



Assessing an Islamic Bank's Cash Flow

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Abstract

The cash flow statement is made up of three parts: operating, investing, and financing cash flows. The objective of this study is to determine the progress of cash flows as observed via changes or comparisons of cash flows at PT. Sharia Aceh Bank. The method adopted is a quantitative descriptive method, in which existing data from the bank's annual reports from 2017 through 2021 is collected and reviewed. The findings reveal that PT. Bank Aceh Syariah has fluctuating cash flow but is still able to maintain positive cash flow on average.

Keywords:

Islamic bank; cash flow; operation; investing; financing.

How to cite:

Fitria, A. (2022). Assessing an Islamic Bank's Cash Flow. *Mutanaqishah : Journal of Islamic Banking*, 2(2), 93-100. <https://doi.org/10.54045/mutanaqishah.v2i2.506>

1. Introduction

A company's financial statement is an extremely significant report to receive or obtain information about a company's financial situation and performances. Analyzing financial reports to offer more precise information is one technique to learn about a company's financial performance. According to Financial Accounting Standards, a commercial company must create five major financial reports: Statement of Financial Position, Income Statement, Statement of Changes in Equity, Statement of Cash Flows, and Notes to Financial Statements.

Furthermore, there are other significant components in these financial reports, such as assets, liabilities, capital, income, and costs, which will indicate the company's overall performance. Cash is a crucial account in the asset component for the efficient operation of the business's operations. Cash is a useful asset that the business uses for its daily operations. Because it may be utilized to settle financial commitments for the business, cash is also the most liquid asset. Because the company's running operations cannot function properly without cash, the existence of cash and entities is crucial. Cash shortages and surpluses will cause problems; for example, if there is not enough money, operations will be disrupted. The opposite is true if there is too much money and the entity is unable to spend it.

By factoring in the amount each year in the Statement of Financial Position, it is possible to track the growth of the cash amount. However, the Statement of Cash Flows is a relevant document to analyze in order to acquire a more in-depth understanding of the sources and uses of cash. The three operations that make up the statement of cash flows are operating, investing, and financing activities. A cash flow report must be created in great detail so that people who use it may find out about previous operating activities and those who are currently planning financing and investing activities can do so with less difficulties.

PT Bank Aceh Syariah is a regional bank in Aceh Province that administers a sharia-compliant banking system. Bank Aceh Syariah's shareholders include the Aceh Provincial Government as the Controlling Shareholder (PSP) and district/city governments throughout Aceh (Bank Aceh Syariah, FAQ BANK ACEH SYARIAH, 2021). Bank Aceh's assets reached IDR 28.17 trillion in 2021, up 10.56% from IDR 25.48 trillion in 2020. Third Party Funds were recorded at IDR 24.02 trillion, up 11.33% from IDR 21.57 trillion in 2020 (Bank Aceh Syariah, 2022). In terms of financing, Bank Aceh was able to channel IDR 16.35 trillion, a 6.98% increase above IDR 15.28 trillion in 2020. Another positive indicator is Bank Aceh's earnings of IDR 502 billion, which increased by 19.54% from 2020 (Bank Aceh Syariah, 2022).

A regional government bank should continue to grow positively, but on the other hand, it has to focus on its cash management performance during the previous five years so that the people could really appreciate its presence for the growth of the region concerned. The following problem formulations will be used by researcher to examine the cash flow management at PT Bank Aceh Syariah: 1) How has PT Bank Aceh Syariah's operating cash flow evolved over the last five years? 2) How has PT Bank Aceh Syariah's investing cash flow changed over the five years? 3) How has PT Bank Aceh Syariah's financing cash flow developed over the past five years?

2. Literature Review

Islamic Bank

Law of The Republic of Indonesia Number 21 ff 2008 Concerning Sharia Banking defines an Islamic bank as a bank that does its business in accordance with Sharia Principles and is classified into Islamic Commercial Banks and Islamic Rural Banks (The Republic of Indonesia, 2008). PT Bank Aceh Syariah belongs to the Islamic Commercial Banks category. Islamic Commercial Banks are Islamic Banks that provide payment traffic services as part of their operations (The Republic of Indonesia, 2008).

