

## **Assessing Financial Reporting on adopting Business Zakat Guidelines on Malaysian Government Linked Companies**

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### **Abstract**

*Zakat is one of the pillars in Islam, a mandatory obligation to the Muslims. The payment of zakat is an expression of thankfulness to the Almighty God (Allah) and recognition of His rewards. Zakat is no longer perceived by many that is merely limited to the domain of religious or syariah studies and discourses, but has been widened to include the issue of social economics. Therefore, a proper treatment of zakat is needed. In Malaysia, an accounting treatment relating to the payment of zakat on business, TR-i1 had been issued by Malaysia Accounting Standard Board (MASB) to facilitate the computation of zakat on business. However, since zakat management is under the jurisdiction of State Islamic Religious Council (SIRC), the Technical Release 1 (TR-i1) issued just becomes a guideline which does not have the same weight as a standard. The objective of the paper is to investigate the level of compliance to the guidelines as being practiced by the listed Government Link Companies (GLCs). The study will focus on the methodology used for zakat computation and the disclosure being made in the annual report. All the 33 listed GLC companies were used for the study. From the result, it was found that the guidelines were not being followed. A practiced by GLC's was totally different from what has been mentioned in the TR-i1.*

**Keywords:** Zakat, Accounting Issues, Zakat Accounting

### **1.0 Introduction**

Zakat is one of the pillars in Islam, a mandatory obligation to the Muslims. It is assessed upon certain identifiable assets that fulfill prescribed conditions and the proceeds go towards specified categories of recipients or asnaf. In Islam, all wealth belongs to Allah, and humans as the *khalifa* (vicegerant) acts as a custodian to the wealth. Private ownership is a great reward from God. Al-Qardawi (1999) states that ownership gives the feeling of authority and power and satisfies the acquisitive desire. Complete ownership enables people to extract benefits of owned assets, as well as putting assets to growth. The grace from God should be recognized by people. The payment of zakat is an expression of thankfulness to God and recognition of His reward. The important role of zakat in Islam is clearly illustrated by Allah in the Qur'an in a number of verses. It is to be noted that the word zakat is mentioned 30 times with definite articles (Wafa, 2010).

Based on the Quran, Al-Baqarah, verse 267, the God said that; "O ye who believe! Spend of the good things which ye have earned, and of that which We bring forth from the earth for you, and seek not the bad (with intent) to spend thereof (in charity) when ye would not take it for yourselves save with disdain; and know that Allah is Absolute, Owner of Praise". Another verse in the Quran, Allah says "But if they repent, establish regular prayers and give zakat, they are your brethren in faith".

Al-Qardawi (1999) stated two conditions for zakat ability; the fact that assets and wealth must be owned and the wealth must either be actually growing or have the potential for growth. An accounting standard related to zakat payment had been issued to facilitate zakat computation. At international level, Financial Accounting Standard (FAS) 9 was issued by an independent international organization for Islamic Accounting Standards, the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI). Bakar (2007) stated that this document can be said to represent a relatively comprehensive standard that covers various aspects of zakat accounting for Islamic financial institutions.

However, despite the comprehensiveness of the AAOIFI FAS9, it is disappointing to note that the applicability is rather limited in the Malaysian context and it is totally not applicable due to the non-compliance with Malaysian environment (Bakar, 2007). Rahman (2002) outlined the two limitations, first; the standard is only applicable to Islamic financial institutions; second, the standard is attributed to the fact that it has not taken into account the unique features of Malaysia's society and legal framework.

As to meet the needs of Muslim users', Malaysian Accounting Standard Board (MASB) had issued a Technical Release i-1 (MASB TR-i1) *Accounting for Zakat on Business* to deal with the payment of zakat on business. This is a "technical release" which does not have the same legal force as a "standard." Rahman and Bakar (2009) argued that TR-i-1 emphasizes most business-related zakat issues that fall under the State Islamic Religious Council's (SIRC) jurisdiction, thus are considered outside the MASB's purview. MASB TR i-1 can be used as a guideline on applying generally accepted accounting principles to resolve a particular issue on zakat accounting; however the detail on the assessment still needs to be comprehended with the zakat authority.

