BUSINESS ZAKAT ACCOUNTING AND ITS ASSESSMENT

PERAKAUNAN ZAKAT PERNIAGAAN DAN TAKSIRANNYA

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Abstract

Business zakat accounting is an essential element in assessing the zakat on business. The zakat is levied on the net wealth of business at hawl completion. Business zakat accounting was formed generally based on al-Quran, al-hadiths, al-ijmak ulama and al-qiyaṣ. Thus, there are a variety of business zakat accounting methods used by business entities. However, working capital model used in computing business zakat was found not relevant for all business entities. Therefore, this study will identify the evidences from al-Quran, al-hadiths, al-ijmak ulama and al-qiyaṣ regarding the computation of zakat on business and to identify the extent of zakat disclosure practices of selected Shariah Compliance Companies. This qualitative study is using content analysis procedure to obtain evidences on disclosure of their business zakat accounting methods. The findings showed that different assessment methods for business zakat are necessary in order to fit with their own businesses’ characteristics. The use of different methods in computing business zakat should also be adopted as to ensure zakat computed are in line with the Shariah principles and to avoid zakat gap.

Keywords:
Business zakat, zakat accounting, assessment, zakat computation and zakat payable.

Abstrak


Kata Kunci:
Zakat perniagaan, perakaunan zakat, taksiran, pengiraan zakat dan zakat dibayar.

1. Introduction
Zakat on business is one of the zakat imposed on properties with the intentions of trading. It covers a wide range of business sectors namely industrial products, consumer products, construction, plantation, infrastructure, trading and services. The zakat is imposed on different types of business entities whether sole-proprietorship, partnership, private companies, public companies and cooperatives. It is interesting to note that zakat is calculated based on the net wealth of the business at hawl completion regardless of whether the business is making profit or suffering losses in one accounting period. Once the entities fulfilled all the business zakat condition, the obligation towards zakat is incurred.

Basically, the conditions of properties subject to zakat are almost same. However, for zakat on business, there are several other conditions need to be fulfilled by the business entities. The 31st Muzakarah (Conference) of the Fatwa Committee National Council of Islamic Religious Affairs Malaysia held on 9th December 1992 has discussed zakat on business. The Conference has decided that a business entity is obliged to pay zakat when it fulfils these conditions namely the business is owned by Muslims, the business is owned by free Muslims, complete ownership, the amount of the wealth reaches the minimum zakatable limit (nisab), the wealth has been possessed for one lunar year (354.3 days), the zakat rate on business is 2.5%; and as for the business shared by Muslims and non-Muslim, only the share owned by the Muslim is zakatable. The zakat is calculated based on the net wealth obtained (http://www.e-fatwa.gov.my).

Business zakat accounting was formed generally based on al-Quran, al-hadiths, al-ijmak ulama and al-qiyas. Thus, there are a variety of business zakat accounting methods used by business entities (Zahri, H.)
Working capital model, growth capital model and profit model are among the prevalent models adopted by business entities in Malaysia. Working capital model is accepted as the most closely complied with the Shariah principles and it has been supported by several jurists (al-Qaradhawi, 1999, Rohila & Mohd Zulkifli, 2012, Zahri, H., 2014 & Ahmed et al., 2016).

However, Zahri, H. (2014) found that adjusted working capital model used in computing business zakat is not relevant for all business entities. This is due to several reasons such as some business entities are having too many short-term loans which resulted in negative working capital. This situation could lead the business becomes not zakatable even though the business is making profit. Hence, it might be resolved by adapting the growth capital model. The current wealth is adjusted if short term loans are used to finance the purchase of non-current assets or for paying the non-current liabilities.

Recently, Pusat Pungutan Zakat, Wilayah Persekutuan Kuala Lumpur has stated that Adjusted Working Capital Model is suitable for public and private companies, cooperatives, enterprises and tradings. This is due to the reasons that the businesses could provide a clear classification of their current assets and current liabilities. The amount of each item classified as current asset or current liability could be obtained from the Statement of Financial Position or notes to the accounts. Hence, adjusted working capital model is only appropriate to be adopted by certain types of businesses. On the other hand, Adjusted Growth Capital Model is suitable for financial and Islamic banking institutions, Takaful providers and companies which do not have a classification of their current assets and current liabilities as stated by Pusat Pungutan Zakat, Wilayah Persekutuan Kuala Lumpur.

