Al-Buhuts e-Journal
On Line ISSN : 2442-823X
Print ISSN : 1907-0977
Volume 20 Nomor 2, Desember 2024

Comparison of Leasing and Ijarah Accounting A Critical Research of Indonesian Financial Accounting Standards

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Abstract

The objective of this study is to conduct a comparative analysis of the similarities and distinctions between the principles of leasing accounting articulated in FASS 30 and the principles of ijarah accounting outlined in FASS 107. This research is classified as library research. The primary data source utilized comprises the Financial Accounting Standards containing the regulations associated with FASS 30 and FASS 107, which have been published by the Indonesian Institute of Accountants, while the secondary data source comprises the National Sharia Council (DSN) Decree Number 27/DSNMUI/III/2002, dated March 28, 2002 which pertains to leasing financing, among other relevant documents. The analytical model employed in this study is the content analysis technique applicable to FASS 30 and FASS 107. Subsequently, the researcher employs a comparative analysis approach to both FASSs, supplemented by arguments aimed at substantiating the similarities and differences in the accounting principles encapsulated within the two FASSs. The findings of the study reveal that FASS 107, pertaining to leasing accounting, continues to adopt numerous principles of leasing accounting delineated in FASS 30. There are five notable similarities in the accounting principles embraced by FASS 107. Furthermore, the findings also substantiate that there exist fourteen distinctions in the accounting principles employed by the two FASSs. The study concludes by affirming that discrepancies exist between the leasing accounting principles in FASS 30 and the ijarah accounting principles in FASS 107.

Keywords: Leasing, Ijarah, Accounting Standards

A. INTRODUCTION

In the execution of its operational activities, the enterprise necessitates fixed assets, which can be acquired through various methodologies. One of the most straightforward approaches involves the procurement of these assets. The acquisition of fixed assets through purchasing generates a multitude of advantages and disadvantages for the enterprise and necessitates a range of considerations. It is imperative for the organization to evaluate whether the available financial resources are adequate or if external financing is required, alongside other potential risks such as obsolescence rendering the assets economically unviable, the risk of underutilization, and the likelihood of incurring excessive maintenance expenses.

An alternative method for asset acquisition that can be employed is leasing. The term leasing derives from the word lease, which denotes rental, and is more commonly interpreted as the procurement of financing for equipment or capital assets utilized in a company's production processes, whether directly or indirectly. The leasing sector has introduced a novel paradigm for acquiring capital goods, enabling their optimal utilization without necessitating outright purchase or ownership. From an economic standpoint, leasing can also be construed as a mechanism for mobilizing community funds and reinvesting them into certain economic sectors deemed to be productive. Consequently, leasing arrangements present a viable option for enterprises that experience capital constraints or seek to economize on usage while preserving the opportunity to reinvest in specific economically productive sectors.

The Indonesian Institute of Accountants delineates leasing in its Financial Accounting Standards Statement (FASS) 30 as a rental activity within the scope of Financial Accounting Standards. Leasing practices were first institutionalized in Indonesia in 1974, following the enactment of the Joint Decree of the Minister of Finance, the Minister of Trade, and the Minister of Industry, numbered Kep-122/MK/2/1974, 32/M/SK/2/1974, and 30/Kpb/I/74, dated February 7, 1974, which addressed "Leasing Business Licensing." Since that time, and particularly from 1980 onwards, there has been a consistent annual increase in the number of leasing firms and lease transactions aimed at financing the acquisition of capital goods for the commercial sector.

The emergence of joint venture leasing enterprises in collaboration with national private firms has significantly enhanced the perception of leasing activities as a viable alternative financing mechanism for capital goods that are critically sought after by entrepreneurs in Indonesia, in conjunction with conventional financing modalities that are widely practiced. The Joint Decree issued by the Minister of Finance, the Minister of Trade, and the Minister of Industry articulates: "Leasing constitutes any corporate financing endeavor in the form of provision of capital goods for utilization by a company over a predetermined timeframe, predicated on periodic payments, accompanied by the right for the company to acquire the capital goods in question or to extend the lease duration." This definition appears to encompass only a singular category of leasing, commonly referred to as financial leasing or financing through leasing. Nonetheless, with the enactment of the Decree of the Minister of Finance Number 1251/KMK.013/1988 dated December 20, 1988, the scope of leasing activities has been broadened to include the following definition: "A Leasing Company is a business entity that engages in financing activities by providing capital goods either through Financial Lease or Operating Lease for utilization by the lessee for a specified duration based on periodic payments."

Capital Lease refers to a leasing activity in which the Lessee, upon the conclusion of the contractual period, is afforded the opportunity to purchase the leased asset at a mutually agreed residual value. Conversely, Operating Lease denotes a leasing activity whereby the Lessee is not granted the option to acquire the leased asset. Kieso et al. (2004) delineate leasing as follows: "A lease is a contractual agreement between a lessor and a lessee that confers upon the lessee the right to utilize specific property owned by the lessor for a designated timeframe in exchange for stipulated, and generally periodic, cash payments (rent)." Kieso's assertion suggests that leasing constitutes a contractual arrangement between the lessor and lessee, granting the lessee the authority to employ particular property owned by the lessor for a specified duration, contingent upon compensation in the form of cash rental disbursements.

Traditional leasing payment frameworks adhere to the principles of interest. This practice is incongruent with the tenets of Islamic economics, which categorically prohibit interest in commercial transactions on the grounds that interest constitutes usury. In contrast, leasing from an Islamic standpoint is recognized as ijarah financing, representing one of the Sharia principles employed to facilitate financing in accordance with Islamic law by Islamic banking institutions, as stipulated in Law no. 10/1998. Ijarah denotes rental, service, or compensation, which encompasses an agreement predicated on the premise of benefit in exchange for services (Nazir & Hasan, 2004). Fundamentally, ijarah financing embodies a sale and purchase contract; the subject of the transaction pertains to services, encompassing both the advantages derived from goods and the benefits conferred by labor, thereby enabling Islamic banks and other Islamic financial entities to cater to clients necessitating such services.