The objective of this paper is to study on the applicability of the guidelines issued by the MASB TR i-1. This paper will look from the accounting perspective, on how to capture the required figures from the conventional accounting disclosure. The researcher will also look at the disclosure in the annual reports made by the companies' on zakat payment being made whether it complies or not with the guidelines issued. Lastly, The researcher will to simulate the figure from conventional financial accounting information perspective for zakat calculation, in order to find the best practice for accounting to meet the needs of Muslim users.

## **2.0 Literature Review**

In the Qur'an surah At-Tawbah, verse 3, the Allah said that; "Of their goods, take alms, so that you might purify and sanctify them". Qardawi (1999) stated that spiritually, paying zakat purify and cleanness one from greed, selfishness and arrogance. Hadith narrated by Bukhari and Muslim, Prophet Muhammad (peace be upon him-pbuh) recalled that all rewards will be cut-off after death, except for three things, namely: *shadaqahjariah* (which includes zakat), the knowledge shared and utilized by others, and the *saleh* off-springs who make the prayers (call) for their parents. Zakat is a compulsory payment for the purpose of purification the wealth, which will bring peace serenity to whom fulfilled the requirement.

Sabahaddin (1989) argued that many Muslim economists agreed that zakat has a multiplier effect to the economy; zakat is said to be able to eliminate poverty, increase employment, increasing standards of living and eventually enhancing back the aggregate volume of zakat collection. Zakat is part of the mu`amalah system, human activities related to the exchange of utilities to the satisfaction of material needs (Mahmoud, 1989). Even though zakat is compulsory payment, it is subject to change to suit on the recent environment and to remain relevant to humanity's at all times and places.

Bakar (2007) stated, fiqh al-zakat (the rules of zakat) is progressive and dynamic; that the availability of various corporate zakat assessment methods shows that zakat is changeable within the scope allowed by the syariah. To meet the changes in environment, Islam allows considerable flexibility in solving new problems. Since the Quran only describe on principle of zakat obligation, the other matters were based on hadith and in devising on the new rules of zakat, ijihad was used instead. The reason for that is the changing circumstances, such as zakat on horses which was exempted before. Even the ijihad has been practiced since the era of Prophet (pbuh).

In Malaysia, the 31 Muzakarah (Conference) of the Fatwa Committee National Council of Islamic Religious Affairs Malaysia held 9 December 1992 has decided that a business company is obliged to pay zakat when it fulfils certain conditions such as ownership, *nisab* (zakatable limit) and *haul* ( period).

The accounting standard is also progressive and dynamic. Accounting is the tools of reporting to meet the users' need. In order to develop a standard in accounting, it is crucial to ensure what is really needed by the users. According to Nørreklit and Mitchell (2010) the accounting framework for guidance typically have the following central elements:

- A statement of the objectives of financial accounting. Expressed at a general level and taken to involve the supply of information to a range of users making economic decisions.
- Basic premises or concepts that have a fundamental influence on the accountant's work. Some important examples are; going concern, accruals and money measurement.
- The desirable qualities which accounting information should possess. For example, it should be identified these as relevance, reliability and prudence, comparability and consistency, and comprehension.

## 2.1 Accounting for zakat

Even though accounting is a purely technical subject, its transactions were resulted from human business operation which was from society interaction. Accordingly, accounting is a human creation guided by the standard created based on the reality of the event for self-scrutiny (Nørreklit et. al., 2010). Accounting is part of Muamalat system, a system which involved transactions with others in a society. In every aspect of human life, Islam has guided their followers through a very systematic of Islamic law. Islamic law was aimed to maintain the social control, not only purely legal, but it rather embraces all the spheres of life; ethical, religious, political and economics (Haqqi, 2009).

