

From Traditional Contract to Digital Practice: Examining *Istishna* Contracts Applications in MSMEs Furniture Online Transactions

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Abstract

This study examines the implementation of the *Istishna* contract within a pre-order (PO) business model and evaluates its compliance with Sharia accounting standards, specifically PSAK 403 and PSAK 404, at UMKM Duta Rotan. Employing a qualitative descriptive approach, the research captures the actual business practices through semi-structured interviews, direct observation, and analysis of transactional and supporting documents. The findings reveal that the enterprise's pre-order system substantively reflects the core characteristics of the *Istishna* contract, particularly in the customization of goods prior to production based on agreed specifications. However, significant gaps persist in the financial reporting framework. Accounting practices remain rudimentary, limited to basic order recording without the preparation of comprehensive financial statements. Revenue recognition is conducted on a cash basis, which diverges from the accrual-based approach prescribed under Sharia accounting standards. Additionally, the absence of systematic recording for production costs and inventory results in incomplete and potentially misleading financial information. This study highlights a critical disconnect between operational adherence to Islamic contractual principles and the formal accounting practices required for Sharia compliance. It underscores the urgent need for capacity building in Sharia-based financial reporting, particularly among micro, small, and medium enterprises (MSMEs). Strengthening accounting practices is essential not only to ensure regulatory compliance but also to enhance transparency, accountability, and long-term sustainability in line with Islamic economic principles.

Keywords: Financial Recording, *Istishna* Contract, Micro-small Enterprise, Pre-Order System, Sharia Accounting.

1. Introduction

The development of technology and the penetration of e-commerce platforms in recent years have brought about very significant changes in buying and selling transactions, prompting society to shift massively from conventional models to digital-based systems. In the midst of this modernization flow, the Pre-Order (PO) System has established itself as a business model that is not only efficient but also essential for the sustainability of Micro, Small and Medium Enterprises (MSMEs) (Johan & Wati, 2025; Yuli & Aisah, 2025).

Bank Indonesia data noted that the value of national e-commerce transactions increased significantly from around Rp 205.5 trillion in 2019 to Rp 487.01 trillion in 2024, although it had declined in 2023 before growing again the following year.



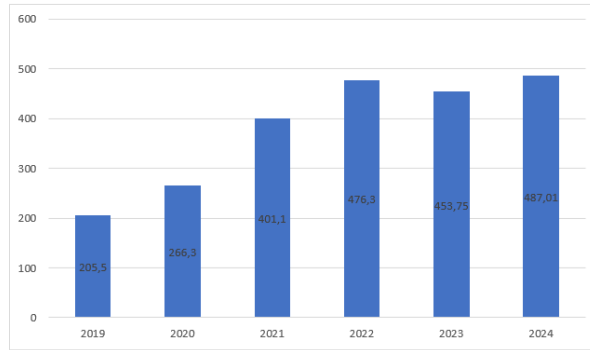


Figure 1. Indonesian E-commerce Transactions 2019-2024 (in Millions)

This increase is also followed by an increase in the number of business actors who use the marketplace where the number of e-commerce businesses in Indonesia will reach around 4.4 million units by 2024, which is mostly dominated by MSME actors.

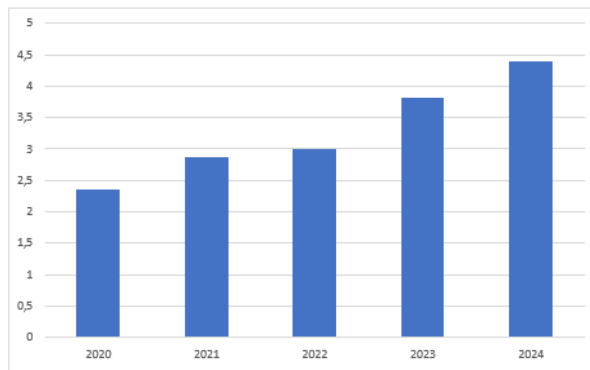


Figure 2. Number of Indonesian E-commerce Businesses (in Millions)

This growth shows that the marketplace not only functions as a means of digital distribution, but also becomes the main medium for MSMEs in running a business model based on the PO system to adjust production capacity to market demand.

The practice of the PO system that develops in the marketplace has characteristics that are in line with the *Istishna* contract, because transactions are carried out before the goods are produced and delivery is carried out at a later date. However, the rapid adoption of digital transactions is often not accompanied by an adequate understanding of aspects of Sharia compliance and accounting records, especially related to the recognition of advance payments and income as stipulated in PSAK 404 on *Istishna* accounting. This condition shows that the massive growth of online transactions in the marketplace not only provides economic opportunities for MSMEs, but also poses serious challenges in maintaining the validity of contracts and the quality of Sharia financial reporting (Khotimah et al., 2025; Saputra et al., 2025).

