

## The Practice of Istishna' Accounting in Indonesia

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### ABSTRACT

The musyarakah contract is a form of cooperation in the Islamic financial system that involves two or more parties to combine capital in a business under the principle of profit sharing. This study discusses the basic concept of musyarakah, its legal basis, the pillars of the contract, the types of musyarakah, as well as implementation and supervision standards based on sharia provisions and financial regulations in Indonesia. Furthermore, this study also describes the transaction flow, calculation techniques, and profit sharing mechanisms in musyarakah financing, using both revenue sharing and profit sharing approaches. The findings in the discussion indicate that the implementation of the musyarakah contract is based on the principles of fairness, transparency, and proportional risk sharing based on the capital contribution of each party. Supervision is carried out by the Sharia Supervisory Board (DPS) and the bank through on-site and off-site mechanisms to ensure compliance with sharia principles. The case study presented demonstrates the application of profit and loss sharing calculations that reflect the agreed ratio and capital portion. Overall, the musyarakah contract is a sharia financing instrument that is considered capable of supporting the development of partnership-based businesses while maintaining the values of fairness and sharia compliance.

**Keywords:** Istis'na, Musyarakah, Sharia Accounting, Sharia Financing, Profit Sharing.

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## BACKGROUND

The development of Islamic financial institutions and banking products over the last decade demands compilation reporting finance Which capable reflect characteristics sharia contracts in a way accurate. Contract Istishna" that is contract ordering/making goods based on specifications Which agreed And handover in time front including a unique trading/funding instrument due to its manufacturing/project nature and installment payments, so that need treatment accountancy Which different from transaction conventional. Book comprehensive study about reporting finance institution finance Islam emphasize the need for a framework accountancy And guidelines implementation (AAOIFI/standard local) Which explain recognition, measurement, And disclosure For product trade-based like Regards And Istishna" so that the report finance reflect substance economy And compliance sharia (Antonio, M. S. 2019).

In Indonesian Islamic banking and property sector practices, the use of Istishna" is still relatively low compared to other contracts (e.g., murabahah, ijarah, musyarakah), and its implementation faces various operational and regulatory challenges—for example, payment mechanisms, production/third-party risk management, and the need for clear specification documentation. Case study of Istishna" implementation in Islamic housing financing and Salam–Istishna" regulation review in Indonesia show practice varies between perpetrator (developer, bank) as well as the need for socialization and alignment of accounting practices with PSAK/national standards so that the implementation contract This can expanded in a way safe and transparent. Findings empirical This is an important basis for further examining the accounting treatment of Istishna" and recommendations for adjusting accounting policies in Indonesia (Rahmi, F. 2019).

In Indonesia, accounting standards for sales and purchase orders are regulated in PSAK 104 concerning Istishna". PSAK 104 explains that revenue recognition can be done based on the percentage of completion method or the completed contract method, depending on the substance and pattern. risk in contract. It means, accountant must understand nature the project And whether production risk more big on party manufacturer or subcontractors, Because matter This influence recognition timing profit. Book accountancy sharia edition new Which written by academics Indonesia

emphasize importance election method Which appropriate For guard quality information finance and guard coherence with maqasid sharia, that is justice for all party. (Antonio, 2019).

On the other hand, research results in national journals indicate that many Islamic banks and BMTs have not yet maximized the use of Istishna" contracts due to a lack of technical accounting

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understanding, a lack of contract drafting literacy, and limited resources for project monitoring. Accounting research on KSPPS and BMTs in Java shows that Istishna' accounting practices are still mixed with murabahah patterns, resulting in an impact on disclosure report finance Which No consistent. Study other on commercial banks sharia Also find that quality disclosure report finance Istishna' is largely determined by the availability of internal SOPs and internal accounting training. These two findings reinforce the urgency of literacy and harmonization of Indonesian Istishna accounting. (Rahma & Wardani, 2022)

### **Istishna' Contract**

Istishna' comes from the word *istashna'a al-shay'*, which means a request to another party to make an item according to a specific order. Terminologically, the Istishna' contract is a form of transaction for goods made based on a specific request and delivered at an agreed-upon time. In this contract, the object of the transaction is not an existing item (*ready stock*), but rather an item still in the manufacturing process. Thus, the Istishna' contract has the unique characteristic of manufacturing activities before the goods can be delivered to the customer.

