

ISLAMIC FINANCIAL INSTRUMENTS: SOCIAL ACCOUNTING

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ABSTRACT

Social-based finance is very much needed, especially in developing countries to support mutual progress. takaful and waqf of Islamic finance principles, their operating structure, Shariah requirements and accounting treatment. It is clear that complying with Shariah requirements for those two charitable principles is important for establishing accounting treatment

Keywords: Islamic financial, social accounting.

INTRODUCTION

Social-based finance is very much needed, especially in developing countries to support mutual progress and economic empowerment. OJK also strongly supports various forms of social-based finance, Chairman of the OJK Board of Commissioners Muliaman D Hadad in his remarks at the opening of the Workshop on Social Finance and Social Enterprises in collaboration with the United Nation Development Program (UNDP) in Jakarta March 2017 said "Social finance programs that rely on empowerment Economically, socially oriented and maintaining the carrying capacity of the environment is very in line with the conditions of Indonesia, where the majority of the people are still very dependent on the agricultural, plantation, livestock and fishery sectors" (ojk.go.id, 2017).

In the concept of Islamic economics, Islamic finance is contained in takaful and waqf. Where both have the same goal, namely the economic

empowerment of the people. Financial concepts like this are needed, especially in a pandemic, so that the principle of ta'awun will be realized in takaful and waqf.

METHODS

This research method uses qualitative methods by studying literature from various sources and several fundamental theories to gain an understanding of the problems studied in more depth

RESULTS

Takaful

Takaful is often referred to as sharia insurance. It is a mutual cooperation financial transaction between many parties with the aim of providing financial security against unforeseen material risks. In takaful, the relationship of the participants jointly contributes to the funds raised for the purpose of providing mutual compensation and protection for each participant exposed to the specified risk. All participants are insurers as well as insured (Alamad, 2019).

Insurance according to the Big Indonesian Dictionary, "Insurance is coverage, namely an agreement between two parties, one party is obliged to pay contributions and the other party is obliged to provide full guarantee if something happens to the first party or his property, in accordance with the agreement made". While sharia insurance according to Arabic etymology, the term takaful comes from the word kafala. The definition of insurance according to DSN Fatwa No.21/DSNMUI/X/2001 concerning sharia insurance, namely "efforts to protect and help each other among a number of people/parties through investments in the form of assets and tabarru funds" or which provide a pattern of returns to face certain risks. through a contract (engagement) in accordance with sharia" (Habibi, et al., 2017).

Risk is the possibility of loss in an event. It is an unavoidable part of life because almost every human endeavor involves risk. This relates to uncertain future events such as accidents, theft, disasters or death which can result in loss, damage and financial difficulties. Insurance is one of the important tools available

to manage such risks. Islamic law does not prohibit the concept of risk management but puts forward risk management under several conditions. For example, that there should be no speculation about risk in order to make a profit and there should never be an event in which one person gains at the expense of another. Efforts to overcome the problem of risk in sharia principles have given birth to takaful (Alamad, 2019).

Takaful with the basic principle of mutual contribution and compensation has been practiced for centuries. Takaful plays an important role in risk mitigation and management in accordance with Sharia principles. The idea of takaful is basically to divide the losses that will be borne by all participants in takaful rather than transferring them to the insurance company as is done in conventional insurance.

Takaful is defined by AAOIFI Sharia Standard No. 26 is a process of agreement among a group of people to deal with damage/injury resulting from a particular risk to which they are all vulnerable.

The Main Aspect of takaful

In Islam it is permissible to take steps to reduce risk. This is illustrated by a hadith where the Prophet (SAW) advised a Muslim to have faith in God and tie his camel, rather than relying solely on his belief in God to prevent animals from wandering. However, Islam does not allow contracts for the purchase or sale of compensation or guarantees. This is because such contracts contain elements of speculation (Maysir) and uncertainty (Gharar), which are prohibited. In a conventional insurance contract with a proprietary (not mutual) insurance company, the insurer takes money (premium) from the insured in the hope of getting a commercial advantage.

The company anticipates that the claims made by the insured for the period covered by the insurance will be less than the premium amount, this is Maysir. Also, the insured pays uncertain benefits, which may be nil if there is no claim or may greatly exceed the premium amount, this is Gharar. To avoid Maysir and Gharar, Islamic insurance takes the form of cooperative or mutual insurance -

Takaful, which comes from the Arabic word for solidarity or mutuality. The generous nature of takaful and the mutual assurance of the participants to each other tolerate the possibility of uncertainty or speculation, this is due to the unwarranted nature of this arrangement.

The concept of Takaful comes from the ancient Arabic practice of al-Aqilah, which was approved by the Prophet (s) in his time. It was narrated by Abu Huraira (ra) "two women of Hudail quarreled with each other and one hit the other with a stone. The stone hit her stomach and she became pregnant, and the unborn baby was killed. They both brought the matter before the Prophet (s), and he decided that the blood money belonged to his relatives for what he had in his womb as male or female slaves (slaves and servants were very common at that time) of the best quality.

