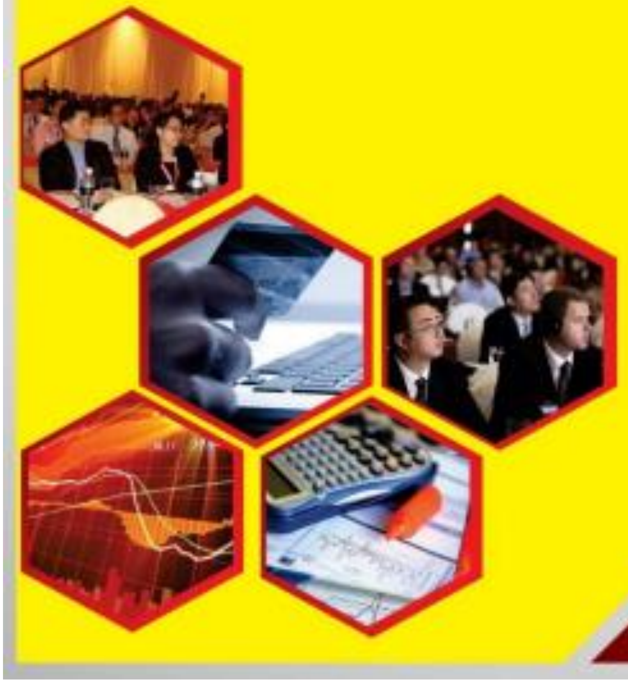
CONFERENCE PROCEEDING

5TH INTERNATIONAL ACCOUNTING CONFERENCE
2ND ACCOUNTING STUDENT RESEARCH FORUM

Faculty of Economics, Universitas Indonesia
Depok, Indonesia



IACSF

IACSF
International Accounting Conference & Student Forum

5th International Accounting Conference
&
2nd Accounting Student Research Forum

"THE ACCOUNTING PROFESSION TOWARDS ASEAN ECONOMIC COMMUNITY"

November 24-25, 2014
Faculty of Economics, Universitas Indonesia
Depok, Indonesia

5th International Accounting Conference
&
2nd Accounting Student Research Forum

CONFERENCE ADVISOR

Ari Kuncoro, Dean of Faculty of Economics Universitas Indonesia

CONFERENCE STEERING COMMITTEE

Ancella A. Hermawan, Head of Accounting Department, Faculty of Economics Universitas Indonesia

Lindawati Gani, Faculty of Economics Universitas Indonesia

Sidharta Utama, Faculty of Economics Universitas Indonesia

Elvia Shauki, Faculty of Economics Universitas Indonesia, University of South Australia

Agung N. Soedibyo, Faculty of Economics Universitas Indonesia

Rallyati M. Anas, Faculty of Economics Universitas Indonesia

CONFERENCE ORGANIZING COMMITTEE

Selvy Monalisa, Faculty of Economics Universitas Indonesia

Christine Tjen, Faculty of Economics Universitas Indonesia

Dyah Setyaningrum, Faculty of Economics Universitas Indonesia

Luluk Widyawati, Faculty of Economics Universitas Indonesia

Elfina Sambuaga, Faculty of Economics Universitas Indonesia

REVIEWERS

Lorne Cummings, Macquarie University, Sydney, Australia

Kamran Ahmed, La Trobe University, Melbourne, Australia

Monir Mir, Canberra University, Canberra, Australia

Prem Yappa, RMIT University, Melbourne, Australia

Johnny Jermias, Simon Fraser University, Burnaby, British Columbia, Canada

Ainul Azreen Adam, Universiti Teknologi MARA (UiTM), Syah Alam, Malaysia

Harun Harun, Canberra University, Canberra, Australia

Corina Joseph, Universiti Teknologi MARA (UiTM), Sarawak, Malaysia

Elvia R. Shauki, Universitas Indonesia/University of South Australia, Australia

Visarut Sribunnak, Chulalongkorn University, Thailand

Sidharta Utama, Universitas Indonesia, Indonesia

Lindawati Gani, Universitas Indonesia, Indonesia

Indra Bastian, Gadjah Mada University, Indonesia

Eddy R.Rasyid, Andalas University, Indonesia

Tjiptohadi Sawarjuwono, Airlangga University, Indonesia

Fitriany, Universitas Indonesia, Indonesia

Dwi Martani, Universitas Indonesia, Indonesia

Budi Frensidy, Universitas Indonesia, Indonesia

Sylvia Veronica Siregar, Universitas Indonesia, Indonesia

Vera Diyanti, Universitas Indonesia, Indonesia

Ancella A Hermawan, Universitas Indonesia, Indonesia

Evony S. Violita, Universitas Indonesia, Indonesia

Rangga Handika, Universitas Indonesia, Indonesia

Siti Nuryanah, Universitas Indonesia, Indonesia

Juniati Gunawan, Trisakti University, Indonesia

Chaerul D. Djakman, Universitas Indonesia, Indonesia

Siti Nurwahyuningsih Harahap, Universitas Indonesia, Indonesia

Dewi Fitriasari, Bina Nusantara University, Indonesia

Christine Tjen, Universitas Indonesia, Indonesia

Desi Adhariani, Victoria University, Melbourne, Australia

Marko S Hermawan, Victoria University, Wellington, New Zealand

Ani Wilujeng Suryani, University of South Australia, Australia

5TH INTERNATIONAL ACCOUNTING CONFERENCE
2ND ACCOUNTING STUDENT RESEARCH FORUM
Faculty of Economics, Universitas Indonesia
Depok, Indonesia