The modality of ijarah financing constitutes a method of financial facilitation wherein an investor's requisite for asset acquisition is satisfied while the investor is solely obligated to remit rental payments, thus circumventing the necessity of deploying substantial capital for asset purchase. Generally, ijarah emerges from the exigency for goods or the utility derived from goods by clientele who do not possess such items. Ijarah transactions fundamentally hinge upon the transfer of utility (usage rights), as opposed to the transfer of proprietorship (ownership rights). Consequently, the foundational principle of ijarah aligns with that of commercial transactions; however, the distinction lies within the nature of the transactional object. In the context of commercial transactions, the object pertains to goods, whereas in ijarah, the object encompasses both goods and services. Thus, leasing should not be conflated with ijarah financing. First, leasing is primarily oriented towards the rental of capital assets, whereas ijarah financing is designed to facilitate financial resources. Second, within the legal framework of leasing, the lessor is deemed the proprietor of the capital assets, whereas in ijarah financing, the lessor, exemplified by a banking institution, may or may not possess the financed goods. Third, in leasing arrangements, the lessor assumes the role of a financier, either independently or in concert with additional financiers, while the leasing object is typically supplied by a third party or the lessee. Conversely, in a conventional lease, the leased object is the proprietary asset of the lessor, thereby positioning the lessor as the entity providing the rental asset.

In the context of ijarah, the banking institution is merely obliged to furnish the leased asset, irrespective of the ownership of said asset. The paramount consideration is that the banking institution retains the right to utilize the asset subsequently leased. The stipulations of the National Sharia Council concerning ijarah were subsequently incorporated into FASS 59 of 2002, which was later revised to FASS 107 of 2007, elucidating that the bank may function as the proprietor of the leased asset, as well as a lessee who subsequently leases it back. Nevertheless, not all stipulations of the National Sharia Council have been integrated into FASS; for instance, the National Sharia Council asserts that the object of ijarah pertains to the benefits derived from the utilization of goods and/or services, while FASS only accommodates ijarah objects in terms of the benefits derived from goods. In the context of ijarah financing, the financial institution is characterized as a source of capital or instruments of equivalent value, particularly in relation to the leasing of assets predicated on the ijarah principle. As delineated in the Financial Accounting Standards Statement (FASS) 59 of 2002 and FASS 107 of 2007, ijarah financing is applicable for the funding of asset rentals that are subsequently leased back to clients, as well as for the procurement of goods intended for leasing to clients. In the domain of leasing, specific collateral is typically mandated, whereas in the instances of renting and ijarah, such collateral is absent. Even when collateral is solicited for rental agreements and ijarah, it predominantly manifests as a security deposit (guarantee of rental payment), in contrast to leasing, which necessitates guarantees in the forms of personal guarantees, fiduciary interests in the relevant capital assets, powers of attorney for the disposition of capital assets, among others. Within the framework of ijarah financing, since the transaction predominantly involves the provision of capital or equivalent financial instruments, akin to the structure of credit, the collateral requirements mirror those associated with credit transactions.

The forms of collateral can include a Deed of Granting Mortgage Rights, fiduciary arrangements, cession, guarantees, and other instruments. In terms of regulatory frameworks, notable distinctions exist between the two financing modalities. Leasing operations are governed by the Joint Decree of the Minister of Finance, Minister of Industry, and Minister of Trade no. KEP122/MK, no.

32/M/SK, no. 30/Kpb, all promulgated in 1974, which are elaborated in the Decree of the Minister of Finance no. 649 and the Announcement of the Director General of Monetary no. Peng-307; the taxation aspects are articulated in the Decree of the Minister of Finance no. 650, also from 1974. Following the issuance of various regulations in 1974, additional regulatory measures were established concerning leasing, including taxation provisions as delineated in Law no. 18/2000 and Government Regulations 143 & 144 of 2000, whereas ijarah financing is governed by Law no. 10/1998, the Decree of the Director of Bank Indonesia no. 32/34/1999, and an array of other banking regulations. The inherent disparities between leasing and ijarah financing inevitably lead to variances in the accounting principles employed for the documentation and presentation of financial transactions. Leasing transactions are encapsulated within FASS 30, whereas ijarah financing transactions are encapsulated within FASS 107. Nonetheless, in practical application, FASS 107 incorporates numerous accounting principles articulated in FASS 30, including fair value, economic lifespan, and depreciation policies, which has engendered adverse interpretations among accounting practitioners and financial institutions that contend there exists no discernible difference between the accounting principles governing ijarah and those governing leasing.

Leasing Accounting

Leasing, as articulated by the Financial Accounting Standards Board (FASB) (1976), is defined as ".. an agreement conveying the right to utilize property, plant, or equipment (including land and/or depreciable assets) procedurally for a specified duration." This definition elucidates the establishment of a contractual relationship between two entities, namely the lessor and the lessee. Within this contractual framework, there exists an accord regarding the allocation or transfer of usage rights pertaining to the assets possessed by the lessor, which may be availed by the lessee for a predetermined period. Throughout the duration delineated in the agreement, in exchange for the usufruct services rendered by the lessor to the lessee, the latter is obliged to remit a specified amount of rent or equivalent compensation as stipulated in the executed agreement. The duration of a lease agreement is contingent upon the stipulations agreed upon by both the lessor and lessee, thus allowing for variability in the duration of the lease agreement based on mutual consensus.