Hamal ibn Nagigha said: 'O messenger of God! Am I going to be punished for a being that doesn't get drunk or eat or make a sound or even come into being?' At that time the Messenger of Allah said: 'He is the brother of those who predict'. The practice of Aqilah (as practiced by the ancient Arabs) required the tribe to be able to make monetary contributions on behalf of the killer to compensate the victim's heirs or blood money compensation. The concept of takaful also has a relationship with the customary practice of Asabiyya, which is a form of tribal solidarity.

Ibn Khaldoon, in his Prolegomena, mentions some of the oldest forms of cooperative insurance practiced by pre-Islamic Arabs. He states that Arabs practice property insurance in various forms. During the winter and summer voyages, the caravan members agreed among themselves to compensate, from the earnings on these trips, anyone who might lose a camel during the journey. All members pay a share in proportion to their income or capital in transit as per conditions. They also agreed to compensate those whose goods remained unsold or were destroyed due to the death of their camel.

Sharia insurance is an alternative choice for people who judge that usury is unlawful. The development of sharia insurance in Indonesia is currently growing rapidly and significantly. Although it is still considered very new, its development

is able to compete with conventional insurance which first developed in the community. This can be seen from the number of conventional insurers that open sharia insurance branches. Based on the 2014 Insurance Statistics, it is stated that the number of insurance companies and reinsurance companies with sharia principles as of December 31, 2014 is 49 companies which are divided into 5 sharia insurance companies (pure sharia), 41 insurance companies with sharia units and 3 reinsurance companies with sharia units (Habibi, et al, 2017)

Waqf

Waqf in general is the act of locking or limiting the use of something for a particular purpose, literally meaning in Arabic (hab), which means preventing something from moving. From a Shariah perspective, the ulama differ in their definitions based on their schools of thought. The main differences between them are in relation to whether the waqf is binding or not, making the waqf to the relatives of the wakif (the person making the waqf from his own wealth), who owns the assets after influencing the contract waqf and whether offering and acceptance are necessary for the validity of the waqf (Al-Baghawi 1983). Al-Ramli and Ibn Hajar al-Haythamy of the Shafi'i school define waqf as any maal (wealth) that can be taken advantage of without being damaged or used up, and the benefit must be used for purposes that are in accordance with Sharia rules (Anggadini and Komala, 2017).

لَنْ تَنَالُوا الْبِرَّ حَتَّىٰ تُنْفِقُوا مِمَّا تُحِبُّونَ وَمَا تُنْفِقُوا مِنْ شَيْءٍ فَإِنَّ اللَّهَ يَعْلَمُ

Meaning: "You will never reach the (perfect) virtue, before you spend part of the wealth you love. and whatever you spend, then verily Allah knows it." (Surat Ali Imron (3): 92)

The verse above explains that a person will not reach or will not obtain perfect virtue, before someone spends some of the wealth he loves, such as waqf.

This is also based on a history that Abu Talhah when he heard the verse, he immediately donated some of the property he loved, namely a garden that was famous for its fertility. Then, the Prophet advised him to end the plantation. So, Abu Talhah followed this advice. Then Abu Ubaid said that although the word infaq in the verse shows the meaning of sunnah, Muslims are encouraged to realize it in achieving the goal of infaq. Then the verse becomes a proof that waqf is prescribed (Latifa and Jamal, 2019).

The key to waqf

There are three key aspects of waqf as described by Islamic jurists (Al-Baghawi 1983; Ibn Qadi 1989; Burhan al-Deen 1981). as follows:

1. Endowments are irrevocable: There is a consensus among Muslim jurists that a founder (waqif) of waqf cannot revoke the designation of an asset as a waqf. This means that the waqf cannot be withdrawn after the wakif declares his property as waqf, and his heirs cannot change their status. So that the waqf property will continue to benefit the beneficiary and at the same time the wakif will continue to receive rewards from God even after his death. However, Imam Abu Hanifah argues that the waqf of waqf has the right to return the waqf property to its owner and can also sell it, namely the waqf property can be withdrawn by the wakif (the person who is waqf).
2. The immutability of waqf: The majority of Islamic jurists believe that waqf must be eternal after it has been waqf. This is to ensure that no confiscation of the waqf property will occur either by the government or by individuals and their public and public places such as mosques, hospitals, orphanages, schools, etc., the Muslim community will establish as waqf forever.
3. The waqf cannot be revoked: The waqf property is transferred from the wakif to God, even though the proceeds obtained from it may benefit the defined beneficiary. The majority of Islamic jurists agree that no one can be the owner. Thus, in essence, like a 'frozen asset'. It cannot be the subject of any sale, disposition, mortgage, gift, inheritance, or any alienation

whatsoever. It can be said that these three conditions will ensure the continuous benefit of the waqf property for present and future generations and continue to produce God's reward for the wakif until the Day of Resurrection.