Furthermore, Islamic banks have established a number of sharia-compliant financing practices, including financing based on the principle of profit sharing (*mudharabah*), financing based on the principle of equity participation (*musharakah*), financing based on the principle of purchasing and selling goods for a profit (*murabaha*), and financing of capital goods based on the principle of pure lease without choice (*ijarah*) or with a choice (Kasmir, Bank dan Lembaga Keuangan Lainnya, 2014). Islamic banks, like other banking institutions in Indonesia, utilize financial metrics to assess their performance. As a response, financial statements are required as a foundation for stakeholders to make judgments about the business outcomes of the Islamic bank.

Financial Statement

Financial statement, according to Kieso, Weygandt, & Warfield (2014), are written documents that inform an entity's business activities and financial performance. Thus, information on financial statements are crucial for the decision making process, both by potential and current investors and creditors.

Mandatory financial statements for public companies based on Financial Reporting Standards in Indonesia are Statement of Financial Position, Income Statement, Statement of Changes in Equity, Statement of Cash Flows, and Notes to Financial Statements. The statements need to be analyzed to produce the best decision. Financial statement analysis covers two constituents: (1) comparing the company's performance to that of other companies in the same industry, and (2) evaluating trends in the company's financial position over time (Brigham & Houston, 2001).

Furthermore, Kasmir (2012) stated that two types of financial statement analysis methods that are commonly used in practice are vertical analysis and horizontal analysis. Vertical analysis is performed on only one period of financial statements and the comparison is made between items that exist in the same time period; meanwhile horizontal analysis is a comparison of financial statements from different time periods (Kasmir, 2012). In this study, horizontal analysis is performed to investigate the trends on cash flow components of PT. Bank Aceh Syariah.

Statement of Cash Flow

A statement of Cash Flow, according to Rudianto (2012), is a report on the company's cash balances for a certain time that explains the source and the usage of the cash balance. This report includes pertinent information regarding cash collections and payments for a specific time period. A corporation presents cash flow in order to give helpful information to the company's stakeholders about the ability of the firm to generate and manage its cash.

A statement of cash flow depicts the situation of cash inflows and cash outflows from operating activities, investing activities, and financing activities (Hery, 2012). The cash flow statement must be examined to determine the sources and uses of the company's cash within a given time. Because cash is the most liquid asset, having enough cash on hand will help the firm pay all of its expenditures, such as salaries and commitments. Analysis of cash sources and uses is a critical financial analysis technique for businesses since it can be used to forecast future cash requirements.

Relevant Studies

There have been a lot of previous studies concerning analysis of statement of cash flow on public companies, however, study on statement of cash flow on Islamic bank, particularly regional bank of a local government, is still limited. For instance, Anzari (2022) studied cash flow on the Sumatera Utara's regional bank to measure its ability to maintain the profitability. The study employed ratio measurement of return on equity, return on asset, and return on investment while this study focuses on three activities of cash flow. Another research of cash flow was performed to examine the impact of cash flow on profit prediction of banks listed on Indonesia Stock Exchange (Siagian, 2019). Related literature was conducted by Pratiwi (2019); it can be summarized from the study that the decline in the cash flow statement was followed by a decrease in the firm's profitability, indicating that the corporation was unable to manage its cash in order to generate profits.

There were also some previous studies on statement of cash flow analysis on non-bank companies such as research on analysis of operating, investing, and financing cash flows of PT. Gudang Garam Tbk (Wehantouw & Tinangon, 2015); cash flow analysis of operational planning and supervision function at PT Jasa Marga (Persero) Medan Branch (Nursidin, 2019); and cash flow statement analysis to determine liquidity levels of PT. Astra Agro Lestari (Hidayah, Anwar, Musa, & Sahabuddin, 2022). Based on previous researches, this research will examine three activities of cash flow components of PT. Bank Aceh Syariah using the horizontal method as used in study by Wehantouw & Tinangon (2015).

3. Method

A quantitative descriptive analysis approach, according to Sugiyono (2015), is data analysis that interprets or describes the data that has been acquired as it is without aiming to draw broad generalizations. This study relied on secondary data in the form of Cash Flow Statement during a five-year period, notably 2017, 2018, 2019, 2020, and 2021. The information was gathered from the Annual Report of PT Bank Aceh Syariah, which is publicly available on the bank's official website.

