Mudharabah**

The nature of mudharabah lies not only in the profit-sharing principle, but also in the structure of the relationship and the division of responsibilities between the parties involved. The capital owner provides the full funding, while the business manager acts independently in operating the business based on their expertise. Profits are shared according to a pre-agreed ratio, not a fixed nominal amount, thus avoiding elements of usury (riba).

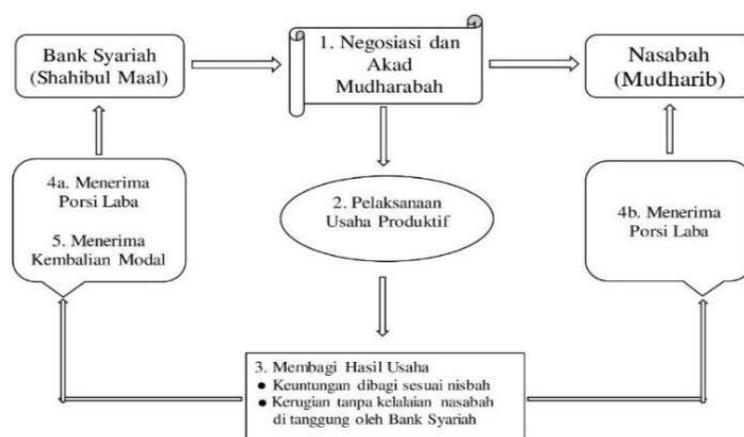
In terms of risk, business losses are the responsibility of the capital owner, provided there is no negligence or fraud on the part of the business manager. This mechanism demonstrates that mudharabah operates based on the principles of fairness and proportionality of risk and return. Furthermore, *the mudharib has full authority to manage capital within the bounds of Sharia principles and the terms of the contract, while the owner of capital's intervention is limited to monitoring.*

### **Types of Mudharabah**

The types of mudharabah used in Islamic economic practices can be divided into three main categories: mudharabah *mutlaqah* (general), mudharabah *muqayyadah* (restricted), and mudharabah *musytarakah* (mixed). These three types differ in terms of the scope of the fund manager's freedom and the capital owner's involvement in determining the business's boundaries.

## Pillars of Mudharabah

In its implementation, mudharabah must fulfill four basic pillars, namely: the parties to the contract, the object of the contract in the form of capital and labor, the consent (ijab qabul), and the profit ratio. The parties to the contract must meet the requirements of legal capacity and carry out the contract based on the principles of consent and mutual agreement. The capital must be a clear amount, free from debt elements, and legally handed over to the fund manager. The consent (ijab qabul) can be made verbally or in writing as a form of agreement to the contract. The agreed profit ratio cannot be a fixed nominal amount, but must be in the form of a percentage that can be accounted for .



**Picture 1.** Channel Transaction Mudharabah

Channel transaction mudharabah explained as following.

1. First, the bank customer submits an application, completes a financing application form, and submits it to the Islamic bank, along with any additional (supporting) documents. The bank conducts a feasibility test based on the 5Cs ( *character, capacity, commitment* , and *collateral* ) and verifies the suitability. If the agreement is successful, the contract with the mudharib is signed before a notary, in accordance with the principles of mudharabah.
2. Second, bank allocate capital Then customers quick manage an effort that will be made to the best of one's ability.
3. Third, business results are checked according to the specified timeframe, and profits are divided according to their proportion between the owner of the capital and the mudharib (customer). If a loss occurs, Which No error customers, so make a loss covered by bank. But if the customer is negligent, it means the customer is responsible.
4. Fourth, customers and banks receive a portion of the profit sharing according to the specified calculation method.
5. Fifth, the customer returns the capital to the bank, after which the business becomes the customer's property.