PROGRAM

MONDAY, NOVEMBER 24, 2014

08.00 – 12.00 **Registration**
Gedung Pascasarjana (Postgraduate Building)
Faculty of Economics, Universitas Indonesia, Depok Campus

08.30 – 10.00 **Doctoral Colloquium**

Class A **Room 406**

Moderator: Elvia Shauki, *Universitas Indonesia/ University of South Australia*

- INTERNAL CONTROL OVER FINANCIAL REPORTING AND ORGANIZATIONAL COMPLEXITY ON FINANCIAL REPORTING QUALITY
  I.Dwinanto Bimo, Universitas Indonesia
- ACCOUNTING MISSTATEMENTS AND MONITORING MECHANISMS: A LITERATURE REVIEW
  Alfiatul Rohmah Mohamed Hussain, Universiti Teknologi MARA
  Suhaily Hasnan, Universiti Teknologi MARA
  Zuraidah Sanusi, Universiti Teknologi MARA
  Sakthi Mahenthiran, Universiti Teknologi MARA
- PERSISTENCE OF EFFECTIVE TAX RATE: US AND SOUTH EAST ASIA EVIDENCE
  Achmad Hizazi, Universitas Indonesia

14.00 – 15.30 **Concurrent Session III**

III-A : Financial Accounting **Room 401**

Moderator: Regina Jansen Arsjah, *Universitas Indonesia*

- THE EFFECT OF ACCOUNTING CONSERVATISM ON CORPORATE FINANCING ACTIVITY: EVIDENCE FROM JAPAN
  Souhei Ishida, Hitotsubashi University, Japan
- DOES MANDATORY QUARTERLY FINANCIAL REPORTING AFFECT CORPORATE INVESTMENT BEHAVIOR?
  Tetsuyuki Kagaya, Hitotsubashi University, Japan
- MARKET RESPONSE TOWARD ACCRUAL EARNINGS MANAGEMENT, REAL TRANSACTIONS, AND STRATEGIC REVENUE RECOGNITION - EARNINGS MANAGEMENT: EVIDENCE FROM INDONESIA
  Windy Puspita Dewi, Universitas Pelita Harapan
  Antonius Herusetya, Universitas Pelita Harapan

III-B : Islamic Accounting **Room 402**

Moderator: Evony Silvino Violita, *Universitas Indonesia*

- ISLAMIC CORPORATE SOCIAL RESPONSIBILIBY REPORTING DISCLOSURE: ITS DETEMINANTS
  Indah Umiyati, STIE Sutaatmadja
  Pupung Purnamasari, Bandung Islamic University
- PERFORMANCE ANALYSIS ON THE GENERAL SHARIA'AH BANK OF INDONESIA BASED ON ISLAMICITY PERFORMANCE INDEX
  Febri Rahmi, UIN Sultan Syarif Kasim Riau
- GOVERNANCE AND ZAKAT DISBURSEMENT EFFICIENCY IN BRUNEI DARUSSALAM
  Nurul Nabilah Binti Haji Ali, IIUM, Malaysia
  Norhayati Binti Mohd Alwi, IIUM, Malaysia
  Noraini Binti Mohd Ariffin, IIUM, Malaysia
- ISLAMIC FINANCIAL LITERACY CONCEPTS: A PRELIMINARY STUDY
  Susnaningsih Muat, UIN Sultan Syarif Kasim Riau
  Desrir Miftah, UIN Sultan Syarif Kasim Riau
  Hesty Wulandari, UIN Sultan Syarif Kasim Riau
  Julina, UIN Sultan Syarif Kasim Riau

Table of Contents

ISLAMIC FINANCIAL LITERACY CONCEPTS: A PRELIMINARY STUDY

Susnaningsih Muat
Desrir Miftah
Hesty Wulandari
Julina
State Islamic University of Sultan Syarif Kasim Riau, Indonesia

ABSTRACT

Financial literacy, which is defined as the ability to understand finance, should be an issue of concern to everyone. According to (Ahmad, 2010) this is especially important to the middle-class, where the majority of consumers of financial products belong. Many researches have been done to measure financial literacy, yet little has been done in measuring Islamic Financial Literacy. This paper tried to configure some basic Islamic Financial literacy concepts to be used in determined the level of financial literacy. The concepts used in this paper adapted from the Five Core Islamic Financing contracts which have comparability with existing conventional financial instruments. Methodology used in this research is a library reseach, using secondary data in the form of books, journals, and other resources that are relevant to this study. All research data are already collected and further analyzed using qualitative descriptive methods of analysis. This preliminary research offers an instrument to measure Islamic financial literacy which is not yet tested. That's why, the validity not yet proven. The further research can add some question relevant to several basic concepts of Islamic financial literacy

