Comparative Analysis of Current Values and Historical Cost in Business Zakat Assessment: An Evidence from Malaysia.

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Abstract

The aim of this paper is to compare the use of current values as appossed to historical cost in zakat valuation. Proponents of current value accounting foresees that several problems might occur if computation of zakat is based on the historical cost financial statement. It is supported by previous study which conclude that the use of historical cost data may lead to negative wealth transfer from the rich to the poor. Furthermore, in contemporary financial accounting practice, the valuation of inventories as well as the problem of valuation of receivables need to be reconciled between zakat rules and the generally accepted accounting principles by which balance sheets conform to Aglo-American accounting conventions. It is hoped that the results of this study could lead to a better and fair business zakat assessment to all parties concerned.

Keywords: zakat valuation, current value accounting, historical cost valuation, inventory valuation, valuation of receivables.

1. Introduction

Zakat is the third pillar in Islam. The obligation to pay zakat is linked with the order to perform prayer as stated in the Holy Quran. As such, a strong emphasis is placed to abide such obligation among muslim. Prayer is an act of worship expressing a Muslim's gratitute for the bodily blessings bellowed by Allah, while zakat is an act of worship expressing a Muslim's gratitute for Allah's financial gifts.

Linguistically, zakat means growth, increase and purification. In Syariah, the term refers to the amount of money or kind taken from specific types of wealth when it reaches a specified amount at a specific time and must be spent on specific categories in specific ways. The wealth of a person who pays zakat will be purified by it. Those who have executed zakat is deemed to deserve help, blessings and appreciation by The Al-Mighty. Some scholars also argued that zakat helps individuals to overcome the unwelcome trait of greed (Al-Fanjari, 1982)

In addition, the payer gains increase in faith with Allah by paying zakat, in that his rank with Allah is raised through it. This is attested to by the words of the Al-Mighty, "Take sadaqa from their wealth to purify and cleanse them" (99:103). Another words in the Holy Quran state "But anything you give as zakat, seeking the Face of Allah-whoever does that will get back twice as much" (30:40).

Obligation to pay zakat applies to both individuals and business. Therefore, Muslim owners of trading enterprises are obligated to pay zakat not only on their personal wealth but also on their "articles of trade" (Hamid, Craig and Clarke, 1996). The trading business includes the three form of businesses namely sole proprietorship, partnership and companies. In addition, such obligations need not contradict with the Islamic philosophy such as not to be engage in a business which is forbidden in Islam. There are also several conditions which make zakat compulsory to Muslim business owners. For partnership or a companies, only proportion of muslim share is subjected to zakat.

In assessing zakat, the assessment is made on the business as a whole and the amount to be paid for zakat is assessed on the Muslims' share of the business. The business which has full ownership is the business which has full physical control over the usage of the assets and that the assets are free of any encumbrances. Thus, assets held for collateral is excluded from zakat (Hamid et al., 1996).

Business wealth subjected to zakat includes trading assets such as trade goods (or stock on trade); cash in hand or in bank; debts or credit extended to customers or others (i.e debtors) (Abdul Rahman, 2002). Such wealth is to assessed to zakat based on either Growth Model or Working Capital Model. Growth model examines the owner's equity and the sources of financial resources. Adjustments (if any) are made to the equity and sources of financial resources to cater the Islamic philosophy of halal and haram as well as the different views on conventional and Islamic values in recognizing income and expenses. The Working Capital Model is defined as current liabilities deducted from current assets, and adjustments shall only be applicable to certain related items.Both models provide similar results since the base used is the net worth of current asset.

A case study of zakat measurement by companies in Malaysia by Awang and Abdul Rahman (2003) found that zakat assessment is based on historical cost data. This is in line with Sulaiman (1998) who found that zakat in Malaysia has been calculated using historical cost data. It is primarily because financial statements in Malaysia are prepared using historical costs. Hamat (2009) has also concluded that the business zakat accounting has been measured based on data from the balance sheet which is prepared based on GAAP. The use of historical cost data in business zakat valuation may lead to unfavorable situation to both zakat recipient and zakat payers.

