Chapter

Islamic Banking and Islamic Accounting in Indonesia: History and Recent Development

Mahfud Sholihin and Dian Andari

Abstract

Islamic banks (IBs) have distinctive characteristics compared with the conventional ones. IBs only perform permissible (*halal*) financial transactions viewed from Islamic perspective and avoid usury (*riba*) and overspeculation (*gharar*). Consequently, IBs require special accounting to accommodate their nature. In terms of accounting, Indonesia is unique, as it has two accounting (for business organizations) standard setters: Financial Accounting Standard Board (*Dewan Standar Akuntansi Keuangan*-DSAK) and Sharia Financial Accounting Standard Board (*Dewan Standar Akuntansi Keuangan Syariah*-DSAS). This chapter discusses the development of IBs in Indonesia, a country with majority of its citizens being Muslim. Further, it explains the development of Islamic Financial Accounting Standards (IFAS) including how the standards are developed (the due processes). Finally, this chapter describes whether Islamic financial accounting standards developed in Indonesia has sufficiently fulfilled the accounting standards needed by Islamic banks in Indonesia.

Keywords: Dewan Standar Akuntansi Syariah (DSAS), Institute of Indonesia Chartered Accountants (IAI), Indonesia, Islamic accounting, Islamic banking

1. Introduction

This chapter discusses Islamic banking and Islamic accounting development and implementation in Indonesia. The first part of this chapter elaborates on the emergence and development of Islamic banks (IBs) in Indonesia. Then, the next part discusses the history and role of Islamic accounting in Indonesia. The chapter intended to develop understanding related to Indonesia Islamic banking and accounting as a unique case of Islamic finance state of the art.

As the most Muslim populous country in the world, the development of Islamic banking in Indonesia is not without challenges. The emergence of Islamic banks in Indonesia was triggered by internal and external factors. The growth of demand in permissible (*halal*) financial services started in the Middle East encouraged Indonesia to join the opportunity to pave its way in the banking sector after the formation of Islamic financial institutions at the grassroot level [1–3]. PT. Bank Muamalat

Indonesia (BMI) was the first Islamic bank in Indonesia established in 1990 in Jakarta, Indonesia. The stagnant development in its first years led to the enactment of the Indonesian Law No. 21 of 2008 about Islamic banking (or Sharia Banking) that set the definition and legal foundation for Islamic banks to grow in Indonesia.

Upon the establishment, the development of Islamic banks became more steady and apparent over time. In 2020 itself, the growth of Islamic banking (yoy) had double-digit increment for 13.11 percent (yoy). Even though the Islamic banking industry growth is increasing, the inferior competitive advantage only contributes to less than 10 percent of national banking assets [4]. Hence, in 2021, the ministry of state-owned enterprise combined three state-owned Islamic banks (PT. Bank Syariah Mandiri, PT. Bank Negara Indonesia Syariah, and PT. Bank Rakyat Indonesia Syariah) into PT. Bank Syariah Indonesia (BSI) through merger. This merger resulted in the improvement of the competitive advantage of BSI to its conventional counterparts [4]. This momentum marked the commitment of the government and stakeholders to boost the development of Islamic banking in Indonesia.

Accountability is important to ensure the relevance and reliability of information in Islamic banks. It can be said that the development of Islamic accounting in Indonesia is driven by the growth of Islamic banking and finance [5]. There is a demand to accommodate accounting standards for Islamic transactions; hence, reliable information can be used by users for making a sound decision. *Dewan Standar Akuntansi Syariah Ikatan Akuntan Indonesia* or Sharia Financial Accounting Standard Board of the Institute of Indonesia Chartered Accountants (DSAS IAI) was formed to review, to study, and to issue accounting standards for Islamic financial transactions. The standard must be embedded with Islamic values and norms; hence, the process also demands knowledge in Islamic law, accounting, and business.

