



## Recognition of Ijarah (Capital Rent) Income from Business Using the Rahn (Pawn) Agreement

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### Abstract

*This study aims to analyze the recognition of ijarah income derived from rahn contracts within a Sharia-compliant financial institution. A qualitative case study approach was employed, utilizing observations, in-depth interviews, and documentation to examine accounting practices at PT Pegadaian Daya Branch. The findings indicate that ijarah income is recognized based on the accrual principle at the point when custodial services are initiated, supported by real-time transaction recording systems. The study also reveals a clear separation between financing and service components, ensuring compliance with Sharia principles. Additionally, ijarah rates are determined based on collateral value and service duration, while financial reporting adopts a standardized and net presentation approach. The novelty of this research lies in its micro-level analysis of how Sharia accounting standards are operationalized in practice, particularly in hybrid rahn-ijarah transactions. The study contributes to the literature by bridging the gap between theoretical frameworks and real-world implementation. The findings provide practical implications for improving transparency, consistency, and compliance in Islamic financial reporting, as well as theoretical insights into the integration of accrual accounting and Sharia principles within institutional systems.*

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## INTRODUCTION

The rapid development of Islamic financial institutions has significantly transformed the structure and practices of financial intermediation, particularly in countries with a growing Muslim population such as Indonesia. Among these institutions, Sharia-compliant pawnshops have emerged as an important alternative financing mechanism that accommodates the needs of individuals seeking liquidity while adhering to Islamic principles. Unlike conventional pawnshops that rely on interest-based income, Sharia pawnshops implement contracts grounded in Islamic jurisprudence, primarily *rahn* (pledge) and *ijarah* (lease or service fee) (Fauzi & Ali, 2025; Nurlaela et al., 2026). This distinction fundamentally alters the mechanism of revenue generation, shifting from interest-based earnings to service-based income derived from custodial activities. As a result, the accounting treatment of such

income, particularly *ijarah* income, becomes a critical issue requiring careful examination within the framework of Sharia accounting standards (Siddiqui et al., 2022; Morshed, 2026; Kadi, 2025; Aleraig & Asutay, 2023; Zafar, 2024).

The significance of revenue recognition in financial reporting cannot be overstated. Revenue serves as a primary indicator of organizational performance and directly influences decision-making by stakeholders. According to financial accounting theory, improper recognition of revenue may lead to material misstatements that compromise the reliability and relevance of financial statements (Schroeder et al., 2022; Fridson & Alvarez, 2022; Kassem & Omoteso, 2024). This issue becomes more complex in Islamic financial institutions, where transactions must not only comply with generally accepted accounting principles but also adhere to Sharia principles that prohibit *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation). Consequently, revenue recognition in Sharia-based transactions requires a dual compliance framework, encompassing both technical accounting standards and ethical-religious considerations (Khoirunnisa et al., 2026; Uddin, 2026).

In the Indonesian context, the accounting treatment of *ijarah* transactions is regulated under PSAK 107 concerning *Ijarah Accounting*, which provides guidelines for recognition, measurement, presentation, and disclosure of *ijarah*-based transactions. PSAK 107 emphasizes that *ijarah* income should be recognized when the economic benefits of the asset or service have been transferred and can be measured reliably. This reflects the accrual basis principle and the concept of substance over form, both of which are central to modern accounting practices (Cabán, 2024; Tiron-Tudor, 2023). However, the application of PSAK 107 in practice, particularly in institutions such as PT Pegadaian, presents unique challenges due to the hybrid nature of transactions that combine elements of *qardh* (loan) and *ijarah*. This hybrid structure often leads to ambiguities in distinguishing between financing activities and service-based income, thereby creating potential inconsistencies in revenue recognition (Fardous, 2026; Kyaw & Yoon, 2026).

Empirically, the growth of Sharia pawnshop services in Indonesia reflects increasing public trust and demand for ethical financial solutions. Products such as gold pawning under the *rahn* contract have become popular among lower- and middle-income groups seeking quick access to funds without engaging in interest-based transactions (Ma'ruf et al., 2025). The operational model involves customers pledging valuable assets, which are then safeguarded by the institution in exchange for a service fee (*ujrah* or *ijarah* income) (Iswanaji et al., 2022; Nasada et al., 2025). This fee is not linked to the loan amount but to the value and characteristics of the collateral, thereby ensuring compliance with Sharia principles. Despite this conceptual clarity, practical implementation often varies across branches and institutions, raising questions regarding consistency and compliance with established standards.