Types of waqf

There are various types of waqf identified in Islamic literature (Al-Baghawi 1983; Ibn Qadi 1989; Burhan al-Deen 1981). Which will be explained briefly below:

1. Waqf 'ala al-nafs (self-dedicated waqf): In the case of waqf dedicated to oneself, the wakif retains the income or benefits of the waqf property during their lifetime and indicates the purpose of the charity who is entitled to the income or benefits of the waqf after death.
2. Expert waqf (family waqf): A family endowment is one in which the income or benefits of the waqf property are provided for specifically described persons, usually family members, children, grandchildren or relatives. The income or benefits from the waqf go to charitable purposes when there is no recipient of this for whom the waqf was created.
3. Waqf al-khair (charity waqf): Waqf is said to be charitable when its income or benefits are dedicated to charitable purposes. It is a gift made by waqf to support the common good and welfare of the poor and needy in society. Usually, waqf creates the waqf in the form of buildings such as schools, hospitals, orphanages, guesthouses or by providing basic benefits, such as: dedicating books to study, donating land to be used as graves, dug wells, etc.
4. Al-waqf al-Mushtarak (joint waqf): Joint waqf refers to waqf in which property is donated to family as well as charitable purposes and the income or benefits from the waqf assets are divided accordingly. It is a waqf created by a wakif to support both a public charitable cause and a particular individual or family. So, the wakif can dedicate part of his wealth to his family and partly to public charitable purposes.

Journal study: the relationship between waqf in Indonesia and religiosity

Achmad Nurdany in Journal of Islamic Economics & Finance, Vol. 5 No. 1, January 2019: 18-24 entitled Ensuring the determinant of waqf in Indonesia: does religiosity matter?. In this paper, I want to examine the relationship between the amount of waqf land in Indonesia, which will be measured by the number of Muslim population, the number of mosques and the number of ulama

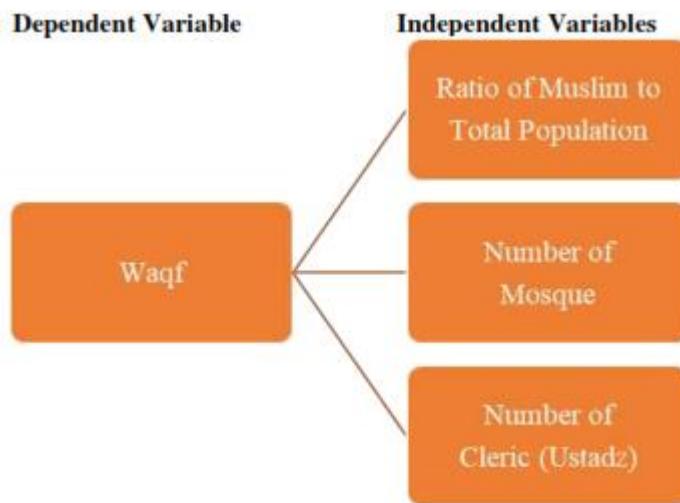


figure 1. The research design of the relationship between the amount of waqf land in Indonesia will be measured by the number of Muslim population, the number of mosques and the number of ulama

This study uses cross-sectional data analysis from 33 provinces in Indonesia. The data is purely secondary taken from the Ministry of Religion in 2016. The ministry's report contains quantitative data that describes the ministry as a public institution, religious institution, religious education, and religious affairs in Indonesia. Based on this research variable, the ministry's report also provides the total number of waqf, Muslim population, population, number of houses of worship, and number of kiai paa for each region.

In this study, it was found that the MR variable (ratio of Muslims to population) showed that there was no significant relationship to the dependent variable LW (waqf land) even though the direction was positive. The reason

behind this finding is that the annual growth of the Muslim population in Indonesia is higher than their awareness of paying the waqf. The variable NM (number of mosques) turned out to have a negative and significant effect on waqf. The impact can be negative because endowments are given by Muslims and then built into mosques, not for other productive businesses. The only variable that meets the expectations of the hypothesis is the NC variable (number of kiai) which has a positive effect on LW (waqf land). The author assumes that most scholars in Indonesia are able to influence the Muslim community to carry out the commands of God Almighty and stay away from His prohibitions. In this case, one of Allah's commands to His servants is to pay waqf as an act of charity.

To that end, several policy recommendations were also discussed. First, the government needs to place more emphasis on increasing the number of kiai than on the number of mosques. Second, their quality also needs to be improved by supporting programs, such as direct incentives for improving their performance or paying monthly salaries based on certificates of competency recognition. Third, the government must manage or even regulate the waqf given by the Muslim community to be used in other productive-based business applications.

CONCLUSION

Discussion of charity-based social accounting, which is also known as non-commutative contract in Islamic finance, namely takaful and waqf from Islamic finance principles, their operating structure, Shariah requirements and accounting treatment. It is clear that complying with Shariah requirements for them are two important charitable principles to establish their accounting treatment. While, as we have seen in this chapter, IFRS and IAS 4 will work extensively to determine the accounting treatment of takaful insurance products, there are several aspects: which are unique to takaful and must be properly considered in their accounting treatment requirements and needs.

Likewise with the Islamic principle of waqf as a mandate, an analogy is drawn to the accounting treatment of takaful to regulate its accounting treatment.

This is because the responsibility for financial reporting falls on the company that manages the assets in both.

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