The computation of business zakat based on profits is now being implemented by business entities. This is the latest model introduced and will be applicable in practice across states in Malaysia. Pusat Pungutan Zakat, Wilayah Persekutuan Kuala Lumpur specified that this model is suitable for businesses which do not prepare their accounts or financial statements such as small traders and retailers including sole traders, night markets traders, restaurant operators. This is consistent with Ec, Lestari, & Si, (2016) who claimed that profit is assessed as well as the raising of property, so that it is assumed as a part of property that must be paid for the zakat. Therefore, it is certainly that profit can be used in determining how much zakat to be paid from its business.(Ec, Lestari, & Si, 2016).

Zakat disclosure practices is also encouraged among the Muslim-owned business entities as to give clear picture on how business zakat is computed, what methods used and what is the zakat expense or zakat payable amounts within one accounting period. There is a low compliance of zakat disclosures among selected Shariah companies as stipulated in MASB TR-i in their report. (Noor, Nik Mohd Rashid, & Mastuki, 2011). The information disclosed is very limited and sometimes the explanatory notes
are absent. If the business has fulfilled their zakat obligation, then they should disclose the related zakat information on their annual report.

This study aims to identify the evidences from al-Quran, al-hadiths, al-ijmak ulama and al-qiyas regarding the computation of zakat on business. Besides that, this study is conducted in order to identify the extent of zakat disclosure practices of selected Shariah Compliance Companies.

2. Business Zakat Accounting In Malaysia
Previously, zakat authorities were found to be using several approaches to calculating zakat on business. Nonetheless, productive and successful efforts have been made by the authorities to streamline and fine-tune these approaches. The original text on business zakat assessment only instructs for zakat payment based on inventories or goods for sale. This refined approach has been published by The Department of Islamic Development Malaysia (JAKIM) and adopted by almost all the state zakat authorities. There are two types of method for zakat on business i.e. 'urfiyyah method and shariyyah method (JAKIM, 2001). Nevertheless, most popular method for the computation of zakat on business is based on the shariyyah that considers current assets and deducts current liabilities and makes the necessary adjustments at year end. Both the methods are derived from the Statement of Financial Position (Balance Sheet) with the resulting answer being the same. Thus, both the models will need adjustments of the same nature.

The formulas for zakat computation for both methods are as follows:

<table>
<thead>
<tr>
<th>Growth capital model (urfiyyah method)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner’s equity + non-current liabilities – non-current assets -fixed assets – intangible assets +/- adjustments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Working capital model (shariyyah method)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets – current liabilities +/- adjustments</td>
</tr>
</tbody>
</table>

Assets eligible for zakat must be assets that are productive and can be developed (al nama’) or has the potential to develop. It means that it is able to generate income and profits. Cash or a cash equivalent asset which is not restricted in its use are also subject to zakat. Only productive current assets are subject to zakat. Other examples of productive assets are closing inventories (end products), trade receivables, fixed deposits. For raw-material and work-progress inventories, they are not subject to zakat as they are not ready to be sold yet.

Current liabilities are another important component in computing business zakat. It is divided into two categories namely operating liabilities and financial liabilities. Operating liabilities will be deducted from current assets. These liabilities are the obligations of the business which are
related to the main principal activities and operations of that firm. They come from the operational activities that have been benefited but payment has not been made and therefore not subject to zakat. Some examples of operating liabilities are trade creditors, accruals (accrued salaries/rental/utilities), tax payable, and audit fees payable. Financial liabilities which are non-operational liabilities will not be deducted from current assets. These liabilities are subject to zakat as the business entity has full ownership on those items. Financial liabilities include dividend payable, bank overdraft, financial lease and capital lease.