Previous studies have examined the accounting treatment of *ijarah* income in Sharia pawnshops, yielding mixed findings. For instance, Lika (2018) identified discrepancies in the recognition of repair costs associated with *ijarah* assets, indicating partial non-compliance with PSAK 107. Similarly, Sari (2018) found that while the recognition of *ijarah* income generally aligns with Sharia principles, operational practices still require improvement in terms of transparency and accountability. More recent studies (Putra et al., 2024) highlight the importance of aligning revenue recognition with the economic substance of transactions, emphasizing that *ujrah* should strictly reflect compensation for custodial services rather than implicit interest on loans. These studies collectively suggest that while theoretical frameworks are well-established, practical implementation remains inconsistent and context-dependent.

From a broader perspective, the existing literature on Islamic accounting has largely focused on conceptual frameworks and compliance issues, with limited attention to micro-level practices within specific institutional contexts. In particular, there is a lack of in-depth qualitative analysis examining how revenue recognition is implemented at the operational level, especially in regional branches of large institutions such as PT Pegadaian. This gap is significant because branch-level practices often reflect the actual application of accounting standards and may reveal discrepancies between formal policies and practical realities. Furthermore, prior research tends to emphasize compliance assessment without sufficiently exploring the underlying mechanisms, decision-making processes, and organizational dynamics that influence revenue recognition practices.

Another important limitation in the literature is the insufficient integration of Sharia accounting principles with contemporary financial reporting concepts. While PSAK 107 provides a technical framework, its interpretation in the context of hybrid contracts such as rahn-ijarah transactions requires deeper analytical exploration. The interaction between loan-based and service-based components within a single transaction creates a unique accounting environment that is not fully addressed in existing studies. This complexity underscores the need for empirical research that not only evaluates compliance but also explains how accounting practices are operationalized in real-world settings.

Based on these considerations, this study aims to analyze the recognition of ijarah income derived from rahn contracts at PT Pegadaian Daya Branch, Makassar City. Specifically, the study investigates how ijarah income is recognized, measured, and recorded in practice, and evaluates the extent to which these practices align with PSAK 107 and Sharia principles. By employing a qualitative approach, this research provides an in-depth understanding of the operational processes, accounting mechanisms, and institutional context that shape revenue recognition practices.

The novelty of this study lies in its focus on micro-level implementation within a specific institutional setting, offering a detailed examination of how Sharia accounting standards are applied in practice. Unlike previous studies that primarily assess compliance at a conceptual level, this research explores the actual processes of revenue recognition, including the sequencing of transactions, allocation of payments, and integration of accounting systems. Additionally, this study contributes to the literature by highlighting the interaction between Sharia principles and accrual-based accounting in hybrid financial transactions, thereby providing a more nuanced understanding of Islamic financial reporting.

The contribution of this research is threefold. First, it provides empirical evidence on the implementation of PSAK 107 in a real-world context, thereby enhancing the understanding of Sharia accounting practices at the operational level. Second, it identifies potential gaps and inconsistencies in revenue recognition, offering insights for improving transparency, accountability, and standard compliance. Third, it contributes to the development of Islamic accounting literature by bridging the gap between theoretical frameworks and practical application, particularly in the context of rahn-ijarah transactions. Ultimately, this study is expected to inform policymakers, practitioners, and academics in strengthening the quality of financial reporting in Sharia-based financial institutions.

## **METHODS**

### **Research Design**

This study employs a qualitative research design with a descriptive case study approach to explore the recognition of ijarah income derived from rahn contracts within a specific institutional setting. A qualitative approach is considered

appropriate because the research aims to understand processes, practices, and interpretations rather than to test hypotheses or quantify relationships. Qualitative research enables an in-depth exploration of social and organizational phenomena, particularly when the boundaries between context and practice are not clearly defined (Kelly, 2023). The case study strategy is adopted to provide a comprehensive understanding of accounting practices as they occur in real-world conditions, allowing the researcher to capture the complexity of revenue recognition within Sharia financial operations.