Until today, the Islamic or Sharia accounting in Indonesia has developed to myriad activities and transactions performed by Islamic banks (i.e. *mudarabah* (investment), *murabaha* (cost-plus), and *ijarah* (leases),). Islamic-based transactions also encompass social or charitable activities that need guidance and standard to operate accountably. Accounting standards for Islamic social or charitable activities such as zakah (Islamic compulsory alms), sadaqah, and waqf (charity) were set to allow both nonprofit and profit organizations to perform a systematic financial reporting. Indeed, these activities are also committed by Islamic banks and other Islamic profit-oriented organizations as manifestations of their Islamic ethical identity. Therefore, it is expected that Islamic accounting is able to fulfill its goal to assist Islamic Banks to be accountable to their stakeholders and God by being fair and transparent in business.

2. Islamic banks (IBs) in Indonesia

2.1 Islamic banking emergence in Indonesia

The history of Islamic banks in Indonesia cannot be detached from the Islamic banking as a global phenomenon. The early concept of Islamic financial institutions was established by the idea of a bank with a profit-sharing system [1, 2]. In the 1940s, a Pakistan bank specifically set up to manage Hajj (pilgrimage) funds was founded but failed to prevail. The establishment of Mit Ghamr Local Saving Bank in Egypt marked as a breakthrough of modern Islamic banking in 1963. By 1967, the National Bank of Egypt and the Central Bank of Egypt took over Mit Ghamr operation due to declining performance during political turmoil. With this acquisition, Mit Ghamr's interest-free principle has been abandoned, and banks are once again functioning on an interest basis. In 1971, the concept of interest-free was finally reinvented during the Sadat administration with the establishment of the Nacelle Social Bank. The purpose of the bank is to continue its business according to the concepts practiced by Mit Ghamr. The growth of economy also drove more Muslim countries to facilitate Islamic principle-based banks. Dubai Islamic Bank in 1971, the first bank initiated by private institutions, indicated growing interest in the Islamic financial facilities. In 1975, Faysal Islamic Bank started to operate in Sudan and Egypt, and at the same time, the Kuwait government established Kuwait Finance House. Finally, the Islamic Development Bank (IsDB) was formed in October 1975, which consisted of 22 founding Islamic countries. IsDB provides financial assistance for the development of its member countries, helping them to establish Islamic banks in their respective countries and playing an important role in research in Islamic economics, banking, and finance. Now, IsDB, based in Jeddah-Saudi Arabia, continues to operate with more than 56 member countries. Subsequently, the efforts to establish Islamic banks began to spread in many countries. Some countries such as Pakistan, Iran, and Sudan decided to change their financial system by adopting an interest-free system. In other Islamic and Muslim majority countries such as Malaysia and Indonesia, interest-free banks operate side by side with conventional banks.

Despite the grassroot Islamic microfinance in Indonesia already prevailing, the contemporary Islamic banking development was marked in the 1980s. Expecting efficiency and economic strengthening, the Indonesian government implemented deregulation allowing banks to set interest rates in 1983 [3, 4]. "Pakto 88," a monetary policy package as part of deregulation, was promulgated to support liberalization of Indonesia banking system encouraging the emergence of banks. Along with, grassroot developing Islamic financial institutions, named BMT Salman ITB in Bandung and Koperasi Ridho Gusti in Jakarta, paved a way to be a pilot model for Islamic banks in Indonesia. In 1990, the Indonesia Ulema Council (Majelis Ulama Indonesia a.k.a. MUI) formed a task force to establish the first Islamic bank in Indonesia, PT. Bank Muamalat Indonesia (BMI). Initially, the bank received less recognition from the public due to lack of legal foundation to operate. The legal basis for banking under the Sharia system was only in one of the paragraphs of "banks with a profit-sharing system" in Law no. 7 of 1992, without details on the basis of Sharia law and the types of businesses that are allowed. In 1998, Law No. 7/1992 became Law No. 10 of 1998, clearly stating that there are two banking systems (dual-banking system) in the country, the conventional banking system and the Islamic banking system. This law encouraged the establishment of several other Islamic banks or Islamic windows, namely Bank IFI, Bank Syariah Mandiri, Bank Niaga, Bank BTN, Bank Mega, Bank BRI, Bank Bukopin, BPD Jabar, and BPD Aceh.