Mohamad Ibrahim (2000) stressed on the consequences of using historical cost in zakat assessment may lead to a negative wealth transfer for zakat beneficiaries particlarly in the time of rising prices. In addition, Gambling and Karim (1991), as quoted by Sulaiman (1998), argued that current values would satisfy Islam's concept of justice more adequately than would historical costs. The adherence to the concept of conservatism as applied in accounting principles would lead to an understatement of the wealth subjected to Zakat. Under the conventional accounting, Muslim users find that computation of zakat is not possible due to the fact that zakat is computed based on current cost accounting. Conventional accounting merely focuses on historical cost accounting (Abdul Rahman and Omar, 2001).

Moreover, a majority of jurists appear to have concluded that the physical asset valuation should be based on the selling price prevailing at the time zakat falls due. In this respect, the preferred zakat basis of valuation parallels the concept of exit value or current cash equivalent or net realizable value, which has caused so much debate in the context of Western general purpose financial statements (Hamid et al., 1996).

The main objective of this article is to compare and discuss the use of historical data as well as the use of current cost data in assessing business zakat. The article also discusses the pertinent issues arising as a result of the continued use of historical cost data in assessing business zakat.

2. Current cost accounting

Hendriksen and Brenda (1992), as quoted by Abu Bakar and Mohd Said (2007), stressed that current costs reflect the prices that must be paid for an asset or its use at the date of the balance sheet or the date of the use or sale if the asset is not already owned. For instance, current cost for inventories is the current acquisition price of the inventories or the current cost to produce it. Hence, such cost is more realistic book values by valuing assets at current replacement cost, rather than the amount actually paid for them. The current cost is usually calculated by adjusting the historical cost for inflation, in addition to the usual adjustments such as depreciation. It is more complex than historical cost accounting. The problems that current cost accounting attempt to solve are obviously linked to inflation. Interest in inflation accounting tends to be greatest when inflation is high. Interest is low when inflation is low.

Belkaoui (2001), as quoted by Abdul Rahman and Omar (2001), listed down four methods for calculating the current value namely (1) capitalization or the present value method, (2) current entry price, (3) current exit price or (4) a combination of values derived from the three methods. A study by Duncan and Moores (1998) and Jones and Love (1995) conclude that users of financial statements would be able to make predictions if the current value accounting is disclosed instead of disclosure of historical cost data alone.

Furthermore, as mentioned by Hamid et al.,(1996) as well as Baydoun and Willet (2000), the disclosure of current value information is demanded by the Islamic economics for zakat computation purposes. This is to fulfill the concept of full disclosure and social accountability.

3. Historical cost accounting

Historical cost is a generally accepted accounting principle requiring financial statement items be based upon original cost. This means that if a company purchased a building, it is recorded on the balance sheet at its historical cost. Historical cost subjected to more severe rules and regulations of financial reporting than current cost data used in operating accounting (Mohamad Ibrahim,2000). Such cost method, over a period of time has been subject to many criticism, especially as it considers the acquisition cost of an asset and does not recognize the current market value.

Another main criticism of historical accounting method is its obvious flaws in times of inflation. The validity of historic accounting rests on the assumption that the currency in which transactions are recorded remains. Clarke et.al .,(1996) as quoted by Sulaiman (1998), argued that support for the use of current values in Islam may be discerned from the common monetary denominator used in the Prophet's time to establish the Nisab for various assets that are subject to zakat. The notion of selling price (current value) is said to be implicit in the determination of zakat at that time. Clarke et al., (1996) as quoted by Sulaiman (1998) mentioned that the letter of instruction of Caliph Abu Bakar to Anas, his envoy to Bahrain. It was reported that Anas was instructed to collect 20 Dirham (the currency) in lieu of the current prices of 2 sheep as Zakat.