Keywords: Financial Literacy, Islamic, banking and finance

ISLAMIC FINANCIAL LITERACY CONCEPTS: A PRELIMINARY STUDY

Susnaningsih Muat
Desrir Miftah
Hesty Wulandari
Julina
State Islamic University of Sultan Syarif Kasim Riau, Indonesia

ABSTRACT

Financial literacy, which is defined as the ability to understand finance, should be an issue of concern to everyone. According to (Ahmad, 2010) this is especially important to the middle-class, where the majority of consumers of financial products belong. Many researches have been done to measure financial literacy, yet little has been done in measuring Islamic Financial Literacy. This paper tried to configure some basic Islamic Financial literacy concepts to be used in determined the level of financial literacy. The concepts used in this paper adapted from the Five Core Islamic Financing contracts which have comparability with existing conventional financial instruments. Methodology used in this research is a library reseach, using secondary data in the form of books, journals, and other resources that are relevant to this study. All research data are already collected and further analyzed using qualitative descriptive methods of analysis. This preliminary research offers an instrument to measure Islamic financial literacy which is not yet tested. That's why, the validity not yet proven. The further research can add some question relevant to several basic concepts of Islamic financial literacy

Keywords: Financial Literacy, Islamic, banking and finance

Introduction

According to the report released by The Central Bank of Indonesia on July 2014, only 32% Indonesian citizen have a good access to informal financial institution which is not sufficient especially when it is comparing to the total of Indonesian Citizen. In contrast, there is about 49% of Indonesian citizen classified into financial inclusion category. That close to half number of people grouped into financial inclusion mean only 112 million from 240 million people have good bank literacy. Comparing to Malaysia and Thailand, Indonesia has already left behind. 65% Malaysian citizen have good financial literacy and only 35% classified into financial inclusion. Comparing to Malaysian and Thailand civilian which almost 100% have bank account, Indonesia have lower quantity; 41%, but it is higher enough if it is compare to other Asian countries financial inclusion rate, such as India 55%, China 65%, Filipina 75%, and Pakistan 85%. The lack of access to bank sector could be caused by several reasons: 1) not adequate amount of money (79%), 2) jobless (9%), 3) not getting any benefit from having bank account (4%). The additional reasons for this matter are; not feasible to get loan (60%), not having intention to have loan (20%) , and not having enough collateral for making bank loan (4%). (Isnurhadi, 2013).

Financial literacy which is interpreted as the proficiency to understand finance, should be a matter of concern for all of us. This is specifically crucial for middle-class people, where the majority of consumers of financial products belong. According to (Ahmad, 2010) this is due to middle-class folk are the target market of many investment products, affectionately referred to by product owners at the financial institutions as the mass affluent group. Ahmad, 2010a also stated that the men and women of this group work hard for their money and have a sizeable disposable income. That is why, if they do not understand finance, they are easy prey for salesmen. But unfortunately, some are so poorly literate that they even fall for outright financial scams.

In order to protect financial sector consumers in Indonesia, Otoritas Jasa Keuangan (OJK) or known as Indonesian Financial Services Bureau conducting education and information spreading about financial products and services characteristic. To support this education and information spreading activity and related to the OJK regulation, article no 28; OJK needs to collaborate with several stakeholders in promoting National Strategies for Financial Literacy (NSFL). As stated in (Keuangan, 2014), NSFL has three main pillars; (i) education and campaign

(ii) infrastructures strengthening (iii) products and services development. It purpose to be based for the authority of financial sectors, financial service institutions and for the decision makers for creating well literate people and increasing financial product and service consumption which will influence Indonesian economy and welfare at the end.

As many Islamic financial institutions grow in the last two decade as well as the growth of Muslim awareness of having financial transaction with Saria based, then Islamic Financial Literacy became another focus for decision and regulation maker. In Indonesia, the regulation for Islamic Banking also conducted by OJK. That is why, in line with the three pillars program for conventional financial literacy, OJK also launch National Strategies for Syariah Financial Literacy which refers to National Strategies for Syariah Financial Literacy blue print. It also has three main pillars; **First**, education and campaign for National Syariah Financial Literacy which is derived into three main points; 1) Increasing people awareness, knowledge and skill about syariah financial products and services 2) Transforming financial mindset and behavior 3) Increasing the amount of syariah financial products and services users. **Second**, Syariah financial literacy infrastructures strengthening consisted of: 1) supporting national education and campaign for national financial literacy with syariah financial system, 2) Expanding and facilitating information access for syariah financial literacy and 3) monitoring the continuance of syariah financial literacy program. **Third**, Syariah Financial Product and Services development consisted of: 1). supporting product and services improvement, 2) Supporting the quality improvement of product and services 3) Supporting the institution in expanding service area.

