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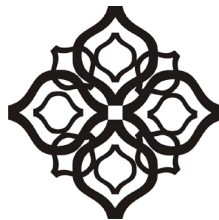
Mudaraba as a Model of Islamic Finance

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Item Type	Journal volume
Authors	Nidaussalam, M.
Publisher	IAIN Surakarta
Rights	With permission of the license/copyright holder
Download date	2026-06-22 21:14:16
Link to Item	http://hdl.handle.net/20.500.12424/153921

Volume 1, No. 1, January - April 2016

ISSN: 2503-4235 (p); 2503-4243 (e)



Shirkah

Journal of Economics and Business

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Journal of Economics and Business

Vol. 1, No. 1, January-April 2016

ISSN: 2503-4235 (p); 2503-4243 (e)

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Shirkah Journal of Economics and Business is a peer-reviewed journal published three times a year (January-April, May-August and September-December) by Faculty of Islamic Economics and Business, Institut Agama Islam Negeri (IAIN/ State Institute for Islamic Studies) Surakarta Central Java, Indonesia. The main objective of *Shirkah* is to offer an academic space of exchange ideas and initiate the increase number of qualified article produced by postgraduate students, practitioners and academicians.

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Ruang Jurnal Shirkah

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Shirkah*Journal of Economics and Business***Vol. 1, No. 1, January-April 2016****ISSN: 2503-4235 (p); 2503-4243 (e)****Table of Contents****Articles**

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Mudharaba as a Model of Islamic Finance

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Abstract

Sharia bank has mostly been determined by its absent of rate transaction which is officially decided in agreement between the bank and its customer (akad). Mudharaba, one of the akad variants, offers equity finance requiring profit and loss sharing (PLS). This paper aims to critically discuss the principles of mudharaba commitment, mainly focusing on the process of funding and financing. To argue, mudharaba is an cooperating commitment between two economic agencies for which the first agency expected to provide financial capital while the other takes a part in managerial work-progress. In this process, the more profit for mudharib the more profit for the investor.

Keywords

Mudharaba, islamic finance, profit and loss sharing

Bank is an institution to implement three main functions, namely accepting money saving, lending money, and money transferring. The economic history shows bank's function has been known since the prophet Muhammad (PBUH) era. The functions are accepting entrusted treasure, lending money for consumption and business needs, and sending money (Biro Perbankan Syariah Bank Indonesia, 2001). Bank is business entities that collects funds from society in saving form and then distribute them in credits and/ or other form to enhance society's standard of living. Conventional banking has not yet achieved these financing activities

therefore the establishment of sharia banking.

The main businesses in banking are society's fund management and its contribution to the society; finance services; and other finance activities. Sharia banking is a pure intermediation institution with all customer deposits fund allocate in financing. Therefore it has higher level of credit risk's exposure. Sharia bank should be more selective in financing their customers due to the long tenor which will affect assets management and banking liability. The fact shows bank as a finance intermediation institution are funding from its customers saving in a relatively short period. The customer inability to pay the funding as mentioned in the contract will affect the sharia banking finance.

Sharia bank asset balance will show most assets are allocated at financing department. It is equitable due to banking main function as intermediation institution and its main business. According to Law no. 21, 2008, sharia bank has been defined as everything relate to sharia bank and sharia business units, its institution, activities, and also process and procedure in implementing its activities. In doing so, the main incomes of the bank is funding and financing. However, there are big risks on financing. There are various risks on financing such as operational and credit risk. Customers who fail to pay (default) will significantly affect sharia bank assets and liquidity.

Sharia bank does not use interest in its operation. Therefore it uses contract mechanism to connect with the customers (creditors and debtors). It outlines with equity finance, trade finance and rent finance. *Mudharaba* contract is one of sharia bank contract of equity finance variant. It has profit and loss sharing (PLS) concept. This paper critically explains the *mudharaba* transaction contract, especially on *mudharaba* funding and financing relates to the sharia banking investment in Indonesia.

