International Journal of Islamic Management and Business
Vol. 1, No. 1, August 2015

Accounting Student Practical Skills in Islamic Accounting Course: At Universitas Indonesia

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Abstract

This paper tries to analyze the comprehension of accounting students in applying theory into the real practice. Other supporting tools which have been taken in other courses are also evaluated in preparing the proposal and final analysis reporting. Student group observation was conducted in this research. Students must prepare proposals with feasibility study and relevant theories as well as their modification. They must find partner to be invested with real funding in two months. The paper provides evidence that most groups calculated the profitability in simple way with clear cash flow business partner projection, and larger income sharing. In addition, misleading in overhead allocation and detail classification could create loss calculation. Problems in applying theory into real practice always occur in any subject, including in the accounting course. Albrect and Sach (2000) criticized accounting education which likely to fail in positioning and updating current topic changes. Similar issue may occur in the Islamic financial institutions in which their staffs lack of competencies in Islamic know how. This research can describe student's weaknesses and strengths in applying Islamic accounting theory into real practice.

Keywords: Accounting, practice, Islamic, student, course

1. Introduction

Accounting profession is claimed to be similar as lawyer or doctor which has specified ethical code of conduct. To fulfill market need, students must be equipped with good and supporting competencies. In fact, some research showed that gaps between theory and practice did exist in accounting profession. In addition, accountants were expected to have other skills to perform well in their job (Albrect and Sach, 2000). This is because accounting is not merely recording the journal but also being capable of analyzing condition, planning budget and communicating effectively with other colleagues.

Similarly, Islamic accounting and finance theory may be misled in the practice, for example, Islamic banks which still follow or are under conventional system. They were forced to obey the conventional system in their operation. People would presume that Islamic bank may neglect the Islamic teaching. Thus, reasons in criticizing Islamic bank can be grouped into:

a. Currency basis and system, as long as Islamic bank is still applying fiat money, it argues that it is similar to usury. In addition, Islamic bank should be separated from conventional system. This was proposed by Saidi (2010), Meera (2004), and Diwany (2007).

b. Contract, Islamic bank seemed to generalize the Islamic contract with trading contract. Where in fact, it should suit to the characteristics of business, and therefore has caused a difference between the substance and form. For example, Islamic bank claimed to practice profit sharing, but actually it generates profit margin in the project which may not be in line to Islamic teaching. This was proposed by Rosly (2005).

c. Accounting standard, problems in Islamic bank is that if it does not adopt Islamic accounting standard, it would be steered by the conventional basis. The financial report would only focus at profit maximization and no separation and difference from the conventional system (Shahul, 2001). Then, in recent paper conducted by Siswantoro and Shahul (2010), they criticized the shift of Islamic accounting standard in Malaysia to IFRS basis. This, however, is not in line with Islamic teaching per se.

This paper merely focuses on the transactional contract, emphasizes and tries to link the theory to the real practice. In addition, it does not refer to Islamic bank practice, and rather acts as direct financing to real sector especially for Small and Medium Enterprises (SMEs). Students have to prepare proposal which consists of feasibility study based on related course, financial report, and details on calculation of cost and profit sharing. From this, we can see and analyze the depth and awareness of the accounting students to link previous course that they have taken to be applied in the current projects.

2. Supporting theory

Problems may arise in the implementation of accounting which always creates gaps from the theory. This usually occurs at course that employs long term perspective such as strategic management accounting. It lacks of practical implementation, and has caused material such as case study becomes unavailable easily (Dixon, 1998). Therefore, it is quite difficult to be communicated in the class room. Therefore, it requires cooperation between accounting educators and professions to formulate suitable and support accounting skills that can fulfill the need of accounting profession in the practice, change environment and job competencies (Arnold and Sutton, 2007). Besides, careful target goals must be set based on the correct and substantive directions (French and Coppage, 2003). Specifically in business communication skill, Christensen and Rees (2002) highlighted that English skills (grammar, spelling and punctuation) was the most important compared to oral and writing skills for accounting graduates. This also occurred in Kazakhstan in which communication skills was also important (Chaker, 2011). While in Indonesia, recent study in this field was conducted by Zuhroh, *et al.* (2009) who identified some competencies required by accountants to be applied in the practice.

In this case, Howieson (2003) urged the importance of accounting educators in preparing the course to meet future challenge which requires other skills such as analysis, client relations, communication, and innovative problem solving. On the other hand, the lack of resources can be a big problem in facilitating those skills. Students must also aware that they should be able to enhance skills by themselves.

In fact, Inanga and Schneider (2005) highlighted that accounting research cannot improve the accounting practices. This may be caused by lack of communication in the research and intolerance with complex situation. Whereas, Scapens (2006) highlighted that research in management accounting is likely to fail in providing useful information to the practitioners. This can be caused by the blur of technical core and practical finding problems (Baldvinsdottir, *et al.,* 2010). This should be the point to consider by researchers.