The International Accounting Standard Committee (IASC) (1982) articulates leasing as follows: "Lease: An agreement whereby the lessor conveys to the lessee, in exchange for rent, the right to utilize an asset for a predetermined period." The definition encompasses contracts for the leasing of an asset that includes provisions for granting an option to acquire ownership of the asset upon the fulfillment of agreed conditions. In various jurisdictions, these contracts may be referred to as lease contracts, although alternative terminologies may be employed for agreements exhibiting the characteristics of a lease. The aforementioned definition bears a close resemblance to that defined by FASB No. 13; however, the IASC's definition incorporates the notion that within this leasing framework, there exists an option for the lessee to procure the leased assets or to extend the lease duration based on a value mutually agreed upon.

In connection with this option, the Government of the Republic of Indonesia, through a Joint Decree of the Minister of Finance, the Minister of Industry, and the Minister of Trade of the Republic of Indonesia (1997), defines leasing in the following manner: “Leasing is any financing activity of a company that entails the provision of capital goods for the utilization of a company for a specified duration predicated on periodic payments, accompanied by the right for the company to acquire the capital goods in question or to extend the leasing period based on a mutually agreed residual value.” This definition seemingly pertains to a singular type of lease for commercial purposes, commonly referred to as a finance lease or leasing for mining operations, which is conceptualized as a financing activity involving the provision of capital goods or other depreciable assets and does not inherently culminate in the lessee's ownership of the goods (option/option) nor necessitates the existence of periodic payments.

Nonetheless, the Association of Indonesian Accountants (1994), in Statement of Financial Accounting Standards No. 30, elucidates that following the adoption of the Minister of Finance Decision No. 125/KMK.013/1988 dated December 20, 1988, the scope of leasing activities for business purposes has been broadened, as indicated in Article 1 of the decree, which delineates the following definitions:

a. A leasing company is characterized as a business entity engaged in financing activities involving the provision of capital goods under a financial lease or operating lease for utilization by tenants for commercial purposes over a specified duration based on periodic payments.
b. A financial lease is characterized by the conclusion of the contractual term, which confers upon the lessee the option to acquire the leased assets for commercial purposes, determined by a mutually agreed-upon residual value.
c. An operating lease constitutes a commercial leasing arrangement wherein the business tenant is not afforded the opportunity to purchase the rented asset for business-related purposes.
d. The lessee, defined as either an organization or an individual, engages with capital assets through financing procured from the leasing entity for entrepreneurial objectives.

From the aforementioned definitions, one can deduce that several critical components must be inherent in leasing agreements: The lessor, denoting the entity that provides assets or capital goods for lease, which may include enterprises sanctioned by the Ministry of Finance; The lessee, referring to the individuals or entities that rent assets or utilize capital goods; The object of leasing, which encompasses the items specified within a leasing contract, ranging from advanced technology to mid-level technological assets or office equipment; Rent payments, which are to be made periodically over a specified duration, potentially on a monthly, quarterly, or centennial basis; The residual value, which is ascertained prior to the initiation of the contract; The existence of option rights for the lessee at the conclusion of the lease period, affording the lessee the prerogative to decide whether to acquire the goods at a price reflective of the residual value or to return them to the lessor; The lease term, which indicates the duration of the leasing agreement.

There are various categories of leasing tailored to meet specific requirements and sectors within the leasing domain, which encompass (Prakoso, 1990):

1. Sales type leases: Sales type leases represent a form of financial leasing, in which the leased asset at the commencement of the agreement possesses a value that deviates from the cost incurred by the lessor. In such instances, the lessor may engage a manufacturing facility or dealer that employs the leasing methodology as a strategic marketing approach. Direct financing leases are a variant of financial leasing that is funded directly by the lessor. Upon examination of the rates, each lease payment comprises the reimbursement of the lessor's investment in the lease, which consists of the portion of the investment allocated by the lessor towards the leased asset, in addition to the anticipated income component. This approach is frequently referred to as full payout leasing, indicating that the lessor is wholly (100%) financing the leased asset in question. Both Sales Type and Direct Financial Leases must satisfy the criteria associated with capital leases, in addition to the two stipulations outlined below: a. Minimum lease payments must be reasonably foreseeable.
2. There must be an absence of significant uncertainties that could influence the amount of unreimbursable costs to be borne by the lessor regarding the relevant lease.
3. Leverage leases represent a more intricate variety of financial leases, as they necessitate the involvement of at least three independent parties. Consequently, in addition to the lessor and lessee, there are also credit providers or debt originators who finance a substantial portion of the leased asset. In the context of leverage leases, the lessee retains ownership of the equipment and submits a price proposal; this is similarly applicable in non-leveraged leases. However, in this scenario, the lessor is responsible for only a minor fraction (approximately 20%-40%) of the

financing for the leased asset, with the remainder financed by a third party (debt participant). This method is typically employed for the acquisition or financing of capital goods with substantial value, rendering it infeasible for the lessor to assume the entire financial burden independently.

4. Operating lease: An operating lease constitutes a contractual agreement whereby the asset being leased is not subject to amortization until the conclusion of the primary lease term, and the lessor does not anticipate deriving profit exclusively from the lease arrangement but rather seeks recovery through the eventual sale of the asset or by re-leasing the asset to a subsequent party.