In conventional practice, accounting serves as the accountability of the agent (stewardship of the management) towards the principals (shareholders and other stakeholders). However, according to Islamic law, accounting has a role in ensuring fair and just financial transactions take place between human beings, with the primary objective to meet the accountability towards Allah (Rahman, 2010). To fulfill the responsibility towards Allah, accounting must ensure the information provided was in line with the user's need especially which is related to the accountability to Allah, such as zakat information to user's to fulfill zakat obligation.

According to the AAOIFI, zakat means "blessing, purification, increase and cultivation of good deeds". In accounting perspective, the MASB TR-*i1* defines zakat as, "obligatory contribution assessed based on certain assets owned by a Muslim that satisfy certain conditions and is to be distributed to specified categories of beneficiaries." While zakat on business is defined as an "obligatory contribution assessed based on business assets owned by an entity that satisfy certain conditions and is to be distributed to specified categories of beneficiaries." Baydoun and Willet (1998) asserted that the primary purpose of accounting in Islam is for zakat assessment.

Hadith from Rasulullah s.a.w as narrated by Abu Daud, "...indeed, the Prophet (pbuh) asked us to pay zakat from the property that we prepare to sell". Based on this hadith, Hamat (2009) stated that the original text on business zakat accounting has been identified to rely more on inventories or goods for trade. There are a number of regulatory bodies in few countries which have actually taken reasonable moves by developing accounting standards or accounting guidelines, which may be useful for business zakat assessment. Among the essential standards can be used in Malaysia is the standard developed by AAOIFI and MASB.

However, since the AAOIFI standard is not applicable in Malaysia environment, the standard issued by MASB, TR-*i1* will be used for the study. MASB TR *i-1* issued by MASB becomes effective on 1 July 2006. This is a "technical release" which does not have the same legal force as a "standard." The MASB TR *i-1*, recommended two methods for zakat calculation: adjusted working capital (*syari'ah*) method and adjusted growth method (*urfi'ah*).

The adjusted working capital method calculates zakat base as Net Current Assets (NCA), adjusted for items that do not meet the conditions for zakat assets and liabilities. While, the adjusted growth method calculates zakat base as owners' equity and long-term liabilities, deducted for property, plant and equipment and non-current assets, and adjusted for items that do not meet the conditions for zakat assets and liabilities as determined by the relevant zakat authorities. This method is followed to the methods as recommended by the JAWHAR (2008).

In accounting equation, the zakat methods can be developed as follows:

The Accounting Equation:

<b>Assets</b>	=	<b>Equities</b>	+	<b>Liabilities</b>
PPE + NonCA + CA		Equities		CL + LTL
<b>CA - CL</b>	=	<b>Equities</b>	+	<b>LTL - PPE - NonCA</b>
<b>Working Capital Method</b>	=	<b>Growth Method</b>		

\* PPE = Property, plant and equipment, CA = Current assets, CL = current liabilities  
LTL = long term liabilities

On the disclosure of Zakat payment, MASB TR-i1 stated that an entity shall disclose in the notes accompanying the financial statements the following; method used in the determination of zakat base, its responsibility towards payment of zakat on business and major components of zakat. Whereas, the major components of zakat may be detailed out by including current zakat expense, zakat payment, zakat liability and any adjustments recognized in the period for zakat of prior periods.

### 2.2 The Need for Harmonization in Malaysia Context

The Malaysian federal government, through both the Department of Islamic Development of Malaysia (JAKIM) and Department of Wakaf, Zakat and Haj (JAWHAR) at Prime Ministers Department is responsible to coordinate the zakat matters among the state. Even though these two departments cannot intervene the states religious matters, including zakat, an effort made by them to standardized zakat methodology is highly appreciable and successful. Rahman (2003) stated that the main purpose of having a standard accounting practice is to narrow the differences among those firms that pay zakat and the zakat authorities who manage zakat in the disclosure statement, the method of measurement, and the method of presenting data in financial statements.

