

# Accounting Information and Non-Accounting Information in Financing Decision: in Islamic Banking Indonesia

Mukhzarudfa, Wirmie Eka Putra



**Abstract:** This study aims to determine whether Islamic Banking in its financing provision decisions based on financial statements as a source of accounting information, or not. To find out whether banks also base their financing decisions on non-accounting details or not. The target population in this study are all funding requests received by Islamic banking in Jambi City during 2018. The sample in this study amounted to 56 files, taken using the "simple random sampling" method. This research conducted using a survey method, namely, by using structured questions. The analysis carried out using multiple linear regression. The results showed that: accounting information variables that significantly influence financing decisions are activity variables. For the analysis of non-accounting information, the significant effect is the level of collateral, the reputation of the customer, and the economic sector to be financed. Together with the accounting information and non-accounting information, variables significantly influence the level of financial decisions.

**Keywords:** accounting information; financing decision; Islamic banking; non-accounting information; sharia.

## I. INTRODUCTION

Indonesia is a country with the largest Muslim population in the world, with a large population, the total assets of banking and Islamic business in Indonesia have experienced rapid growth. Its assets grew, from IDR 435.02 trillion in 2017 to IDR 489.69 trillion in Quarter IV 2018. Likewise, third party funds, increased from IDR 341.71 trillion to IDR 379.96 trillion, and financing increased from IDR 293.46 trillion to IDR 329.28 trillion. Even so, the contribution of the sharia business is still meager compared to the traditional commercial bank business. In December 2018, assets of conventional retail banks reached IDR 7,751.65 trillion, third-party funds of IDR 5,372.84 trillion, and loans of IDR 59292.58 trillion. That means the share of Islamic bank assets is only 6.31%. [1].

The Provincial Government of Jambi is committed and supports the development of the Islamic financial services sector, as part of the development of the national and regional economic industries, particularly the Jambi Province finance.

The development of sharia banking and finance in Jambi Province has had an impact on the development of other sharia business sectors. The existence of non-financial businesses began to show business growth by using Islamic principles significantly during the last ten years, such as Islamic fashion, halal food products, medicines, cosmetics, hotels, restaurants, and sharia tourism. [2].

The asset of sharia banking in Jambi Province decreased compared to 2015, in September 2016, sharia banking assets recorded at IDR 2.22 Trillion or 5.92 percent of the total banking assets in Jambi Province. On the other hand, the collection of third party Funds (DPK) of Islamic banking also decreased by 39.06% compared to the last year 2015, to IDR 999.58 Billion. "However, Islamic banking still strives to carry out its role as a source of financing in encouraging economic growth and development [1].

Financing in Islamic banking is a form of providing funds to its customers for investment activities. Funding is funding provided by one party to another party to support the planned investment, whether done alone or by the institution. [3].

The implementation of the provision of financing facilities to its customer's Islamic banks has set various requirements that must be met by prospective customers. There are quite complex requirements for assessing potential customers, among others: To whom the credit should give, for what (object) loan should provide. Does the prospective debtor customer who will receive credit or return the principal debt plus interest and other obligations. What is the maximum amount of funding (ceiling) to be given? Is the financing to be provided is an entirely safe or small risk. [4].

To be able to make decisions on the provision of financing to customers or prospective customers, Islamic banks need information, both accounting and non-accounting information. Financial statements are a critical source of accounting information for banks.

The purpose of financial statements is to provide information regarding the financial position, performance, and changes in the business area of a company. That is beneficial to a large number of users in making economic decisions. Furthermore, the FASB stated that: "... Investors and creditors and their advisors are the most prominent external groups who use the information provided by financial reporting. they generally lack the authority to prescribe the information they want ..." [5].

Financial statements of a company need to be analyzed, and for that, we need a measure. Ratio analysis is one of the most popular and widely used financial analysis tools. In this study, the customer's financial statements will be analyzed based on "liquidity ratios, leverage, activity, and profitability. [6].

Manuscript received on February 10, 2020.

Revised Manuscript received on February 20, 2020.

Manuscript published on March 30, 2020.

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Based on the background of the above research, the objective of this study is to determine the effect of accounting information in the decision to provide Islamic bank financing to customers or prospective customers.

Then to find out whether Islamic banking bases its choices on liquidity analysis, activities, profitability, and leverage analysis. Also, this study wants to find out how the influence of non-accounting information in the decision to provide bank financing to customers or prospective customers.

## II. LITERATURE REVIEW

### A. Accounting Information

#### Information

Information according to [7]: "Information is data has processed into form is useful for the recipient and real or in the form of values. that can be understood in decisions now and in the future." Henry C. Lucas, Jr. It further states, "Information is a visible or invisible reality that is available to reduce uncertainty about some circumstances or events."