Ijarah Accounting

Ijarah refers to the concepts of rental, service, or remuneration, representing a contractual agreement predicated on the exchange of a benefit for a corresponding merit (Nazir & Hasan, 2004). The term Al-Ijarah is etymologically derived from the word al-ajru, which signifies al-'iwadl, and in the Indonesian context implies a substitute for wages (Suhendi, 2002). Scholarly definitions of ijarah vary significantly, with notable interpretations including :

a. According to Hanafiyah
   "An agreement that permits the possession of a specified and intended benefit derived from a substance that is rented in exchange for compensation."
b. According to Malikiyah
   "A designation for contractual agreements that serve human expediency and pertain to assets that are movable."
c. According to Sayyid Sabiq,
   "Ijarah is characterized as a contractual agreement that engenders benefits through the mechanism of substitution."

Consequently, the fundamental essence of ijarah lies in the sale of benefits, which entails the transfer of the right to utilize (benefit) goods and services for a designated duration through the payment of rent or wages, without the concomitant transfer of ownership of the goods themselves. The transaction does not result in a change of ownership but solely facilitates the transfer of the right of use from the lessor to the lessee. Ascarya (2007) delineates two distinct forms of ijarah within Islamic law, which are:

1. Ijarah pertains to the leasing of services, wherein one engages another's services for remuneration in exchange for the provision of those services. The party that engages is termed the mustajir, the laborer is designated as the ajir, and the compensation rendered is referred to as ujrah.

2. Ijarah concerns the leasing of an asset or property, denoting the transfer of the right of use of a specific asset or property to another individual in return for a rental fee. This structure of leasing bears resemblance to conventional business leasing practices. The lessee is referred to as the mustajir, the lessor is identified as the mu'jir/muajir, and the rental fee is known as ujrah.

The initial form of ijarah is prevalently utilized within the context of sharia banking services, whereas the latter form of ijarah is frequently employed as a mechanism for investment or financing within sharia banking frameworks.

Previous Research

Several prior investigations pertaining to leasing accounting and ijarah accounting have been conducted by previous scholars, including:

1. Shariff & Rahman's (2013) research investigates the accounting practices prevalent among Malaysian financial institutions. This study undertakes a comparative analysis of the International Accounting Standards governing business leases (IAS 17); the accounting standards for Ijarah (FAS 8) formulated by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI); and the Accounting Standards Board of Malaysia (MASB 10). The findings of the study indicate significant divergences regarding the fundamental characteristics of business leases and Ijarah, leading to the conclusion that the underlying accounting principles that inform these three standards, as well as the accounting methodologies developed for both business leases and Ijarah, exhibit considerable disparity.
2. Fitriani's (2018) investigation delves into the characteristics of accounting pertaining to Ijarah financing and its distinctions from conventional business lease financing, framed within the context of Islamic jurisprudence and accounting principles. This inquiry employs a comparative analysis of the International Accounting Standard for Lease for Business (IAS 17), the accounting standard for Ijarah (FAS 8) formulated by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and the Statement of Financial Accounting Standards (FASS 107). The findings of the research indicate substantial disparities in the fundamental nature of business leases and Ijarah, which in turn leads to significant divergences in the accounting principles underpinning these three standards, as well as the accounting methodologies devised for business leases and Ijarah.
3. Atmeh & Serdaneh's (2012) examination of Ijarah Muntahia Bittamleek asserts that Ijarah Muntahia Bittamleek is differentiated from conventional financing leases through two primary dimensions: the contractual structure itself and its resultant accounting treatment. In the context

of Ijarah Muntahia Bittamleek, the lessor maintains nearly all associated risks and benefits of ownership, which stands in contrast to the dynamics of traditional financing leases. Consequently, in the framework of Ijarah Muntahia Bittamleek, the leased assets are recorded on the balance sheet of the lessor (AAIOFI), whereas in traditional financing leases, such assets are accounted for on the balance sheet of the lessee. Moreover, Ijarah installments are apportioned throughout the lease duration and recognized as Ijarah Burden (income) within the financial records of the lessee (lessor). The accounting treatment prescribed by AAIOFI may lead to discrepancies in financial reporting for both the lessee and the lessor, particularly when the duration of the Ijarah is considerably shorter than the asset's useful life. A comprehensive consideration of the Ijarah installment as solely income or expense may fail to accurately represent the essence of the contract, as a segment of the installment constitutes the cost of the leased asset. This paper advocates for the segmentation of the installment into two distinct components: fair rental value and purchase price. Consequently, accounting records for lessees will acknowledge both assets (liabilities) in tandem with expenses (income). The suggested methodology encapsulates the idiosyncrasies of the Ijarah contract within accounting records, thereby adhering to the principles of conformity and fair presentation.

4. Sukur & Arwani's (2023) scholarly investigation regarding the application of ijarah accounting within An-Najah sharia cooperatives located in Pekalongan indicates that the provision of multiservice financing through ijarah agreements in such sharia cooperatives adheres to the Indonesian Ulema Assembly's Resolution Number 09 of 2000 concerning Ijarah Financing. Furthermore, the practices associated with ijarah accounting record-keeping are found to be compliant with three stipulations of FASS 107; however, they do not implement the three stipulations of FASS 107 due to the nature of the payment for services rather than the payment for the rental of benefits, thereby necessitating a differentiated approach to the treatment of payment receivables.
5. Dewi's (2022) empirical study conducted at a sharia pawnshop office in Cirebon suggests that the implementation of ijarah accounting for gold (rahn) mortgage financing, as aligned with FASS 107, is consistent with the recognition and measurement protocols outlined by FASS 107. Nonetheless, the presentation of this accounting is not fully congruent with FASS 107, primarily due to the omission of repair costs associated with ijarah assets, which are contingent upon specific reporting requirements.