2.2 Islamic banking in Indonesia: Theory and practice

The dual-banking system in Indonesia allows conventional banks and Islamic banks to operate. The operationalization of both banking in parallel is called the dual-banking system. According to Indonesian Law No. 21 of 2008 about Islamic banking (or Sharia Banking) [5],

> *"Islamic Banks are banks that carry out business activities based on Islamic law (Sharia) principles, or Islamic legal principles regulated in the Islamic legal opinion (fatwa) of the Indonesian Ulema Council (Indonesian: Majelis Ulama Indonesia a.k.a. MUI) such as*

the principles of justice and balance ('adl wa tawazun), benefit (maslahah), universalism (alamiyah), and does not involve excessive speculation (gharar), gambling (maysir), usury (riba), exploitation (zalim) and unlawful (haram) objects." (translated)

In addition, the law also mandates Islamic banks to perform social functions by facilitating collection of Islamic alms and charities and distributing it through Islamic charitable institutions. There are three categories of Islamic bank entities operating in Indonesia: Islamic commercial banks, Islamic-windowed banks, and Islamic rural banks. Islamic commercial banks are full-fledged Islamic banks that offer only Islamic financial products and operate under Islamic principles. Islamic-windowed banks, however, are business units or divisions of a conventional commercial bank (CCB). This business unit offers Islamic financial products. Meanwhile, Islamic rural banks are banks that operate in certain regions and only offer a more limited type of product compared with Islamic commercial and Islamic-windowed banks. Usually, the size of Islamic rural banks is significantly smaller than Islamic commercial banks. All these banks must comply with Islamic banking regulation.

Substantially, Islamic banks must nurture their identity as value-based institutions. Islamic bank's ethical identity explains how Islamic value is followed by the institution to stakeholders as a distinguishing characteristic from conventional banking practices [1–3]. There are five main traits of Islamic banks identity, namely: underlying philosophy and values; provision of interest-free products and services; restriction to Islamically acceptable deals; focus on developmental and social goals; and subjection to additional reviews by the Sharia Supervisory Board (SSB) [6]. The traits are broken down into several indices such as commitment to Sharia, existence of SSB, contribution to alms and charity (zakat and shadaqah), commitment to employees, and so on. While Belal et al. [7] conducted a longitudinal study to Islami Bank Bangladesh Limited (IBBL), a panel study of Islamic Identity Index measurement that was conducted by Zaki et al. [8] compares communicated and ideal ethical identities similar to those in Haniffa and Hudaib [9] but targeted Islamic banks in Asia. The result shows that three out of seven banks show value above the average, while the remaining have wide disparity. It indicates that not all Islamic banks in Asia have shared identity as Islamic banks. From the research, it is interesting that Indonesia Islamic bank's ethical identity index outperforms other Islamic banks in Asia even compared with Middle Eastern banks. It suggests that there is more consideration in the institutionalization of Islamic banks in Indonesia so that it can represent the Islamic norms and values in the banking industry.

The implementation of the regulatory and supervisory functions of Islamic banking from the aspect of implementing prudential principles and good governance is carried out by the Financial Services Authority (Indonesian: Otoritas Jasa Keuangan a.k.a. OJK) as is the case with conventional banking, but with a regulation and supervision system that is adjusted to the peculiarities of the Islamic banking operational system. The problem of fulfilling Sharia principles is unique for Islamic banks, because essentially Islamic banks are banks that offer products that comply with Islamic principles.

As prudential institutions, banks bear responsibility to manage its risk accordingly. As the distinction between conventional and Islamic banks, all stakeholders demand Islamic compliance as the foundational value of Islamic banks. The uniqueness of Islamic Banks (IB) entails consequence on risk exposing the bank [4]. Salem [5] argues that credit risk in IBs is higher than that in Conventional Banks (CBs) due to potential moral hazard triggered by asymmetric information embedded in Profit-Loss Sharing (PLS) contracts. However, deliberate negligence or misconduct committed by the *mudharib* or *musyarakah*'s management partner is proven, IBs can switch the contract to debt-like financing and impose penalties to the violating party [6, 9, 10]. IBs are claimed to have higher liquidity risk compared with conventional counterparts. The lack of liquid Sharia-compliant instruments causes inflexibility in securitization and diversification [11–13]. Accessibility to the capital market is impeded as there is less or even none of the interbank market for IBs [7, 8, 14]. Moreover, unlike conventional banking, the "last resort for lender" function happened to be complicated due to the injunction of usury, which is naturally prohibited by Shari'ah [11]. Sharia compliance, legal and fiduciary risk. Sharia noncompliance risk arises when IB violates Sharia law principles [15]. Failure in complying to Sharia can disturb or even fail the completion of contract, contributing to fiduciary risk due to poor due diligence and misconduct by IB [16]. The Islamic values and norms must be manifested and hence followed in Islamic banks, contributing complexity in Islamic banks that is unique compared to conventional banking.