With the issuing of MASB TRI-1 *Accounting for Zakat on Business* and the agreeable by the SRIC, the standardization practice for all states in Malaysia eventually achievable. Currently practice on zakat payment to be calculated by the accounting practitioner's in Malaysia is based on adjusted working capital. The accounting practitioner's also can consult with the SRIC officer's regarding on any dispute item arises. However they still have a gap between the zakat requirement and accounting standard reporting. Since the zakat requirement is changeable within the permitted range allowed by syariah and the accounting purpose is to meet the user's needs, the dynamism of these systems to be matched to achieve the desired outcome.

Based on the dynamism in zakat and in accounting, the harmonization is possible, but detail studies are needed in both areas. Thus the relationship between the dynamism in zakat and dynamism in accounting with harmonization for zakat practice could be established as further study (Figure 1).

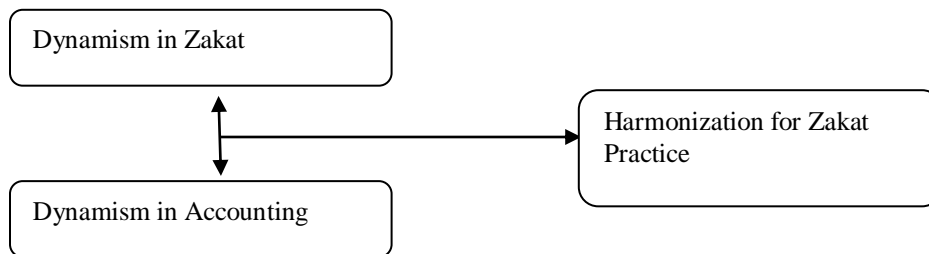


Figure 1: The relationship between dynamism in zakat and dynamism in accounting with harmonization for zakat practice.

### 3.0 Methodology

The objective of this paper is to study on the applicability of the guidelines issued by the MASB TR *i-1* being used by the Malaysian companies. To achieve this objective, zakat payer companies need to be identified and compared the practice with the guidelines issued by MASB. Since zakat is compulsory for all Muslims, it is expected that all Muslims companies' in the listed companies in the Bursa Malaysia especially listed as Syariah Compliant Securities will pay for zakat.

However, not many companies listed in Bursa Malaysia are owned by Muslims. Thus, the Government-linked companies (GLCs) listed in Bursa Malaysia are used as samples. GLCs are companies where the Malaysian Government has a direct controlling stake with commercial objective. Controlling stake refers to the Government's ability to control the company, in form of appointment board members and senior management and make major decisions such as on contract awards, strategy, restructuring and financing, acquisitions and divestments. These companies are controlled by the Malay Muslims'.

According to the Putrajaya Committee on GLC High Performance (2012), there are 33 companies categorizes as GLC as at 13 March 2009. 6 of these GLCs involved with finance sector, which abide to different regulation under the Bank Negara Malaysia (BNM). These companies will be excluded in this study. From the remaining 27 GLCs, 21 GLCs did not disclose any information on zakat in their annual report. As such it cannot be concluded as to whether these companies are among the zakat paying companies. Hence, it is left with only 6 GLCs with disclosed information about zakat in their annual report will be studied. The 2010 annual reports were used to retrieve zakat information for the companies except for Liytan National and Pos Malaysia which do not have any disclosure information in the web-site. Therefore 2009 annual reports were used for these companies as secondary data for this study. Since the number companies are small, only 6 GLCs, the descriptive statistics and analysis will be used for the study.