Through PO, producers can minimize the risk of unsold stock buildup and significantly reduce working capital requirements, as orders and some production costs are guaranteed by consumer advances. This PO phenomenon, which in Islamic law can be categorized as the *Istishna* Contract. The application of PO in the fast-paced digital world often poses a risk of uncertainty (*Gharar*) (Saputra et al., 2025), which is manifested in the form of immeasurable delivery delays, non-conformity with the specifications of the ordered products, to the risk of the seller failing to fulfill commitments, all of which have the potential to violate the principles of justice, transparency, and the validity of *muamalah* in Islam (Fadhlorrohman et al., 2025).

Pre Order (PO) is a sales system where buyers place orders and pay a down payment first, then wait for the product to be produced or sent by the seller. Estimated production and delivery times typically range from one week to thirty days, depending on the type of item ordered. Through this system, manufacturers can accept orders at the beginning, then adjust the production process according to consumer demands, and hand over goods after they are finished. This sales model is considered effective because it is able to reduce the risk of stock accumulation and reduce the need for working capital, because part of the production cost is already supported by consumer down payments. Thus, production is only carried out when there is demand, so that inventory management becomes more efficient. The PO system is currently widely applied in various sectors, ranging from culinary to handicrafts, especially with the support of digital platforms such as marketplaces and social media that provide ordering features to facilitate order management (Ambawani & Mukarromah, 2020; Saputra et al., 2025; Utami, 2022).

The practice of online buying and selling transactions based on the PO system, various problems arise ranging from operational aspects, consumer protection aspects and also Sharia accounting aspects. In the operational aspect, the most common problem that arises in online buying and selling transactions is the irregularity of the order fulfillment process, especially related to delays in production and delivery of goods. The delay not only decreases consumer satisfaction, but also reflects the weak operational planning and supply chain management of digital MSME players (Kirani et al., 2025).

Another operational problem is the uncertainty of product specifications with consumer orders. According to research in the Analysis of Online Shopping Consumer Complaint Behavior, the mismatch between consumer expectations and product quality has a significant effect on complaint behavior in online transactions, both in terms of quality, size, materials, and design. In online transactions, the limitation of product visualization magnifies the potential for misperception, which ultimately triggers complaints and transaction disputes (Aisyiyah et al., 2019).

Consumer protection issues often arise from irresponsible seller behavior, such as unilateral cancellations, lost accounts after receiving payment, or goods not being shipped. The phenomenon of ghost sellers and fraud in the marketplace shows weak verification and supervision of digital transactions so that consumers are vulnerable to unlucky financial losses and psychological pressure. The risk of default is also higher on unofficial platforms or with minimal supervision and has an impact on declining online business ethics standards (Rakhmawati et al., 2021).

Problems that often arise in the aspect of Sharia accounting, especially in the application of the provisions of PSAK 404 regarding *Istishna* accounting. One of the main problems is the occurrence of information asymmetry between sellers and buyers due to consumers' limitations in assessing goods directly. Unclear product specifications, quality, and delivery time have the potential to give rise to elements of *gharar*, which in the context of *Istishna* contract requires clarity of the object of the contract in accordance with the requirements in PSAK 404. In addition, challenges in measuring progress and accurately recording transactions show that the implementation of PSAK 404 still faces limitations in practice, especially in Sharia accounting adjustments that do not fully cover all information and recording risks (Pratiwi & Sisdiyanto, 2024; Saputra et al., 2025).

In addition, weak fund governance and digital transaction security systems hinder the accuracy of recognition and measurement of transaction value. The absence of written documents governing the rights and obligations of related parties, as well as vulnerabilities in

the risk management of delayed payments. This condition leads to a lack of transparency, weak internal controls, and the potential for future disputes (Saputra et al., 2025).

Another problem is the lack of effective internal control mechanisms in the management of *Istishna* orders, including recording production costs, estimated completion times, and obligation to deliver goods. The absence of systematic cost recording makes it difficult to measure the value of *Istishna* contracts reliably, so that financial statements do not reflect the actual financial position. This condition has the potential to reduce the quality of the presentation of Sharia financial statements and reduce the main accountability principle of PSAK 404 (Saputra et al., 2025).

The PO system also provides great opportunities for MSMEs in the handicraft, furniture, and rattan sectors. These products are usually made-to-order, requiring a production process with a certain variety of designs, sizes, and qualities according to consumer desires. Thus, the PO system is not only relevant but also an important strategy to ensure business sustainability. Previous research has shown that MSME actors who use the PO system are able to reduce production costs because they do not need to provide bulk inventory of goods. In addition, they are also able to provide personalized services that increase consumer loyalty (Ambawani & Mukarromah, 2020).

The absence of the implementation of PSAK 404 in MSME e-commerce business practices creates a serious gap that needs to be addressed immediately. UD Dutarottan is a very relevant case example because its made-to-order based business model shows the real practice of *Istishna* contracts in daily business activities. In the fall, formal accounting is still not optimal, especially in terms of recording written contracts, acknowledging income and costs and managing the risk of payment and cancellation in online businesses. Along with the increase in online transactions, UD Dutarottan is faced with significant challenges in translating complex operational processes ranging from production planning, the use of raw materials, to the settlement and delivery of goods into a more detailed, transparent, and compliant recording system in accordance with the provisions of PSAK 404 (Saputra et al., 2025).