According to the Financial Accounting Standards Statement (PSAK) 104, Istishna' is defined as a sale and purchase agreement in the form of an order for the manufacture of certain goods with specifications and conditions agreed upon between the orderer (*mustashni'*) and the manufacturer (*shani'*). In its implementation, this agreement allows for flexible payment, either in advance, in installments during the manufacturing process, or after the goods are finished being produced. PSAK 104 also explains the concept of *Parallel Istishna'*, namely a condition when the first seller makes a new agreement with a third party to fulfill his obligations in the first Istishna' agreement. These two agreements run independently and are not mutually bound in terms of terms or consequences.

A similar definition is found in the Dictionary of Islamic Finance and Banking Terms, where Istishna' is explained as a sale and purchase agreement involving the ordering of specific goods with characteristics and conditions agreed upon by both parties. Parallel Istishna' is also understood in the dictionary as two separate, simultaneous contracts, with the seller in the first contract acting as the buyer in the second.

### **Sharia Legal Basis for Istishna'**

The legal basis for the Istishna' contract in Islam is based on the Quran and Sunnah. In the Quran, its permissibility is based on the words of Allah SWT in Surah Al-Baqarah, verse 275, which states that buying and selling is permitted and usury is forbidden. This verse serves as

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the basis for the principle that all economic transactions are lawful as long as they do not conflict with sharia principles.

From the Sunnah perspective, there is a tradition that demonstrates the Prophet Muhammad's practice when ordering a silver signet ring. This tradition proves that manufacturing transactions were carried out during the Prophet's time and are considered valid according to Sharia. Therefore, the *Istishna'* contract is one of the contracts with strong legitimacy in Islamic jurisprudence.

### **Pillars and Conditions of *Istishna'***

In order for an *Istishna'* contract to be valid according to sharia, it must fulfill the pillars, namely the existence of an orderer ( *mustashni'* ), maker ( *shani'* ), object of the order ( *mashnu'* ), and the existence of *ijab qabul* as a form of contractual agreement between the parties to the contract.

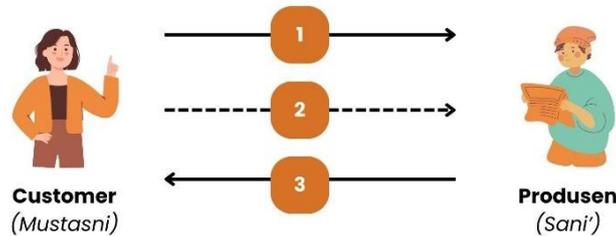
In addition to these pillars, the *Istishna'* contract must also meet certain requirements. Both parties must be individuals or legal entities capable of conducting the transaction and provide consent without coercion. The ordered item must be described in detail, including type, size, quantity, quality, and finishing techniques. The ordered goods must also be halal and not fall into categories prohibited by sharia. Furthermore, if the manufacturer only provides labor without the obligation to provide raw materials, the contract is no longer considered *Istishna'* and is transformed into an *Ijarah contract* .

### **Types of *Istishna'* Contracts**

In general, *Istishna'* contracts are divided into two forms: regular *Istishna'* and parallel *Istishna'*. Regular *Istishna'* occurs when there is only one contract between the customer and the producer. Parallel *Istishna'*, on the other hand, occurs when the party receiving the order enters into a second contract with another party to assist or take over the production process. These two contracts have separate relationships in both implementation and legal responsibility, so failure in one does not automatically invalidate the other.

A. *Istishna'* is a sale and purchase agreement in the form of an order to make certain goods with certain criteria and requirements agreed upon between the person ordering (buyer/*mustahni'*) and the seller (maker, *shani'*).