The information needed for zakat calculation will be captured from the annual report. The adjusted working capital method will be used where zakat are calculated based on net current assets, adjusted for items that do not meet the conditions for zakat assets and liabilities. The detailed on the adjustment to be made was not described in the MASB TR *i-1*. The adjustment as being practiced by the Zakat Pahang, Malaysia, as published in the Zakat Pahang website and also in the IIUM Endowment Fund website will also be used as the data for this study. On all the calculation, the zakat rate will be assumed as 2.5% instead of 2.5775% as being suggested by AAOIFI for financial accounting which use solar year (the right ones must based on Hijri). The adjustments needed in the computation zakat which being published in the websites of few SIRC's are as follows:

**Net Current Asset (Current Assets – Current Liabilities) - Shariah Model**

**Less: Adjustment for Item in Current Asset**

- Item deducted due to 'incomplete ownership'
- Items deducted due to not intended for business
- Item deducted due to not being productive
- Item deducted due to syariah impermissible

**Add: Adjustment for Current Liabilities**

- Financial Liability (For Next Year / Reclassification)

**Zakat Base / Asset Value Subject To Zakat**

$$\text{Zakat Payable (zakat base x Muslim\% x 2.5\%)}$$

### 4.0 Finding

Table 1 showed the list of GLCs zakat disclosures. The 6 GLCs disclosed information about their zakat are as indicated in Table 1 after excluding the banks and insurance companies; and Tenaga Nasional, Time Engineering, Pharmaniaga, TH Plantation, Malaysia Airports and Telekom.

**Table 1: List of GLCs Zakat Disclosure**

		Disclosure about Zakat			Disclosure about Zakat
1	Tenaga Nasional	Yes	14	Lityan Nasional	No
2	Time Engineering	Yes	15	Sime Darby Berhad	No
3	Pharmaniaga	Yes	16	NCB Holdings Bhd	No
4	TH Plantations	Yes	17	Axiata Group	No
5	Malaysia Airports Holdings	Yes	19	PetronasDagangan	No
6	Telekom Malaysia	Yes	20	Faber Group	No
7	Malaysian Resources Corporation	No	21	Malaysian Airline System	No
8	Time Dotcom	No	22	Boustead Holdings	No
9	UAC	No	23	Proton Holdings	No
10	UMW Holdings	No	24	MISC	No
11	UEM Land Holdings	No	25	PLUS Expressways	No
12	CCM Duopharma Biotech	No	26	Pos Malaysia	No
13	Chemical Company of Malaysia	No	27	BCB	No

From the published 2010 annual report, the information needed for zakat calculation will be captured and do the simulations to determine zakat figures. Based on the information provided, the following data was gathered and zakat calculation is arranged as indicated in Table 2:

**Table 2: Zakat Calculation**

	Tenaga Nasional	Malaysia Airport	Pharma-Niaga	TH Plantations	Time Engineering	Telekom
	'000	'000	'000	'000	'000	'000
Zakat payment	17,200	1,444	1,962*	248	269	600
Zakat rate (Assumed 100% Muslim ownership and zakat at 2.5%)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>Zakat base</b> calculated by the zakat payer (Zakat Payment / zakat rate)	688,000	57,760	78,480	9,920	10,760	24,000
<b>Simulation of Zakat base calculation using extracted accounting information in annual report</b>						
Net Current Asset	5,094,700	1,694,459	117,119	71,442	103,117	2,649,000
Less: Adjustment for CA	4,081,100	515,781	51,278	30,466	8205	1,762,600
Add: Adjustment for CL	5,185,900	552,293	57,719	90,260	17428	1,218,900
Zakat Base using simulation	6,199,500	1,718,825	123,560	131,236	112340	2,105,300
Practicality for using annual report to calculate zakat	No	No	No	No	No	No

\* Zakat based Pharmaniaga is on the profit after tax after deducting certain non-operating income and expenses.

\*\* figure is based on Profit after tax.

During performing the simulation of the zakat calculation , several difficulties were discovered in analyzing the date, especially with regard to the classification of the items. It is interesting to note that partial payment to contractor were assumed as payment for property, plant and equipment. There is no further information on other payables and accruals. It was identified that one of the GLC placed taxation and zakat as current asset, however no further information was yet given.