There are several reasons why Islamic financial literacy is important. According to (Zaher & Hassan, 2001) the reasons are as follow: **First**, in an Islamic profit sharing contract, the return on capital will depend on productivity, and the allocation of funds will be primarily based on the soundness of the project. This will improve the capital allocation efficiency. **Second**, the Islamic profit-sharing system will ensure more equitable distribution of wealth and the creation of additional wealth to its owners. This system would no doubt reduce the unjust distribution of wealth under the interest system. **Third**, the profit sharing regime may increase the volume of investments and hence create more jobs. The interest regime would make feasible and accept- able only those projects whose expected returns are higher than the cost of debt, and therefore filter out projects which are otherwise acceptable under the Islamic profit-sharing system. **Fourth**, the Islamic finance system will reduce the size of speculation in financial markets, but still allow for a secondary market for trading stocks and investment certificates based on profit sharing principles. This will bring sanity back to the financial market and promote liquidity to equity holders. **Fifth**, under the profit-sharing system, the supply of money is not allowed to overstep the supply of goods and would thus curb inflationary pressures in the economy.

A few prior studies have been done in the area of financial literacy. Lusardi & Mitchell, (2011a) has revealed that financial illiteracy is widespread among older individuals, which only half of Americans age 50+ can correctly answer two simple questions about compound interest and inflation; only one-third can answer these two questions and another question on risk diversification. Furthermore, they also found that the most importantly the evidence that the least financially literate are the least likely to save for retirement. Other findings discovered by Lusardi, Mitchell, & Curto, (2010) which found that financial literacy is also lacking among the young; less than half of young adults (ages 23-27) understand interest compounding, inflation, and risk diversification. Other common findings regarding gender and financial literacy stated in Lusardi & Mitchell (2011b) found out that: women are less financially literate than men and are aware of this shortfall. Furthermore, (Lusardi & Mitchell, 2011b) discovered that education and ethnic are some factors that may affect individual financial literacy. The findings stated that more educated people are more informed, and there are also ethnic/racial and regional differences: city-dwellers in Russia are better informed than their rural counterparts, while in the U.S., African

Americans and Hispanics are relatively less financially literate than others. Moreover, the more financially knowledgeable are also those most likely to plan for retirement.

Based on the explanations above, we can see that even the conventional financial inclusion for conventional bank is mostly no more than half, then how about the financial inclusion rate for Islamic banking? Shouldn't it be greater? Many research and instrument regarding financial literacy have been established while it is quite difficult to find the instrument for Islamic financial literacy research. This is the reason why we would like to discuss about basic Islamic financial literacy, to offer a basic instrument for future research in Islamic financial literacy as well as solution for decreasing the Islamic financial literacy so that the financial inclusion.

Literature Review

a. Conventional Financial Literacy Concept

Many financial literacy and personal finance definitions are presented in many literatures until today. As stated in (Taft, Hosein, & Mehrizi, 2013), some researchers described definition about financial literacy, such as; Garman and Forgue (2000) whose explained financial knowledge as understanding the principles and terminology which requires for a successful management of personal financial issues. Another concept defined by Jacob et al (2000), which described personal financial knowledge as concepts of personal financial management skills and information, the word knowledge defined as knowing conditions, practices, rules and norms required for performing financial duties while the term financial involves a wide range of daily activities that are associated with the funds and includes activities such as check control to credit card management, budget preparation, purchasing insurance and investment. According to Remund (2010), financial literacy is a person's ability to understand and use financial matters and a person is known as financial literate if he/she is able to manage his/her personal finance in life and changing society in order to which he/she must achieve necessary perception, develop his/her skills in this area and be able to understand the impact of individual's financial decisions on his/her own, others and the environment. According to Huston (2010) financial literacy include awareness and knowledge in financial instruments and their application in business and personal life. In general, these definitions show that financial literacy includes the ability to balance a bank account, budget preparation, save for the future and learn strategies to manage debt. The precise concept regarding financial literacy as stated in (Hung, Parker, & Yoong, 2009)defined by The Presidents Advisory Council on Financial Literacy (PACFL, 2008), as follows:

- Financial literacy: the ability to use knowledge and skills to manage financial`resources effectively for a lifetime of financial well-being.
- Financial education: the process by which people improve their understanding of financial products, services and concepts, so they are empowered to makeinformed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being.

The acceptance of the PACFL definition is not yet clear. It could be seen from the variability of definitions, such as: (a) a specific form of *knowledge*, (b) the *ability* or skills to apply that knowledge, (c) *perceived knowledge*, (d) good financial *behavior*, and even (e) financial *experiences*. Table 1, adapted from Hung, Angela A. Andrew M. Parker Joanne Yoong (2009), illustrates the variation of conceptual definitions, drawn from a number of studies and placed chronologically.