Non-current assets such as building, plant and properties are excluded from zakat calculation. They are exempted from zakat as that are not acquired for sale. Owners’ equity represents the capital and profit made by the business for the year end which are subject to zakat. These components are referred when growth capital model is used. Finally, adjustments or reconciliation should be made for certain items categorized as assets or liabilities. This is to ensure that zakat calculations made are truly fulfill the principles of syariah on the business assets to determine whether zakat is imposed or not imposed.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) FAS 9 sets out accounting rules related to zakat on business (AAOIFI, 2008). Basic equation to assess zakat on business is:

\[
(\text{Current Assets} - \text{Current Liabilities} \pm \text{Adjustments}) \times 2.5\% \times \% \text{ of Muslim Ownership Share}
\]

This basic equation is to be applied whether to assess zakat on sole proprietor, partnership or companies. As for hopeless debts from customer, they are not zakatable unless they happen to be paid back. Then, they must be zakated once only, on the basis of similarity with earned wealth that is zakated at the time it is acquired. It is obvious that liabilities are deducted from assets and only the net is zakatable.

When business zakat is computed, the assets, liabilities and equity of the business need to be analysed in order to classify whether they are subject to zakat or not. The adjustment on certain business assets and liabilities are needed in order to arrive at accurate zakat payable amount.

3. Recognition And Assessment Of Zakat
When an entity pays zakat on its business assets, such amount of zakat is recognised as an expense and included in the income statement for the period in which it is incurred (MASB TR-i). Zakat shall be assessed when the entity has been in operation for at least 12 months. Zakat on business shall be calculated by multiplying zakat rate with zakat base. The method used for the determination of zakat base shall be applied consistently from one period to another.
The computation of zakat on business is still remain the same as per calculation reported by Abu 'Ubayd. In today's modern businesses, adjustments on certain items of business’s assets and liabilities are needed as to arrive at accurate business zakat payable and in compliance with Shariah principle. However, the recognition on current assets which are subject to zakat and recognition on current liabilities that are not subject to zakat is not in uniformity among the business entities (Zahri, 2014). Thus, it leads to different treatment on current assets and current liabilities that subject to zakat. Consequently, the business zakat computation will be misleading and inaccurate. It is suggested that thorough discussions among practitioners and zakat amil are conducted as to achieve a consensus in treating the current assets and current liabilities items.

4. Methodology
The objective of this study is to identify the evidences from al-Quran, al-hadiths, al-ijmak ulama and al-qiyas regarding the computation of zakat on business and to identify the extent of zakat disclosure practices of selected Shariah Compliance Companies. Hence, this study is adopting a qualitative approach which aims to identify why accounting models are used to compute business zakat. The research technique used for this study is by conducting content analysis procedure. In obtaining evidences on the imposition of business zakat, al-Quran, al-hadiths, al-ijmak ulama and al-qiyas are referred. The financial data, financial review, Statement of Comprehensive Income, Statement on Income and Expenditure, Statement of Financial Position, and notes to the accounts of selected Shariah Compliance Companies are critically analyzed. The samples selected are among Shariah Compliance Companies which have disclosed their business zakat accounting methods in their published annual reports online from the financial year ending 2015.

Three companies selected are Bank Islam Malaysia Berhad (BIMB), EXIM Bank Malaysia and Pharmaniaga Berhad.

5. Findings And Discussion

Evidences On Business Zakat
The obligation of zakat on business is derived from several evidences from al-Quran, al-hadiths, al-ijmak ulama and al-qiyas. The most prominent verse regarding zakat on business is as follows:

Allah S.W.T says, "0 you who believe! Spend of the good things which you have earned, and of that which We have produced from the earth for you and do not aim at that which is bad to spend from it, (though) you would not accept it save if you close your eyes and tolerate therein. And know that Allah is Rich (Free of all wants), and Worthy of all praise"

(al-Baqarah: 267)
According to al-Tabari, (Muhammad, 2000), “spend of the good things which you have earned” refers to economic activities such as the business sector. Thus, business entities are obligated to perform zakat on what they have put on their efforts in generating income and profit. At the same time, the business entities have to ensure the business assets must be from halal sources and all the business activities too must come from halal activities or services. Imam al Ja'/ssas and Imam Abu Bakr ibn al 'Arabi have been reported to assert the same opinion which zakat is obligatory on the trading activities (Al-Qaradawi, 1999: 204).