### Istishna' yang melibatkan dua pihak

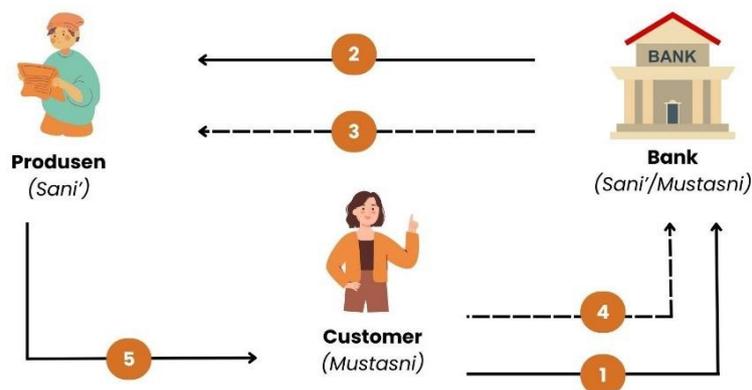


1. The customer asks the manufacturer to produce a specific asset at an agreed price, payable over a pre-agreed period of time or in cash, to be delivered on a specified date.
2. The customer pays the agreed asset price to the manufacturer either in installments or in cash.

The manufacturer ships the completed asset to the customer on the specified date.

- B. Istishna' parallel consists of from a series two Istishna' contract separated where is the Istishna' contract The first is between the customer and the seller (bank), where the seller is responsible answer For send asset Which determined to The second Istishna' contract is between the seller (bank) and the producer/contractor of the asset.

### Istishna' paralel



1. Customer ( *mustani* ) do agreement contract Istishna' First with bank Where bank appointed as contractor ( *Sani* ) asset. Price contract determined as a fee bank plus margin profit. Bank pointing customer as his agent to find a contractor (second contractor) to build the asset on his behalf.
2. Bank (as *mustani* ) sign Istishna' agreement parallel with the contractor (second contractor) ( *sani* ) to build assets according to specifications agreed with the customer.
3. Bank pay cost construction to contractor in the parallel Istishna' agreement.

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4. The customer makes the payment for the Istishna' agreement based on deferred payments.

Bank pointing contractor as his agent For send the Istishna' assets to the customer upon completion on the agreed date .

### **Supervision and Accounting Mechanisms in the Istishna' Contract**

Supervision of the Istishna' contract is a crucial aspect to ensure that the transaction complies with sharia principles and applicable technical provisions. In Islamic financial institutions, this supervision is carried out through several stages. First, sharia supervision is carried out by the Sharia Supervisory Board (DPS), which is tasked with ensuring that all contract contents and the contract implementation process comply with fatwas and Islamic legal principles. This supervision includes verifying that the contract is free from elements of usury (riba), severe gharar (gharar), and maysir (risk of betting), as well as ensuring that important elements such as price, product specifications, and delivery deadlines are transparently explained in the contract.

In addition to sharia aspects, the Istishna' contract also requires technical supervision due to its nature as a manufacturing contract. Technical supervision includes monitoring work progress, ensuring the raw materials used by the manufacturer comply with the contract specifications, and assessing the completion time of the work within the agreed schedule. This is done to ensure that the final product meets the customer's needs and the objectives of the contract.

The next stage is administrative oversight and accounting reporting. In this section, the process of recording and recognizing transactions is carried out in accordance with Islamic accounting standards, specifically PSAK 104. Islamic financial institutions are required to prepare periodic reports on the physical progress and cost progress of the project, and to ensure that each stage of completion has valid evidence before the next payment is made. The final stage is the supervision of the handover of goods. This process requires a detailed inspection of product quality, including size, material type, function, and compliance with predetermined quality standards . Once all specifications are met, the contract is declared complete, and the project is closed and book-keeping is carried out.

In Islamic financial institutions, the Istishna' accounting process begins with a customer's financing application based on the goods or project they wish to order. The next stage is negotiation to determine the product specifications, pricing structure, payment scheme, work period, and implementation requirements. Once an agreement is reached, both parties sign the Istishna' contract. The process then continues to the production phase, which is carried out by

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the seller or producer, accompanied by monitoring by the financial institution. The final stage is handover after the product is completed. PSAK 104 also provides the option of implementing a parallel *Istishna'* when the financial institution does not directly manufacture the goods, requiring a second contract with the producer.