Defining *Mudharaba*

Mudharaba derived from the word *dharb* meaning hitting, more aptly defining as a personal process in hitting his feet to operate his/ her business. It also means walk on the earth which usually named traveling. *Mudharaba* or *qiradh* is included in *shirkah* category. *Mudharaba* is used in Iraqi's language; therefore the *Hijaz* named it *qiradh*. The Qur'an does not mentioned *mudharaba* clearly in the form of *mudharabah* word. The Qur'an mentioned it in the word *dharaba* for 58 times (Huda, 2010).

According to Brian Kettel (2008), *mudharaba* is derivative language of Arabic word *darb fi al-ard* which means walking on earth (*yadribuna fi al-ard*). It comes from Qur'anic letter *al-Muzammil* verse 20 on an establishment of profit partnership of capital and work between account holder investments as modal owner and sharia bank as *mudharib* (managing partner). Furthermore, PSAK no. 105 defines *Mudharabah* as working contract of two parties, namely first party (fund owner) who provides all funds, and second party (fund manager) as manager. The business profit is divided among according to agreement, with financial loss is only borne by the fund manager.

Mudharaba, according to Syafii Antonio (2001), technically means a working contract of two parties, whereby the first party (*shahibul maal*) provides all modal which other party managed. Based on *mudharaba* system, the profit should be divided according to the initial agreement. The loss will be borne by the modal owner as long as it does not due to modal manager's negligence. Whether the loss is caused by the modal manager negligence or fraud the loss will be the borne by the modal manager. *Mudharaba* is a partnership contract based on profit and loss sharing principle. It is signed by at least two parties, the first party is modal owner and provider, named *shahibul maal* and the second party is the party with skill and responsibility on fund management/ certain *halal* business,

named *mudhorib* (Ilmi, 2002).

Fiqh scholars agree on the statement of *mudharaba* is a requirement in Islam based on the Qur'an, *sunnah*, *ijma'*, and *qiyas* (Rachmat, 2001). According to sharia basis, *mudharaba* explains the need to do business which shows on these the Qur'an verses and *hadith*:

وَأَخْرُونَ يَضْرِبُونَ فِي الْأَرْضِ يَبْتَغُونَ مِنْ فَضْلِ اللَّهِ...

Meaning: "... and some of them walking on earth looking for God's bounty...."

.... فإذ قضيت الصلاة فانتشروا في الأرض وابتغوا من فضل الله

Meaning: "And when the prayer is finished, then may you disperse through the land and seek the bounty of the God ..." (al-Jumu'a, 10)

... ليس عليكم جناح أن تبتغوا فضلا من ربكم

Meaning: "It is no crime in you if you seek of the bounty of your Lord" (al-Baqara, 198)

عن صالح بن صهيب عن أبيه قال قال رسول الله صلى الله عليه وسلم ثلاث فيهن البركة {
البيع إلى أجل والمقارضة وأخلط البر بالشعير للبيت لا للبيع

From Shalih bin Shuhaib, Rasullulah (PBUH) said, "There are three things full of blessing: strong trading, *muqaradhah* (*mudharabah*), and mixing wheat and flour for household needs not for trading." (Ibnu Majah, No. 2280, book at-Tijarah)

Hadith of Abdullah and 'Ubaidullah, two sons of Umar, met Musa al-Asy'ary in Basrah, after going home from Nawahand. Both are accepting treasure from Abu Musa to be brought to Madinah (the capital). On the way they bought jewelry, then sold them in Madina therefore they made

some profit. Umar decided to take all the modal and profit. However his two sons said, "If these treasures are gone, aren't we the one who replaced them, how couldn't we gain some profit from them?" Someone said to Umar, "Amirul Mukminin the treasures establish as *qiradh*." Umar accepted this idea, he said, "I will make them into *qiradh*." Umar took half of the profit (50% for *baitul maal* 50% for both of his sons). _

The prophet companions has conceded on orphan treasure management as *mudharaba*. The *ijma'* in *mudharaba* said there is a report concerning Prophet's word there are prophet companions who used orphan treasure as *mudharaba*. This action was not conflicted by other companions. *Mudharabah* in *qiyas* is categorized as *al-musyafaqa* (somebody who manage the garden). People are consist of the poor and the rich. There are rich people who could not cultivate his treasure. However there are poor people who want to establish business but do not have modal. The *mudharaba's* purpose is to connect these two parties, and establish human prosperity in fulfilling their need.