6. Muslich & Firmansyah's (2018) analysis, focused on the Bank Bukopin Syariah branch in Yogyakarta, asserts that the institution has broadly integrated ijarah accounting practices in accordance with FASS 107. However, it is noted that the initial leasing policy concerning ijarah assets remains partially misaligned with the stipulations established by FASS 107.
7. Latifah & Abdullah's (2022) research articulates that a service enterprise functions as an entity that utilizes its available resources to deliver services to its clientele. Ijarah is characterized as a contractual arrangement that capitalizes on the sale of utility (value for usage), which involves the transfer of utility rights pertaining to a good or service over a specified period in exchange for rental payments or wages, devoid of any accompanying transfer of ownership of the said goods. The leasing arrangement referenced in the context of ijarah is classified as an Operating Lease. FASS 107 concerning Ijarah categorizes ijarah agreements into two distinct types: (1) ijarah without the transfer of asset ownership, and (2) Ijarah Mutahiyah Bit Tamlik (IMBT). The sharia accounting treatment encompasses roles such as lessor, income recognition, depreciation, acquisition, settlement of contracts, ownership transfer, grants, sales, among other considerations.
8. Mohammed's (2022) study elucidates that the accounting and reporting frameworks for business leases exhibit divergence when analyzed from the perspectives of lessor and lessee. This variation is contingent upon the classification of lease financing, be it operational or otherwise. Consequently, it is imperative to accurately categorize and report business leases, given their substantial ramifications on financial statements and associated financial ratios.
9. Karwowski's (2018) research underscores the criticality of accurate lease recognition within financial statements as mandated by IFRS 16, thereby facilitating a precise evaluation of the company's business model. Furthermore, a comprehensive analysis of the financial statements of select public companies partaking in the WIG20 index was conducted to evaluate the potential repercussions of the newly instituted standards on their fiscal documentation. The findings concluded that the revised model introduced by IFRS 16 is unlikely to exert a material influence on the majority of these entities, attributable to the limited application of operating leases.
10. The investigation conducted by Ananthanarayanan et al. (2022) scrutinizes the financial ramifications of lease regulations concerning the new business codification of accounting standards (ASC) known as ASC 842 under US GAAP. The study juxtaposed the preceding ASC 840 business lease regulations with the newly established ASC 842 business lease regulations, assessing their consequent impact on financial ratios, lending capabilities, and covenant

agreements. The newly established lease regulations applicable to commercial enterprises are set to take effect subsequent to the year 2019. The findings of this investigation indicate that ASC 842 is likely to exert a detrimental influence on corporations within the United States. Participants in the study, who are students, propose various strategies that American firms may implement to mitigate the challenges posed by lease obligations associated with new enterprises. Subsequent investigations could explore the ramifications of the recent IFRS regulations on companies worldwide that adhere to non-U.S. GAAP reporting standards.

The originality of this research, as derived from the findings of preceding studies, lies in the fact that no prior investigation has undertaken a comparative examination between leasing accounting practices and ijarah accounting methodologies in accordance with the Indonesian financial accounting standards.

B. RESEARCH METHODS

This category of inquiry encompasses library-based research methodologies. The principal data source utilized in this investigation is the Financial Accounting Standard Book, which includes the regulations FASS 30 and FASS 107, as published by the Indonesian Accountants Association, while the secondary data source consists of the fatwa issued by the National Sharia Council number 27/DSNMUI/III/2002, dated March 28, 2002, pertaining to ijarah financing, among other documents. The analytical model employed in this research was the application of content analysis techniques to both FASS 30 and FASS 107. Subsequently, the researchers adopted a comparative analysis framework to examine the two FASS, in conjunction with argumentative reasoning to elucidate the similarities and differences pertaining to the accounting principles articulated within both FASS.

C. RESULTS OF RESEARCH AND DISCUSSION

The findings of the investigation indicated that both FASS 30 and FASS 107 exhibit numerous parallels as well as certain distinctions in the implementation of accounting principles. These parallels and distinctions encompass:

1. Equation of Accounting Principles in FASS 30 and FASS 107

Several accounting principles articulated in FASS 107 demonstrate congruence with those in FASS 30, including:

a. Recognition of Fair Value of Leased Assets,

According to FASS 107, Fair Value is defined as the amount that would be exchanged for an asset between knowledgeable and willing parties within an arms-length transaction. Conversely, FASS 30, which was previously issued by the Indonesian Accountant Association, offers a more comprehensive definition, asserting that Fair Value represents the amount exchanged for assets or settled liabilities between parties that are both willing and adequately informed within a reasonable transaction (arms-length transaction). This illustrates that the accounting assertion of "Fair Value" delineated in FASS 107 adopts and builds upon the established framework of FASS 30, which has served as a longstanding regulatory guideline for the recording of lease transactions in business contexts.

b. Recognition of Economic Value of Leased Assets

FASS 107 articulates that the useful life or economic life of an asset refers to the duration during which the asset is anticipated to be utilized, or the equivalent volume of production/units expected to be derived from the asset. In contrast, FASS 30, as previously published by the Indonesian Accountants Association, elaborates that the economic lifespan can be defined as a). the timeframe during which an asset is expected to be economically utilized by one or more users; or b). the amount of production or similar units anticipated to be obtained from the asset by one or more users. This substantiates that the accounting declaration of "Fair Value" in FASS 107 adopts and modifies the principles outlined in FASS 30, which has historically functioned as a guiding principle for the documentation of lease transactions in business applications.