#### Accounting

[8] Define accounting as follows: Accounting is a measurement and communication system to provide economic and social information about entities that can be identified by users. In addition to making judgments and decisions based on information that leads to optimal resource allocation and achievement of organizational goals.

AICPA, quoted by [9], defines accounting as follows: "Accounting is a service activity. Its function is to provide quantitative information, especially financial, about business entities. that is considered useful in making economic decisions in making the right choice among alternative actions."

### B. Financial statements

Financial statements are part of the financial reporting process. Complete financial statements usually include (1) balance sheets, (2) income statements (3) statements of changes in equity. (4) announcements of changes in financial position (for example, cash flow statements) (5) notes and reports and other explanatory material that are part which is inseparable from the financial statements. [10].

The financial report is a report prepared with the aim of providing financial information from each company to interested parties as material for consideration in economic decision making. Through the financial statements, periodically important information reported about the condition of the company concerned. The parties with interest in the company's financial statements consist of two groups, namely: external and internal parties [11].

### C. The Nature of Financial Statements

Financial reports submitted have limitations. Therefore, for users or users not to get a false picture of financial statements, these limitations need to be addressed. These limitations are: "(1) Events or facts recorded; (2) Basic Assumptions and Conventions Used in Accounting; (3) Management's Considerations or Opinions. [12].

### D. Non-Accounting Information

#### The Philosophy of Financing

The relationship between banks and financing in a business unit is essential, but in its implementation, it must eliminate the existence of injustice, dishonesty, and "exploitation" from one party to another party. The position of the Sharia Bank concerning the financing customer market is as an investor and trader partner.

Islamic banks use various techniques and investment methods. This investment relationship contract between a Sharia Bank and a customer is known as Financing. In financing activities, Sharia Banks will carry out various techniques and methods, the application of which depends on the objectives and activities, such as mudharabah, musyarakah, murabahah, ijarah contracts, and so forth. The financing mechanism can be in the form of business partner principles (read: profit sharing) or free of interest, buying, and leasing.

Sharia Bank Financing is required to fulfill 2 (two) principles as follows: (1) Sharia Principle: every realization of financing to a Sharia Bank customer. This matter must be guided by Sharia Sharia as regulated in the Sharia Council Fatwa of the Indonesian Ulema Council (DSN-MUI). (2) Economic Principles: every realization of financing to customers must also consider the principle of prudence, the benefits to be obtained, and other economic factors.

Islam as a way of life and life issued directly by the sole authority that is, Allah SWT. There are three main principles in Islamic teachings [13], namely:

#### Aqidah

The component of Islamic teachings governing belief in the existence and power of God that must become the faith of a Muslim. When carrying out various activities on earth solely to obtain the pleasure of God as a caliph who gets the mandate from Allah.

#### Syariah

The component of Islamic teachings governing belief in the existence and power of God that must become the faith of a Muslim. When carrying out various activities on earth solely to obtain the pleasure of God as a caliph who gets the mandate from Allah.

#### Akhlaq

The basis of behavior and personality that would characterize him as a devout Muslim based on sharia and aqeedah, which became his life guidelines. so that it called having akhlaqul karimah as the hadith of the Prophet stated "It is not if I sent except to make akhlaqul karimah.

### E. Research Hypothesis

Based on the framework that comes from the study of theory and the results of previous studies, the hypothesis proposed in this study are:

**H1: Islamic banking bases decision making on financing for customers or prospective customers on financial statements as a source of accounting information.**

**H2: Islamic banking bases financing decision making for customers or prospective customers on non-accounting information.**

### III. RESEARCH METHODS

#### A. Population and Sample

The target population in this study are all funding requests except the type of investment financing, received by Islamic banks in the city of Jambi during 2018. The determination of Islamic banks as targets in this study based on the consideration that to date, 46% of the national banking financing market is still controlled by banks sharia. By the objectives of the study, the samples used in this study taken using the "simple random sampling" method.

Sampling-based on time and cost. So that every request for financing from customers, prospective customers received by banks has the same opportunity to selected as a sample. Then the determination of the number of examples of funding requests from each bank is determined by proportional allocation (Cochran, 1977).

#### B. Measurement of Variables

This study consists of 3 variables, namely: (1) financing decisions taken by banks, (2) accounting information submitted by prospective customers to banks, and (3) non-accounting information. In this study, financing decisions as an independent variable related to accounting information and non-accounting information. In this study, financing decisions as an independent variable related to accounting information and non-accounting information. Independent variables related to non-accounting details include the level of guarantee, the character's reputation of the prospective customer, the level of education of the potential customer, the form of the business entity of the prospective customer. Besides, the use of financing in the economic sector, the financing period, the size of the company, and a nominal amount of proposed funding.