Dewan Syariah Nasional (National Sharia Council/DSN) issued fatwas on *mudharabah* transaction:

- a. DSN fatwa No. 07/DSN-MUI/IV/2000 on *Mudharaba (Qiradh)*
- b. DSN MUI fatwa No. 33/DSN-MUI/IX/2002 on Sharia *Mudharaba* Obligation
- c. DSN fatwa 38/DSN-MUI/X/2002 on Interbank *Mudharaba* Investment Certificate
- d. DSN fatwa 50/DSN-MUI/III/2006 on *Mudharaba Mushtaraka* Contract
- e. DSN fatwa No: 51/DSN-MUI/III/2006 on *Mudharaba Mushtaraka* of sharia insurance

According to DSN fatwa No: 07/DSN-MUI/ IV/2000 on *Mudharaba (qiradh)* funding is divided into three parts, namely *mudharaba*

financing provision:

a) *Mudharabah* financing provision:

- *Mudharabah* financing is a financing distributed by LKS for all productive businesses.
- Of all these financings LKS position is *shahibul maal* (capital owner) with 100% financing of project (business) needs, therefore the business person (customer) is *mudharib* (business manager).
- Business time period, refund procedure, and profit sharing are measured by the agreement of both parties (LKS and business person).
- *Mudharib* is allowed to do various businesses agreed upon and in accordance with *sharia*. LKS does not involve in business management or other project, however it has right to train and observe.
- The total amount and financing has to be transparent and in cash and not in credit.
- LKS as fund provider will bear all loss of the *mudharaba* unless the *mudharib* made a deliberate error, negligent, and violate the agreement.
- The principle is there is no guarantee in *mudharaba* financing. However, to prevent *mudharib* make a mistake LKS is allowed to quires guarantee from the *mudharib* or third party. The guarantee is only able to liquidate whether *mudharib* violates the agreements on the contract.
- Business person criteria, procedure, and profit sharing mechanism are arranged by LKS in accordance with DSN fatwa.
- Operational fee is charged on the *mudharib*.
- *Mudharib* may regain compensation or the incurred cost whether LKS does not carry out its duty or violates the agreement

b) *Mudharaba* Financing Conditions and Rules

This point will simplify the provision in the DSN MUI fatwa based on Muhammad's (2008) paper. It mentions *mudharaba* contract will operate whether it follows the rules:

- *Shahibul maal* (capital owner)
- *Mudharib* (operator/ business person)
- Modal (*maal*)
- Work/ business
- Profit
- Consent and *qabul*

The conditions of *mudharaba* contract are:

- i. Funding provider and manager should be legal aware.
- ii. Consent and *qabul* statement should be said by the related parties to show their volition, with awareness on these matters:
 - Offerings and acceptances should follow the contract explicitly.
 - Offerings and acceptances on the contract.
 - The contract is written, with correspondence, or modern communications.
- iii. Treasure or modal is money or asset provided by modal provider for the *mudharib* to do business with these conditions:
 - Capital amount should be clearly mentioned, whether it is in goods, it should be valued in the price of present money (or other types)
 - Capital should be in cash not credits
 - Capital should be given to the *mudharib* to do business.
- iv. *Mudharaba* profit is the amount gained from modal's

advantages. The profits conditions are:

- It should be mentioned by both parties not only one party.
 - Profit sharing should be mentioned in percentage of the estimated profit. The profit of the workers and modal owner should be clear. Percentage ratio agreement is the result of negotiation and wrote on the contract.
 - Fund provider will bear all loss of the *mudharaba*, and the manager is not allowed to bear any loss except the ones due to deliberate mistakes, negligent, and agreement violation.
- v. The manager business as modal balance is provided by the fund provider. It should follow these conditions:
- Business activities are *mudharib* exclusive rights without fund provider intervention. Therefore the *Shahibul Maal* has the right to observe.
 - Fund provider is not allowed to limit manager actions, which will obstruct the *mudharaba* purpose namely profit.
 - The manager should not violate *sharia* law in his action on *mudharaba*. He should follow the custom of these activities.