The descriptive nature of the study focuses on systematically portraying how *ijarah* income is recognized, measured, and recorded in practice, without manipulating variables. This approach is aligned with prior accounting research that emphasizes the importance of contextual analysis in understanding financial reporting practices, especially in emerging areas such as Islamic accounting. By focusing on a single case, the study seeks to generate detailed insights that may not be observable through large-scale quantitative methods.

### **Research Context and Site**

The research was conducted at PT Pegadaian Daya Branch, located in Makassar City, Indonesia. This branch represents an operational unit of a state-owned enterprise that provides both conventional and Sharia-based financial services, making it a relevant setting for examining hybrid financial transactions such as *rahn* and *ijarah*. The selection of this site is based on its active implementation of Sharia pawn financing products, particularly gold pawning, which constitutes a major source of *ijarah* income.

The study was carried out over a two-month period, from May 5 to June 5, 2025, allowing sufficient time for data collection through observation, interviews, and documentation. The institutional context of PT Pegadaian is particularly important because its accounting practices are influenced not only by national standards such as PSAK 107 but also by internal corporate policies and operational guidelines. This dual framework provides a rich context for analyzing how formal standards are translated into practice at the branch level.

### **Data Sources and Informants**

The study utilizes both primary and secondary data sources to ensure a comprehensive understanding of the research problem. Primary data were obtained directly from fieldwork, including interviews and observations conducted at the research site. The key informants consisted of individuals directly involved in the operational and accounting processes of Sharia pawn financing, including the branch manager and staff responsible for transaction recording and financial reporting. These informants were selected using purposive sampling, which is commonly employed in qualitative research to identify participants who possess relevant knowledge and experience related to the research topic (Pahwa et al., 2023).

Secondary data were collected from institutional documents, including internal reports, transaction records, and relevant accounting guidelines. In addition, supporting information was obtained from academic literature, regulatory standards such as PSAK 107, and prior studies on Islamic financial accounting. The combination of primary and secondary data enhances the depth and credibility of the analysis by enabling data triangulation.

### **Data Collection Techniques**

Data collection in this study was conducted through three main techniques: observation, interviews, and documentation. First, observation was carried out using a passive participant approach, where the researcher observed activities related to

rahn transactions and ijarah income recognition without directly intervening in the process. This method allows for the capture of actual practices as they occur in the organizational setting, providing valuable contextual insights into the workflow and decision-making processes.

Second, in-depth interviews were conducted using a semi-structured format to allow flexibility while maintaining focus on key research themes. Interviews are a primary method in qualitative research for understanding participants' perspectives, experiences, and interpretations (Dursun, 2023). The questions were designed to explore how ijarah income is recognized, the rationale behind accounting decisions, and the extent of compliance with applicable standards. The use of semi-structured interviews enables the researcher to probe deeper into specific issues while allowing informants to express their views in their own words.

Third, documentation was used to collect written evidence supporting the analysis, including transaction records, accounting reports, and internal guidelines. Document analysis provides an additional layer of verification and helps to corroborate findings obtained from interviews and observations. According to Özkan (2023), document analysis is a systematic procedure for reviewing and evaluating documents, which can enhance the credibility of qualitative research.

### **Data Analysis Techniques**

The data analysis in this study follows the interactive model proposed by Miles, Huberman, and Saldaña (2014), which consists of three main stages: data condensation, data display, and conclusion drawing/verification. Data condensation involves selecting, simplifying, and organizing the collected data to focus on relevant information related to ijarah income recognition. This process includes coding interview transcripts, categorizing themes, and identifying patterns in the data.

Data display refers to the organized presentation of information in a way that facilitates interpretation. In this study, data are presented in narrative form, supported by excerpts from interviews and documentation to illustrate key findings. This approach allows the researcher to systematically compare observed practices with theoretical frameworks and accounting standards.