This study investigation will focus on operating cash flow, investing cash flow, and financing cash flow, which will then be analyzed further utilizing horizontal analysis. The horizontal analysis approach is utilized, which is a comparison study of reports across various periods until progress is determined (Sunyoto, 2013), as follows:

$$1) OCF = \frac{OCF_t - OCF_{t-1}}{OCF_{t-1}} \times 100\%$$

$$2) ICF = \frac{ICF_t - ICF_{t-1}}{ICF_{t-1}} \times 100\%$$

$$3) FCF = \frac{FCF_t - FCF_{t-1}}{FCF_{t-1}} \times 100\%$$

Formula information:

OCF: Operating Cash Flow

ICF: Investing Cash Flow

FCF: Financing Cash

4. Result and Discussion

In carrying out commercial activities with sharia principles, PT Bank Aceh Syariah continues to try to provide product services needed by the community in compliance with sharia principles. In order to avoid acts that are banned in Islam, Muslims carry out ummah's economic operations in a *muamalah* way, which might have a detrimental influence on people's lives. In Islam, the creation of *muamalah* goods strives to enhance the community and regional economies so that they can work together to boost the people's economy. The annual report of PT Bank Aceh Syariah demonstrates the dedication of all resources of PT Bank Aceh Syariah to synergize more in order to achieve quality and sustainable growth both for the business itself and for the regional economy. From 2017 to 2021, PT Bank Aceh Syariah will continue to focus on the following commitment topic to achieve sustainability (Bank Aceh Syariah, 2022):

Figure 1. Continuous Commitment of PT Bank Aceh Syariah

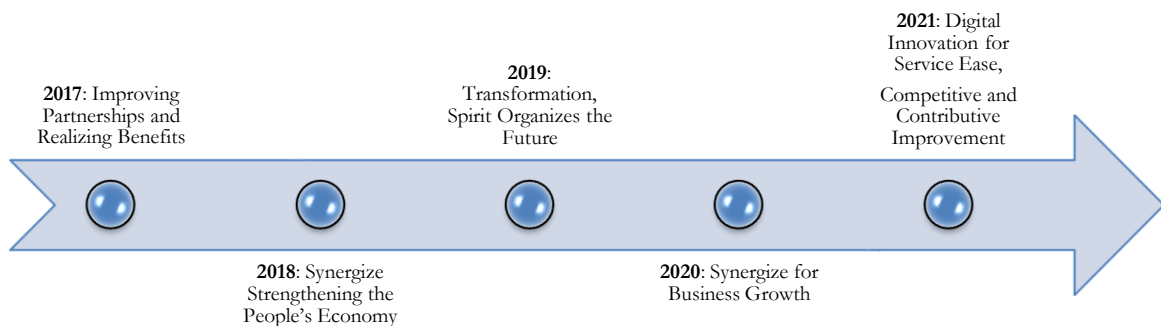


Figure 1 shows the commitment of PT Bank Aceh Syariah in developing its business together with the people's economy and keep focusing on things to future development such as digital innovation and synergy. Achieving those targets needs a strong fundamental resources both financial and non-financial ones. In financial perspective, the statement of cash flow will show us how strong the cash to support the main activities of a company. Table 1 indicates the trend of cash flows of PT Bank Aceh Syariah from 2017 to 2021.

Table. 1 Cash Flow Trend of PT Bank Aceh Syariah (2017-2021) (Stated in Rupiah)

| Activities/ Year | Operating | Investing | Financing | Increase/(Decrease of Cash and Cash Equivalent |
|---------------------|----------------------|----------------------|---------------------|------------------------------------------------------|
| 2017 | (10.787.462.708.792) | (27.490.679.738) | 10.531.420.484.195 | (283.532.904.335) |
| 2018 | 1.089.517.014.202 | (36.316.257.619.289) | 35.400.217.387.337 | 173.476.782.250 |
| 2019 | 2.225.775.672.734 | 243.460.200.307 | (1.269.048.317.621) | 1.200.187.555.420 |
| 2020 | 25.589.148.721 | (833.349.790.543) | (523.019.177.179) | (1.330.779.819.001) |
| 2021 | 1.446.542.769.804 | (343.608.422.532) | 119.723.186.316 | 1.222.657.533.588 |