Table 1. Conceptual definitions of financial literacy

Source Conceptual Definition

Source	**Conceptual Definition**
Hilgert, Hogarth, & Beverley (2003)	Financial *knowledge*
FINRA (2003)	The *understanding* ordinary investors have of market principles, instruments, organizations and regulations” (p. 2).
Moore (2003)	“Individuals are considered financially literate if they are competent and can demonstrate they *have used knowledge* they have learned. Financial literacy cannot be measured directly so proxies must be used. Literacy is obtained through practical *experience* and active *integration of knowledge*. As people become more literate they become increasingly more financially

	sophisticated and it is conjectured that this may also mean that an individual may be more competent" (p.29).
National Council on Economic Education (NCEE) (2005)	"*Familiarity* with basic economic principles, knowledge about the U.S. economy, and *understanding* of some key economic terms" (p. 3).
Mandell (2007)	The *ability* to evaluate the new and complex financial instruments and *make informed judgments* in both choice of instruments and extent of use that would be in their own best long-run interests" (pp.163-164).
Lusardi and Mitchell (2007)	*Familiarity* with "the most basic economic concepts needed to make sensible saving and investment decisions" (p. 36).
Lusardi and Tufano (2008)	Focus on debt literacy, a component of financial literacy, defining it as "the *ability to make simple decisions* regarding debt contracts, in particular how one *applies basic knowledge* about interest compounding, measured in the context of everyday financial choices" (p. 1).
ANZ Bank (2008), drawn from Schagen (2007)	The *ability* to *make informed judgements* and to take effective decisions regarding the use and management of money" (p. 1).
Lusardi (2008a, 2008b)	*Knowledge* of basic financial concepts, such as theworking of interest compounding, the differenc between nominal and real values, and the basics of risk diversification" (p. 2).

Source : Hung, Angela A. Andrew M. Parker Joanne Yoong (2009), *Defining and Measuring Financial Literacy*, Working Paper

b. The Importance of Financial Literacy

Hogarth (2006) found that the dependence of market boom to aware consumers, increased economic security and financial well-being of communities by increasing consumer awareness, sophisticated financial markets and increased risks of financial decisions have led to financial literacy beings known as one of the most important needs of human-beingthroughout the world. Due to Hogarth (2006), the significance of financial literacy is as much that the president of America signed an order in January 2008 to create a state advisory council on financial literacy and awareness of citizens in America. The goal of this council was making researches on the issues of financial knowledge, standards establishment for public awareness of financial issues and assist schools in providing appropriate training in this area.

Higher level of financial literacy results a positive impact on people's personal and business life. According to Fox et al (2005), the financial knowledge helps reducing social and psychological pressures and increases the welfare of the family in people's personal life. Financial knowledge reduces stress, illness, financial disputes, abuse of children and conflict among the families. People grown up in families with the higher financial knowledge and well-being are less depressed, show less aggressive and anti-social behavior and have more self-confidence. In work life, Brennan (1998) explained higher financial literacy has higher efficiency and productivity in result and will help employees to better understand benefits offered by the organization and improve their satisfaction while according to Champoin (2001), financial education cause reducing the absences in organization and keeping valuable employees. Kim (2007), explained that high financial literacy decreases emotional stress and anxiety in the workplace and Bernheim and Daniel (2003) suggest in their study that the organizations strengthen their human resource management and promote the private and work life of their employees, increasing their employee's knowledge in the field of financial. According to Vitt et al. (2000), the greatest advantage of financial literacy education is reducing employees' financial problems and encouraging them to be responsible for their own financing and both will help increasing the efficiency of the organization.

c. Financial Literacy Instruments

The research that has been done by Lusardi & Mitchell, 2011a composed some questions which have by now become standard in assessing economic literacy. Those questions are now used in many other surveys in the United States and abroad, see table 2.

Table 2. Core Financial Concepts

Financial Literacy Questions in the 2004 Health and Retirement Study (HRS) and the 2009 National Financial Capability Study (NFCS)		
Concept	**Question**	**Answer options**
Interest rates and compounding	Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?	*More than $102* Exactly $102 Less than $102 Don't know Refused
Inflation	Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than today, exactly the same as today, or less than today with the money in this account?	More than today Exactly the same as today *Less than today* Don't know Refused

Risk Diversification	Do you think that the following statement is true or false: buying a single company stock usually provides a safer return than a stock mutual fund?	True *False* Don't know Refused

The first two questions indicate whether respondents are aware of compound interest and inflation. Compound interest and inflation are known as the fundamental concepts needed for making saving decisions. The third one evaluates respondents' knowledge of risk diversification, which is also crucial for making informed decisions. As addition to that basic financial literacy questions, lately Lusardi & Mitchell (2006) added a set of financial literacy questions to the 2004 Health and Retirement Study (HRS, a survey of U.S. households aged 50 and older) which is, in the past decade, served as the foundational questions in several surveys designed to measure financial literacy in the U.S. and other countries. The three core questions in the original 2004 HRS financial literacy module were designed to assess understanding of three core financial concepts: compound interest, real rates of return, and risk diversification (see Table 2). In the research done by Hastings, Madrian, & Skimmyhorn, 2012 stated that, due to the parsimonious of these questions, they have been widely replicated and adapted, and known as the "Big Three."

In The National Financial Capability Study (NFCS), held in United State in 2009, these questions were incorporated. The survey is a large national survey measuring financial capabilities of adults. In The NFCS survey were asked two additional financial literacy questions which, together with the "Big Three," have known as the "Big Five." These two additional questions measured knowledge about mortgage interest and bond prices. Table 3, adapted from Hasting,Madrian and Skimmyhorn (2012) lists the additional questions to the "Big Five" that were used, with their potential answers in italicized.