The final stage involves drawing conclusions and verifying findings through continuous comparison and reflection. Conclusions are not drawn in a linear manner but are developed iteratively throughout the research process. Verification is conducted by revisiting the data, cross-checking information from different sources, and ensuring that interpretations are grounded in empirical evidence. This iterative process enhances the rigor and reliability of the analysis.

### **Validity and Reliability**

To ensure the trustworthiness of the research, several strategies were employed, including triangulation, member checking, and prolonged engagement. Triangulation was achieved by combining multiple data sources and collection methods, allowing the researcher to cross-validate findings and reduce potential bias. For example, information obtained from interviews was compared with observational data and documentary evidence to ensure consistency.

Member checking was conducted by sharing preliminary findings with selected informants to confirm the accuracy of interpretations. This process helps to ensure that the researcher's conclusions accurately reflect the perspectives of participants. In addition, prolonged engagement at the research site allowed the researcher to gain a deeper understanding of the organizational context and build trust with informants, thereby improving the quality of the data collected.

Reliability in qualitative research is often associated with consistency and transparency in the research process. To address this, the study maintains detailed documentation of data collection and analysis procedures, enabling other researchers to understand and potentially replicate the study. Furthermore, the use of established analytical frameworks and methodological references enhances the credibility and academic rigor of the research.

## **RESULTS AND DISCUSSION**

This section presents the empirical findings on the recognition of ijarah income derived from rahn contracts at PT Pegadaian Daya Branch, Makassar City. The analysis is based on triangulated data collected through observations, in-depth interviews with key informants (branch manager and operational staff), and documentation of transaction records and internal reporting systems,

The findings are organized into several themes derived from the data condensation and categorization process following the Miles and Huberman analytical framework. These themes include: (1) recognition of ijarah income, (2) operational flow of rahn-ijarah transactions, (3) determination of ijarah rates, (4) financial statement presentation, and (5) recognition and measurement practices. Each theme reflects recurring patterns identified across data sources, ensuring analytical consistency and empirical validity.

### **Recognition of Ijarah Income in Rahn Transactions**

The findings indicate that the recognition of ijarah income at PT Pegadaian Daya Branch is implemented as a real-time accounting practice that is directly integrated into daily transaction activities. Observations conducted during fieldwork show that every pawn transaction is immediately recorded in the system once the contract is finalized and collateral is secured. This suggests that income recognition is not deferred but occurs simultaneously with service initiation.

This practice is strongly reflected in the narratives of informants. One operational staff member (Informant 1) explained:

*“In our daily operations, every completed pawn transaction is directly recorded, including the ijarah fee. We do not wait until the end of the period because once the collateral is accepted, the service has already started. So, the income must be recognized immediately.”*

This statement confirms that the recognition process follows the accrual principle, where income is recognized when earned rather than when cash is received. The emphasis on immediacy also reflects a system-supported recording mechanism that minimizes delays.

Further clarification was provided by another staff member (Informant 2) regarding payment allocation:

*“When customers make payments, we always prioritize the ijarah portion first. This is because the service has already been provided. After that, the remaining amount is used to reduce the principal loan.”*

This explanation indicates that recognition is not only about timing but also about allocation logic. The prioritization of service income reflects consistency with Sharia principles, where ujarah represents compensation for services rendered.

Another informant (Branch Manager) emphasized the conceptual separation between loan and income:

*“We clearly distinguish between the loan and the service fee. The loan is recorded as receivable, while the ijarah is recognized as income. This separation is important to ensure compliance with Sharia principles.”*

Documentation analysis supports these findings, showing that ijarah income is recorded under operational revenue accounts, separate from financing receivables. Overall, the results demonstrate that revenue recognition is implemented as a structured and consistent process combining operational practice, accounting standards, and Sharia compliance.

### **Operational Flow of Rahn and Ijarah Transactions**

The findings reveal that the operational flow of rahn and ijarah transactions follows a structured and sequential process that directly influences accounting treatment. Based on observations, the process begins with collateral submission, followed by appraisal, contract agreement, and fund disbursement. Once the collateral is accepted, custodial services begin, triggering the recognition of ijarah income.