In the case of Islamic accounting course, problem may occur differently. In practice, they may not adopt full requirements and characteristics of the Islamic contract. This is because the true theory of Islamic contract is quite complicated and impractical with current conventional banking condition. In fact, students must learn the theory from the book and class, then try to implement the theory into practice. They must refer to previous topic or course in order to link from the beginning until final reporting. Actually, they have been equipped with supporting tools, however, it is not easy to implement in the reality. Furthermore, other problems may exist when previous courses were not under Islamic teaching basis.

In this case, most references focus on accounting standard No. 105 on accounting for mudharabah

(PernyataanStandarAkuntansiKeuangan - PSAK). This standard can be applied to all Islamic institutions. Previously, it only covers Islamic banks (PSAK No. 59). The difference may not be so wide, for example revenue sharing is only permissible in PSAK No. 59, but it changes to gross profit sharing in PSAK No. 105 (see table 1). Theoretically, the determination of related cost to determine which profit sharing to be applied is simpler, but it may become a problem in the practice as well as the period of contract.

Table 1. Sharing Ratio Example

Account	Amount	Sharing ratio method
Sale	100	
COGS	65	
Gross profit	35	Gross profit sharing
Expense	25	
Net profit	10	Net profit sharing

Source: PSAK No. 105

All accounting treatments are based on the *fatwa* (opinion of the *ulama*). The permissible *mudharabah* type in Indonesia covers three types, *muthlaqah* (unrestricted), *muqayyadah* (restricted) and *musytarakah* (joint capital). The characteristics of *mudharabah* is regulated in the standard, thus in order to comply with the standard, the accounting treatment must follow. The journal also covers both side, fund owner (*shahibulmaal*) and practitioner (*mudharib*).

3. Research methodology

This research observes six groups project of student in Islamic accounting courses. Each group should prepare a proposal including brief description of partner in *mudharabah* and feasibility of the project. They have supporting tools in preparing the proposal in cost and management accounting and financial management. Topics to be included in the proposal:

a. Cost accounting: Determination of variable cost, fixed cost, break even point
b. Management accounting: Budgeting, variance, profitability analysis
c. Financial management: Capital budgeting

There is no specific guideline to prepare the proposal and items for the contents and the feasibility study. However, students have to refer to the supporting items in preparing the proposal. This will become a parameter for students regarding applicability and their comprehensiveness on relevant courses they have taken to be applied in the real practice.

Six groups were assigned to the project; each group consisted of five up to six students of the same sex. There is no minimum and maximum fund to be invested in the partner, but it must be within two months. This will be presented in the class before the final exam.

4. Analysis

4.1 Proposal

Only three groups (two groups are female students) of six that submitted the proposal, one group only explained why they choose the partner for sharing contract. The proposal was not included in the score composition; some groups did not conduct it for this reason. Actually, the proposal could assist them in employing the project as mitigating risks and possibility of defaults (see table 2).

Only one group changed the proposed partner, from fried food to fried rice. This is because there was a tendency of fraud from pre analysis. While one group believed that the proposed partner is very good. They knew the business very well and belonged to their friends outside the group.

Each proposed groups have contacted t heir partner to evaluate the characteristics and financial condition of their prospective partner. Simple description showed that actually they have analyzed the feasibility of the project. Group 1 covered all aspects of the financial aspects including legal, marketing (segmenting, targeting and positioning), place, social and activity. The financial aspect only covered the revenue target, full ownership and profit projection (28% from revenue). Group 4 knew the partner personally as their neighbor, so it is expected that he/she could be observed closely. They could get revenue estimation with positive result, in average about 15% per month from total capital. Lastly, group 4, they knew the partner which is around the campus. Daily revenue is so small to cover the capital. This has led to bad capital budgeting analysis (applying 0% discount rate) such as negative NPV, payback period in 9 day and profitability index of 0.3.

Table 2. Proposal Description

Item	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
Sector	Laundry	Fried Food	Football Wear	Small Restaurant	Basic Need	Soybean Milk
		Changed to Fried Rice				
Submission	Yes	No	No, short presentation	Yes	Yes	No
Proposal	Legal Marketing -STP -Promotion Place, IT Economics, social -Customer -Service -Complaint -Revenue -Weakness Finance -Source -Projection -Planning	-	-	Descriptive Projection income Low income Risk analysis Capital budgeting -NPV (-) -Payback -PI (0.33)	Interview Personal Descriptive Neighbor Probability -15% -10% -0%	-

Source: data

Group 1 estimated that net profit was 28% from the revenue, while the actual result was 25% and 27.5% in each month (October and November 2011). Group 5 estimated the profit was 12.25% per month; their project was 22.25% for two month. While Group 4 must suffer losses from all capital as their partner had a loss in amount of -Rp459.233. This is different from their estimated profit in the proposal.