Table 3. Additional Financial Literacy Concept

Adapted from Hasting,Madrian and Skimmyhorn (2012)

Additional Financial Literacy Questions in the 2009 National Financial Capability Study (NFCS)		
Concept	**Question**	**Answer options**
Mortgages	A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage but the total interest over the life of the loan will be less.	*True* False Don't know Refused
Bond Pricing	If interest rates rise, what will typically happen to bond prices?	They will rise *They will fall* They will stay the same There is no relationship Don't know Refused

d. Core Concept of Islamic Finance

There are five basic Islamic Financing contracts according to Zaher & Hassan, (2001) which have comparability with existing conventional financial instruments. However, some actual financing transaction can become very complicated as some modification would be needed in some banks especially in some structure that suit the requirements of specific investors. In general, basic Islamic Financing contracts can be explained as follows:

MURABAHA

A Murabaha transaction as discussed in Zaher & Hassan, (2001) (pp:6) is defined as basically a cost-plus profit financing transaction in which a tangible asset is purchased by an Islamic institution at the request of its customer from a supplier. The Islamic institution then sells the asset to its customer on a deferred sale basis with a mark-up which is implies the institution's profit. The customer takes the responsibility of negotiating all of the key commercial terms with the seller of the asset. The mark-up on the asset cannot be altered during the life of the contract. The size of the mark-up is determined in relation to an interest rate index such as the LIBOR (London Inter-Bank Offered Rate) or US- short T-bills rate, and is also a function of the client’s credit rating, the transaction’s size and the type of goods being financed. The Murabaha deals offer enough flexibility to be used in real estate and project financing, but historically it has been used primarily for trade finance.

Islamic institutions which finance a Murabaha transaction may faced some legal issues. According to Zaher & Hassan, (2001) (pp:6) those are as follows; First, the Islamic financial institution cannot earn excessive profits from the client. If the profit is excessive, remedies may include a return of the ‘‘excessive’’ portion of the profit to the client. A second legal issue is rejection of the goods. The customer may reject the goods for non-conformity and leave the bank holding the goods. To eliminate the possibility of rejection of goods, the customer will generally act as the bank’s agent in determining the conformity of the goods prior to acceptance. Finally, the Islamic financial institution may be exposed to contractual and statutory liabilities such as warranties resulting from its ownership of the goods. These should be disclaimed to the extent possible or be limited by indemnities received from the customer.

IJARA AND IJARA WA-IQTINA (ISLAMIC LEASING)

Ijara and Ijara wa-Iqtina also discussed in Zaher & Hassan, (2001) (pp:6, 10) is defined as are Islamic leasing concepts similar to western operating and finance leases. Ijara is similar to a conventional operating lease, where in an Islamic bank lessor leases the asset to a client lessee for agreed on lease payments for a specified period of time, but with no option of ownership for the lessee. The maintenance and insurance of the leased asset is the lessor’s responsibility. On the other hand, Ijara wa-Iqtina is comparable to the Western financial or capital lease, where the lessee has the option of owning the asset at the termination of the lease. In this case, the bank lessor purchases the asset such as a building, piece of equipment or even an entire project and leases it to the clients for an agreed on lease rental, together with client agreement to make lease payments towards the purchase of the asset from the lessor. The conditions governing both types of leasing are that assets must have a long_secure productive life, and must not be handled in an un-Islamic way, meaning that the lease payments must be agreed on in advance to avoid any speculation.

As with Murabaha transactions, there will be concerns relating to the Islamic institution's ownership of real property, disclaimers of warranties, the application of strict liability and the enforceability of a fixed payment upon default. The loss and destruction risks generally remain with the lessor, unless caused by the negligence or default of the lessee. Although insurance is an option for western lease financing, there may be issues as to whether insurance in this context is acceptable under Islamic law. The lessee should start making lease payments only after the leased asset has actually been delivered to him (her). In addition, if the leased asset were destroyed, the lessee would cease making payments to the lessor. This practice is contrary to the practice in most conventional lease financing where the lessee continues paying rent even if the property is destroyed.

ISTINSA

Istinsa in Zaher & Hassan, (2001) (pp:10-11) is defined as a pre-delivery financing and leasing structured mode that is used mostly to finance long-term large-scale facilities involving, for example, the construction of a power plant. The Islamic institution could either own the plant, charge the lessee project company a fee based on profits, or sell the plant to the project company on a deferred basis with a profit mark-up similar to a Murabaha transaction. Unlike a Murabaha transaction, however, certain expenses that cannot easily be reflected in a sale and purchase agreement can be included in the fees to be paid to the Islamic institution by the project company.

Legal issues relating to Istinsa include whether under local law the Islamic institution can own real property and whether the concession or other rights granted to the project company can be assumed or used by the Islamic institution. Although the Islamic mark-up contracts Murabha, Ijara, Ijara Wa-Iktina, and Istinsa are widely used, their acceptability under Islamic law is disputed because they can imply a fixed return on investment for the financing financial institutions.