MSMEs with the concept of a PO system such as UD Dutarottan also have the potential to apply the principles of PSAK 404 regarding the *Istishna* Agreement, especially when transactions involve advance payment by the buyer before the goods are produced. However, the lack of practical guidelines or implementation models that can be used as a reference makes it difficult for MSMEs to distinguish accounting treatment between the *Istishna* contract and the Salam contract in the digital context. The lack of technical guidance that can bridge the need for custom-made MSME registration emphasizes the importance of this research (Djakaria & Badu, 2023).

In the practice of sharia accounting, the PO system has a close relevance to the *Istishna* contract. This contract is a category of sale and purchase contract (*ba'i*), more precisely buying and selling orders (*ba'i maushufi al - dzimmah*), which is a transaction whose object of goods is not yet available or has not been physically visible during the contract, but has clear specifications and criteria. *Akad Istishna* is a contract of sale and purchase based on the order of goods with certain criteria, where payment can be made in advance, in stages, or when the goods are finished in production. This contract is widely applied in made-to-order businesses, such as rattan products, furniture, and handicrafts with specifications according to consumer demand (Chandra et al., 2024).

The ability of the *akad Istishna* is based on the hadith of the Prophet PBUH narrated by Ibn Abbas, that when the Prophet arrived in Medina, he found that the people made transactions in the *akad salam* within a period of two to three years, then he said: "Whoever

performs the salam, it should be done with a clear measure, for a known period of time" (HR. Bukhari-Muslim). This postulate is the basis of Sharia that the *salam* contract is allowed as long as it meets the requirements for clarity of the object of the contract. Meanwhile, the *Istishna* contract is allowed based on *ijma'* ulama as a form of necessity in modern *muama*, especially in order transactions that require a production process. These two contracts are then regulated in PSAK 403 on *Salam* and PSAK 404 on *Istishna*, which provide guidelines for MSME actors to record transactions in accordance with Sharia principles and maintain transparency of financial statements (Saputra et al., 2025).

However, the PO system in Indonesia is inseparable from various problems. In this PO system, the production of new goods will be carried out after an order arrives. This shows that producers must take into account raw material needs, production capacity, lead time, and supply chain management more carefully. If demand predictions are inaccurate or supplier delays occur, then the risk of failure to fulfill orders increases. Several studies show that the failure of sellers to fulfill orders or slow delivery of goods is one of the main obstacles in PO practice. Additionally, sellers must maintain clear communication with buyers to keep expectations (design, materials, delivery times) in sync. If there is a change in specification or ambiguity, this can cause a conflict (*gharar*) in the perspective of Islamic law (Utami, 2022).

Based on an accounting perspective, the main problem is recording errors. Many MSMEs record the down payment received as direct income when cash comes in. In fact, based on the Financial Accounting Standard Principles (PSAK), both conventional and Sharia, new revenue recognition can be carried out when goods are handed over to consumers. In the context of Sharia, this is regulated in PSAK 403 on the *Salam Agreement* and PSAK 404 on the *Istishna Agreement*, which emphasizes that advance payments must be recognized as obligations (business debts) until the goods are actually received by consumers. This recording error has serious implications because it can produce misleading financial statements and reduce the accountability of MSMEs (Preliminary) (Handayani et al., 2024).

Based on the Sharia perspective, PO practices also pose challenges. If not carried out with a clear contract, this transaction has the potential to contain *gharar* (uncertainty) and harm one of the parties. For example, the specifications of the goods that do not match the initial description, delays in delivery, or even the seller's failure to fulfill the order. In Islamic law, the most suitable contracts for PO transactions are *salam* and *Istishna* contracts. These two contracts are then regulated in Sharia accounting standards, namely PSAK 403 and PSAK 404, so that they can be a reference in recording PO transactions and are also able to protect the interests of both parties, both sellers and buyers (Rismayanti et al., 2025).

Islamic law views transactions that have significant elements of ambiguity (*gharar*) as problematic. In PO practice, things such as ambiguity regarding the specifications of goods (material, size, color), uncertainty of completion time, and the risk of failure of the seller to fulfill the order are potential *gharar* that need to be controlled. Several studies of PO practices in e-commerce show that there are often problems such as goods being sent not according to order or delayed delivery (Utami, 2022). If it is not regulated in a clear contract (specifications, deadlines, sanctions if not met), then transactions can harm consumers and violate the principle of fairness of *muamalah*.