Moreover, Baydoun and Willet (1994), as quoted by Sulaiman (1998) stressed on historical cost information which is based mainly on a firm's own transaction costs and little else, ignores the "potential relationship which accounting has with it's wider social environment. They argued that the current value information may be regarded as simultaneously satisfying an Islamic society's need for full disclosure and social accountability.

4. Valuation of Zakat

As mentioned earlier, the zakat valuation in Malaysia is based on two approaches, namely Growth Model and Working Capital Model. Both models will yield the same answer for the similar data being assessed. Currently, data used to assess business zakat is taken directly from the balance sheet of a company (Hamat, 2009) which has been prepared based on historical cost accounting (Sulaiman, 1998).

As opposed to historical cost, proponents of current value accounting foresees that several problems might occur if computation of zakat is based on the historical cost financial statement. Some users find that computation of zakat is not possible under the conventional accounting which merely focuses on historical cost accounting. For these proponents, zakat needs to be computed based on current cost value and at the moment, the current cost information is not disclosed under the conventional reporting.

Furthermore, the physical asset valuation basis used to calculate wealth in conventional financial reporting is a critical zakat-related task. The assertion of using cost value is of doubtful validity. Subsequently, a majority of jurists appear to have concluded that the physical asset valuation should be based on the selling price prevailing at the time zakat falls due. In this respect, the preferred zakat basis of valuation parallels the concept of exit value or current cash equivalent or net realizable value, which has caused so much debate in the context of Western general purpose financial statements (Hamid et al., 1996).

In contemporary financial accounting practice, several inconsistencies need to be reconciled between zakat rules and the general accepted accounting principles by which balance sheets conform to Aglo-American accounting conventions. Such inconsistencies arise in at least three areas: in relation to the concept of the accounting period, valuation of inventories as well as the problem of valuation of receivables.

Firstly, there would be an additional balance sheet date of significance to Muslims since zakat is payable every lunar or every 354 days. The zakat assessment date will fall 11 days earlier in each lunar calendar year than in the previous solar calendar year, since the lunar year is 11 days shorter than the solar calendar year. Secondly, the method used by Western countries which currently requires merchandise (stock) in balance sheets to be recorded either at 'cost' or 'replacement price' is inappropriate if the resulting figures are to be used directly as a basis for determining the zakat liability (Hamid et al., 1996). In practise, the lower of cost or market rule invariably results in 'cost' being the dominant valuation.

As discussed earlier, zakat may require that the relevant assets be valued at the price they will be exchanged for in the market. The ascertainment of trade debtor is also critically argued. It is difficult to determine the amount described as 'debtors'. Only collectable trade debtors are properly counted as part of wealth for zakat purposes. Islamic scholars widely agree that zakat is not payable on trade debts not expected to be realised by collection (Hamid et al., 1996). High quality receivables however, are as good as cash or deposits, and zakat should be paid on them. Where there is a reasonable basis for not being certain, then no zakat should be taken for collection (Sanusi, 2000).

In conventional accounting, doubtful debts are provided for in the financial statements. But Islamic economics do not include ambigious and uncertain items. The majority view of Islamic jurists (including Shafie) is that zakat is payable on those debtors' obligation 'expected' to be realized. The likelihood of realization is determined after considering factors such as the general inability of debtors to pay, specific matters of insolvency and any dispute regarding amounts owed (Hamid et al., 1996).

Consistent with that, the amount of 'trade creditors' (for accounts payable) is deducted from the market worth of zakat-able assets before the amount of zakat payable is calculated. Section 4(3) of Zakat and Ushr Order, 1979 of Pakistan, for example, provides insights into the mechanism of calculation. However, no distinction is made between short-term and long-term debts. An issue is the current exchange value of the business net assets. Essential to the calculation is the contrast between the value of the items comprising the entity's wealth with the amount of its liabilities (Hamid et al., 1996).