Systems to ensure sharia compliance are important in Islamic banking. Therefore, the existence of Sharia Supervisory Board (SSB) in Indonesia Islamic Banking is mandatory. According to Law No. 21 of 2008 about Sharia Banking, the National Sharia Board of Indonesian Ulema Council (Indonesian: Dewan Standar Nasional Majelis Ulama Indonesia a.k.a. DSN MUI) issues Islamic legal guidance (fatwa) on lawfulness of Islamic bank's products and then SSBs guard its implementation in IBs. Additionally, OJK stipulates that all Islamic banking products may only be offered to the public after the bank has received a fatwa from the DSN-MUI and obtained permission from the OJK. At the operational level, each Islamic bank is also required to have a Sharia Supervisory Board (SSB), which has two functions, the first is the sharia supervisory function and the second is an advisory function when banks are faced with questions about whether an activity is sharia-compliant or not, as well as in the process of developing a product that will be submitted to DSN to obtain a fatwa. In addition to these functions, Sharia Banking is also directed to have an internal audit function that focuses on monitoring sharia compliance to assist DPS, and in carrying out external audits used by sharia banks are auditors who have qualifications and competencies in Islamic law subjects.

2.3 Recent development of Islamic banking in Indonesia

OJK categorizes institutions in Islamic financial industry into three subsectors, namely Islamic banks, Islamic non-banking financial institutions (Islamic NBFI), and Islamic capital market with a total capitalization of assets for IDR 1801.40 trillion or USD 127,71 billion (excluding Islamic stocks) in 2020 [17]. Islamic capital market contributes the largest proportion for IDR 1076.22, then Islamic banking for IDR 608.90, and the least, Islamic financial non-banking institutions for IDR 116.28 trillion (USD 1 = IDR 14,050). Since its establishment, the growth of Islamic financial industry in Indonesia has been growing. Regardless of its contribution to national market share that only counts for 9.95 percent in 2020, the growth of Islamic financial assets recorded 22.71 percent (yoy) consisting of the growth of Islamic capital market, Islamic banks, and Islamic NBFI for 30.58, 13.11, and 10.15, in sequence. From the banking industry, Sharia commercial banks dominate the growth proportion followed by Sharia business units and Sharia rural banks (**Figures 1** and **2**).

Figure 1.
The growth of Islamic finance and banking assets in Indonesia from 2016 to 2020. Source: Financial service authority (OJK), 2021.

Figure 2.
Islamic banks' main indicators and performance in 2020. Source: Financial service authority (OJK), 2021.

The future of Islamic banking in Indonesia is promising if stakeholders, especially the government, commit to the development of the industry. The dual-banking system put Islamic banking in a competition with conventional banking. As a "new-comer" in the financial industry, Islamic banking market capitalization is far below conventional banking. The size of Islamic banks is significantly low compared with its counterparts, leading to the low capacity of lending. Nationally, the market share of the banking industry in terms of assets shows the dominance of several banks in BUKU 4[1], while most banks still have a small business scale and market share, including Islamic banks. Structurally, both conventional commercial banks (CCBs) and Sharia commercial banks (SCBs), the majority of banks are in BUKU 2 with 58 BUK (*Bank Umum Konvensional*, Conventional General Bank) and 7 BUS (*Bank Umum Syariah*, Sharia General Bank), respectively. In terms of BUK, there are already seven banks that are in BUKU 4, while there is not one BUS that is included in BUKU 4 and only a small part is included in BUKU 3 (**Figures 3** and **4**).