Technically, accounting calculations in an *Istishna'* contract include the recognition of costs and revenues. Costs in this contract consist of direct costs, such as production costs, as well as indirect costs related to the contract, such as pre-contract costs, which are allocated objectively. Costs incurred during the construction process are recorded as *Istishna'* assets in progress. Meanwhile, general, administrative, selling, and research costs are not categorized as part of *Istishna'* costs. Once the contract has been signed, the pre-contract costs are transferred as expenses for the project. If the contract is not agreed upon, the costs are charged directly to the current period.

Revenue recognition can be achieved through two methods: the *percentage of completion method* or the *completed contract method*. The percentage of completion method is used when cost estimates and work progress can be measured rationally. Under this method, revenue is recognized based on the portion of work completed in each period. Conversely, when estimates cannot be accurately determined, the completed contract method is used, in which revenue, cost of goods sold, and profit margin are only recognized after the project is fully completed.

As an illustration of the application of *Istishna'* accounting, a case study demonstrates how the financing scheme and transaction recording are carried out, starting with pre-contract payments and recognizing assets in progress, through to recording debt and payments in several installments according to the progress of the work. This example demonstrates how sharia accounting principles are systematically applied, in accordance with PSAK 104.

Overall, the oversight mechanism and accounting treatment in the *Istishna'* contract have a comprehensive structure to ensure Sharia compliance while maintaining transparency and accuracy in financial reporting. This demonstrates that the *Istishna'* contract is not only a Sharia transaction concept, but also a structured financing model that can be implemented professionally in the modern financial industry.

## RESEARCH METHODS

This study uses a qualitative approach with a library research method *that* focuses on the analysis of concepts, sharia provisions, accounting mechanisms, and the implementation of *Istishna'* contract practices based on applicable sharia accounting standards. The research data sources

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come from primary documents containing discussions on the Istishna' contract, including the provisions of the pillars and conditions of the contract, the legal basis in the Qur'an and hadith, sharia supervision mechanisms, accounting techniques based on PSAK 104, and examples of application in case studies.

### **Data Types and Sources**

The data used in this study are secondary data obtained from related literature, such as books on sharia accounting theory, PSAK 104 accounting standards, a dictionary of sharia financial terms, fatwas from the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), and examples of Istishna' contracts in the practice of sharia financial institutions. These data sources are used to obtain a comprehensive overview of the structure of the Istishna' contract, its implementation principles, and accounting recording procedures.

### **Data collection technique**

Data collection techniques were conducted through literature reviews, documentation, and content analysis of regulations and guidelines related to the Istishna' contract. The review process was carried out by identifying the main contents, including the definition of the contract, legal basis, parallel contract model, monitoring procedures, financing flows, cost recognition, and the formulation of revenue recognition methods.

### **Data Analysis Techniques**

Data analysis was carried out descriptively-comparatively with the following stages:

1. **Identification of Basic Concepts** : includes the definition of the Istishna' contract, transaction characteristics, and the division of contracts into Istishna' and parallel Istishna'.
2. **Analysis of Sharia Provisions** : in the form of a grouping of legal bases from the Qur'an and Sunnah as well as an explanation of the pillars and conditions for valid contracts.
3. **Procedural Analysis** : through mapping the contract process starting from financing application, negotiation, contract signing, monitoring, to handover of goods.
4. **Accounting Technical Analysis** : includes the interpretation of PSAK 104 regarding cost recognition, revenue recognition, division of accounting methods ( *percentage of completion* and *completed contract method* ), as well as recording transaction journals based on case examples.
5. **Synthesis of Results** : concludes the relationship between theory, accounting standards, and the practice of implementing contracts in Islamic financial institutions.

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## RESULTS AND DISCUSSION

Based on the results of the study of the material regarding the Istishna' contract in the source file, it is understood that Istishna' is a sale and purchase contract in the Islamic financial system that is used specifically for transactions ordering the manufacture of goods. This contract has a unique characteristic because the object of the transaction is not yet available at the time of the contract, but is still in the production process according to specifications agreed upon by both parties. Istishna' is one of the relevant instruments in the manufacturing sector, construction, and financing of ordered products in Islamic financial institutions.