MUDARABA

Mudaraba, as refers to Zaher & Hassan, (2001) (pp:11) is defined as a trust based financing agreement whereby an investor Islamic banks, entrusts capital to an agent, called Mudarib for a project. Profits are based on a pre-arranged and agreed on ratio. Mudaraba agreement is similar to conventional style limited partnership, with one party contributing capital while the other runs the business, and profit is distributed based on a negotiated percentage of ownership. In a case of loss, the bank earns no return or a negative return on its investment and the agent receives no compensation for his (her) effort.

MUSHARAKA

Musharaka in Zaher & Hassan, (2001) (pp:11-12) is defined as similar to a joint venture, whereby two parties, an Islamic financial institution and a client provide capital for a project which both may manage. Profit are shared in pre-agreed ratios but losses are borne in proportion to equity participation. It conforms to the principle of profit and loss sharing and it is suitable for long-term project financing; hence, it is considered to be the purest form of Islamic finance. Musharaka financing is closer to a traditional equity stake with rights of control.

As stated also in Zaher & Hassan, (2001) (pp:11-12), in addition to mark-up and profit sharing instruments, two more Islamic instruments are used in futures trading, Bai-Salam and Bai-Muajjal. In a Bai-Salam contract the buyer pays an agreed on price in advance for commodities that will be delivered at a future date, while in a Bai-Muajjal deal, the seller allows the buyer to pay at a future price in either lump sum or installments. The fixed price can be the same or higher or lower as the spot price.

Methodology

This research is a library reseach, using secondary data in the form of books, journals, and other resources that are relevant to this study. All research data are already collected and further analyzed using qualitative descriptive methods of analysis.

Analysis and Discussion

People nowadays are encouraged to become more financially literate by the reality that happened in our environment. People should be aware that today, if she (he) does not understand personal finance or financially illiterate, she (he) may be easily become victims of the financial scammers, that recently happened in recent years resulting in the loss of high amount of money. Many households that are financially illiterate had lost their hard-earned income to various financial and investment scams. These happening will continue to prevalent, unless people take into account personal financial literacy matters seriously. Scammers would always look for victims as they have the edge over a financial illiterate community.

Surveys conducted worldwide revealed evidences that “try” and “error” approaches have been used by many people to acquire financial knowledge and skills. Other approaches named “natural process” also applied by some households to gain financial knowledge and skills. The natural process approach could be meant that learning financial knowledge and skill are formally unnecessary. The previous statement could be fitted to the past decades situation, but not today, when a formal financial education will definitely serve us with many benefits.

Along with the rapid development of Islamic banking and finance today, being literate in Islamic Finance become crucial. Many research have been done in financial literacy, but seems to be less in Islamic Financial Literacy. This paper tried to configure basic instrument to measure literacy in Islamic finance. Table 4 below shows basic Islamic financial literacy concepts that could be used to measure people’s understanding for Islamic Finance. The questions derived from five basic Islamic Financing contracts that is simple and can be compared to an existing conventional financial instruments. Table 4 below suggest some basic questions regarding Islamic financial literacy concepts measurement.

Table.4 Islamic Financial Literacy Instrument

Concept	Question	Answer options
Murabaha	A Murabaha contract allows bank to purchase a tangible assets at the request of its customers, and then sells the asset to its customer based on a deferred sale with a mark-up that reflects the bank's profit.	Right Wrong Have no idea Indifferent
Ijarah	In Ijara contract, Islamic bank act as a lessor that rent the asset to a client called lessee for agreed payments for a specific period, but without ownership option for the lessee.	Right Wrong Have no idea Indifferent
Istinsa	Istinsa is a pre-delivery financing and leasing structured method that is mostly used for a long-term large-scale facilities funding which involve, for example, the construction of a power plant	Right Wrong Have no idea Indifferent
Mudaraba	Under a mudaraba contract the bank serve the capital requirements for a project, on the contrary the entrepreneur offers labor and expertise	Right Wrong Have no idea Indifferent
Musharaka	Musharaka has a similarity to a joint venture, whereby two parties consist of an Islamic financial institution and a client generated capital for a project which both may manage.	Right Wrong Have no idea Indifferent

Several questions in the table above are designed to introduce and delivery some main concept of Islamic financial knowledge in order to valuing the rate of Islamic financial literacy especially in Islamic banking sector.

Conclusion, Limitation and Suggestion

- Islamic banking and furthermore Islamic Financial Literacy have different but significant value to be measured comparing with conventional banking institution. As the considerable growth of the Islamic financial consumers nowadays, the basic knowledge of Islamic financial literacy needs to be spread and campaign

- Many researches in financial literacy has established many instrument for measuring the rate of financial literacy. Those instrument can be used as a guidance for developing the same instrument in Islamic financial literacy,
- To measure the rate of Islamic financial literacy, the instrument should be developed from basic Islamic financial literacy concepts which consist of Murabaha, Ijarah, Istinsa, Mudaraba and Musharaka. Those five basic concept explain the main value and contract of Islamic finance
- This preliminary research offering an instrument to measure Islamic financial literacy which is not yet tested. So, the validity not yet proven. The further research can add some question relevant to several basic concept of Islamic financial literacy
- The questions in the instruments mainly used for Islamic banking literacy. Further research can add or build some other question that might related to many other Islamic financial institution such as; insurance or investment

References

Ahmad, M. (2010). Why Islamic financial literacy is important. *Personal Money Magazine*, (March), 46.