In an effort to avoid the occurrence of *gharar*, the contract used must meet the requirements for clarity of object, time of delivery, and a valid agreement (*ijab-qabul*). *Gharar* in e-commerce transactions arises when information on goods, prices, and contract terms is incomplete or unclear, thus, the fulfillment of the terms of the contract is a key component in ensuring legitimate digital transactions according to *fiqh muamalah*. In the practice of *Shari'a* PO, the *salam* contract or *Istishna* should be designed so as not to contain significant

uncertainties (e.g. there should be no hidden conditions or if there are material claims without certainty) (Fadhlorrohman et al., 2025; Tang & Nilfatri, 2024).

A number of previous studies have provided an overview of PO practice from the perspective of Islamic and Sharia law. Research by Utami (2022) on Bylo.id online stores and Aliyah outlets shows that online buying and selling with the PO system is considered legal according to Islamic law because it has fulfilled the principles and conditions of buying and selling, including the willingness of the parties and the existence of *ijab qabul*. The payment system can be done in advance, in stages, or at the end, and is in line with the principles of the *salam* and *Istishna* contracts. The ordering process to delivery is also carried out transparently to avoid *gharar* and fraud. However, this research still has gaps in the aspects of recording and documentation of transactions that have not been discussed in depth, so that it has the potential to cause ambiguity, reduce accountability, and trigger disputes in the future.

Ambawani and Mukarromah (2022) in their research showed that the practice of buying and selling online with the PO system is in accordance with Sharia principles. However, there is still a gap in the Sharia accounting aspect for *Istishna* contracts, namely the absence of specific and comprehensive standards related to recognition, measurement, reporting, and treatment of risks and uncertainties, thus potentially reducing the accuracy and transparency of financial statements.

Research by Rahmawati and Nisa (2024) shows that the *Istishna* contract facilitates transactions for sellers who have limitations in initial capital, besides that the *Istishna* contract also helps ensure that the transaction runs in accordance with Sharia principles, but there is a need for the development of a clearer legal framework and uniform operational standards in the implementation of the *Istishna* contract on the COD platform, accompanied by an empirical study of the success factors of its implementation in various contexts. In addition, it is also necessary to emphasize risk management and effective dispute resolution mechanisms so that their implementation is optimal and in accordance with Sharia principles.

The rapid growth of online buying and selling transactions shows a significant shift in consumer behavior from conventional transactions to digital-based transactions which are considered more effective and efficient. However, empirical phenomena show that the application of Sharia principles in online transactions is still not carried out consistently, especially in the aspects of recording, recognition, and reporting of transactions. A number of marketplace platforms still face problems such as unclear contracts, lack of transparency of product and price information, and uncertainty of transaction mechanisms that have the potential to cause elements of *gharar*. This condition raises concerns about the validity of transactions from the perspective of Islamic *muamalah*, as well as has an impact on the validity of Sharia accounting treatment in financial statements (Hayati et al., 2023)

Theoretically, Sharia accounting theory emphasizes that accounting not only functions as a bookkeeping tool, but also as a means of accountability that must reflect the principles of justice (*adl*), transparency, and trust based on the Quran, hadith, and *ijma*. The application of these principles requires a clear and valid contract so that transactions can be recognized and measured reliably in the Sharia accounting system. However, the research still tended to discuss the validity of contracts and aspects of *fiqh muamalah* separately from the discussion of Sharia accounting treatment, especially related to online buying and selling transactions. Therefore, there is still a research gap between the practice of order-based digital transactions that continues to grow and the need for integrated studies on recording and documentation practices, the conformity of sharia accounting standards, as well as risk treatment and dispute resolution mechanisms as formulated in the focus of this research (Febriyanti, 2025).

2. Literature Review

2.1. *Istishna* Contract

The *Istishna* contract is a form of Islamic sale and purchase agreement that involves ordering the manufacture of goods to specific specifications agreed upon between the buyer and seller. In this contract, the seller (*shani'*) is responsible for producing the goods according to the criteria set by the buyer (*mustashni'*), including quality, size, and delivery time (Damayanti Rangkuti et al., 2024). According to PSAK 404 issued by the Indonesian Institute of Accountants (IAI), an *Istishna* contract is a sales and purchase contract for the manufacture of goods based on specifications and prices agreed upon between the parties. This provision also aligns with the DSN-MUI Fatwa, which states that producers are obligated to provide goods according to consumer demand, whether produced internally or through another party (Saputra et al., 2025). In practice, the payment system in the *Istishna* contract is flexible, meaning it can be made upfront, in installments, or after the goods are finished being produced. This flexibility makes the *Istishna* contract widely used in made-to-order businesses, such as the furniture and crafts industries (Chandra et al., 2024).

2.2. Pre-Order System

A pre-order (PO) system is a transaction model where buyers place orders and pay before goods are produced or available. This system is widely used by MSMEs because it can increase production efficiency and reduce the risk of stockpiling. In practice, estimated production and delivery times can range from one week to one month, depending on the type and quantity of orders (Ambawani & Mukarromah, 2020). Implementing a PO system allows businesses to adjust production based on actual demand, resulting in more efficient raw material usage and reduced production costs. Furthermore, this system also provides businesses with the opportunity to offer customized products tailored to consumer needs (Utami, 2022). However, the PO system also has various weaknesses, such as production delays, product inconsistencies with orders, and the high potential for complaints from consumers due to differences in expectations (Aisyiyah et al., 2019). In addition, in digital transactions, the risk of fraud and default is also a challenge in itself which can be detrimental to consumers (Rakhmawati et al., 2021).

