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The Analysis of Financial Statements of MSME Customers of an Islamic Bank

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Abstract: The aim of this study is to analyze the financial ratios and profitability of Islamic banks, as well as the implementation of Sharia accounting and auditing standards in Indonesia. The literature review suggests that financial ratios such as the Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), and Financing to Deposit Ratio (FDR) have a significant impact on profitability, as measured by Return on Assets (ROA). Previous studies by Wardani et al. (2019) and Siregar (2020) emphasize the importance of capital and liquidity management in enhancing the profitability of Islamic banks, while the Operational Expenses to Operational Income ratio (BOPO) has an insignificant effect. The research also identifies challenges in implementing Sharia accounting standards, where Islamic banks tend to adopt IFRS more than AAOIFI standards. Additionally, the quality of financial reporting and auditing plays a critical role in maintaining the integrity of Islamic banking. Through qualitative analysis of the financial statements of MSME clients at Islamic banks, the study finds that 61-61.4% of the variation in ROA can be explained by the identified financial variables. The study concludes that financial risk and liquidity management are essential for improving profitability, especially in the face of dynamic economic challenges. The implications of this research are expected to provide insights for Islamic bank management practices and policy development concerning the MSME sector.

Keywords: Quality, Financial Statements, MSMEs, Islamic Banks

Introduction

Research shows that Islamic banking plays an important role in supporting SMEs in Indonesia, but challenges remain. While Islamic banks aim to promote the welfare of the community (Nugroho & Tamala, 2018), many SMEs face difficulties accessing their services due to limited branch locations, inadequate promotions, and lack of product understanding (Nugroho & Tamala, 2018). SMEs struggle with capital acquisition and financial management, often not having proper financial records (Putri et al., 2023). Islamic banks act as intermediaries, providing capital, training, and motivation to encourage financial recording discipline among SMEs (Nurbaiti & Fasa, 2021). However, the application of Islamic financial management principles, which emphasize risk sharing, interest prohibition, and transparent accounting, remains a challenge for many SMEs (Suharlina et al., 2024). Improving the understanding and application of the concept of Islamic financial management for SMEs can lead to more effective and sustainable financial practices, which have the potential to drive growth in this vital economic sector (Suharlina et al., 2024).

Research Aim and Research Questions

Research on Islamic banking and SMEs in Indonesia revealed several key findings. Islamic banks play an important role in supporting SMEs through financing, which has been proven to improve SMEs' financial performance, including increased assets, sales, and net profit (Jubaedah & Destiana, 2016). However, challenges remain in the adoption of SME Islamic banking services, with problems such as difficulty finding Islamic banks, lack of promotion, and limited understanding of Islamic banking products (Nugroho & Tamala, 2018). Islamic banks, including Rural Sharia Banks (BPRS), strive to implement inclusive finance by providing access to financial services for lower-middle-income people and SMEs (Rifai, 2017). In addition, Islamic banks support SMEs in improving their financial record-keeping practices, offering training and motivation to improve financial literacy and discipline (Nurbaiti & Fasa, 2021). This effort aims to strengthen the role of SMEs in the national economy and encourage more equitable economic growth.

Although Islamic banking plays an important role in supporting MSMEs in Indonesia, research that specifically focuses on the financial reporting practices of MSMEs as customers of Islamic banks is still very limited. While existing studies have discussed the contribution of Islamic banks in providing financial access and literacy for MSMEs, there is a clear gap in understanding how MSMEs implement financial reporting in accordance with sharia principles. Considering the large number of MSMEs that face difficulties in maintaining good financial records and understanding Islamic financial products (Nugroho & Tamala, 2018; Putri et al., 2023), further research is needed to examine how Islamic banks can better support MSMEs in improving the quality of their financial reports. This is very important because effective financial management has a direct effect on the sustainability and growth of MSMEs, which are the main drivers of the Indonesian economy. Therefore, closing this research gap is important to develop a more appropriate strategy to strengthen the role of Islamic banking in supporting financial health and MSME compliance with sharia principles.