Hadith from Rasulullah s.a.w as narrated by Abu Dawud reported from Samurah ibn Jundub,

"The Prophet (s.a.w) used to order us to pay the sadaqah (zakat) on what we have prepared for trade (urud al-tijarah)"

(Abu Dawud, 1557)

The above hadith clearly stated that zakat is obligatory on goods or inventories which are ready to be sold. Prophet s.a.w gave an order to perform zakat on business inventory. Many jurists referred business inventory as urud al-tijarah, which means any commodities obtained for the purpose of resale for profit (Abu Bakar, Ibrahim & Md Noh, 2014). However, some jurists defined urud al-tijarah differently and it has contributed to various business zakat accounting methods used by business entities (Zahri, 2014).

Ijmak ulama related to zakat obligatory is as reported by Aby Ubayd (1991). There is a report from Abu 'Amr ibn Hammas, from his father, who said:

"Umar passed by me and 'said, 'Oh Hammas, pay zakat of your possession (wealth)'. I said, 'I have nothing except hides and bags. He said, 'Determine the price of these things and then pay their zakat"


Abu 'Ubayd al-Qasim (1991) reports the ways of calculating zakat as perceived by some of the great followers. He quotes Maymun ibn Mahran as saying,

"When zakat is due, calculate the amount of money, add to it the value of inventory and the amount of debts on customers that you expect to be paid, sum the total, deduct whatever debts you owe to others and pay zakat on the net".

(Kitab al-Amwal, 454, 1185)

With reference the above quote, the formula for business zakat computation is clearly mentioned and it is still in use until today. The formula actually represents on how to work out for net assets or working capital of the business. The working capital model recommended by JAKIM
and JAWHAR for business zakat computation is found consistent with the formula from the above report. The zakat computation started with the current assets which are subject to zakat deducted with operational current liabilities. Then, the difference is equivalent to the net assets or net wealth of the business. It is then multiplied with the zakat rate of 2.5%.

Al-qiyas literally means to equate, to compare between two matters. It is the process of making comparison between a problem with no clear fiqh with the problem that has clear fiqh based on the same 'illah (Zahri, 2014). With regard to zakat, according to Ibn Rusyd, business inventories are wealth which have a potential to grow (Al-Qaradawi, 1999). Assets eligible for zakat must be assets that are productive and can be developed (al nama’) or has the potential to develop which means that it is able to generate income and profits. It can be concluded that the stand is same as other wealth that subject to zakat such as agriculture, crops, livestock, gold and silver.

Zakat Disclosure Practices
There are three Shariah Compliance Companies selected have disclosed business zakat computation methods in their annual reports. The companies are Bank Islam Malaysia Berhad (BIMB), EXIM Bank Malaysia and Pharmaniaga Berhad. Their annual reports are available online. This study analysed the zakat disclosure practices by those companies for the year ended 31 December 2015. The disclosure of zakat payable and zakat expense could be found in the Statement of Financial Position (formerly known as Balance Sheet) and Statement Profit or Loss and Other Comprehensive Income (formerly known as Income Statement) of the company respectively. The findings on the zakat disclosure practices are presented as follows:

a) Bank Islam Malaysia Berhad (Bimb)
In the notes to the account for the year ended 31 December 2015, BIMB has clearly stated that the business zakat method adopted was Growth Capital Model which is highly recommended by JAWHAR. Figure 1 below shows the extracted notes to account for zakat payable disclosed in the Statement of Financial Position as at 31 December 2015. The zakat payable amounted RM8,711,000 would be settled by BIMB at hawl completion.