2.3. Sharia Accounting in *Istishna* Transactions

From a sharia accounting perspective, *Istishna* transactions are regulated by PSAK 404 issued by the Indonesian Institute of Accountants (IAI). This standard governs the recognition, measurement, presentation, and disclosure of transactions to ensure they comply with the principles of transparency and accountability. One of the important provisions in PSAK 404 is that payments received in advance cannot be immediately recognized as revenue, but must be recorded as liabilities until the goods are delivered to the consumer. However, in practice, many MSMEs still make recording errors by recognizing down payments as revenue when cash is received (Saputra et al., 2025). Furthermore, challenges in implementing PSAK 404 include limitations in recording production costs, measuring work progress, and the lack of an adequate internal control system. This results in the resulting financial reports not fully reflecting the true state of the business (Pratiwi & Sisdiyanto, 2024).

2.4. Previous Research

Previous research has shown that the PO system has significant potential for improving business efficiency, particularly in production and inventory management. However, the implementation of this system still faces various obstacles, both in terms of operations, consumer protection, and accounting records (Saputra et al., 2025). Furthermore, several

studies have revealed that the implementation of *Istishna* contracts in MSMEs is not fully compliant with Sharia principles, particularly regarding clarity of contracts and transaction transparency. Business actors' lack of understanding of Sharia accounting standards is a key factor contributing to this discrepancy (Djakaria & Badu, 2023). Therefore, this study is present to further examine the implementation of the *Istishna* contract in the PO system and its suitability with the perspective of sharia accounting in MSMEs, especially in the case of UD Dutarottan.

3. Methods

This study employed a qualitative, descriptive approach, aiming to gain a deeper understanding of the practice of implementing the *Istishna* contract within the PO system and its compliance with Islamic accounting principles. This approach was chosen because it accurately depicts the actual phenomena occurring based on real-world conditions. The study was conducted at the Dutarottan Trading Business, a company engaged in the production and sale of rattan furniture using a PO system. The research location was purposively selected, considering that the business employs a made-to-order business model relevant to the *Istishna* contract. The data sources for this study consisted of primary data obtained through direct interviews with the business owner, acting as the primary informant, regarding transaction processes, payment systems, and financial recording practices. Meanwhile, secondary data were obtained from supporting documents such as order records, transaction receipts, and relevant literature.

The data collection technique used was a semi-structured approach to obtain in-depth information regarding the practice of the PO system and the implementation of the *Istishna* contract. Observations were conducted by directly observing the business's operational processes, while documentation was used to supplement the data in the form of archives or available transaction evidence. The data analysis technique used an interactive analysis model, which includes data reduction, data presentation, and conclusion drawing. The collected data were then analyzed by comparing actual practices with the provisions of the *Istishna* contract and Sharia accounting standards, specifically PSAK 404 issued by the Indonesian Institute of Accountants. Thus, this study can provide an overview of the level of compliance of business practices with applicable Sharia principles.

4. Results and Discussion

4.1. Research Results

Based on the results of the research, the practice of recording transactions carried out by business actors is still simple, namely only recording incoming orders without a thorough recording of all financial transactions that occur. In addition, business actors have not yet compiled books in the form of systematic financial statements. In practice, the recording carried out by business actors is still limited to recording incoming orders and does not include all financial transactions that occur. This condition shows that the recording and bookkeeping process carried out has not run optimally as it should in the accounting system.

Based on PSAK 404 on *Istishna* contract accounting, transaction recording must be carried out in accordance with the stages of activity in the *Istishna* contract, which includes the recognition of production costs, the recognition of assets in settlement, the recognition of income, and the presentation in financial statements. PSAK 404 emphasizes that in the *Istishna* contract, transactions do not occur directly at one time, but through a series of

production processes that take place gradually from the receipt of the order to the delivery of the goods to the consumer. Therefore, the recording of transactions in the *Istishna* contract must be able to reflect each of these stages systematically and continuously.

PSAK 404 explains that the costs incurred during the process are not directly recognized as an expense, but are recorded in advance as part of the asset in settlement so that the goods are completed in production. This shows that in the *Istishna* contract, there is a process of accumulating costs that must be recorded structurally. In addition, the recognition of income in the *Istishna* contract can be done based on the settlement rate or at the time the goods are handed over to the customer, depending on the policy used by the entity. Recording in the *Istishna* contract does not only focus on receipts, but also includes recording costs, production processes, and income recognition. Each of these stages has a different accounting treatment and must be recorded appropriately in order to produce accurate and accountable financial information.