Bernheim, D., & Daniel, G. (2003). The Effects of Financial Education in the Workplace: Evidence from a Survey of Households. *Journal of Public Economics, 87*, 1487-1519 http://dx.doi.org/10.1016/S0047-2727(01)00184-0

Brennan, P. Q. (1998). Personal finance education: What employees need and want to know. *Personal Financeand Worker Productivity*, *2*(1), 68-74.

Champoin, H. R. (2001). Totally integrated employee benefits. *Public Personal Management, 30*(3), 287-302

Fox, J., Bartholomae, S., & Lee, J. (2005). Building the case for financial education. *The Journal of Consumer Affairs*, *39*(1), 195-214. http://dx.doi.org/10.1111/j.1745-6606.2005.00009.x

Garman, E. T., & Forgue, R. E. (2000). Personal finance: the human resource manager: Caught in the middle.*CUPA Journal*, *45*(1), 33-35.

Hastings, J. S., Madrian, B. C., & Skimmyhorn, W. L. (2012). *Financial Literacy, Financial Education and Economic Outcomes* (No. 18412). Massachusetts. doi:10.1146/annurev-economics-082312-125807.NBER

Hilgert, M., Hogarth, J., and Beverley, S. (2003). Household financial management: The connection between knowledge and behavior. Technical report #309-322. *Federal Reserve Bulletin*.

Hogarth, M. (2006). *Financial Education and Economic Development*. International Conference hosted by the Russian G8 Presidency in Cooperation with the OECD.

Hung, Angela A. Andrew M. Parker Joanne Yoong (2009), *Defining and Measuring Financial Literacy*, Working Paper

Huston, S.J. (2010). *Measuring Financial Literacy*. The Journal of Consumer Affairs, 44 (2), 296-316. DOI; 10.1111/j.1745-6606.2010.01170.x

http://dx.doi.org/10.1111/j.1745-6606.2010.01169.x

Isnurhadi, H. (2013). *Determinan Tingkat Literasi Masyarakat Terhadap Perbankan Syariah (Studi Kasus: Masyarakat Kota Palembang)*. Palembang.

Jacob, K., Hudson, S., & Bush, M. (2000). T*ools for survival: An analysis of financial literacy programs forlower-income families*. Chicago: Woodstock Institute.

Keuangan, O. J. (2014). *Booklet Perbankan Indonesia 2014* (2014th ed.). Departemen Perizinan dan Informasi Perbankan. Retrieved from www.ojk.go.id

Kim, J. (2007). Workplace financial education program: Does it have an impact on employee's personal finances. *Journal of family and Consumer Science*, *99*(1).

Lusardi, A., & Mitchell, O. S. (2011a). *Financial Literacy and Planning: Implication for Retirement Wellbeing* (No. 17078) (p. 37). Massachusetts.

Lusardi, A., & Mitchell, O. S. (2011b). *FINANCIAL LITERACY AROUND THE WORLD : An Overview* (No. 17107). Massachusetts.

Lusardi, A., Mitchell, O. S., & Curto, V. (2010). *Financial Literacy among the Young : Evidence and Implications for Consumer Policy* (pp. 1–35). Hanover.

Lusardi, A. & Tufano, P. (2008). *Debt literacy, financial experiences, and overindebtedness*. Dartmouth Working Paper.

Mandell, L. (2007). Financial literacy of high school students. In J.J. Xiao (Ed.), *Handbook of Consumer Finance Research* (pp. 163-183). New York, NY: Springer.

Moore, D. (2003). *Survey of Financial Literacy in Washington State: Knowledge, Behavior, Attitudes, and Experiences*. Technical Report n. 03-39, Social and Economic Sciences Research Center, Washington State University.

National Council for Economic Education (NCEE) (2005), *What American teens & adults know about economics.* Accessed February 25, 2009 at http://www.ncee.net/cel/WhatAmericansKnowAboutEconomics_042605-3.pdf.

President's Advisory Council on Financial Literacy (PACFL) (2008). 2008 Annual Report to the President. Accessed March 11, 2009 at http://www.treas.gov/offices/domestic-finance/financial-institution/fineducation/council/index.shtml.

Remund, D. L. (2010). Financial Literacy Explicated: The Case for a Clearer Definition in an Increasingly Complex Economy. *Journal of Consumer Affairs, 44*, 276-295.

Schagen, S. (1997). *The Evaluation of NatWest Face 2 Face with Finance*. NFER.

Taft, M. K., Hosein, Z. Z., & Mehrizi, S. M. T. (2013). The Relation between Financial Literacy, Financial Wellbeing and Financial Concerns. *International Journal of Business and Management*, *8*(11), 63–75. doi:10.5539/ijbm.v8n11p63

Zaher, T. S., & Hassan, M. K. (2001). A Comparative Literature Survey of Islamic Finance and Banking. *Financial Markets, Institution & Instruments*, *10*(4), 159–166.

Vitt, L. A., Anderson, C. A., Kent, J., & Lyter, D. (2000). *Personal finance*. Washington, DC: fannies mea foundation.