This research focuses on three main aspects related to the financial statements of MSMEs as customers of Islamic banks. First, how the trend of financial statements of MSMEs who are customers of Islamic banks is developing, considering the importance of good financial reporting for access to financing and business sustainability. Second, the main themes related to the financial statements of MSME customers of Islamic banks, including compliance with sharia principles and difficulties in accurate financial records. Third, this study also aims to analyze research opportunities that can be further developed related to the MSME financial statements, especially in an effort to improve financial literacy and the effectiveness of financial management for MSMEs, as well as their impact on their business profitability and sustainability. The formulation of this problem aims to identify the main challenges and find relevant solutions to support the development of MSMEs through the role of Islamic banking.

Research Results

Based on the discussions that have been carried out, the results of the study show that financial ratios such as CAR (Capital Adequacy Ratio), NPF (Non-Performing Financing), and FDR (Financing to Deposit Ratio) have a significant influence on the profitability of Islamic banks, which is measured through ROA (Return on Assets). These findings are consistent with the studies (Wardani et al., 2019) and (Siregar, 2020), where both studies revealed the importance of capital adequacy, financing risk management, and liquidity in determining profitability levels. A higher CAR reflects the bank's ability to absorb losses, while a lower NPF indicates better financing management, thereby reducing the risk of customer default. FDR also plays an important role in ensuring the availability of funds to be channeled as financing.

However, although BOPO (Operating Costs to Operating Income) was also found to have a relationship with ROA, the effect was not significant in some cases, indicating that operational efficiency may not be as important as capital management and risk in affecting the profitability of Islamic banks in Indonesia. In this context, this study shows that although operational efficiency can affect performance, aspects related to risk management, liquidity, and capital remain key factors in maintaining stability and sustainability of profitability.

The study also revealed that 61-61.4% of the variation in ROA could be explained by the financial variables identified, while the rest was influenced by other factors that had not been included in the model. These findings show that there is room for further exploration of other external factors that can affect the financial performance of Islamic banks, such as macroeconomic conditions, changes in government policies, and growing Islamic banking regulations.

Overall, this study emphasizes the importance of financial risk management and liquidity in improving the profitability of Islamic banks, especially in the face of dynamic economic challenges and regulatory changes. This shows that effective management of capital, non-performing financing, and liquidity is an important step in maintaining the stability and growth of the Islamic banking sector in Indonesia. I have categorized them as follows:

Table 1

Analisis Rasio dan Profitabilitas di Bank Syariah (2 papers) :		
AUTHOR	**Title**	**Publication**
(Wardani et al., 2019)	Analisis Rasio Keuangan dan Pengaruhnya	AT-TABAYYUN: Journal Islamic Studies

	Terhadap Profitabilitas Bank Syariah di Indonesia.	
(Siregar, 2020)	Risiko keuangan dan pengaruhnya terhadap profitabilitas bank syariah di indonesia.	*At-Tawassuth: Jurnal Ekonomi Islam*
Relevansi dan Kualitas Laporan Keuangan di Bank Syariah (2 Papers) :		
(Puspitosari et al., 2019)	Tingkat Relevansi dan Faithful Representation Laporan Keuangan Perbankan Syariah di Indonesia.	https://www.academia.edu/download/105128140/1141.pdf
(Habibah, 2020)	Implementasi Maqashid Syariah Dalam Merumuskan Tujuan Laporan Keuangan Bank Syariah.	Aktsar: Journal Akuntansi Syariah
Faktor-Faktor yang Mempengaruhi Kinerja dan Likuiditas Bank Syariah (1 papers) :		
(Surya & Asiyah, 2020)	Analisis perbandingan kinerja keuangan Bank BNI syariah dan Bank Syariah Mandiri di masa pandemi covid-19.	Iqtishadia: Jurnal Ekonomi dan Perbankan Syariah
Pengaruh Leverage, Ukuran Perusahaan, dan Corporate Governance (2 papers) :		
(Puspitosari, 2019)	Apakah Leverage, Ukuran Perusahaan dan Masa Jabatan Direksi Mempengaruhi Kualitas Laporan Keuangan Bank Umum Syariah?	Finansia: Journal Akuntansi dan Perbankan Syariah
(Akbar, 2020)	Risiko Pembiayaan, Peringkat Good Corporate Governance, dan Rentabilitas terhadap Dana Pihak Ketiga pada	Ekonomis: Journal Of Economics and Business