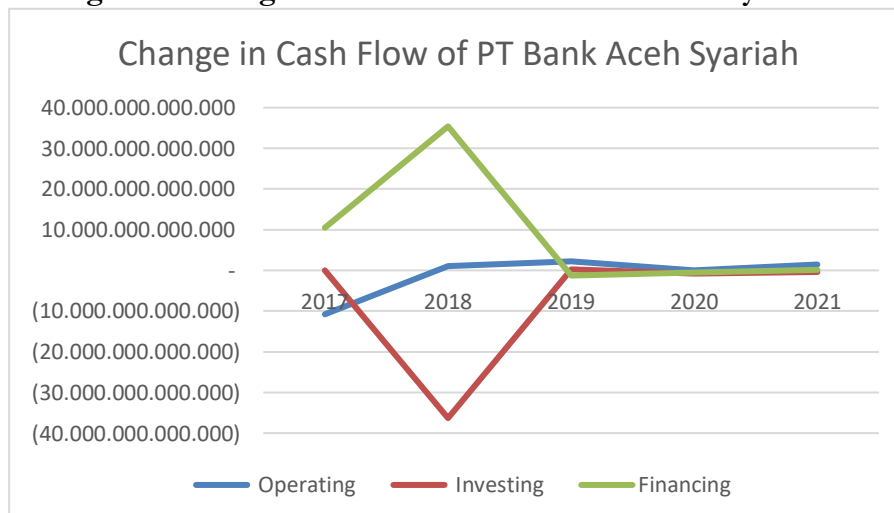
Based on Table 1, the cash flow of PT Bank Aceh Syariah fluctuated from 2017 to 2021. In 2017, the cash outflow was bigger than the cash inflow for operating and investing activities, meanwhile in financing activities, there was more cash inflow than the outflow. However, in 2017, there was a decrease of cash and cash equivalent.

In 2018, PT. Bank Aceh Syariah gained more cash inflow from operating and financing activities which made an increase in cash and cash equivalent in 2018, while there was higher cash outflow for investing activities. The net increase in cash and cash equivalent continued in 2019, sourcing from higher cash inflow of operating and investing activities, while there was higher cash outflow for financing activities.

PT Bank Aceh Syariah in 2020 gained limited amount of cash inflow from operating activities and spent more cash on investing and financing activities. So, there was a decrease of cash and cash equivalent in 2020. The bank managed to gain higher cash inflow from operating and financing activities and reducing the cash outflow for investing activities which then creating a net increase in cash and cash equivalent in 2021.

To gain more insight in each activities, it is presented as follow:

Figure 2. Change in Cash Flow of PT Bank Aceh Syariah



Blue line represents the operating cash flow trend of PT Bank Aceh Syariah from 2017 to 2021, the bank managed to maintain its positive cash flow from operating activities after 2017. However, for investing activities (red line) was declining sharply from 2017 to 2018 and then increasing significantly in the next period. The trend was as fluctuated as financing activities, yet the financing activities was increasing sharply from 2017 to 2018 and then decreasing significantly in the next period.

The horizontal analysis of cash flow of PT. Bank Aceh Syariah is calculated using the formula written on the research method. The calculation is presented on Table 2.