In addition, the valuation of stocks at the lower of cost and net realisable value may not be acceptable from an Islamic perspective. Such approach leads to lower valuation of zakatable assets (in times of rising prices) and thus, zakat being undervalued. Subsequently, this leads to a reduction of the rights of zakat beneficiaries (Mohamad Ibrahim, 2000)

Therefore, from the above factors, it clearly indicates that conventional accounting could not satisfy the financial information needs of Musllim users in determining zakat liability.

5. Methodology for Business Zakat Assessment.

Zakat is payable on the business irrespective of whether profit has been earned or unearned. As long as the business have positive working capital, paying zakat is compulsory. Furthermore, only surplus assets are subject to zakat. This means that if the sum of the zakatable assets owned by the business is below the nisab at the time zakat falls due (haul), the businesses do not have to pay zakat.

Awang and Abdul Rahman (2003) in their case study at Pusat Zakat Selangor (PZS), mentioned there are two approaches adapted by PZS namely Growth Model (Urfiyyah) and Working Capital Model (Syarr'iyyah). The earlier approach is also known as the Adjusted Growth capital which considers the equity of ownership in a particular company and other financial sources. The equation is as follows:

Total zakat liability= Equity + Long Term Equity – Fixed Asset – Non Current Asset +/- Adjustments

The latter approach is known as Working Capital considers current assets and deducts current liabilties and the necessary adjustments by adding or deducting clarified items by this equation (Hamat,2009). Most zakat collection centres in Malaysia have been adapting this approach in measuring zakat including those from Terengganu, Kelantan, Johor, Negeri Sembilan, Melaka, Pahang and Pulau Pinang (Awang and Abdul Rahman, 2003). Working Capital Model is based on the following formula:

Total zakat liability= Current Asset – Current Liabilities +/- Adjustments

Either Working Capital or Growth approaches, both are based on the information extracted from Balance Sheet prepared by such business.

Both approaches provide similar result since the base used is the net worth of current asset. However, the difference assessment (if any) may exist due to the different opinion in tackling a few items in the adjustements. For instance, the zakat officers may treat overdraft as liabilities (based on his arguments relying on the additional information from the company's financial manager) even though in actual principle, it is recognised as source of business operation.

The summary of zakat assessment using the Working Capital Model is presented in figure A

6. Findings

The focus of the study is on the comparative assessment of business zakat for a company by using historical data and current cost data. The relevant figures is based on the information contained in the Balance Sheet as well as relevant supporting infomation in the Income Statement. An approach to the business zakat assessment used in this study is working capital approach (Syarr'iyyah) in which total current liabilities deducted from total current assets.

An illustration of zakat assessment based on historical cost data is shown in Figure B. The assessment should be supported with information contained in Appendix B.

An illustration of zakat assessment based on current cost data is shown in Figure C below. The assessment should be supported with information contained in Appendix C.

7. Conclusion

It is noted that the use of current cost data yields a greater zakat assessment of RM RM185,505.50 as compared to the use of historical cost balance sheet data, which is only RM98,448. The findings support the previous research hypothesed that the use of historical cost data in assessing business zakat is inappropriate for zakat purposes especially in the time of rising prices. It is due to the fact that zakat distribution to its beneficieries would be undervalued during inflation. Hence, fairness and equitable, which is promoted by Islam may be impaired (Awang and Abdul Rahman, 2003).

As a result, the valuation basis to be used for the main objective of calculating zakat is to use current cost. Atiyah (1984) quotes a hadith which is quoted as "Value at current value (market price) and then pay zakat (on it)". This has been refined to mean net realizabale values by Al Qardawi (1979). A proposal made by Baydoun and Willet (2000) and Abdul Rahman and Omar (2001) also recommended the use of current value instead of historical cost. Baydoun and Willet (2000) and Abdul Rahman and Omar (2001) proposed the Islamic Corporate Report which includes the principle of measuring assets and liabilities based on current cost information. It is recommended that further studies may be carried out concerning the willingness of companies owned by muslim to assessed zakat based on current value data instead of historical cost data.