The Financial Services Authority (OJK) encourages banking consolidation policies and strengthens bank capital in Indonesia as stated in POJK No. 12/POJK.03/2020 concerning Commercial Bank Consolidation. In 2021, the Ministry of State-Owned

[1] BUKU is categorization of banks in Indonesia. Bank BUKU 4 is the biggest bank in Indonesia with capital more than IDR30 billions.

Figure 3.
Classification of commercial banks based on business activity in Indonesia in 2020. Source: Financial service authority (OJK), 2020.

Figure 4.
Bank's rank based on assets in Indonesian, 2020. Sources: Financial service authority (OJK), 2020.

Company of Indonesia finalized the merger of three state-owned Islamic banks. PT. Bank Syariah Mandiri, PT. Bank Negara Indonesia Syariah, and PT. Bank Rakyat Indonesia Syariah were merged into PT. Bank Syariah Indonesia. By the end of 2021, there are 12 operating Sharia commercial banks in Indonesia from [16] the prior of the merger (**Table 1**) [12]. This merger has brought three largest Sharia commercial banks, which were previously excluded from the top 10 of the biggest operating commercial banks nationally, up the ranks to the seventh position with 2.7 percent of the

Year	Sharia commercial banks	Sharia business units	Sharia rural banks
2014	12	22	163
2015	12	22	163
2016	13	21	166
2017	13	21	167
2018	14	20	167
2019	14	20	164
2020	14	20	164
Oct-21	12	20	163

Sources: Financial service authority (OJK), 2020.

Table 1.
The number of Islamic banks in Indonesia according to classification.

national market share of the banking industry. The Islamic bank merger is an important consolidation momentum for Islamic banking to be able to present Islamic Banks that are strong in capital and able to compete in the national banking industry. In addition, the "new" bank, Bank Syariah Indonesia, has the opportunity to join BUKU 4 by increasing the scale of the economy so that it can contribute significantly to the national economy. This merger manifested as the commitment of the Indonesian government to support Islamic bank's development.

2.4 Indonesia Islamic banking way forward

The growth of Islamic banking in Indonesia is promising. During the 2020 pandemic, Islamic banks still maintained their growth and robustness through the crisis. The bank should keep innovating to capture larger market share. If Indonesian Islamic banks fail to capture the potential benefit from Muslim demography, the industry might not develop [1]. Islamic banks must maintain their identity by balancing the social function and communicating its value to the users. Reputational risks remain the vital issue in Islamic banks. Muslim community is diverse, many interpret Islamic law differently according to schools or teachings. Sharia governance may offer solutions for a systematic Sharia compliance guarantor that bridge different opinions among Sharia scholars and build public trust to the permissibility *(halal)* value in Islamic banking. At the implementation level, the government must take the Sharia audit into account as there are loopholes in the process. It must be understood that Sharia audit differs from audit for Sharia/Islamic financial institutions. This leads to the human capital issue. It is understandable that due to the small size of institutions, the labor market for Islamic banking is not as strong as the conventional counterparts.

A recent opportunity to be captured by Islamic banks is the digitalization of banking services. Young adults in their productive age dominate Indonesia populations. This generation has high literature in digital technology, especially the internet. Financial technology has emerged as the institution offers digital-based financial services. The easy, timeless, and reliable platform has captured the young generation to use financial services from start-up companies. Albeit becoming a new competitor for conventional banking, this institution may not replace the role of conventional banking later in the future due to the fundamental role and robustness of banking institutions that are supported by other supporting prudential institutions. The

Islamic banks must capture the momentum to invest in technology. First, branding is important to capture the new market by making Islamic financial transactions user-friendly and easy to access. This branding also involves the strategy to increase awareness and literacy on Islamic banking that has been lacking in the society. Second, the bank should maintain its security as the number of cyberattacks increases, ranging from identity theft, skimming, to phishing, and banks must mitigate this risk appropriately to protect the customers.