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## Mudharabah Savings

Mudharabah savings are a fundraising instrument in Islamic financial institutions based on the principle of profit-sharing. In this scheme, the customer acts as the capital owner ( *shahibul maal* ), while the bank acts as the fund manager ( *mudharib* ). Withdrawals from this product can only be made according to previously agreed-upon terms and are not permitted through instruments such as checks or similar payment instruments. The funds deposited by the customer are then invested by the bank in various projects or business activities that comply with Islamic principles.

Profits earned from managing these funds are then distributed between the bank and the customer based on a predetermined ratio. Any losses incurred are the responsibility of the capital owner, provided they are not caused by negligence on the part of the fund manager. This scheme is designed to replace the conventional interest system, freeing it from usury and simultaneously promoting a fair and transparent *profit-sharing mechanism*.

## Mudharabah Deposit

Besides mudharabah savings, another form of fundraising based on the mudharabah contract is the mudharabah deposit. This product is a term deposit at an Islamic financial institution, where the customer, as the fund provider, provides capital to be managed by the bank for a specified period, according to the terms of the contract. During this period, funds cannot be withdrawn until after the contract expires.

As with mudharabah savings, the profit-sharing mechanism is based on a mutually agreed ratio. If a business loses, the loss will be borne by the capital owner, provided it is not due to negligence or violations on the part of the bank. In its application, the mudharabah absolute concept for term savings or deposits provides Islamic banks with flexibility to determine their investment strategies without any technical limitations imposed by the customer.

In practice, transaction recording for mudharabah mutlaqah products encompasses several types of activities, such as cash deposits by customers, interbank or interbranch transfers, and profit-sharing receipts. All transactions that increase a customer's account balance, including profit-sharing, are recorded as additional funds in the relevant account.

## Mudharabah Accounting

The accounting application for mudharabah contracts is detailed in Statement of Financial Accounting Standards (PSAK) 105, which governs accounting treatment for both capital owners and fund managers. For fund owners, mudharabah investments are recognized when they are

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delivered in the form of cash or non-cash assets. If funds are delivered in the form of cash, the measurement is based on the nominal value of the cash paid. If funds are provided in the form of non-cash assets, the fair value of the assets at the time of delivery is used.

Under certain circumstances, an asset's fair value may differ from its carrying amount. If the fair value is higher than the carrying amount, the difference is recorded as a deferred gain and amortized over the term of the contract. Conversely, if the fair value is lower than the carrying amount, the difference is recognized as a loss upon transfer of the asset. Furthermore, PSAK 105 also regulates the treatment of impairment losses both before and after a business commences. Impairments in value before the business commences are recorded directly as investment losses, while impairment losses after the business commences are accounted for in the profit-sharing process.

Losses incurred during the contract period before the contract expires are recorded as a loss allowance to maintain transparency of investment values in the financial statements. Meanwhile, the portion of operating results not yet paid by the fund manager is recorded as operating results receivables until payment is made.

At the end of the contract, the difference between the remaining investment value and the amount returned by the fund manager will determine whether the capital owner makes a profit or incurs a loss. This provision implements the principles of accountability and transparency in mudharabah accounting, while ensuring compliance with Sharia principles and applicable Sharia accounting standards.

### **Presentation, Disclosure, and Accounting in Mudharabah Contracts**

In financial reporting, mudharabah transactions must be presented transparently and in accordance with Islamic accounting principles. For fund owners ( *shahibul maal* ), mudharabah investments are recorded and presented at their carrying value, which is the investment value after deducting allowances for losses if there is an indication of impairment. This presentation aims to show the estimated realizable value of the mudharabah investment at the end of the reporting period.

In addition to presentation, disclosure in financial reports is crucial for ensuring the accountability and transparency of sharia transactions. Fund owners are required to disclose relevant information regarding mudharabah contracts, including the terms of the cooperation agreement, such as the portion of funds, profit-sharing mechanisms, financed business activities, investment details by type, and allowances for recognized losses during the current period. This disclosure

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must also comply with PSAK 101 regarding the presentation of sharia financial statements, as part of the reporting standards applicable in Indonesia.