### Understanding the Concept of Istishna'

Etymologically, the term Istishna' comes from the word *istashna'a* which means asking someone to make something. Terminologically, the Istishna' contract is a transaction to order the manufacture of goods with certain criteria and payment that can be made in stages or at the end of the completion of the goods. PSAK 104 defines Istishna' as a sale and purchase contract carried out in the form of an order to manufacture certain goods with certain terms and specifications agreed upon between the orderer (*mustashni'*) and the manufacturer (*shani'*). In addition, in practice, *parallel Istishna' is also known*, namely two separate contracts in which the first party who receives the order makes a follow-up contract with a third party as the manufacturer of the goods.

### Sharia Basis of Istishna'

The legality of the Istishna' contract is supported by the Quranic verse in Surah Al-Baqarah, verse 275, which emphasizes the permissibility of buying and selling and the prohibition of usury. Furthermore, there is a hadith narrated by the Prophet Muhammad (peace be upon him) that once ordered a signet ring, which provides sharia-compliant legitimacy for goods-based transactions. Therefore, the Istishna' contract is valid as long as it is conducted in accordance with the principles of muamalah (muamalah), free from elements of usury, severe gharar, and maysir.

### Pillars and Conditions of the Istishna' Contract

Istishna' is only valid if it fulfills four pillars: the presence of an orderer, a manufacturer, an object of the order, and the shighat of the contract. The conditions for implementing the contract include the legal capacity of the parties, their willingness to enter into the contract, clear specifications of the goods, and the manufacturer's ability to produce the product. If the manufacturer only provides

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services without providing production materials, the contract becomes *an ijarah* and no longer an *Istishna'*.

### **Istishna' Contract Supervision Process**

The implementation of the *Istishna'* contract requires structured supervision, covering all aspects of sharia, production techniques, administration, and handover. The Sharia Supervisory Board ensures that the contract is free from elements that conflict with sharia. From a technical perspective, financial institutions or project implementers are required to monitor physical progress, raw material suitability, and implementation schedules. Administratively, accounting records must comply with PSAK 104, accompanied by progress reports and transaction evidence at each stage of the work before payment is made. Handover of goods occurs after quality control and specification compliance checks.

### **Accounting Techniques Based on PSAK 104**

The accounting treatment for an *Istishna'* contract includes the recognition of costs and revenue. Costs in this contract consist of direct and indirect costs related to the contract, while general and administrative costs are not categorized as *Istishna'* costs. Pre-contract costs are recorded as deferred assets and are only realized when the contract is signed.

Revenue recognition can be done using the percentage-of-completion method if estimated costs and progress can be measured reliably. Otherwise, the completed contract method is used, where revenue and profit are only recognized after the goods are completely completed.

### **Application in Case Study**

The case study presented in the file demonstrates the implementation of *Istishna'* financing between Bank Syariah Plaju and CV Selayang Pandang. The project, which involved manufacturing student shoes with a total value of Rp60,000,000, was financed in three installments. All transactions were recorded using accounting journals in accordance with PSAK 104, from recording pre-contract costs, recognizing assets in progress, to final payment transactions to suppliers. This example demonstrates the systematic implementation of accounting techniques, in accordance with standard procedures of Islamic financial institutions.

### **CONCLUSION**

*Istishna'* accounting is part of the accounting of order contracts in the financial system. sharia Which facilitate manufacturing or production goods based on pre-order. *Istishna'* itself is a

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sale and purchase agreement between the person ordering (mustashni') and the maker (shani') on something goods Which will produced with specification, price, time, and certain agreed-upon conditions. In its implementation, this contract must comply with sharia provisions that maintain fairness, avoid gharar (uncertainty) and maysir (speculation), and ensure all elements of the pillars are met, namely the existence of clear parties, object, price, and acceptance of the contract.

## SUGGESTION

It is hoped that Islamic financial institutions and business actors who use the Istishna contract will can increase understanding deep about rule sharia, technical accounting recognition and risk mechanisms in these order-based transactions. Furthermore, there is a need to improve the quality of contract documentation and product specifications to avoid future disputes and facilitate sharia and financial audits.

Internal supervision and the DPS (Sharia Supervisory Board) must also be strengthened so that every stage of production and payment is in accordance with sharia principles and PSAK provisions. related. Final, literacy And education about Istishna" need expanded especially for accounting students and practitioners to be better able to understand various types of sharia financing contracts in a way appropriate so that its implementation can optimal, transparent, And still oriented on justice and the common good.

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