This structured mechanism is reflected in informants' explanations. Informant 1 described:

*“When a customer brings gold, we first verify its authenticity and assess its value. After that, we determine the loan amount and explain the service fee. Once the customer agrees, we finalize the contract and disburse the funds immediately.”*

This narrative indicates that the transaction process is designed to ensure transparency and mutual agreement before execution.

Another staff member (Informant 2) explained the transition to service provision:

*“After the contract is completed, the item is stored securely. From that moment, we are responsible for safeguarding it, and the ijarah service begins.”*

Observational data confirm that collateral is physically stored in secured facilities immediately after contract completion, reinforcing the start of custodial responsibility.

The Branch Manager further emphasized:

*“Our income does not come from lending money, but from the service of safeguarding the collateral. That is the core principle we follow.”*

These findings demonstrate that the operational process is closely aligned with accounting recognition, ensuring that each stage of the transaction corresponds to a specific financial treatment.

### **Determination of Ijarah Rates**

The findings indicate that the determination of ijarah rates at PT Pegadaian Daya Branch is implemented through a structured appraisal-based mechanism that emphasizes fairness, transparency, and compliance with Sharia principles. Before elaborating the results, it is important to highlight that this section focuses on how ijarah fees are calculated, the basis of valuation, and the rationale behind the pricing structure. Observations and documentation analysis show that appraisal results particularly the value, weight, and type of collateral serve as the primary reference in determining both the financing amount and the associated service fee .

This approach is strongly reflected in practitioners' narratives regarding how ijarah fees are determined in practice. One operational staff member (Informant 2) explained:

*“In determining the ijarah fee, we do not look at how much money the customer borrows. What we consider is the value of the item they bring, especially if it is gold. We assess its weight, purity, and market value first. From there, we calculate the service fee. This is important because if the fee is based on the*

*loan amount, it could be interpreted as interest, and that is not allowed in Sharia.”*

This statement indicates that the determination of ijarah rates is grounded in the economic value of the collateral rather than the financing component. The emphasis on avoiding interest-based calculation reflects a strong adherence to Sharia principles.

Further explanation was provided by another staff member (Informant 1) regarding how the fee is communicated to customers:

*“Before the transaction is finalized, we always explain the details of the fee to the customer. We make sure they understand how the amount is calculated and how long it will apply. Everything must be clear from the beginning, so there are no misunderstandings later. Usually, customers ask questions, and we explain it step by step until they are comfortable.”*

This narrative highlights that transparency is not only a procedural requirement but also an integral part of service delivery. Observational findings confirm that staff consistently provide explanations during the transaction process, ensuring that customers are fully informed.

The Branch Manager further emphasized the time-based nature of the ijarah fee:

*“The fee is also influenced by how long the item is stored. The longer the storage period, the higher the total fee, because the service continues over time. So, the calculation is not only based on the value of the item but also on the duration of the service we provide.”*

This explanation reinforces that ijarah income is structured as a time-based service fee, reflecting the ongoing nature of custodial responsibility.

These findings demonstrate that the determination of ijarah rates is implemented through a balanced mechanism that integrates valuation accuracy, transparency, and Sharia compliance. The alignment between appraisal practices, customer communication, and time-based calculation indicates that pricing is not arbitrary but systematically designed to reflect the true nature of the service provided.

Table 1. Key Components in Determining Ijarah Rates

<b>Component</b>	<b>Basis of Calculation</b>	<b>Data Source</b>
Collateral value	Weight, purity, market price	Observation & documentation
Transparency mechanism	Explanation before agreement	Interview & observation
Time factor	Duration of storage/service	Interview

Source: Field data processed by researcher, 2025

The findings demonstrate that ijarah rate determination is not arbitrary but systematically structured through valuation accuracy, transparent communication, and time-based service logic. The integration of these elements reflects strong alignment between operational practice and Sharia-compliant pricing principles.

### **Presentation of Ijarah Income in Financial Statements**

The findings reveal that the presentation of ijarah income at PT Pegadaian Daya Branch follows a standardized financial reporting system that integrates Sharia-based transactions within a centralized accounting framework. Before discussing the results, it is important to note that this section focuses on how ijarah income is classified, reported, and structured within the financial statements. Documentation

analysis shows that financial reporting is generated through an internal system regulated by the head office, ensuring consistency across branches.