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Table/ Figure:

Figure A:

Summary Of Business Zakat Assessment (Working Capital Model)

				RM
Working Capital: Total Current Assets less Current Liabilities			A	xxx
Adjustments to Current Assets:		(Table A)		
	Less	: RMxxxx		
	Added	: RMxxxx	B	xxx
Adjustments to Current Liabilities:		(Table A)		
	Added	:	C	xxx
Amount subjected to business zakat		(A+B+C)		xxx
Multiply with the rate of business zakat				2.5%
Multiply with the fraction of percentage of holding owned by muslim, say				65%
Zakat Liability				xxx

Figure B:

XYZ Company Sdn Bhd

Business Zakat Assessment for the year ended 31 December 2009

Working Capital Approach	RM
Current Assets	13,346,235
Less: Current Liabilities	8,633,850
Net Worth of Current Assets (B)	4,712,385

Net Worth of Current Asset obtained is RM4,712,385

Current Assets (RM)	Explanation
(7,320,276)	The sum should be deducted since it is non productive item.
(3,185)	Represents raw material thus should be deducted (not in a form intended for sale)
2,928,110	Finished goods thus should be added
(937,802)	Represents fixed deposit with a licensed bank deducted since considered as not having full ownership.
(63,371)	Interest on fixed deposit –non halal source of fund thus be deducted.
(5,396,524)	(B)

On the other hand, current liabilities will subject to the following adjustments:

Current Liabilities (RM)	Explanation
70,943	Hire purchase considered as source of business fund thus added back
951,107	Bank borrowings: considered as source of fund and having full ownership
3,600,000	Dividend payable, must be cleansed of zakat before being distributed.
RM4,622,050	(C)

The total amount due for zakat = (A) + (B) + (C) = RM 3,937,911 (D)

Thus amount subject to zakat and nisab (D)	3,937,911
Equity Muslim, say	100%
Zakat liability (RM) (2.5% x D x 100%) RM	98,448

Figure C:

XYZ Company Sdn Bhd

Business Zakat Assessment for the year ended 31 December 2009

Working Capital Model	RM
Current Assets	14,078,202
Less: Current Liabilities	(5,444,352)
Net Worth of Current Assets (A)	8,633,850

Net Worth of Current Asset obtained is RM8,633,850

Current Assets (RM)	**Explanation**
(8,052,297)	The sum represents both work in progress and raw material. The figure should be deducted since it is non productive item.
(3,503)	Represents raw material thus should be deducted (not in a form intended for sale)
3,220,921	Finished goods thus should be added
(937,430)	Represents fixed deposit with a licensed bank deducted since considered as not having full ownership.
(63,371)	Interest on fixed deposit –non halal source of fund thus be deducted.
(5,835,680)	(B)

On the other hand, current liabilities will subject to the following adjustments:

Current Liabilities (RM)	**Explanation**
70,943	Hire purchase considered as source of business fund thus added back
951,107	Bank borrowings: considered as source of fund and having full ownership
3,600,000	Dividend payable, must be cleansed of zakat before being distributed.
4,622,050	(C)

The total amount due for zakat = (A) + (B) - (C) = RM7,420,220(D)

Thus amount subject to zakat and nisab (D)	7,420,220
Equity Muslim, say	100%
Zakat liability (RM) (2.5% x D x 100%)	185,505.50

Appendices:

Figure A (page 14) refers to business zakat assessment based on Working Capital approach. Such figures will subject to another adjustments as explained in Table A below

Table A:

Current Assets (RM)	Explanation
Work In Progress (W-I-P)	W-I-P should be deducted from net worth of current assets since only finished goods are recognised as productive.
Raw Material	Raw material should also be deducted since only finished goods are recognised as productive.
Fixed Deposits with a licensed Bank, Collaterised	Encumbered Fixed Deposits with a licensed bank is deducted since it is not recognised as having full ownership. Normal fixed deposits is zakatable.
Interest on Fixed Deposit	Non halal source of Income thus should be deducted
Charity kind of fund	Fund formed for charity purposes; i.e for education,'khairat' which contained in asset should be excluded from zakat.
Dividend	Dividend which was paid by an invested company will be deducted from the net worth of current asset (if the dividend has been assessed earlier for zakat before being distributed) since zakat is not charged twice in the same haul period.
Donation	Donation made by a company at the end of the accounting period (haul) need to be added back (assessed for zakat) since the donation will not affect the company's liquidity unless the donation is taken from charity fund.
	RMxxxx (B)