3. Islamic accounting in Indonesia

3.1 History

As previously mentioned, the development of Islamic accounting in Indonesia cannot be separated from the establishment of the first Islamic Bank in Indonesia, namely Bank Muamalat Indonesia (BMI) in 1991 and the existence of Law No. 7 of 1992 concerning banking, which is further detailed in Government Regulation 72 of 1992, Law no. 10 of 1998 and Law no. 23 of 1999. After BMI was established, there was a problem because BMI was an Islamic Bank but the financial statements made were not based on Sharia accounting. In addition, the existence of this Islamic bank also requires supervision and auditing of Islamic bank products. These factors encourage the importance of developing Islamic accounting.

In 2002, IAI through the Financial Accounting Standards Board (DSAK) ratified PSAK No. 59, Islamic Banking Accounting, which became effective in January 2003. Another thing that contributed to the development of Islamic accounting was the emergence of the IAI Sharia Accounting Committee in 2005. In 2010, IAI decided to transform the institution by establishing a Sharia Financial Accounting Standards Board (DSAS), which is authorized to formulate Islamic Financial Accounting Standards (IFAS). Islamic accounting, in Indonesia is often called as Sharia accounting, is accounting based on an Islamic (teachings) paradigm. It is an instrument or subsystem to implement Islamic teachings, especially in business. Therefore, the objectives of Islamic accounting must be consistent with the objectives of Islamic teachings (*maqaasid shari'ah*), namely to achieve happiness of human beings, both materially and spiritually.

To achieve the above objectives, Islamic accounting relies on various principles: (1) brotherhood (*ukhuwah*), which upholds the value of togetherness in obtaining benefits (sharing economy); (2) justice (*'adalah*), which does not tolerate usury, injustice, gambling and speculation (*maysir*), excessive uncertainty (*gharar*), and does not perform unacceptable (*haram*) goods or services; (3) beneficial (*maslahah*) in an effort to protect the objectives of sharia (protecting faith, reason, descent, life, and property); (4) balance (*tawazun*) of material and spiritual aspects, private and public, financial and real sectors, and utilization and conservation (for example, natural resources); and (5) universalism (*syumuliyah*), which considers various stakeholders to realize the welfare of the universe (*rahmatan lil alamin*). Thus, the benefits of Islamic accounting are not only for Muslims, but also for all mankind, even for the universe [18].

In general, the model or approach to develope Islamic accounting can look like **Figure 5**. From **Figure 5**, there are two approaches in developing Islamic accounting [19]. The first approach is often called the "ideal" approach. In this approach, the development of Islamic accounting begins with the search for sharia sources and then

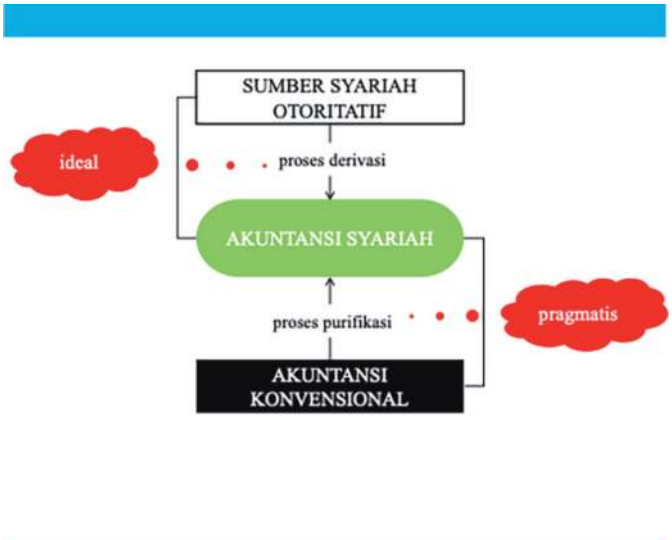

Figure 5.
Approaches in Islamic accounting development. Source: Sholihin [19].

is derived into Sharia accounting standards. The second approach is often referred to as the "pragmatic" approach. This approach starts from conventional accounting, then the purification process is carried out. Conventional accounting that is not in accordance with sharia is abandoned and which is not contrary to sharia remains. Islamic Financial Accounting Standard Board (*Dewan Standar Akuntansi Syariah*-DSAS) of the Institute of Indonesia Chartered Accountants (IAI) uses the second approach. In this case, to assess the compliance with Sharia, DSAS IAI relies on the fatwas of the National Sharia Council of the Indonesian Ulema Council (DSN MUI). Even in the DSAS membership, there are representatives/ex-officio of DSN MUI.