Table 2. Horizontal Analysis of Cash Flow of PT. Bank Aceh Syariah

| Year | Operating | Difference | Result (%) |
|----------------|----------------------|----------------------|---------------|
| 2016 | (3.644.259.150.504) | - | |
| 2017 | (10.787.462.708.792) | (7.143.203.558.288) | 196% |
| 2018 | 1.089.517.014.202 | 11.876.979.722.994 | (110)% |
| 2019 | 2.225.775.672.734 | 1.136.258.658.532 | 104% |
| 2020 | 25.589.148.721 | (2.200.186.524.013) | (99)% |
| 2021 | 1.446.542.769.804 | 1.420.953.621.083 | 5553% |
| Average | | | 1129% |
| Year | Investing | Difference | Result (%) |
| 2016 | (8.828.893.247) | - | |
| 2017 | (27.490.679.738) | (18.661.786.491) | 211% |
| 2018 | (36.316.257.619.289) | (36.288.766.939.551) | 132004% |
| 2019 | 243.460.200.307 | 36.559.717.819.596 | (101)% |
| 2020 | (833.349.790.543) | (1.076.809.990.850) | (442)% |
| 2021 | (343.608.422.532) | 489.741.368.011 | (59)% |
| Average | | | 26323% |
| Year | Financing | Difference | Result (%) |
| 2016 | 1.248.412.468.546 | - | |
| 2017 | 10.531.420.484.195 | 9.283.008.015.649 | 744% |
| 2018 | 35.400.217.387.337 | 24.868.796.903.142 | 236% |
| 2019 | (1.269.048.317.621) | (36.669.265.704.958) | (104)% |
| 2020 | (523.019.177.179) | 746.029.140.442 | (59)% |
| 2021 | 119.723.186.316 | 642.742.363.495 | (123)% |
| Average | | | 139% |

Cash flow from operating activities on 2017 increased 196% from the previous year and fluctuated along 2018 to 2020, it got better and significantly gained more cash on 2021 (5553%), so the average operating cash flow was 1129%. The main cash inflow for this activities came from “*murabahah* margin income and profit sharing from customers” and “receipts from third parties”.

Average cash flow for investing activities was 26323%, this huge number comes from the cash outflow in 2018, increased 132004% from 2017, most of the cash outflow for investing activities in 2018 was for “placement in securities”.

The decline that occurred in the last 3 years for financing activities cash flow did not affect the good cash flow average of 139%. Even so, the bank should be more attentive in managing cash flow for financing activities so that there is no further decline in the following year. Because for the 5 year research period the funding cash flow was only supported by 2017 and 2018 (744% and 236%). The biggest amount of cash outflow for the financing activities was “payments for dividend”.

Reflecting on the cash flow activities for the last five years of PT Bank Aceh Syariah, it is suggested that the bank relies not just on revenue from *murabahah* receivables, but also on revenue from other operations such as *mudharabah* and *musyarakah* contracts, allowing Islamic banks to operate in accordance with the spirit of Islam, which is more welcoming to all groups. Furthermore, banks are also advised to use operational costs efficiently to reduce cash disbursements.

Given the size of the investment in 2018, it is hoped that the bank will be able to obtain consistent cash inflows from these investments in the coming years and manage the cash inflow to programs that support the development of bank infrastructure, particularly digital infrastructure, in accordance with the theme development in 2021.

Most of cash out flow of PT Bank Aceh Syariah's financing activities were spent on dividend payments, with the portion for regional development funds remaining quite tiny in comparison. In fact, funds for regional development were equal to payments for employee welfare from 2018 to 2021. Given that the bank is both a regional and an Islamic bank, it is prudent to reconsider expenditure on the previously indicated financing activities in a way that a bank's presence could actually bring *maslahah* for the long-term viability of regional development.

5. Conclusion

Cash flow from operating activities, fluctuated from 2018 to 2020, but improved and gained much more cash in 2021 (5553%), for an average operating cash flow of 1129%. Average cash flow for investing activities was 26323%, this high number comes from the cash outflow in 2018, climbed 132004% from 2017. The drop in financing activities cash flow over the last three years had no effect on the good cash flow average of 139%.

Based on PT Bank Aceh Syariah's cash flow for operating activities over the last five years, it is advised that the bank relies not only on revenue from *murabahah* receivables, but also on revenue from other operations such as *mudharabah* and *musyarakah* contracts.

Given the magnitude of the 2018 investment, it is hoped that the bank will be able to obtain consistent cash inflows from these investments in the coming years and manage the cash inflow to programs that support the development of bank infrastructure, particularly digital infrastructure, in accordance with the theme development in 2021. The main of PT Bank Aceh Syariah's cash outflow for financing activities was spent on dividend payments, with the part for regional development funds being very small in contrast. It is advisable to examine spending on the previously mentioned financing operations in such a manner that the establishment of a bank may genuinely bring *maslahah* for the long-term survival of regional development.

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