On the other hand, current liabilities will subject to the following adjustments:

Current Liabilities (RM)	Explanation
Hire Purchase	Need to be added back because it is recognised as source of business, having full ownership thus not allowable for deduction.
Bank Borrowings	Need to be added back since it is source of fund and recognise as full ownership.
Dividend payable	Need to be added back since it is a business profit which need to be assessed for zakat first before it is distributed to shareholders.
Trade loans	Need to be added back since loan is classified as a source. Iman Syafie argued that a loan tantamounts to having full ownership.
	RMxxxx (C)

Appendix B

Historical Cost Balance Sheet

Muslim Business Sdn Bhd
Extract of Balance Sheet as at 31 December 2009

	Note	RM
Property, Plant and Equipment		3,694,917
Investment	1	28,000
Current assets		
Inventories	2	7,323,461
Trade receivables		3,989,433
Other receivables		316,481
Fixed Deposits with a licensed ba	3	937,430
Cash and bank balances		779,430
		17,069,152
Current Liabilities		
Trade payables		3,283,145
Other payables		421,733
Hire purchase creditors	4	70,943
Bank borrowings	5	951,107
Dividend payable		3,600,000
Taxation Payable	6	306,922
Financed by:		
Share capital		1,000,000
Retained Profit		6,163,134
		7,163,134
Long Term and Deferred Liabilities:		
Term Loan	7	900,113
Hire purchase creditors		307,055
Deferred Taxation	8	65,000

Additional notes for Business Zakat Assessment:

1. **Investment** consists of golf club membership at cost RM28,000
2. **Inventories** comprise of:
    a) Work in progress RM7,320,276
    b) Raw material RM 3,185
    c) Finished goods RM2,928,111
3. **Deposits with licensed bank**
   The company has pledged fixed deposits with a licenced bank to secure guarantee facilities granted by the bank. The disclosure is in Note 8 of the financial statements in the company's annual report.

4. Hire Purchase Creditors

	RM
Amount due under hire purchase	478,884
Less: Unexpired interest	(100,886)
Principal amount outstanding	377,998
Amount repayable within one year	
(included under current liabilities)	(70,943)
Amount repayable after one year	
(Included under long term liabilities)	307,055
Amount repayable after two years	
between 2 to 5 years	294,198
later than 5 years	12,857

5. Bank Borrowings

The term loan is secured by way of first legal charge over the land and building of the company and is jointly and severelly guaranteed by the directors of the company. Bankers' acceptances are subject to interest rates varying between 3.15% to 4.00% per annum and term loan is subject to interest rate of 1.5% per annum above the bank's base lending rate.

6. Taxation

	2009 (RM)	2008 (RM)
Provision for current year's tax	1,200,000	323,500
Transfer to deferred taxation (Note 8)	17,000	48,000
	1,217,000	371,500

7. Term Loan

	RM
Term loan facility of RM1.2 million repayable by 84 equal monthly installments commencing on 30 November 2008.	2,044,220
Less: Amount repayable within 12 months (included under bank borrowings)	(144,107)
	900,113

8. Deferred Taxation

The movement in deferred taxation account is as follows:

	2009 (RM)	2008 (RM)
At the beginning of the year	48,000	
Transfer from income statement	17,000	48,000
	65,000	48,000