When compared to the practices carried out by business actors, recording has not been carried out in accordance with the provisions of PSAK 404. This is because business actors do not record production costs specifically, do not acknowledge the existence of assets in settlement, and do not systematically recognize income. The recording carried out is only limited to incoming orders, so it does not reflect the entire accounting stages in the *Istishna* contract. Thus, the recording practices carried out have not been able to produce complete, systematic, and compliant financial information in accordance with applicable Sharia accounting standards. Based on the evidence of recording owned by business actors, it is known that the recording carried out is still limited to recording incoming orders that contain basic information such as the type of goods, prices and profits. The recording does not reflect the complete accounting stages as stipulated in PSAK 404. Therefore, to provide a more comprehensive picture, an illustration of recording in the form of an *Istishna* contract journal is prepared which shows the stages of transactions ranging from the recognition of production costs to the recognition of income. The illustration of this journal is used to compare the practices carried out by business actors with the recording that should be applied according to Sharia accounting standards.

Based on the results of the preparation of the *Istishna* contract journal into the bookkeeping, it shows that each transaction that occurs will be posted in the ledger according to their respective accounts, such as cash, inventory, income and expenses. Furthermore, the balance from the general ledger is compiled in the balance sheet and continued with the financial statements. The results of this process produced a profit and loss statement that showed a profit of IDR 451,292 and a balance sheet that reflected the company's financial position. However, in practice carried out by business actors, the bookkeeping stage has not been fully implemented, because recording is still limited to incoming orders without account grouping and preparation of financial statements. If reviewed based on PSAK 404, the bookkeeping that should be done does not only include recording transactions, but also the presentation of financial statements in a complete and structured manner. Therefore, the bookkeeping practices carried out by business actors are not fully in accordance with the provisions of Sharia accounting.

From the perspective of Sharia accounting, the recording carried out by the perpetrator must show that there is an effort to apply the principle of honesty (*ash-shidiq*), especially in recording incoming orders in accordance with the conditions of the transaction, the type of goods, as well as the value of sales and profits. Thus, the information recorded reflects the transaction that actually occurred without any data manipulation.

However, when viewed from the principle of Amanah, the recording carried out does not fully reflect the responsibility in managing financial information as a whole. This is because business actors have not recorded all transaction components. In fact, in the principle of Amanah, every transaction that occurs should be recorded completely in order to provide a complete picture of the condition of the business. From the aspect of transparency, the recording carried out is also still inadequate. The information generated is limited to incoming orders and profits earned, without the presentation in the form of systematic financial statements. This condition causes the available financial information to not be able to provide a clear and comprehensive picture to interested parties.

This limitation in recording also has an impact on the quality of the information produced, where the information does not fully meet the relevant and reliable characteristics in Sharia accounting. As a result, the available information cannot be used optimally as a basis for decision-making or as a form of business accountability. Thus, even though business actors have shown the application of the principle of honesty in recording transactions, in terms of security and transparency, it still needs to be improved. This shows that the recording practices carried out are not fully in accordance with the principles of sharia accounting, so improvements are needed in the recording and bookkeeping system so that the financial information produced is more complete, accurate, and accountable.

Based on the results of the research that has been described earlier, it is known that the practice of disability carried out by business actors is still simple and has not been carried out systematically. Recording is only limited to incoming orders and receipt of payments from consumers, either through full *payment* methods or Cash on delivery (COD). This practice shows that business actors have not separated the stages of transaction recognition in accordance with the characteristics of *Istishna* contracts based on the production process. Therefore, this discussion aims to analyze the suitability with the PSAK 404 standard and the principles of Syriac accounting.

In PSAK 404, the recognition of transactions in the *Istishna* contract is carried out in stages according to the economic activities that occur. This is because the *Istishna* contract is a cause-based contract that goes through the production process, so the recognition cannot be done directly at one time. Each stage in the production process has different accounting consequences, ranging from cost spending, production processes, to the delivery of goods to consumers. In the early stages, when business actors incur production costs such as raw materials, labor costs, and labor costs, other operational costs, the costs are recognized at the time of the expenditure as the burden of the deferred *Istishna*. Furthermore, when the production process takes place, these costs are no longer seen as a burden, but are recognized as an asset in settlement, because they have turned into goods that are being produced and have economic value in the future.

After the production process is completed, the goods produced are then recognized as inventory, because they are ready to be handed over to consumers. At this stage, goods that have a complete form and fulfill the obligations of the contract. Furthermore, when goods are handed over to consumers, then at that time income is recognized, because cash is received, both before and after the delivery of goods, the recording carried out is only in the form of cash receipts, not as the main basis for revenue recognition. Thus, it can be concluded in PSAK 404. Recognition is made based on economic events (accrual basis) not based on cash flows received. This is in line with Sharia accounting principles which emphasize fairness, clarity, and conformity between economic activities and the recording carried out.