Figure 1: Notes to the account for the year ended 31 December 2015 (extracted)

<table>
<thead>
<tr>
<th>Bank</th>
<th>RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zakat</td>
<td>8,711</td>
</tr>
<tr>
<td>Taxation</td>
<td>16,876</td>
</tr>
</tbody>
</table>
“During the year, the Bank changed its zakat computation method as recommended by Department of Awqaf, Zakat and Hajj ("JAWHAR"). Pursuant to this new method, the Bank will only pay zakat on the Bank’s portion i.e. shareholders’ funds as well as other funds received by the Bank except for depositors’ funds. In previous years, zakat was computed for both shareholders’ and depositors’ funds. The revised method would result in a lower zakat payable by RM4,043,000 from RM12,754,000 to RM8,711,000.”

Besides that, the computation, payment and distribution of business zakat are in compliance with the Shariah rules and principles as stated in the Report of the Shariah Supervisory Council of BIMB;

“In the financial year, the Bank has fulfilled its obligation to pay zakat on its business to state zakat authorities by adopting the growth capital computation method and in compliance with the Manual Pengurusan Zakat Perbankan issued by Jabatan Wakaf, Zakat dan Haji ("JAWHAR").

The disclosure of zakat practices by BIMB also includes the statement on how the redistribution of zakat payable is made as shown in the followings;

“Several zakat authorities had refunded a portion of the zakat paid for the Bank to act as their agent (wakil) to distribute to eligible beneficiaries (asnaf) among needy individuals, mosque, non-governmental organisations, higher learning institutions (needy students welfare funds) and schools as guided by the Business Zakat Payment Guideline that was approved by us.”

b) Exim Bank Malaysia
It is found that the business zakat computation method employed by EXIM Bank Malaysia is Working Capital Method which is based on adjusted net asset. Figure 2 shows the zakat expense in the Statement of Income and notes to the account for the year ended 31 December 2015.

Figure 2: Notes to the account for the year ended 31 December 2015 (extracted)

<table>
<thead>
<tr>
<th>Islamic Business Funds</th>
<th>RM'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year before zakat</td>
<td>76,216</td>
</tr>
<tr>
<td>Zakat</td>
<td>(3,508)</td>
</tr>
<tr>
<td>Net profit</td>
<td>72,708</td>
</tr>
</tbody>
</table>
The provision made for zakat payable for the year ended 31 December 2015 which is equivalent to the zakat expense amount is also presented in the notes to the account as follows;

Figure 3: Notes to the account for the year ended 31 December 2015 (extracted)

<table>
<thead>
<tr>
<th>Group and Bank</th>
<th>Other payables and accruals</th>
<th>RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Provision for Zakat</td>
<td>3,508</td>
</tr>
<tr>
<td></td>
<td>Provision for Taxation</td>
<td>26,071</td>
</tr>
</tbody>
</table>

It is found that zakat disclosure practices by EXIM Bank Malaysia are more comprehensive as it discloses its business zakat method applied and zakat distribution method. It is evidenced by the following statements;

“Zakat is payable by the Group and the Bank in compliance with the principle of shariah and in line with National Fatwa Committee regulations.
(i) Method applied
Zakat is calculated using the working capital method which is based on the adjusted net asset of the Group and the Bank i.e. Net asset excludes any items that do not meet the condition for zakat assets and liabilities.”
(ii) Beneficiaries of zakat fund
The method of zakat distribution, as being practised by the Group and the Bank, is as follows:
• Zakat is paid to Pusat Pungutan Zakat (“PPZ”) based on certain percentage of the adjusted net asset of the Bank and the Group;
• PPZ will determine a certain percentage of the zakat for the Bank’s own distribution; and
• The distribution of zakat will be allocated by the Bank to three (3) groups of people who are eligible to receive zakat (asnaf):
  a. The destitute (fakir);
  b. The poor (miskin);
  c. Those in the cause of Allah (fi sabilllah)”

c) Pharmaniaga Berhad
With reference to the Income Statement for the financial year ended 31 December 2015, RM700,000 of zakat expense is shown clearly with the statement that the hawl completion have been reached. Figure 4 shows the profit before zakat and taxation and followed by the zakat expense for the year ended 31 December 2015.
Figure 4: Income Statement for the financial year ended 31 December 2015 (extracted)

<table>
<thead>
<tr>
<th>Group</th>
<th>RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before zakat and taxation</td>
<td>112,722</td>
</tr>
<tr>
<td>Zakat</td>
<td>(700)</td>
</tr>
<tr>
<td>Taxation</td>
<td>(27,438)</td>
</tr>
<tr>
<td>Net profit for the financial year</td>
<td>84,584</td>
</tr>
</tbody>
</table>

Pharmaniaga Berhad has stated in the notes to the account that the zakat base used in calculating the business zakat is determined based on the profit or loss after tax. It shows that the company uses new method which is not in the list that recommended by JAKIM.