4.2 Cost calculation

Problem that might exist when we applied *mudharabah* was the determination of cost that was included in the contract. Group 1, 2, 3 and 5 only stated COGS and expenditure, and did not include the overhead. Their sharing contracts were based on gross profit sharing, except group 3, 4 and 6. Thus, they could earn income (gross profit sharing, ignoring other cost). Group 4 and 6 suffers losses as they included overhead and still not within payback period (see table 3). Group 6 will get income in the 2nd month, but they have to report within 1 month. On the other hand, group 4 did not wait until the payback period; in addition, they actually should not bear all the cost.

Table 3. Cost Component

Item	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
Cost	Expense (not detail)	Expense (not detail)	COGS Transport Tax	COGS Electricity LPG Rental Depreciation	COGS	COGS (detail) OH Electricity Gas Water Rental Depreciation

Source: data

In general, each group described the proposed project using descriptive method. The oldest partner establishment belonged to group 5; others were quite new in the business, which was about 4 years. The largest startup cost was Rp100 mn for group 1, while others did not provide the data. The period of project was around two months, other was 50 days and one month (not yet finished, group 6).

Most types of business were individual in nature, only one which was franchise and belonged to similar group. The largest fund capital was Rp1 mn, while the smallest was Rp100.000 (see table 4).

Table 4. Project Description

Item	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
Sector	Laundry	Fried Rice	Football Wear	Restaurant	Basic Need	Soybean Milk
Proposal	Simple Return	Simple Return Payback period	Simple Return	Simple Include OH, Depreciation	Simple Probability	Simple Cost
Feasibility	Descriptive	Descriptive	Descriptive	Descriptive	Descriptive	Descriptive
Year	-	-	2009	2008	2001	2011
Existing Project	Rp100 mn	Rp3-10 mn (start up)	-	-	-	-
Period	2 months	50 days	2 months	2 months	2 months	1 month
Type	Franchise	Group	Individual	Individual	Individual	Individual
Capital	Rp0.5 mn	Rp200.000	Rp1 mn	Rp300.000	Rp0.5 mn	Rp100.000

Source: data

4.3 *Nisbah* ratio and profitability

Only group 5 which stated *nisbah* ratio in the proposal (which was 60:40), but then it changed to 30:70. It seemed that there was a revision for the project. In average, *nisbah* ratio for profit sharing (3.5%, 20%) was lower than the gross profiting sharing (60%, 10%, 30%). This is because they did not include the other expense beside COGS (see table 5).

The number profit allocation is equal between gross and profit sharing. This is similar to the contract type for *mudharabah, mustarakah,* and *mudharabah*. Mainly, they are based on project scheme which separate from existing capital, group 5 and 6 shared overhead cost, but not for group 1 which pool their fund.

Table 5. Profitability and Structure

Item	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
Nisbah	60:40	10:90	3.5:96.5	-	30:70	20:80
Basis	Gross profit	Gross profit	Profit sharing	Profit sharing	Gross profit	Profit sharing
Allocation	% capital	Project	Project	Project	% capital	% capital
Result	Rp35.221	Rp39.700	Rp542.500	-Rp459,233	Rp33.375	-Rp13.400
Contract	*Mudharabahmustarakah*	*Mudharabahmustarakah*	*Mudharabahmustarakah*	*Mudharabah*	*Mudharabah*	*Mudharabah*
Payback period	-	45 days	-	-	-	2 months

Source: data

5. Recommendations

Some recommendations from each group regarding the project are:

1. Quality enhancement, most partner should increase the service quality in order to satisfy customers (group 1).

2. Expansion, there is a potency for partner to add new supporting tools and branches to increase revenue (group 1).

3. Promotion, if it increases it will get new customers (group 1).

4. Permanent place, it may give more benefits as it is safer and many customers (group 2).

5. Delinquent payment, there must be strict schedule for debt installment (group 3)

6. Good accounting record and *nisbah* ratio, it needs a good accounting record to maintain daily transaction (group 5). In addition, a good *nisbah* ratio is needed to get an optimum result.

6. Conclusions

Some main conclusions from this research:

a. Students cannot prepare feasibility study by applying capital budgeting. They only utilize cash in and out from the project. This may be caused by the very short period of the contract.

b. Identification of cost into labor, material and overhead was quite difficult; this included the variable and fixed cost. Some groups did not classify cost type, only one group can identify each variable, fixed cost as well as the allocation for overhead.

c. All group can record the journal accordingly with the financial statement, this can be caused as low level of difficulty in this part.

Finally, students were excited in conducting the project. They argued that this was very important to link the theory with the current practices.

7. References

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