c) *Mudharaba* Financing Legal Provision

Mudharaba financing legal provision at shari'ah bank is mentioned on fatwa DSN-MUI no: 07/DSN-MUI/IV/2000, namely:

- *Mudharaba* may limit with certain period.
- The contract may not connect to any events in the future which do not necessarily happen.
- In principle there is no compensation in *mudharaba* due to be mandate nature, except on deliberate mistakes, negligent, or agreement violation.
- If one of the involved parties does not fulfill its obligation or there is conflict of these parties, the settlement is with *sharia* arbitrage

institution whether there is no solution after discussion.

***Mudharaba* Transaction Basic Concept**

Mudharaba is technically a partnership contract of two parties. The first party is modal provider (*Shahibul Maal*), the second party is the manager (*mudharib*). The profit shares according to the contract. The loss will bear by the modal owner except it dues to manager negligence. Whether the loss does to the manager fraud it is totally bear by the *mudharaba* manager. *Mudharaba* is divided into two types: *mudharaba mutlawah*, is the *mudharaba* with modal owner give the manager liberation in managing the investment. Secondly, *mudharaba muqayyada*, is the *mudharaba* with modal limit the manager liberation in managing the investment.

The rules of *mudharaba* are:

1. Modal owner (*shahibul maal*)
2. Manager/ businessperson (*mudharib*)
3. Capital (*maal*)
4. Work or business object (project); and profit and *sighat* or consent and *qabul*.

Mudharaba transaction mechanism is carried out by the *sharia* bank. It is assumed as *shahibul maal* and customer as *mudharib*. The operations are:

1. The modal amount is given to the customers as business manager should be in cash. It is in the money format or good which value is mentioned in monetary unit.
2. *Mudharaba* financing modal management's result is measured with:
 - a. Business income.
 - b. Business profit.
3. The profit shares according to agreed contract, every month

or every agreed period. Bank will bear every loss except due to manager negligence or fraud.

4. Bank has the right to observe the business but not intervened into it.
5. The customer who negligent payment will get administrative sanction.

Banking Application

Mudharaba is usually applied on financing and funding products. *Mudharaba in* funding arrangement is applied on saving deposit, is saving with certain purpose, such as hajj saving, *qurban* saving, general deposit, and others. In addition, special investment is entrusted funding of the customers for certain business such as *murabaha* or *ijara* only. The financing is applied on working modal financing, such as trading and service working modal and special investment usually called *mudharaba muqayyada* is special fund with special distribution with certain rules from the *shohibul maal*.

Mudharaba is also able to apply with separating or mixing *mudharaba* fund (Muhammad, 2005). Accordingly, other treasures fund; it is total separation in *mudharaba* fund including *mudharib* fund. There is strength and weakness of this technique. The strength is the income and cost are separated and the fund could be correctly calculated. The profit or loss will also be able correctly calculated and allocated. The weakness is the moral hazard and *mudharib* investment preference. The *mudharaba* is mixed and combined with other fund sources. This system erase moral hazard and ethics problem mentioned above. However, *mudharaba* income and cost will be mixed with other costs.

Mudharaba in shari'ah bank has profit and risk (Syafi, 2005). There are five profits of *mudharaba*, namely bank will accept profit sharing

enhancement whether customer business increases. Bank also has no obligation to pay shared profit of the customer's fund on certain time. It will be paid due to the income or bank profit sharing therefore the bank will not experience negative spread. Main fund repayment is in accordance with cash flow or customer business treasury therefore it will not incriminate the customer. Bank will be more careful and cautious in finding halal, secure, and profitable business due to concrete and real profit is the one to be shared. Furthermore, sharing profit principle in *mudharaba* or *musharaka* is different with fixed interest principle. Bank will required financing income with fixed interest from the customer without consideration on profit accepted by the customer, customer's loss, or economic crisis. While, the *mudharaba* risks are streaming, customer uses the fund in the format as not mentioned on the contract; negligence and deliberate mistakes; and profit concealing by the dishonest customer

Bank Acknowledgement and Measurement as Fund Owner

Temporary *shirkah* is distributed by the fund owner. It is acknowledged as *mudharaba* investment on cash payment or non-cash asset handover to fund manager. *Mudharaba* investment measurement are carried out with *mudharaba* investment in cash is measured with the amount at the payment. *Mudharaba* investment in non-cash asset is measured with non-cash asset general value on handover: lower general value than noted value, means loss and higher general value than noted value means deferred profit and amortization at the *mudharaba* contract period.