c. Classification of Lease Transactions — Renting

FASS 107 categorizes rental transactions into two distinct types: Ijarah and Ijarah Muntahiyah Bittamlik (IMBT). Similarly, FASS 30 classifies lease transactions into two categories: Operational Lease (operating lease) and Financial/Capital Lease (financing lease). Ijarah is defined as an agreement that conveys the right to utilize (benefit) an asset for a specified period in exchange for rental payments (ujrah) without the concomitant transfer of ownership of the asset itself. The definition of Ijarah in FASS 107 bears resemblance to the definition of operational lease found within FASS 30. Likewise, Ijarah Muntahiyah Bittamlik is characterized as Ijarah with a wa'ad for the transfer of ownership of the Ijarah object at a predetermined time. The definition of Ijarah Muntahiyah Bittamlik also shares similarities with the characterization of financial lease as delineated in FASS 30.

d. Rental Asset Depreciation Policy

FASS 107 posits that tangible assets associated with Ijarah must experience depreciation in value throughout their economic lifespan. This principle is similarly affirmed in FASS 30, which asserts that leased assets are also subject to depreciation in value.

e. Recognition of Rental Income

FASS 107 stipulates that income derived from Ijarah transactions is acknowledged throughout the duration of the contract/lease. This provision is mirrored in FASS 30, which similarly asserts that leasing income is recognized during the lease term.

Thus, based on the aforementioned exposition, it can be deduced that FASS 30 and FASS 107 exhibit certain commonalities in the application of accounting principles, which can be succinctly illustrated in the subsequent table:

Table 1
Equations of Accounting Principles in FASS 30 and FASS 107

1	Acknowledgment of the fair value of leasing assets
2	Recognition of the economic lifespan of leasing assets
3	Categorization of lease transactions — leasing
4	Depreciation policy for leasing assets
5	Recognition of leasing revenues

Source: Compiled by the author

2. Differences in Accounting Principles in FASS 30 and FASS 107

In conjunction with the aforementioned similarities in accounting principles, notable distinctions exist in the execution of accounting principles delineated in FASS 30 and FASS 107. These distinctions encompass:

a. Elucidation of Lease Accounting Principles

In FASS 30, the principles governing lease accounting are bifurcated into two categories: operating leases and financing leases, which are comprehensively and explicitly articulated concerning the financial statement recording for both the lessor (leaseholder) and the lessee (tenant). FASS 30 encompasses a comprehensive array of accounting principles that must be adhered to by both lessors and lessees when engaging in capital leases or operational leases. Conversely, in FASS 107, the principles of lease accounting are not demarcated into the two classifications known as ijarah (operating lease) and ijarah muntahiyah bittamlik (financing lease) and are not comprehensively or explicitly delineated within the financial statement recording for mu'jir (leaseholder) and musta'jir (tenant). FASS 107 predominantly regulates only the lease transactions between lessor and lessee that pertain to operating leases (ijarah), while the subject of Ijarah Muntahiyah Bittamlik is restricted solely to issues surrounding ownership transfer. This, predictably, engenders potential ambiguities among users in the application of this accounting principle.

b. Acknowledgment of Lease Payments Made by Lessee/Musta'jir

Within the framework of FASS 30, the rental payments made by the lessee (tenant) are acknowledged and recorded as rental expenses employing a straight-line method throughout the lease duration, unless an alternative systematic approach provides a more accurate reflection of the temporal pattern of asset benefits availed by the lessee (tenant). This stipulation is articulated in paragraph 29. In contrast, in FASS 107, the rental payments made by the musta'jir (tenant) are acknowledged as rental expenses during the contractual term at the juncture when the benefits associated with the asset have been conferred (as delineated in paragraph 19). The recognition of rental expenses does not utilize the straight-line method. This discrepancy undoubtedly introduces the potential for the manipulation of rental expenditures, which may lead to corporate management deferring the acknowledgment/recording of rental expenses in financial statements during periods of financial distress, motivated by apprehensions regarding the adverse impact on the perceived performance of corporate management by shareholders.

c. Acknowledgment of Financing Leases Executed by Lessee/Musta'jir

In FASS 30, financial leases executed by the lessee are acknowledged as assets and liabilities within the balance sheet, equating to the fair value of the leased asset or the present value of the minimum rental payments, contingent on which value is lower. The present value calculation of rental payments employs an implicit interest rate (as stated in paragraph 16). Conversely, in FASS 107, the rental pertaining to the muntahiyah bittamlik executed by the musta'jir is recognized as an asset and liability within the balance sheet, amounting solely to the fair value of the received ijarah object (as outlined in paragraph 23).

d. Acknowledgment of Rental Income Derived from Operating Leases Received by the Lessor/Mu'jir.

In FASS 30, the rental income accruing from operating leases received by the lessor is recognized as revenue utilizing the straight-line method throughout the duration of the lease, unless an alternative systematic basis exists that more accurately reflects the temporal distribution during which the utility derived from the leased assets diminishes (paragraph 47).

Conversely, in FASS 107, the rental income obtained from operating leases by the mu'jir is acknowledged as revenue at the point when the advantages associated with the asset have been conveyed to the lessee (Paragraph 14). This discrepancy may result in the manipulation of rental income figures. In scenarios where the organization encounters a downturn in revenue, the management often resorts to recognizing substantial amounts of rental income, thereby creating a façade of commendable management performance.

e. Lease Cancellation Considerations

FASS 30 delineates explicit regulations concerning the stipulations and conditions under which a lease may be terminated or rendered non-cancelable. A lease may be annulled under the subsequent conditions: the emergence of contingent situations, the likelihood of which is exceedingly minimal; with the approval of the lessor; in the event that the lessee enters into a new lease agreement concerning the same asset or a comparable asset with the same lessor; or when there is a significant supplementary payment made at the commencement of the lease by the lessee, ensuring an economic certainty against cancellation. In contrast, FASS 107 lacks definitive regulations regarding the conditions under which a lease may be canceled or deemed non-cancelable, thereby enabling the mu'jir and musta'jir to unilaterally terminate the agreement, potentially resulting in one party imposing undue hardship on the other.