#### Financing Decisions

Agreed financing level indicators indicate financing decisions as dependent variables. That is a comparison between the nominal amount of financing approved and the total nominal amount of funding proposed (Secretary of the Republic of Indonesia, 1998).

#### Accounting Information

Research conducted by [15] states that accounting information is relevant across continents before and after IFRS adoption. While few hold the opposite view, Accounting information as an independent variable included in the analysis is information. That can provide an overview of the level of liquidity, the effectiveness of asset management, profitability, and corporate leverage. Creditors can use this information as a starting point in predicting future conditions, so these factors thought to considered as factors that influence bank financing decisions [16]. These variables are:

- a. Company liquidity variable: The liquidity achieved by the company indicated by the ratio of cash, which measures the company's ability to meet its short-term financing obligations. The company's liquidity ratio measured by comparing the total assets with the current liquid debt (present rate).
- b. Company activity variable: Company activity is measured by looking at the effectiveness of the company is using its resources. That indicated by the comparison between the

Cost of Goods Sold with the average inventory turnover of goods (inventory turnover).

- c. The profitability variable used to measure the effectiveness of the company's operations in generating profits. The indicator used to describe the profitability of the company in this study is calculated by comparing net income with sales (profit margin on sales) and by comparing net income with total assets (Return on investment).
- d. The leverage variable intended to measure the extent to which a company's assets financed with debt. The indicator used is to compare funds originating from owners with funds arising from creditors (Debt to Equity Ratio).
- e. The solvency variable is a ratio that is measured by comparing total assets with total debt (both short term and long term).

#### Variables are not Accounting Information

- a. Level of guarantee: Taking a warranty as a non-accounting information variable based on the assumption that basically, the bank will provide financing if the customer, the prospective customer, provides adequate guarantees. The guarantee indicator showed by comparing the estimated collateral value according to the bank and the proposed financing amount.
- b. Customer Character Reputation: Reputation of the customer's business character measured by indicators of the prospective customer's personality. Personality as an independent variable indicated by a symbol of the period of the applicant is a bank customer and the number of violations of current accounts. The applicant has committed that during his time as a customer.
- c. The level of customer education is measured by looking at the level of customer education. That is classified as follows: Elementary School, Junior High School, Senior High School, diploma, and Bachelor. Indicators of education level expressed by the number of years/duration of attending general education either end or not end.
- d. Period of Financing is a variable that indicated by an indicator of the number of months following the proposed financing period.
- e. Company Large Size, this variable is measured by the total amount of company assets.
- f. Nominal Amount of Financing submitted, indicated by a large amount of financing proposed.
- g. Legal Form of Customer's Business Entity or Prospective Customers. This variable is a dummy variable with the following possible values:
  - 1 for a legal entity (PT, CV, Firma, Cooperative)
  - 0 for other forms of business which not included in the above categories
- h. User Financing. The purpose variable of using this financing is a dummy variable with the following possible values:
  - 1 The use of funding for working capital and investment
  - 0 The use of financing consumption
- f. Economic Sector. This variable is a dummy variable with the following possible values:



- 1 For priority sectors, including production, trade, restaurant, and consumer sectors.
- 0 For non-priority areas, covering sectors other than the priority sectors above.

**C. Data Technique Analysis**

The Descriptive statistical analysis used to provide an overview of the variables in this study. To analyze the data in this study is multiple linear regression analysis. However, before carrying out linear regression multiple regression, a classical assumption test is first carried out. Testing the hypothesis in this study will be analyzed by statistical test F, mathematical test t, and test coefficient of determination ( $R^2$ ) [17].

**IV. RESULT AND DISCUSSION**

**A. Effect of Accounting Information on Islamic Bank Financing Decisions.**

The analysis carried out in this section is to find out the factors or variables of accounting information that influence the financing decisions taken by banks. Therefore, the calculation does by regressing the accounting information variable on the variable level of the financial arrangement. The results of the regression of accounting information variables (X1, X2, X3, X4, X5) with Y variables are in table 1:

Table 1  
Results of Variable Accounting Information Regression Against Decisions on Sharia Bank Financing

No.	Variable	Nama Var.	Koefisien Regresi	Nilai t statistik	Sig
1.	X1	Likuiditas	0,013	1,221	0,228
2.	X2	Aktivitas	0,015	2,026	0,048
3.	X3	Profit Margin	-0,222	-1,314	0,195
4.	X4	ROI	-0,094	-1,213	0,231
5.	X5	Leverage	-0,038	-2,041	2,041

Source: Research Data

The results of the partial regression analysis in Table 1 show that the accounting information variables. That has set in the model are the variables of liquidity, activity, profit margins, return on investment (ROI), and leverage. Only activity variables that significantly influence the financing decision with a significance value of  $0.048 < \alpha (0.05)$ , the other variables do not have a significant effect on the financial decision given.