This practice is reflected in the explanations provided by operational staff. One staff member (Informant 1) described the reporting structure as follows:

*“In our financial reports, ijarah income is categorized as operational income. It is included together with other sharia financing income, but in the system, it is still clearly distinguished. So, even though it is grouped, we can still identify how much comes specifically from ijarah.”*

This statement indicates that the classification of income follows a structured reporting format while maintaining traceability within the system. The ability to distinguish ijarah income internally supports analytical clarity in financial reporting.

Further clarification was provided by another staff member (Informant 2) regarding the treatment of costs:

*“In our practice, the costs related to safeguarding the collateral are already included in the ijarah fee. So, we do not record them separately as expenses. Everything is integrated into the service fee that has been agreed upon at the beginning.”*

This explanation suggests that the financial presentation adopts a net approach, where income is reported without separately recognizing related custodial expenses. Observational findings confirm that no separate expense entries are recorded for storage and maintenance activities.

The Branch Manager further emphasized the influence of centralized policy:

*“We follow the reporting system set by the head office. All branches use the same format and procedures, so the reports are consistent. This system helps ensure standardization, but at the same time, we rely on the central guidelines for how transactions should be presented.”*

This statement highlights that financial reporting practices are shaped by institutional standardization rather than individual branch discretion.

These findings demonstrate that the presentation of ijarah income is implemented through a structured and standardized system that ensures consistency across reporting units. However, the reliance on centralized guidelines also suggests that the flexibility to present more detailed Sharia-specific disclosures at the branch level may be limited.

Table 2. Presentation Structure of Ijarah Income

<b>Aspect</b>	<b>Practice Description</b>	<b>Evidence Source</b>
Income classification	Operational income	Interview & documentation
Expense treatment	Included in ijarah fee (no separate cost)	Interview & observation
Reporting system	Centralized and standardized	Documentation

Source: Field data processed by researcher, 2025

The findings show that the presentation of ijarah income is consistent and standardized. However, the reliance on centralized systems may limit the flexibility to present more detailed Sharia-specific disclosures at the branch level.

## Recognition and Measurement of Sharia Pawn Financing

The findings indicate that the recognition and measurement of sharia pawn financing at PT Pegadaian Daya Branch are implemented through a systematic process that distinguishes clearly between financing and service components. Before elaborating the results, it is important to emphasize that this section focuses on how financing transactions are initially recognized, how they are measured, and how they are separated from ijarah income. Observations show that once the contract is executed and funds are disbursed, the transaction is immediately recorded in the accounting system.

This process is clearly reflected in practitioners' explanations. One staff member (Informant 1) stated:

*“When the customer agrees to the contract and we disburse the funds, we immediately record it as receivable. That is the starting point of the financing transaction. From that moment, the system already recognizes that the customer has an obligation to repay.”*

This statement indicates that recognition is triggered by the transfer of economic resources, aligning with standard accounting principles.

Another staff member (Informant 2) further explained the separation between financing and income:

*“We always separate the loan from the ijarah income. The loan is recorded as receivable, while the ijarah is recorded as income from services. This separation is very important because they have different purposes and must not be mixed.”*

This narrative highlight that measurement and classification are conducted carefully to avoid misrepresentation of financial information. Documentation analysis supports this finding, showing distinct accounts for receivables and ijarah income.

The Branch Manager added an important perspective on verification:

*“At the end of each reporting period, we review all transactions to make sure that everything has been recorded correctly. We check whether the income and receivables are properly separated and whether there are any discrepancies.”*

This explanation emphasizes the role of internal control and verification in ensuring data accuracy.

These findings demonstrate that the recognition and measurement of sharia pawn financing are implemented through a consistent and structured approach. The clear separation between financing and service components, combined with systematic recording and verification processes, ensures that financial information remains accurate, transparent, and aligned with both accounting standards and Sharia principles.

Table 3. Recognition and Measurement Process

Stage	Accounting Treatment	Evidence Source
Contract execution	Loan recorded as receivable	Interview & observation
Income recognition	Ijarah recorded separately	Documentation
Period-end verification	Review and reconciliation	Interview

Source: Field data processed by researcher, 2025

The findings demonstrate that recognition and measurement practices are implemented systematically through real-time recording, clear account separation, and periodic verification. This structured approach ensures consistency with accounting standards and reinforces compliance with Sharia principles.