In developing Islamic Financial Accounting Standards (IFAS), DSAS IAI is very careful and follows a very strict due process. The due process adopted in the preparation of Islamic financial accounting standards are: (1) identifying the issues (and consulting with the Consultative Board of IAI if necessary), (2) conducting research related to the issues that have been identified, (3) discussing the material, (4) ratifying and publishing the exposure draft, (5) conducting public hearings and if necessary conducting limited hearings, (6) discussing public input, and (7) ratifying standards. In the discussion, the first thing to discuss is the aspect of transaction clarity from a sharia perspective. Even though during the discussion, there were already members of DSAS IAI from DSN MUI who became members, institutionally DSAS IAI again proposed the standards that had been ratified to DSN MUI to be checked/reviewed again for compliance with Sharia. So, Sharia accounting standards in Indonesia are developed by starting from the clarity of sharia aspects and ending with checking again the conformity of the standards with sharia. This procedure is intended to achieve the blessing of the ratified Islamic accounting standards and not to conflict with sharia.

3.2 Recent development

To date (December 2021), several Statements of Islamic Financial Accounting Standards (SIFAS) have been published by DSAS. In addition to PSAK 59 (Islamic Banking Accounting), DSAS have published SIFAS 101 (Sharia

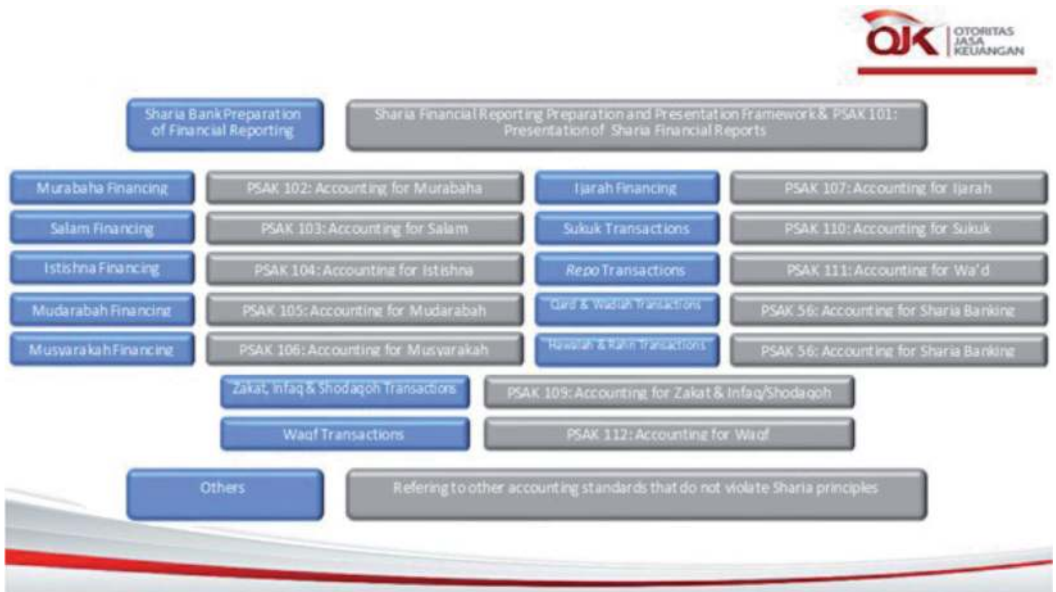

Figure 6.
Mapping between transactions in Islamic Bank (in blue) and the accounting standard (in gray). Source: Hendarsyah [20].