	Bank Umum Syariah di Indonesia.	
Manajemen Laba dan Kualitas Audit di Bank Syariah (2 papers) :		
(Illahi, 2019)	Fenomena Manajemen Laba Pada Perbankan Syariah Di Indonesia Dan Tindakan Mitigasinya.	Journal Ekonomika Syariah: Jornal of Economic Studies
(Fitriani, 2020)	Pengaruh masa kerja, spesialisasi audit, dan komite audit terhadap kualitas audit (studi kasus pada perbankan syariah di Indonesia).	Malia: Journal Of Islamic Banking and Finance
Dampak Pandemi Covid-19 Terhadap Perbankan Syariah (2 papers) :		
(Ningsih & Mahfudz, 2020)	Dampak pandemi covid-19 terhadap manajemen industri perbankan syariah: analisis komparatif.	POINT : Jurnal Ekonomi dan Manajemen
(Nihayah & Rifqi, 2021)	Pandemi covid-19 implikasi bagi pembiayaan bank syariah di Indonesia.	Jurnal Ekonomika Manajemen Akuntansi dan Perbankan Syari ah
***Standar Akuntansi dan Implementasi Audit Syariah* (2 papers) :**		
(Aryati & Harahap, 2021)	Study Empiris Penilaian Laporan Keuangan Bank Syariah Di Indonesia Berdasarkan Standar IFRS Dan AAOIFI.	Jurnal Akuntansi STIE Muhammadiyah Palopo on Lembaga Penerbitan dan Publikasi Ilmiah (LPPI) Universitas Muhammadiyah Palopo.
(Lestari, 2021)	Analisis Implementasi Audit Perbankan Syariah Di Indonesia.	SAR (Soedirman Accounting Review): Journal of Accounting and Business

Conclusions

This study shows that financial ratios such as CAR (Capital Adequacy Ratio), NPF (Non-Performing Financing), FDR (Financing to Deposit Ratio), and BOPO (Operating Costs to Operating Income) significantly affect the profitability of Islamic banks as measured through ROA (Return on Assets). (Wardani et al., 2019) and (Siregar, 2020) concluded that the ability of Islamic banks to maintain capital adequacy, manage financing risks, and ensure adequate liquidity is very important to increase profitability. These findings show that CAR, NPF, and FDR have a positive and significant influence on ROA, while BOPO, despite its relationship, does not have a significant impact on some cases. This shows that operational efficiency is not necessarily the main factor that affects profitability in Islamic banks.

However, this study has some limitations. One of them is to focus only on certain financial ratios without considering other external factors such as macroeconomic conditions, regulatory changes, or competition in the banking sector. Further research should include additional variables such as inflation, interest rates, or Financial Services Authority (OJK) regulations that may also affect the financial performance of Islamic banks. In addition, the study uses historical data that may be less relevant in changing economic conditions.

As a suggestion, Islamic banks need to pay more attention to financial risk management and liquidity to maintain profitability performance, especially in the face of unstable economic conditions. The implementation of the right strategy in capital management and financing can help Islamic banks remain competitive in the market. The implication of this study is that good risk management is one of the main keys for Islamic banks in maintaining financial stability and continuing to improve their profitability. The fact that these financial ratios account for more than 60% variation in profitability underscores the importance of the role of risk management and liquidity in the success of Islamic banks in Indonesia.

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