f. Minimum Rent Obligation Considerations

FASS 30 mandates the existence of a minimum rent obligation that must be fulfilled by the lessee, in addition to the rental fee that must be remitted to the lessor. This stipulation exerts considerable pressure on the lessee, as it is perceived to impose an undue burden with respect to rental payments. Conversely, FASS 107 explicitly prohibits the imposition of a minimum rent obligation beyond the agreed-upon rental fee that is to be provided to the lessor.

g. The Issue of Ownership Transfer of Leased Assets via Grant

In FASS 30, the transfer of ownership from the owner to the tenant cannot be accomplished through grants but must occur via a sale transaction. On the other hand, FASS 107 stipulates that the transfer of ownership may be executed through both grants and sales. This indicates that in ijarah and IMBT transactions, the business model is not exclusively profit-driven but also incorporates a social orientation.

h. The Concern Regarding Interest Rates in Rental Payments

According to FASS 30, rental payments may incorporate either an implicit interest rate (a variable rate reflective of market conditions) or an incremental rate (a fixed interest rate as mutually agreed upon). In contrast, FASS 107 establishes that rental payments do not utilize interest mechanisms but are instead grounded in mutual agreements reached during lease negotiations.

i. Issues Pertaining to Contingent Rental Transactions

FASS 30 endorses the facilitation of continuous rental transactions (rent that is not fixed, contingent upon fluctuations in temporal factors and future interest). Conversely, FASS 107 prohibits the sale of rental content, as the principles of Sharia do not recognize the legitimacy of a time value of money.

j. Lease Transaction Issues — Leasing Land

FASS 30 delineates the regulatory framework for land lease transactions, encompassing business utilization and building rights (paragraph 14). In contrast, FASS 107 is devoid of regulations pertaining to lease transactions involving land rental. This scenario underscores the inherent limitation of FASS 107, given that the subject matter of taxation can encompass both goods and services. Land is classified within the category of goods; however, FASS 107 lacks provisions that elucidate the accounting treatment of leases related to land rental, particularly in relation to the rights associated with business and building use.

k. Lease Transaction Issues — Renting by a Manufacturer or Dealer

FASS 30 delineates the regulatory framework governing lease transactions specifically for various categories of business entities, encompassing manufacturers and dealers. In contrast, FASS 107 does not comprehensively regulate lease transactions applicable to all types of business entities. The stipulations concerning lease transactions—renting are exclusively designated for sharia banking and sharia financial institutions. The lease transactions—renting executed by manufacturers or dealers remain inadequately addressed within the current legal framework.

l. Initial Direct Cost Recognition Issues in Lease Transactions

According to FASS 30, the initial direct costs incurred by the lessor during the negotiation of the lease are classified as operational expenses throughout the duration of the lease (paragraph 49). Conversely, in FASS 107, the initial direct costs incurred by the lessor in the lease negotiation process lack explicit recognition as either operational or non-operational expenses. This ambiguity inevitably results in inaccuracies in the financial records maintained by the lessor.

m. Liability Issues for the Cost of Acquisition of Leased Objects

Within the provisions of FASS 30, there exists no explicit rule that designates responsibility for the costs associated with the repair of a rental object. However, FASS 107 provides clear guidelines on the parties responsible for the expenses related to the repair of leased objects. The tenant is identified as the party accountable for these costs (paragraph 21).

n. Sales and Lease Back (Sales and Lease Back)

FASS 30 offers comprehensive regulation of sale and leaseback transactions, contingent upon the transaction being classified as either a financing lease or an operating lease. In contrast, FASS 107 addresses sale and leaseback transactions solely within the context of operating lease transactions (paragraph 25).

Thus, based on the aforementioned discussion, it can be inferred that FASS 30 and FASS 107 exhibit disparities in the application of accounting principles, which can be comprehensively illustrated in the following table:

Table 2
Difference in Accounting Principles in FASS 30 and FASS 107

FASS 30		FASS 107
1	The principles of Lease Accounting are categorized into two distinct types: operating leases and financing leases, which are thoroughly and explicitly articulated in the financial statements of both lessors (leaseholders) and lessees (tenants).	The tenets of Lease Accounting are not distinctly categorized into two classifications, specifically: ijarah (operating lease) and ijarah muntahiyah bittamlik (financing lease), and are inadequately and ambiguously delineated in the financial statements of the mu'jir (leaseholder) and musta'jir (tenant). This inherently engenders misinterpretations among users concerning the application of this accounting principle.
2	The rental payments made by the lessee (tenant) are acknowledged and recorded as rental expenses on a straight-line basis throughout the lease term, unless an alternative systematic basis is determined to more accurately reflect the temporal pattern of the asset benefits experienced by the lessee (refer to paragraph 29).	The rental payments made by the musta'jir (tenant) are recognized as a rental expense throughout the duration of the contract at the juncture when the benefits associated with the asset have been accrued (as specified in paragraph 19). Rental expenses are acknowledged without adherence to the straight-line method of accounting. This scenario undoubtedly amplifies the potential for the manipulation of rental expenses, leading the company's management to postpone the acknowledgment/recording of rental costs within the financial statements during periods of financial loss, driven by apprehensions regarding the potential adverse impact on perceived management performance as viewed by shareholders.