## **Ijarah Income Recognition and Sharia Accounting Practices**

This study aimed to study the recognition, measurement and disclosure of ijarah income in an operational environment of PT Pegadaian Daya Branch. This section is not intended to repeat the empirical results but rather to explain these results based upon the literature, accounting standards and other discussions in the Islamic accounting field. The discussion is centered around four analytical aspects: (1) the recognition of ijarah income as accrual, (2) the separation of the financing and service components, (3) the determination of the ijarah rates, and (4) the presentation in the financial reporting systems. Each dimension is discussed in some depth with a comparison with the previous research to emphasize both similarities and differences, and the contribution of this research.

The first finding is that the income from the ijarah is recognized in real time, that is, at the time the service is provided. This finding is a clear indicator that ijarah income is accrued based on PSAK 107, which is the principle of recognizing income when there is an exchange of services. This finding aligns with the theoretical stance that revenue is to be recognized when economic benefits are transferred and can be reliably measured (Yu et al., 2022; Siddik et al., 2023; Challoumis, 2024). The principle of action to act, which is espoused by Islamic accounting, further reinforces this principle by giving more weight to the real economic action over the contractual designation. It is found that the current study corroborates previous research conducted by Fathoni et al. (2024) that showed that the income of Sharia pawnshop is generally recognised based on the accrual principles. This study, however, gives a much greater understanding of the use of accrual recognition in practice, compared to the vast majority of previously published studies, which have been conducted mainly using the compliance approach. It is an important contribution at the micro level since it shows that accrual based recognition is not just a regulatory requirement but is part of the day to day workflows.

Second, the distinction between income generated from loan (qardh) and service income (ijarah) found in this study confirms the underlying principle of Islamic finance that income from lending activities is not allowed. This result is in line with the previous study that mentioned that ujarah shall be based on compensation of the tangible service and not the implicit interest (Putra et al., 2024). It is important as any correlation with income and value of the loan can result in non-Sharia compliance. The separation of revenue in the study is viewed as a unique dual-structure accounting logic when contrasted with conventional financial system that links revenue directly to finance activities. This reinforces the position of Saputra (2024) who argued that Islamic accounting must have different recognition frameworks for hybrid contracts. However, this study contributes to the existing literature by demonstrating the conceptual and technical separation of the two practices of accounting: accounting for systems. Still, this study adds to the existing literature by revealing the conceptual and technical separation of the two practices of accounting: accounting for systems. The use of separate accounts for receivables and income from ijarah shows that there is a high degree of institutional maturity when applying Sharia accounting principles (Alerraig & Asutay, 2023; Rahayu et al., 2024).

Third, the calculation of the rates of ijarah in terms of the value of the collateral and the length of the term of the service has revealed an important operationalization of sharia-compliant pricing mechanisms. The results show that the ijarah fees is not related to any loan amount, but it is based upon the characteristics of the asset including weight, purity and market value. This is in line with the literature on Islamic financial contracts which also underscored that compensation should be linked to real economic activities (Saiman & Mohd Zainuddin, 2022; Nasrullah, 2024). The time-based fee further reinforces its classification as service income in

line with PSAK 107 guidelines. This work, however, brings nuance, by showing how valuation processes and system-based calculations combine to generate similar pricing results. This operational aspect has received little attention in previous studies, and the focus has been on compliance with the norm and not how it is put into practice (Feng et al., 2025). Thus, the current study fills the gap between theory and practice in the pricing of Islamic financial institutions.

Fourth, the presentation of *ijarah* income within a centralized reporting system reveals both strengths and limitations in current accounting practices. On one hand, the classification of *ijarah* income as operational income and its consistent reporting across branches indicate strong adherence to standardized accounting procedures. This aligns with broader financial reporting principles that emphasize comparability and consistency (Chandawarkar et al., 2024; Akinyemi, 2025; Sutisman et al., 2024). On the other hand, the reliance on centralized systems may limit the extent to which branch-level reporting reflects the full characteristics of Sharia transactions. This finding resonates with Nurrohman et al. (2025), who argue that while Islamic accounting standards provide a comprehensive framework, their implementation often remains constrained by conventional reporting structures. In this regard, the study highlights a critical tension between standardization and contextualization in Islamic financial reporting. The lack of detailed disclosure on Sharia-specific elements, such as *zakat* or benevolent funds, suggests that compliance with PSAK 101 may still be partial at the operational level.