As a more concrete illustration, in the transaction of ordering a dining table, recognition that conforms to standards exists; It is as follows: Production costs are recognized when they

are issued then during the production process are recognized as assets in settlement, after the goods are completed they are recognized as inventory, then when the goods are handed over to the buyer Income is recognized, and at the time cash is received only recorded as a cash recipient, this illusion shows that the recognition in the *Istishna* contract is gradual and reflects the entire process of business activities. However, the practice carried out by business actors shows that there is a significant difference with these provisions. Based on the results of the interview, the business actor stated that the arrest was acknowledged when the money was received from the consumer.

When compared to PSAK404, the main difference lies in the timing and basis of transaction recognition. In the standard, income is recognized when the obligation has been fulfilled, that is, when the goods are finished in production and handed over to the buyer. Meanwhile, in business practice, income is recognized in cash received without considering whether the goods are finished or not. In addition, in PSAK404 there are complete and systematic stages of recognition, while in practice there are only two main stages, namely order recording and cash receipt.

This difference also has an impact on the reporting aspect. In PSAK 404, every transaction is recognized as having to be presented in the financial reporting consisting of income statements, balance sheets, and cash flow statements. The report serves to provide complete information about the company's performance and financial position. However, in practice carried out by business actors, the financial statements have not been prepared. The information available is only in the form of incoming order records, so it cannot describe the financial condition as a whole. If it is related to the principles of Sharia accounting, this condition shows that although there is an element of honesty in the recording of orders, it is not fully the principle of transparency and accountability. This is because the recording carried out has not reflected all economic activities that have occurred and has not been presented in the form of financial statements that can be accounted for.

In addition, limitations in this recording also have the potential to cause inaccuracies in determining operating profits, due to the absence of detailed recording of production costs. As a result, business actors cannot know exactly the amount of profit obtained, which can ultimately affect business decision-making in the future. Therefore, to improve with PSAK 404 and sharia accounting principles, business actors should start implementing a more systematic recording system. This can start by recording production costs separately, recognizing the production process as an asset in settlement, and acknowledging revenue at the time the goods are delivered to consumers. In addition, business actors also need to prepare simple financial statements, such as income statements and cash flow statements, so that financial information can be presented in a more transparent, accountable, and useful way in decision-making. Thus, it can be concluded that the application of recording in terms of recognition and reporting of *Istishna* contracts to business actors is still not in accordance with the PSAK 404 standards and Sharia accounting principles. The discrepancy is mainly located in the use of the cash base in revenue recognition, the absence of recording production costs and assets in settlement, and the systematic preparation of financial statements.

Table 1. The Analysis of Comparison

Stages/Aspects	Practice	PSKA404 Standards	Analysis	Result
Production cost expenditure	Not specifically noted	Recognized when the cost occurs as the burden of <i>istishna</i> is deferred	Not compliant, as the cost was not identified	Record all production costs in detail
Production process	No logging	Known as an asset in settlement	Not suitable, no asset recognition	Recognize the production process as an asset
Finished goods	Not recorded	Recognized as a prep	Not suitable, no classification of finished goods	Record finished goods as orders
Revenue recognition	Recognized when cash is received	Recognized when the item is handed over	Not suitable, still cash-based	Using accrual bases
Cash recognition	Mixed as income	Recorded as cash receipts	Imprecise, not separated	Separate cash and income
Profit recognition	Not calculated clearly	Profit = revenue - cost	Not suitable, no real profit known	Calculating a lab systematically
Record of receivables	None	Recognized at billing	Inappropriate	Record receivables if they have not been paid
Basis for recording	Cash basis	Accrual basis	Inappropriate	Switch to accrual basis
Financial reporting	No formal reports	Compile financial reports	Inappropriate	Create a simple report
Income statement	Not available	Presenting income & expenses	Inappropriate	Compiling income statements
Balance Sheet	Not available	Presenting assets and liabilities	Inappropriate	Compiling the balance sheet
Cash flow statement	Not available	Presenting cash flow	Inappropriate	Compile cash flow reports
Transparency	Limited	Must be complete & clear	Not optimal yet	Increase information disclosure
Accountability	No formal reports	Accountable	Not yet compliant	Compiling reports as a form of accountability

4.2. Discussion

The research that has been described, it is known that in the PO transaction park, there are several risks and uncertainties faced by business actors. These risks include order cancellations by consumers, delivery delays, and uncertainty in the production process. This condition shows that PO transactions are inseparable from various potential losses that can affect business sustainability. One of the main risks faced is the cancellation of orders by consumers, especially in transactions with the *cash on delivery* (COD). Based on the results of

the interview, the source stated that “The risk that often occurs is the cancellation of orders from COD buyers, the goods have been delivered but the buyer does not want to accept them without a clear reason.”