### **Accounting for Fund Managers**

For the fund manager ( *mudharib* ), funds received from the capital owner are recognized as temporary syirkah funds and recorded at the amount of cash or the fair value of non-cash assets received. These funds are not recorded as income but as liabilities because they are entrusted to be managed and not the full rights of the manager. The value of temporary syirkah funds is measured based on the cash received or the fair value of the assets transferred.

If the fund manager uses the funds directly in business activities, the resulting income and expenses are recorded using general accounting principles. Revenue is recognized when earned and expenses are recognized when incurred. At the end of the period, if the business generates a profit, a closing journal entry is made recognizing the undistributed income as a profit-sharing liability. When the profit is distributed, the account is transferred to the profit-sharing liability to the fund owner.

Conversely, if a business experiences losses, these losses are recorded by creating a loss allowance, which serves as a contra account to the temporary syirkah fund. This loss allowance indicates that the mudharabah fund has decreased in value. If the loss occurs due to negligence or misconduct by the manager, the loss is fully borne by the fund manager.

At the end of the contract, the temporary syirkah funds are returned to the fund owner in the amount remaining after accounting for profit sharing or losses. If there was a previous loss allowance, the final presentation of the funds is carried out by taking this allowance account into account to produce an accurate value according to the final conditions of the contract.

### **Presentation and Disclosure by Fund Managers**

In financial reports, fund managers are required to present temporary syirkah funds based on their recorded value for each type of mudharabah contract. Furthermore, if there is a profit share that has been calculated but not yet paid to the fund owner, this amount must be recorded as an *undistributed profit share liability* .

Disclosure of information by fund managers is also essential. The information disclosed includes the contents of the main agreements in the contract, the amount of temporary syirkah funds based on the mudharabah type classification, and the distribution of funds, particularly for mudharabah

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muqayyadah, which has restrictions on use. All disclosures must be made in accordance with PSAK 101.

### **End of Mudharabah Contract**

A mudharabah contract essentially has no specific time limit unless otherwise specified in the contract. However, the contract can be terminated if one of the parties withdraws, dies, loses legal capacity, or the business capital is exhausted. Furthermore, the contract can be terminated if the fund manager is proven to have failed to fulfill the mandate or manage the funds in accordance with sharia provisions and the agreed-upon agreement. Therefore, the continuity of the contract depends on the fulfillment of the principles of trustworthiness, professionalism, and compliance with sharia provisions.

### **RESEARCH METHODS**

This study uses a qualitative descriptive approach aimed at describing and analyzing the concept, implementation, and accounting aspects related to the mudharabah contract, as explained in the source material used as the object of the study. This approach was chosen because the research focuses on explaining the structure of the mudharabah concept, starting from its definition, legal basis, characteristics, pillars of the contract, types of implementation, and accounting treatment in accordance with applicable standards.

The data sources in this study are texts containing discussions on mudharabah, including fiqh provisions, applications to sharia financial products in the form of mudharabah savings and deposits, and accounting treatment based on PSAK 105. The data is categorized as secondary data because it comes from written documents that have been prepared previously.

Data collection techniques were conducted through documentation studies by reading, identifying, and reviewing the contents of all documents related to mudharabah. Next, the data were analyzed through data reduction, data presentation, and conclusion drawing. Data reduction was carried out by sorting information relevant to the research focus and then presenting it in a systematic description for easy understanding. The final stage of the research was carried out by interpreting the analysis results to gain a deeper understanding of the mudharabah contract structure and its accompanying accounting treatment.

Data validity is maintained through *content verification*, which ensures that all analyzed information originates from the research document and is not influenced by interpretation or other external sources. Thus, this research method allows for the development of a structured study of

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mudharabah, both conceptually and applicably, in accordance with the content of the researched document.