Financial Statement Presentation), SIFAS 102 (Accounting for *Murabaha*), SIFAS 103 (Accounting for *Salam*), SIFAS 104 (Accounting for *Istishna'*), SIFAS 105 (Accounting for *Mudharabah*), SIFAS 106 (Accounting for *Musyarakah*), SIFAS 107 (Accounting for *Ijarah*), SIFAS 108 (Accounting for Sharia Insurance Transactions), SIFAS 109 (Accounting for Zakat and Infaq/Alms), SIFAS 110 (Accounting for *Sukuk*), SIFAS 111 (Accounting for *Wa'd*), and the last is SIFAS 112 (Accounting for Waqf). In addition, DSAS has also issued Interpretation of Financial Accounting Standards (ISAK) 101 concerning Recognition of Deferred *Murabaha* Revenues Without Significant Risk Related to Inventory Ownership and ISAK 102 about Impairment of *Murabaha* Receivables has also been issued.

Until now, DSAS continues to work to develop various accounting standards to support the development of Islamic economics and finance. DSAS IAI in developing standards uses a transaction-based approach, not an accounting approach for certain institutions, even though the first Islamic accounting standard that appears is Islamic Banking Accounting (PSAK 59).

From the SIFAS above, it can be seen that the DSAS IAI does not only focus on accounting standards for commercial activities. However, DSAS IAI also pays great attention to the aspects of social finance (Social Islamic Finance), namely the issuance of SIFAS 109 and SIFAS 112. SIFAS 109 is currently being reviewed due to the development of various programs and social activities in the distribution of zakat, infaq, and alms for community empowerment.

The mapping of transactions used by Islamic banking and how the match between those transactions and the IFAS can be seen in **Figure 6** [20].

4. Conslusion

This chapter discusses the development of IBs in Indonesia and explains the development of Islamic financial accounting standards including how the standards are developed (the due processes). This chapter also describes whether Islamic financial accounting standards developed in Indonesia have sufficiently fulfilled the accounting standards needed by Islamic banks in Indonesia.

Islamic banks (IBs) have distinctive characteristics compared to the conventional ones. IBs only perform permissible (*halal*) financial transactions viewed from Islamic perspective and avoid usury (riba) and overspeculation (*gharar*). The growth of demand in permissible (*halal*) financial services started in the Middle East encouraged Indonesia to join the opportunity to pave its way in the banking sector after the formation of Islamic financial institutions at the grassroot level. PT. Bank Muamalat Indonesia (BMI) was the first Islamic bank in Indonesia established in 1990 in Jakarta, Indonesia.

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Accountability is important to ensure the relevance and reliability of information in Islamic banks. Consequently, there is a demand to accommodate accounting standards for Islamic transactions to provide reliable information for users for making a sound decision. *Dewan Standar Akuntansi Syariah Ikatan Akuntan Indonesia* or Sharia Financial Accounting Standard Board of the Institute of Indonesia Chartered Accountants (DSAS IAI) was formed to review, to study, and to issue accounting standards for Islamic financial transactions. The standard must be embedded with Islamic values and norms; hence, the process also demands knowledge in Islamic law, accounting, and business, and it is called as Sharia Financial Accounting Standard.

Until December 2021, several Statements of Islamic Financial Accounting Standards (SIFAS) have been published by DSAS IAI. In addition to PSAK 59 (Islamic Banking Accounting), DSAS have published SIFAS 101 (Sharia Financial Statement Presentation), SIFAS 102 (Accounting for *Murabaha*), SIFAS 103 (Accounting for *Salam*), SIFAS 104 (Accounting for *Istishna'*), SIFAS 105 (Accounting for *Mudharabah*), SIFAS 106 (Accounting for *Musyarakah*), SIFAS 107 (Accounting for *Ijarah*), SIFAS 108 (Accounting for Sharia Insurance Transactions), SIFAS 109 (Accounting for Zakat and Infaq/Alms), SIFAS 110 (Accounting for *Sukuk*), SIFAS 111 (Accounting for *Wa'd*), and the last is SIFAS 112 (Accounting for Waqf). In addition, DSAS has also issued Interpretation of Financial Accounting Standards (ISAK) 101 concerning Recognition of Deferred *Murabaha* Revenues Without Significant Risk Related to Inventory Ownership and ISAK 102 about Impairment of *Murabaha* Receivables has also been issued. It is expected that Islamic accounting is able to fulfill its goal to assist Islamic Banks to be accountable to their stakeholders and God by being fair and transparent in business.

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