Overall analysis carried out shows that the accounting information variables together have a significant effect on the level of financing decisions; this evidenced by the calculated F value obtained 3.976. With significance ( $0.004 < \alpha (0.05)$ ).

The results of this study are in line with research [18] [19] which states that in management decision making, accounting information affects the quality of decisions through uncertainty, information load, and data load. Besides, the research conducted [20] also explained that the access of small companies to obtain loans to banks increased significantly after disclosing their accounting information to the public.

**B. The Influence of Non-Accounting Information on Islamic Bank Financing Decisions**

Analysis to find out what factors or variables that influence financing decisions other than accounting information variables. Then it is done by regressing independent variables other than accounting information variables on the variable level of financial decisions. Regression results can see in table 2:

Table 2.  
Regression Results for Variables that are not Accounting Information for Sharia Bank Financing Decisions

No.	Variabel	Variable Name	Koefisien Regresi	Nilai t Statistik	Sig.
1.	X6	level of guarantee	0,159	8,419	0,000
2.	X7	Customer Character Reputation	0,074	2,538	0,015
3.	X8	Customer Education Level	-1,159	-3,141	0,003
3.	X9	Period of Financing	-0,076	-1,469	0,149
4.	X10	Company Large Size	4,143E-10	0,693	0,492
5.	X11	Amount of Financing	6,321E-10	0,437	0,664
6.	D1	Legal Form of Customer's Business Entity	-6,486	-3,236	0,002
7.	D2	User Financing	-7,331	-1,967	0,055
8.	D3	Economic Sector	10,975	2,642	0,011

Source: Research Data

Table 2. shows that the variable level of collateral, customer reputation, and the economic sector to be financed can be an estimator of the financing decisions given. The level of guarantee has a statistically significant effect on the level of financing decisions. That is theoretically acceptable because the higher the ratio of the value of the warranty will be able to affect the increase in the level of financing to be approved or to be provided by the bank. Increasing the value of the collateral will undoubtedly make banks feel more secure in giving grants. The number of funds offered will be close to the amount proposed by the customer.

The customer's reputation has a statistically significant effect on the level of bank financing decisions. That is reasonable and understandable because the better the status of the customer or prospective customer, the bank understands the characteristics or reputation of the customer concerned. So, the bank does not hesitate to agree to the financing request submitted.

The results of this study are in line with research [21], that found the valuation relevance of non-accounting information to be related to the size of the target firm.

**C. The Effect of Accounting Information and Non-Accounting Information on Sharia Bank Financing Decisions**

The results showed that only the variables X6, X7, and D1 had a significant effect on the variable of the level of financing decisions (Y).



Taken together, accounting information variables and non-accounting information variables have a real influence on the variable level of financing decisions.

That is evident from the F-test value obtained, which is 8.971. The coefficient of determination is 0.754, which means that the variation in the level of financing decisions is 75.40% determined by the accounting information and non-accounting information. Variables included in the model, and 24.60% determined by other variables not involved in the model.

The results of this study are in line with research [18] [19] and [21], where accounting and non-accounting information influences company decision making.

## V. CONCLUSIONS, SUGGESTIONS, AND IMPLICATIONS

### A. Conclusions

The results of the partial analysis of accounting information show that accounting information submitted by customers does not affect making decisions on the provision of Islamic bank financing. The results of the study of non-accounting details show that the level of collateral, the reputation of the customer, and the form of the business entity of the customer significantly influence the level of bank credit decisions. Based on a joint analysis, it found that 89.71% of financing decisions based on the selected accounting and non-accounting information models.

### B. Suggestions

Further research needs to do to find out the cause of not using the financial statements as a consideration in making business decisions, as well as how the bank's perception of the financial statements. The bank must provide a balanced portion of accounting information and non-accounting information in its financing decisions. So that the bank can make the right decision in refusing, granting part, or all of the proposed financing requests. Next, it is necessary to include other variables that are relevant to the level of financing decisions.

### C. Implications

This research expected to be able to help customers and various parties who need funding originating from Islamic banking. This research, on the one hand, can also assist Islamic banks in increasing the volume of financing channeled to their customers based on the results of the study conducted.

## ACKNOWLEDGMENT

The research team would like to thank the University of Jambi Postgraduate Program for providing funding for the implementation of this research activity, Fiscal Year 2018.

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