9. Profit before Taxation

	2009 (RM)	2008 (RM)
Auditors' remuneration	10,000	10,000
Bad debts written off	2,530	
Depreciation	364,792	186,125
Directors' fee	440,000	10,000
Directors' remuneration	353,243	268,416
Factory rental		37,485
Interest Expenses	23	
Interest on bank overdraft		4,008
Interest on hire purchases	3,060	
Interest on loan stock		71,531
Interest on term loan	91,601	16,978
Office rental		12,100
Loss on property, plant and equipment (written off)	2,015	34,321
and crediting:		
Dividend received	3,635	6,417
Gain on foreign exchange		26,153
Interest on fixed deposits	63,371	54,567

APPENDIX C

Current cost Balance Sheet

Muslim Business Sdn Bhd

Extract of Balance Sheet as at 31 December 2009

	Note	RM
Property, Plant and Equipment	1	3,836,425
Investment		28,000
Current assets		
Inventories	2	8,055,800
Trade receivables		3,989,061
Other receivables		316,481
Fixed Deposits with a licensed bank		937,430
Cash and bank balances		779,430
		14,078,202
Current Liabilities		
Trade payables		3,283,145
Other payables		421,733
Hire purchase creditors		70,943
Bank borrowings		951,107
Dividend payable		3,600,000
Taxation Payable		306,922
		8,633,850
Net Current Assets		5,444,352
Financed by:		
Share capital		1,000,000
Retained Profit		7,036,609
		8,036,609
Long Term and Deferred Liabilities:		
Term Loan		900,113
Hire purchase creditors		307,055
Deferred Taxation		65,000

Additional notes for Business Zakat Assessment:

1. **Property,plant & Equipment** consists of book value RM4,059,709 (3,694,917 +(depreciation 10%) 364,792) x 5% (increase in market value) = 4,262,694 less depreciation 10%) 426,269 = RM3,836,425

2. **Inventories** comprise of:
   a) Work in progress RM8,052,297
   b) Raw material RM 3,503
   c) Finished goods RM3,220,921

3. **Deposits with licensed bank**
   The company has pledged fixed deposits with a licenced bank to secure guarantee facilities granted by the bank. The disclosure is in Note 8 of the financial statements in the company's annual report.

4. **Hire Purchase Creditors**

	RM
Amount due under hire purchase	478,884
Less: Unexpired interest	(100,886)
Principal amount outstanding	377,998
Amount repayable within one year	
(included under current liabilities)	(70,943)
Amount repayable after one year	
(Included under long term liabilities)	307,055
Amount repayable after two years	
between 2 to 5 years	294,198
later than 5 years	12,857

5. **Bank Borrowings**
   The term loan is secured by way of first legal charge over the land and building of the company and is jointly and severelly guaranteed by the directors of the company. Bankers' acceptances are subject to interest rates varying between 3.15% to 4.00% per annum and term loan is subject to interest rate of 1.5% per annum above the bank's base lending rate.

6. **Taxation**

	2009 (RM)	2008 (RM)
Provision for current year's tax	1,200,000	323,500
Transfer to deferred taxation (Note 8)	17,000	48,000
	1,217,000	371,500

7. **Term Loan**

	RM
Term loan facility of RM1.2 million repayable by 84 equal monthly installments commencing on 30 November 2008.	2,044,220
Less: Amount repayable within 12 months (included under bank borrowings)	(144,107)
	900,113

8. **Deferred Taxation**
   The movement in deferred taxation account is as follows:

	2009 (RM)	2008 (RM)
At the beginning of the year	48,000	
Transfer from income statement	17,000	48,000
	65,000	48,000

9. Profit before Taxation

	2009(RM)	2008 (RM)
Auditors' remuneration	10,000	10,000
Bad debts written off	2,530	
Depreciation	364,792	186,125
Directors' fee	440,000	10,000
Directors' remuneration	353,243	268,416
Factory rental		37,485
Interest Expenses	23	
Interest on bank overdraft		4,008
Interest on hire purchases	3,060	
Interest on loan stock		71,531
Interest on term loan	91,601	16,978
Office rental		12,100
Loss on property, plant and equipment (written off)	2,015	34,321
and crediting:		
Dividend received	3,635	6,417
Gain on foreign exchange		26,153
Interest on fixed deposits	63,371	54,567