Whether the *mudharaba* investment value decreasing due to damaged, missing, or other factors before the business is starting which not dues to fund manager negligence, it will consider as loss and cut the *mudharaba* investment balance. Whether part of *mudharaba* investment is missing after the business is starting and not dues to fund management

mistake, the loss is calculated on the profit sharing period. *Mudharaba* business is considered starting since the fund or business modal is accepted by the fund manager. Whether goods non-cash *mudharabah* investment have value decreasing at the time it is effectively used in *mudharabah* activities, it will not consider as a loss and cut the investment amount and will be calculated on the profit sharing. Fund manager negligence or mistakes, such as:

1. The agreed conditions is not implemented;
2. There is no general beyond capability condition mentioned on the contract;
3. The decision of the related institution.
4. Whether *mudharaba* is over before or at the due date contract and has not yet paid by the fund manager, it will consider as due date credit.

Mudharaba according to PSAK 59 is partnership contract of banks as *shahibul maal* and customer as *mudharib* with intial agreement of profit sharing. Whether some of *mudharaba* financing is missing before the business started and it is not the mistake of fund manager (*mudharib*) the lost is calculated at the profit sharing. While, the financing in non-cash modal form in which its value is reduced when it is still in or after effectively used for business, the loss will not directly decrease the total funding but calculated at nks business profit sharing.

However, whether the accident is occuring while the business is operating and based the investigation shows it dues to *mudharib* mistake the loss will be *mudharib's* rensibility. At the end of contract period, the loss will be compensated from the *shohibul maal's* profit sharing.

Some Mudharaba Facilities

1. *Mudharaba* Financing Payment (Main Financing)

Mudharaba financing modal repayment by the *mudharib* could be done according to the agreement, all at once at the end of the period or gradually in accordance to *mudharib*'s ability. Every *mudharaba* financing repayment will reduce *mudharaba* financing credits. *Mudharaba* financing repayment special with installment needs to attend the reducing of *shohibul maal* modal proportion dues to its consequence on *nisbah* reduce as the modal reduce.

Example:

PT. SALAM agrees to provide *mudharabah* financing for Bank Shari'ah Banget for Rp.1.000.000.000,- in plywood business modal with

At the *mudharabah* financing provision to the *mudharib*

<i>Mudharabah</i> Financing Debit	Rp 1.000.000.000
Cash/ Account/ Clearing Credit	Rp 1.000.000.000

Calculation principle is justice principle which repaid modal to the *shahibul maal* is his investment reduce therefore the *shohibul maal* right on his *nisbah* is also reducing in accordance with his modal reduce. For example on the 2nd year before the second modal repayment, PT. SALAM has gained profit of Rp. 100.000.000,- then *shahibul maal* right is 30% namely Rp. 30.000.000,- because in the first year PT. SALAM has repaid modal Rp.250.000.000,-. Bank is an institution with prudential principle based on the applicable regulation. It is obliged to record the reduce productive activa difference of 1% liquidity.

At the Productive activa difference formation (PPAP)

PPAP expense (obligation format) *mudharaba* financing debits (1%)

Rp 10.000.000

PPAP accumulation (obligation format) Kr *mudharaba* financing credits (1%) Rp 10.000.000

2. *Mudharabah* Profit Loss Sharing acknowledgement

National Sharia Council (DSN) issued fatwa No. 15/DSN-MUI/IX/2000 on business profit sharing's principle. It said sharia financial institutions are allowed to use revenue sharing principle (income sharing) and profit loss sharing. According to this fatwa due to advantages for all, the profit loss sharing should be in use is sharing revenue sharing. The principle in use should be agreed upon and the initial contract.