3	Financial leases undertaken by the lessee are recognized as both assets and liabilities on the balance sheet, equating to the fair value of the leased asset or the present value of the minimum rental payments, contingent upon the present value being less than the fair value. The present value of rental payments is calculated utilizing the implicit interest rate (paragraph 16).	The rental payments associated with the muntahiyah bittamlik executed by the musta'jir are recognized on the balance sheet as both an asset and a liability, reflecting solely the fair value of the ijarah object received (referenced in paragraph 23).
4	Rental income derived from operating leases received by the lessor is recognized as income using the straight-line method throughout the lease term, unless another systematic basis is identified that better represents the temporal pattern over which the advantages of utilizing leased assets diminish (paragraph 47).	The rental income derived from the operating lease received by the mu'jir is acknowledged as income when the benefits of the asset have been transferred to the lessee (as stated in paragraph 14). This circumstance may lead to the manipulation of rental income. In instances where the company experiences a downturn in revenue, the management is prone to recognize substantial amounts of rental income to enhance the appearance of management performance.
5	FASS 30 articulates explicit regulations regarding the conditions under which a lease may be canceled or remains irrevocable.	FASS 107 lacks definitive regulations regarding the conditions under which a lease may be canceled, thereby permitting unilateral termination by either the mu'jir or musta'jir, which may result in one party exploiting the other.
6	Furthermore, FASS 30 stipulates that a minimum rent must be established that the lessee is obligated to pay in addition to any rental fees owed to the lessor.	FASS 107 explicitly prohibits the remittance of minimum rent beyond the predetermined rental fee that must be disbursed to the lessor/mu'jir.
7	The conveyance of ownership from the proprietor to the lessee cannot be accomplished through a grant; instead, it must be executed via a sale.	Ownership transfer can be executed through the mechanism of grants.
8	Rental payments may be calculated utilizing an implicit interest rate (variable rate in accordance with market conditions) or an incremental interest rate (fixed interest as mutually agreed upon).	The rental payments are not predicated upon the imposition of interest but rather upon mutual consensus during lease negotiations.
9	FASS 30 endorses the implementation of a continuous rental transaction, wherein the rental amount is not fixed but is contingent upon fluctuations in temporal factors and anticipated interest rates.	FASS 107 forbids the leasing of content, as Sharia principles do not validate the existence of a temporal value of money.

10	FASS 30 provides a regulatory framework for land lease transactions, inclusive of business utilization and building rights (paragraph 14).	FASS 107 does not encompass regulations pertaining to lease transactions — specifically leasing land. This limitation illustrates a deficiency in FASS 107, given that the taxable objects can comprise both goods and services. Although land is classified under goods, there exists an absence of explicit guidelines regarding the accounting treatment of lease transactions concerning business utilization/building rights.
11	FASS 30 delineates the regulations governing lease transactions specifically tailored to various types of business entities, encompassing manufacturers and dealers.	FASS 107 does not comprehensively govern lease—lease transactions across all business entities. The stipulations governing lease transactions are exclusively reserved for sharia banking and sharia financial institutions. The leasing transactions undertaken by manufacturers or dealers have not been adequately addressed.
12	Initial direct expenditures incurred by the lessor during the lease negotiation process are classified as operational expenses throughout the duration of the lease (paragraph 49).	The initial direct costs incurred by the lessor during the lease negotiation process are not clearly classified as either operational or non-operational expenses. This ambiguity naturally precipitates inaccuracies on the part of the lessor in maintaining financial records.
13	There exists no stipulation regarding the party accountable for the expenses associated with the repair of the rental asset.	There is a clear need to delineate the responsibilities of the parties concerning the costs incurred for the repair of the rental object (as mentioned in paragraph 21).
14	The sale and leaseback transaction is comprehensively regulated in instances where the transaction qualifies as either a financing lease or an operating lease.	Sale and leaseback transactions (referenced in paragraph 25) are confined to operating lease transactions exclusively.

Source: Compiled by the authors

D. CONCLUSION

From the aforementioned analysis, several conclusions may be articulated, including: FASS 107 concerning ijarah accounting continues to incorporate certain principles derived from leasing accounting as delineated in FASS 30. Among the principles of leasing accounting that FASS 107 adopts are: the acknowledgment of the fair value of leased assets, the recognition of the economic lifespan of leased assets, the classification of leases, the depreciation policy applicable to leased assets, and the acknowledgment of rental income in leasing transactions commensurate with leasing transactions; there exist notable discrepancies in the accounting principles delineated in FASS 30 versus those in FASS 107. The variances in these accounting principles encompass the elucidation of the rental accounting principle, the recognition of rental expenses remitted by the lessee/musta'jir, the acknowledgment of financing leases executed by the lessee/musta'jir, the recognition of rental income from operating leases accrued by the lessor/mu'jir, the issue of lease cancellations, the matter of minimum rental obligations, the transfer of ownership of rental assets via grants, the utilization of interest rates in rental payments, the intricacies of rental transaction content, the implications of lease transactions—specifically land leasing, the challenges posed by lease transactions involving manufacturers or dealers, the recognition of initial direct costs in lease transactions, the liabilities associated with the acquisition costs of rental assets, and the complications surrounding sales and leaseback transactions; FASS 107 has yet to furnish a comprehensive resolution for the issues pertaining to ijarah accounting. This is evidenced by the accounting principles employed for both tenant accounting (musta'jir) and leaseholder accounting (mu'jir), which inadequately prescribe the manner in which the ijarah accounting principle should be operationalized in scenarios where either the tenant or the leaseholder engages in an operational lease transaction (ijarah) or a financing lease transaction (ijarah muntahiyah bittamlik). In contrast to FASS 30, the leasing accounting challenges encountered by the lessee and the lessor are addressed in detail, providing an accounting solution in instances where the lessee or the leaseholder (lessor) undertakes an operational lease or a financing lease transaction (financial/capital lease).

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