## **RESULTS AND DISCUSSION**

The mudharabah contract is a sharia financial instrument that not only has a theoretical basis in Islamic law but has also been implemented in the practice of the modern financial system, particularly in Islamic banking in Indonesia. The analysis shows that mudharabah has a structure, characteristics, and financial reporting provisions standardized through PSAK 105, making this contract not only relevant from a sharia perspective but also accountable in terms of financial records.

Conceptually, mudharabah is understood as a form of cooperation between the fund owner and the business manager, with a profit-sharing system based on an agreed-upon ratio. The principle states that losses are borne by the capital owner unless there is negligence or a breach of contract by the fund manager. This demonstrates that the principles of fairness, trustworthiness, and transparency are the primary foundations of the mudharabah contract.

In its implementation, the study found that mudharabah is applied to savings and deposit products in Islamic banking. Mudharabah savings offer flexible withdrawals according to regulations, while mudharabah deposits have a set withdrawal period. Both products employ a *profit-sharing mechanism* that replaces the interest system, thus aligning with the principle of being free from usury. Furthermore, mudharabah mutlaqah provides flexibility in fund management, while mudharabah muqayyadah has limits determined by the fund owner.

From an accounting perspective, PSAK 105 regulates the transactional treatment of mudharabah for both fund owners and fund managers. Document analysis shows that fund owners record mudharabah investments at their carrying value after deducting allowances for losses. Meanwhile, fund managers recognize the funds received as temporary syirkah funds because they do not have full ownership rights over the capital.

Furthermore, the documents show that the mudharabah accounting process involves several journal entries depending on the transaction conditions, such as capital transfer, revenue recognition, profit sharing, loss provisioning, and the termination of the contract. This demonstrates that mudharabah accounting has a different recording structure than conventional financing due to its inherent sharia elements and profit-sharing mechanism.

Furthermore, transparency in presentation and disclosure is a crucial element of mudharabah-based financial reporting. Both fund owners and fund managers are required to disclose

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information regarding the content of the contract, details of the funds, profit sharing, and allowance for losses in accordance with PSAK 101. This disclosure is necessary to maintain the principles of transparency and accountability in Islamic financial transactions.

The final discussion in the document indicates that a mudharabah contract can terminate for several reasons, such as depletion of capital, termination agreement, death of one of the parties, or breach of trust. This provision demonstrates that the continuation of the contract is highly dependent on the principle of trustworthiness, the business's ability to operate, and compliance with sharia.

Overall, the study's findings demonstrate that mudharabah is not only a spiritual concept, but also a standardized, measurable economic system that can be implemented in modern financial systems. Its legal structure is supported by Sharia law, its practices are implemented in the Islamic finance industry, and its accounting has been standardized to ensure transparency, accountability, and governance in accordance with Islamic economic values.

## CONCLUSION

The mudharabah contract is a form of economic cooperation in the Islamic financial system which is based on the principles of justice, trust and sharing. results. Contract This involving two party, that is *the owner maal* (owner capital) and *mudharib* (manager) capital), in where profit shared based on ratio agreed upon, temporary loss covered by owner capital during No negligence on the part of the management. This concept is a main pillar in banking practices sharia Because reflect values sharia Which reject usury and emphasize honesty and transparency in business management.

From an accounting perspective, the implementation of mudharabah is regulated in PSAK 105 which regulates the recognition, measurement, presentation and disclosure of transactions based on principle sharia. This standard ensures that report finance can provide information Which relevant And accountable for second split party. With proper implementation, mudharabah accounting not only supports good governance, but also strengthens public trust in the Islamic financial system in Indonesia .

## SUGGESTION

It is hoped that Islamic financial institutions and accounting practitioners can continue to improve their understanding and application of mudharabah accounting principles in accordance with PSAK 105 to ensure more transparent and sharia-compliant financial reporting. Furthermore, ongoing

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outreach and training on mudharabah management are needed. risk as well as mechanism for results so that contract mudharabah can walk with fair, efficient, And bring benefit optimal for all party Which involved.

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