This principle made *shohibul maal* has never suffered loss unless *mudharib* business is liquidated with smaller sctiva than his/ her obligation. There is no negative income in this principle due the zero as smallest income (no income). Therefore it is happening the modal repaid is the initial modal (no modal addition.) The profit/ loss sharing principle calculation is carried out with periodical performance. It will calculate income subtracted with expenses which creates profit or loss depend on the bigger one. *Mudharib* needs to create *mudharabah* financing management to support this. Whether the modal used by the *mudharib* does not come from one source, it will need be parting of *mudharaba* fund using allocation's portion.

It is not easy for a *mudharib* in fact to create this record periodically due some variables involvement. It is laso not easy for *shahibul maal* to observe and ensure the allocated expenses on *mudharaba* funding management. Profit/ loss sharing principle needs honsety of both parties, especially *mudharib* as funding manager therefore not many *shari'a* bank using this principle.

The basic of *mudharaba* profit/ loss sharing need to be known in *mudharaba* principle is profit sharing of *shahibul maal* and *mudharib* as agreed upon *nisbah*, therefore the loss which does not due to *Imudharib* mistake is the responsibility of *shahibul maal* responsibility. However the loss dues to *mudharib* mistake will become *mudharib* responsibility which will not reduce *mudharabah* modal of *shahibul maal*. *Mudharib* mistake

or negligence level at least will need these facts: unfulfilled conditions mentioned in the contract; there is no proper force major condition and/or mentioned on the contract; and the result of *shari'ah* arbitrate institution or local religious court.

a. Profit Acknowledgement Case

This case uses the illustration of *mudharaba* contract 1 of Bank Syariah Banget and PT. SALAM with the amount of Rp.1.000.000.000,- and *nibah* 40:60. PT. SALAM manages the *mudharabah* funding and gains Rp.100.000.000,- as net profits in the first year which immediately shares with Bank Syariah Banget at the second year contract. The sharing portion of each parties are:

Shahibul maal (bank) = 40% x Rp100.000.000 Rp 40.000.000
Mudharib (PT. SALAM) = 60% x Rp 100.000.000 Rp 60.000.000

The journal made by Bank Syariah Banget at **the profit/ loss sharing** are:

Cash Account PT SALAM Debits	Rp 40.000.000
Profit Sharing Credits	Rp 40.000.000

b. Loss Acknowledgement Case

1) The loss does not due to PT. SALAM mistake/ negligence

Whether PT. SALAM is suffering loss at the first year Rp. 100.000.000,- and the fact showed it dues to natural disaster which has damaged some of *mudharaba* activas and it is not possible for the *mudharib* to avoid it, therefore the journal made by Bank Syariah Banget are:

At the loss reserved *mudharaba* financing establishment

Mudharaba financing loss allowance expenses Debits
 Rp.100.000.000,-

<i>Mudharaba</i> loss allowance Credits	Rp.100.000.000,-
At the loss reserved <i>mudharaba</i> financing establishment	
<i>Mudharaba</i> bookkeeping allowance debits	Rp.100.000.000,-
<i>Mudharaba</i> financing credits	Rp.100.000.000,-

2) The loss dues to PT. SALAM mistake/ negligence

Bank Syariah Banget will not record this in journal because the loss due to to fund manager (*mudharib*) is the responsible of fund manager without substracting Bank Syariah Banget *mudharaba* investment. The loss dues to *mudharaba* financing termination before the contract date dues, therefore the loss is considered as *mudharaba* finance substraction.