From a theoretical perspective, this study contributes to the development of Islamic accounting by providing empirical evidence on how hybrid contracts—combining *qardh* and *ijarah* are translated into accounting practices. The findings support the view that Islamic accounting is not merely an adaptation of conventional accounting but a distinct system with its own conceptual foundations. By demonstrating how accrual principles, service-based income recognition, and Sharia compliance are integrated in practice, this study extends the work of previous scholars who have called for a more context-sensitive understanding of Islamic financial reporting. Moreover, the identification of operational patterns such as real-time recording, system integration, and standardized valuation contributes to the refinement of theoretical models in Islamic accounting.

In terms of practical contributions, the study provides valuable insights for practitioners, particularly in improving transparency and consistency in revenue recognition. The findings suggest that integrating accounting systems with operational workflows can enhance the accuracy and timeliness of financial reporting. Additionally, the emphasis on clear separation between financing and service components can help institutions strengthen Sharia compliance and build trust among stakeholders. For policymakers and standard-setters, the study highlights the need to ensure that accounting standards are not only conceptually sound but also practically implementable. The observed gap between standardized reporting and detailed Sharia disclosure indicates an area where regulatory guidance may need to be strengthened.

The implications of this study extend beyond the specific context of PT Pegadaian. More broadly, the findings suggest that the effectiveness of Islamic accounting practices depends on the alignment between principles, systems, and organizational routines. Institutions that successfully integrate these elements are more likely to achieve both compliance and operational efficiency. This has important implications for the development of Islamic financial institutions in emerging markets, where the demand for Sharia-compliant services continues to grow.

Despite its contributions, this study has several limitations. First, the research is limited to a single branch of PT Pegadaian, which may restrict the generalizability of

the findings. While the case study approach allows for in-depth analysis, it may not fully capture variations across different branches or institutions. Second, the study relies primarily on qualitative data, which, although rich in detail, may be subject to interpretive bias. Third, the analysis focuses on operational practices and does not extensively examine the broader organizational or regulatory environment that may influence accounting behavior.

Future research can build on this study by adopting a comparative approach, examining multiple branches or institutions to identify patterns and variations in ijarah income recognition. Quantitative studies may also be conducted to assess the impact of accounting practices on financial performance and stakeholder trust. Additionally, further research is needed to explore the integration of Sharia-specific disclosures within standardized reporting systems, particularly in relation to PSAK 101. Finally, interdisciplinary approaches that combine accounting, Islamic finance, and organizational studies may provide deeper insights into the dynamics of Sharia-compliant financial practices.

## CONCLUSION

This study aims to discuss the recognition of income from ijarah contract in PT Pegadaian Daya Branch and the empirical implication of the implementation of Sharia accounting rules in practice. The results show that the ijarah income recorded is on an accrual basis from the time the services began, and that there is a distinction between the financing (qardh) and the service (ijarah) parts of the agreement, with the latter recorded in the system at the time of the service. The valuation of ijarah rates is carried out with the method of valuing the guarantee, and the method of financial presentation is done according to the standardized financial presentation and the net income approach.

This study, in theory, helps in the development of Islamic accounting by showing the operationalization of hybrid contracts in an accrual-based accounting system. From a practical point of view, this emphasizes the need for accounting systems to be aligned with operational processes to provide transparency, consistency and Sharia compliance. Some limitations of the study are that it is conducted in one institutional setting, and the data are qualitative, which may impact generalizability. Future studies are recommended to include comparative studies in other institutions and quantitative methodologies to evaluate the overall effect of income recognition in ijarah on financial performance and investor confidence. Furthermore, there is a need to conduct additional research on the disclosure practices in Islamic finance to improve Islamic financial reporting.

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