“The Group recognised its obligations towards the payment of zakat on business in the profit or loss. Zakat payment is an option and recognised as and when the Group has a zakat obligation as a result of a zakat assessment. The amount of zakat expense shall be assessed when a company has been in operation for at least 12 months, i.e. for the period known as “haul”.

The zakat base is clearly stated by Pharmaniaga in its annual report. With reference to National Fatwa Council, the business zakat of the company is computed by multiplying the zakat rate of 2.5% with the zakat base. The explanation on how to determine zakat based is clearly stated. The zakat base is referred to the net profit of the business.

“Zakat rates enacted or substantively enacted by the reporting date are used to determine the zakat expense. The rate of zakat on business, as determined by National Fatwa Council for 2015 is 2.5% of the zakat base. The zakat base of the Group is determined based on the profit after tax of eligible companies within the Group after deducting certain non-operating income and expenses. Zakat on business is calculated by multiplying the zakat rate with zakat base. The amount of zakat assessed is recognised as an expense in the year in which it is incurred.”

6. Conclusion

There are clear evidences on the imposition of zakat on business based on al-Quran, al-hadiths, al-ijmak ulama and al-qiyas generally. The trading activities that involve buying and selling goods or services must exist with the aim to gain profit. The business has to ensure that all the conditions are fulfilled before zakat becomes obligatory.

This study revealed that different companies are using different business zakat accounting methods. BIMB is adopting Growth Capital Model, EXIM Bank Malaysia is using Working Capital Method which is based
on adjusted net asset, while Pharmaniaga Berhad is using profit or loss after tax in computing business zakat payable. As BIMB and EXIM Bank Malaysia are in the financial and banking industries, it is appropriate for the banks to employ Growth Capital Model in computing their business zakat payable. The use of alternative method which is profit or loss method by Pharmaniaga Berhad evidenced that the new method is acceptable and suitable in today’s current business environment. However, the reasons why Pharmaniaga employed the profit and loss method are not stated in the report.

This study found that different assessment methods for business zakat are necessary in order to fit with their own businesses’ characteristics. The choice of different business zakat method might be influenced by the size of the business (small or medium), sector of business (manufacturing or services) and types of business entities (sole-proprietorship, partnership or company). The use of different methods in computing business zakat should also be adopted as to ensure zakat computed, in line with the Shariah principles and to avoid zakat gap. Business zakat sector has shown a huge potential in zakat collection especially in Public Listed Companies (Abdul Wahab & Borhan, 2016). Thus the zakat gap could be narrowed down by identifying means and ways to further promote the business zakat compliance among business entities.

This study also found that the integration between zakat assessment and zakat accounting are very crucial. It is known that the financial reporting prepared by entities is meant for various users including tax authorities but not covering for zakat authorities. Therefore, the business entities should furnish additional information for zakat authorities to compute the business zakat. Previous study by Abdullah Ibrahim, Abdul Kadir, & Syed AdwamWafa, (2012) stated that harmonization between zakat assessment and zakat accounting is highly needed.

Voluntary self-assess the business zakat is seen as a way to further increase the business zakat collection. It is almost the same with the self-assessment system implemented by individual or business entities in assessing their individual income tax or corporate income tax. However, to promote a self-assessment system, the shareholders and management of business entities should be equipped with ample zakat knowledge. Finally, the disclosure of zakat reporting should be promoting to Muslim business entities. It gives value-added to the business entity and could enhance the transparency of the entity and produce a good governance.
References


Abu 'Ubayd al-Qasim (1991), Kitab al-Amwal. 454, 1185


http://www.e-fatwa.gov.my