This shows that in practice, business actors bear considerable risks because the goods that have been produced and delivered have the potential to not generate income. This condition shows that risks do not only come from the internal business, but also from external parties that are beyond the control of business actors. The delay may change depending on the availability of raw materials and the processing process. Despite the delay, business actors get around this condition by providing a longer time estimate to consumers, so as to minimize the risk of delays. From a Sharia accounting perspective, risks and uncertainties are things that must be managed properly and recorded appropriately. In the *Istishna* contract, the risks that arise during the production process are basically the responsibility of the seller until the goods are handed over to the buyer. Therefore, any potential complications, such as order cancellations or delivery delays, should be acknowledged in the accounting records.

For example, if there is an order void after the goods have been produced, the costs incurred should still be recognized as expenses or can be reclassified as inventory if the goods can still be sold. However, if the item cannot be resold, then the cost must be recognized as a loss. In addition, in the event of a delay in delivery that causes the cancellation of the transaction, the previously expected revenue potential cannot be recognized, so it should not be recorded as income. When compared to the practices carried out by business actors, recording of these risks and uncertainties has not been done as an asystematic. Business actors have not made special records related to losses due to order cancellation and other risks. This shows that the accounting treatment of risk is still not in accordance with Sharia accounting principles that emphasize honesty, fairness, and transparency.

From the principles of Sharia, this condition is related to the principles of prudence and trust. In sharia accounting, any potential losses must be acknowledged reasonably so as not to cause misleading information. In addition, transparency in conveying business conditions is also important as a form of accountability to related parties. To overcome these problems, business actors should start recording the risks that occur, such as recording order cancellations as losses or returning goods to inventory if they can still be sold. In addition, business actors can also reduce risks by implementing an upfront payment system (*full payment*) or down payment (*down payment*), So that it can minimize losses due to order cancellation.

In the face of the risk of order cancellation, in Sharia accounting, business actors should record the losses that occur. Based on PSAK 404, if the goods produced cannot be resold, then the costs that have been incurred are recognized as losses. On the other hand, if the goods can still be sold, then they are recognized as inventory. This shows that the accounting treatment of risk follows the principle of asset recognition and loss in Sharia accounting. Based on the illustration of the journal above, it can be seen that the accounting treatment of risk in the *Istishna* contract has several stages of recording. To clarify the comparison between the practices carried out by business actors and the provisions of Sharia accounting. The following is presented in the form of a Table 2.

Table 2. The Summary of Comparison

Types of Risks	Practice on Business	Standards PSAK 404	Correction	Analysis	Result
Order cancellation (items can still be sold)	No logging	Goods are diverted into inventory	(D) <i>Istishna</i> preparations (K) <i>Istishna</i> assets in settlement	Inappropriate, because there is no recognition of the Return asset	Recognizing goods as supplies
Order cancellation (items cannot be sold)	Not recorded	Recognized as a disadvantage	(D) Losses (K) <i>Istishna</i> assets in settlement	Inappropriate, unrecognized loss	Clearly admitting losses
COD failed (item declined)	No logging	Goods returned to inventory or admitted loss	(D) Inventory/Loss (K) Assets/Inventory	Inappropriate, no accounting treatment	Record according to the condition of the goods
Delivery delays	Not recorded	Income cannot be recognized	(D) <i>Istishna</i> income (K) Receivables/terms	Inappropriate, no cancellation of the record	Make revenue corrections
Operational surcharges	Not recorded	Recognized as a burden	(D) Operating expenses (K) Cash	Not compliant, charges not recorded	Recognize costs as a burden
Production uncertainty	Time estimates only	Must be anticipated and recorded in the production process	Not always a specialized journal	Some are compliant, but not yet fully accounted for	Recorded in the asset process
Losses during production	Not recorded	Recognized as a disadvantage	(D) Losses (K) <i>Istishna</i> assets in settlement	Inappropriate	Admitting losses when they occur

Based on the Table 2, it can be seen that the accounting treatment of risk in business practice is still not in accordance with Sharia accounting standards. This is shown by the absence of recording of order cancellations, losses, or additional costs arising from risks. This condition shows that the principles of prudence, transparency, and accountability have not been optimally applied in transaction recording.

5. Conclusion

Based on the research results, it can be concluded that the pre-order system implemented by the Duta Rotan MSME generally reflects the characteristics of the *Istishna* contract, namely the ordering of goods with specific specifications before the production process begins. The basic elements of the contract, such as the transacting parties, the object of the order, the price, and the delivery time, have been fulfilled, so in principle, this practice can be categorized as a permissible contract from a Sharia perspective.

However, in terms of implementation, several weaknesses remain, particularly related to the formality of the contract and the transaction recording system. The financial records maintained are still rudimentary and do not adhere to Sharia accounting standards, particularly PSAK 403 and PSAK 404. The cash-based recognition of revenue and the absence of recording of production costs and inventory indicate that the resulting financial statements do not comprehensively reflect the business's condition.

Therefore, improvements are needed in the financial recording system by adhering to Sharia accounting principles that emphasize transparency, accountability, and fairness. The implementation of more systematic recording is expected to improve the quality of financial information and support the sustainability of MSME businesses in accordance with sharia principles.

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