The management loss due to *mudharib* mistake/ negligence is the responsibility of fund manager (*mudharib*). *Mudharaba* financing substraction could be carried out with direct method namely substracting *mudharaba* financing estimation credits or with indirect method namely establishing *mudharaba* financing financing termination which is contra account of the financing.

c. Unrealized Profit Loss Sharing Case

Whether PT. SALAM acknowledges the profit of *mudharaba* financing management of Rp.100.000.000,- and at the agreed date PT. SALAM does not pay the profit loss sharing to Bank Syariah Banget with Rp.40.000.000,-. It will be mentioned in Bank Syariah Banget journal as:

Credits to <i>Mudharib</i>	Rp 40.000.000
<i>Mudharabah</i> income credits	Rp 40.000.000

Mudharaba contract will be terminated dues to agreemenet of both parties, the wish of both parties, or force major suvh as natural disaster or the death of one party. *Mudharib* should repay the modal to the modal

owner and whether she/ he does not do it. He/ she is considered violate the contract. The amount of the fund for *mudharaba* financing credits will change into “*mudharib* credits expiration date”. Both parties have the right to sell and divide the selling result whether the *mudharaba* contract is due and there are several non-cash modal in goods with certain values. They are also able to calculate financing credits and profit or loss borne by the *mudharaba* contract operation. The calculation will be carried out on financing credits, *shahibul maal* and *mudharib* rights, the loss and profit of to create new proportion of both parties who renew the contract whether one of the party requires *mudharaba* contract termination and replaced by other party which is agreed by both parties. The profit or lost proportion should be calculated on every payment correctly whether both parties agree on modal repayment.

Shahibul maal may terminate *mudharaba* financing at the contract due date on certain situation such as *mudharib* violates contract or could no longer be trusted. The *mudharaba* financing credits status will acknowledge as *mudharib* due dated credits. For example is government’s changing regulation which will terminate PT. SALAM activities before the *mudharaba* contract date dues therefore Bank Syariah Banget should immediately calculate and require the last financial report from PT. SALAM. *Mudharaba* financing credits recorded by the bank is Rp.300.000.000,- with PT. SALAM reported loss in the period of Rp.50.000.000,-. PT. SALAM is not able to finish the rest of the financing therefore Bank Syariah Banget will record it in the journal as follows:

Db <i>mudharib</i> credits	Rp 250.000.000
Db <i>mudharabah</i> financing loss allowance	Rp 50.000.000
Cr <i>mudharabah</i> financing	Rp 300.000.000

Conclusion

Mudharaba is a financing and funding contractual form which is able to be given to the customers by *sharia* bank. There are two *mudharaba* types in general, namely: *mudharaba muthlaqa* and *mudharaba muqayyada*. It needs two inseparable parties *shahibul maal* and *mudharib*. The *mudharaba* system contract is business partnership of two parties. The first party provide all modal, and the other party is the manager. The business profit is divided as the agreement mentioned on the contract. The *mudharaba* profit on investor is the profit sharing whether the *mudharib* business profit is increasing. The businessperson however will receive new funding.

The main purpose of *mudharaba* financing is gaining profit which will be divided as the agreement mentioned on the profit loss contract. Profit is the amount of modal surplus. Profit is the last purpose of *mudharaba*. The profit's conditions should be fulfilled (Tim Pengembangan Perbankan Syariah Institute Bankir Indonesia: 2002). There are should be two parties and no party gained all without the other. Profit proportion of each party should be known on contract signing as profit percentage. Manager's sharing should state explicitly at the contract signing. However the profit allocation of both parties should be acknowledges at the next period.

Fund provisioner should bear all *mudharabah* loss, and the manager only bears loss due to his/ her deliberate mistake or negligence. Whether loss dues to business risk and natural disaster the loss bears completely by modal owner, however the losses due to manager's deliberate mistake or negligence will be borne completely by the *mudharib*. Therefore to minimize the loss dues to *mudharib* or manager mistake or violation, *shahibul maal* should create regulations or warning to reduce *mudharib* action which will create a loss result.

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Regulation

Undang-Undang Republik Indonesia Nomor 21 Tahun 2008 Tentang Perbankan Syariah.

Dewan Standar Akuntansi Keuangan, PSAK No.50 (revisi 2006) tentang Instrumen Keuangan : Penyajian dan pengungkapan dan PSAK No.55 (revisi 2006) tentang pengakuan dan pengukuran instrumen keuangan 2006

Fatwa DSN-MUI nomor: 07/DSN-MUI/IV/2000.