The item cannot be determined as to whether there was taxation or zakat in advance involved from this classification exercise. Most of the limitation can only be resolved through internal information. For one of the GLC which is Pharmaniaga, their zakat calculation is based on profit after tax not on the net current assets as suggested by the guidelines. Based on the different between the actual zakat calculated by the companies and on simulation performed, it can be concluded that the accounting information from annual reports are totally unusable in the zakat computation.

On the disclosure, the checklist to determine the level of compliance to the zakat guidelines which was develop as shown in Table 2. As specified in these guidelines, the business shall disclose in the notes accompanying the financial statements the following information. Table 3 indicates the MASB TR *i1* information on zakat required to be disclosed on 6 GLC's.

**Table 3: MASB TR *i1* Information on Zakat to be Disclosed**

MASB TR <i>i1</i> information on zakat required to be disclosed	Tenaga Nasional	Malaysia Airport	Pharma-Niaga	TH Plantations	Time Engineering	Telekom
1. Method used in the determination of Zakat base	No	No	Yes	No	No	No
2. Responsibility towards payment of Zakat on business	No	No	Yes	No	No	No
3. Major components of Zakat:						
i. current Zakat expense	Yes	Yes	Yes	Yes	Yes	Yes
ii. Zakat payment	Yes	Yes	Yes	Yes	Yes	Yes
iii. Zakat liability	N/A	N/A	N/A	N/A	N/A	Yes*
iv. adjustments recognized	N/A	N/A	N/A	N/A	N/A	N/A

\* Zakat liability disclosed for Telekom is together with taxation liability. It was not sure whether there is Zakat liability or taxation liability or combination of both liabilities (by right zakat is not liability).

Four of the GLCs did not disclose any notes regarding zakat payment except for the figures. However, the Malaysia Airport disclosure is still too short and not up to the standards as required by MASB. Whereas for Pharmaniaga, they give details on the disclosure but the method used was inconsistency with the guidelines provided by the authorities.

#### **Malaysia Airport**

*Zakat payable by the group and companies is a form of contribution according to the principles of shari'ah.*

(Malaysia Airport Annual Report: 283)

#### **Pharmaniaga**

*The Group recognised its obligations towards the payment of zakat on business in the income statements. 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".*

*Zakat rates enacted or substantively enacted by the balance sheet date are used to determine the zakat expense. The rate of zakat on business, as determined by National Fatwa Council for 2010 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.*

(Pharmaniaga Berhad Annual Report: 144)

## 5.0 Conclusion

Based on the assessment made, the accounting data from the annual report does not support at all the figures for zakat computation. On the disclosure, even though there are guidelines on what are disclosures to be made, but it was not being followed at all. The guidelines do not carry the same weighted as standards. Most of the companies disclosed only the zakat figure, without mentioning the methodology being used and the zakat base figure. MASB TR i1, *Accounting for Zakat on Business*, is a very good guidelines based on the current Islamic principles, however without enforcement it will not be followed by the Malaysia corporations.

Interesting practices on zakat payment were also found. There are many literatures including the guidelines issued by all of SIRCS, JAWHAR and the standards issued by MASB proposed to use the adjusted working capital method for zakat payment. It was found that one of GLC used profit after tax as their zakat base figure. It may be because of the confusion with a tax system which is based on the profit. To pay zakat on profit, it should be paid based on the before tax profit, not the after tax profit. However, a further debate on Syariah aspect is needed on these practices. It also found that several GLCs had disclosed their obligations towards zakat in indicated their social responsibility statement. Some GLCs stated that they have distributed donation to the right *asnaf* ( ) while other GLCs stated that have collaborated with Zakat Collection Centre at their respective state to run on the society program. The various practices done by the GLCs also need further clarification.

Accounting is a tool for reporting financial information to the users. Based on the finding of this study, accounting failed to meet the demand of Muslim users'. The failure is due to the lack of enforcement in managing zakat accounting information. Accounting was created and denominated by western, which have different paradigm, culture and religion values and background. Beresford (1995) stated that accounting standards are conventions rather than natural laws, it is not unreasonable to expect different groups of people to reach different decisions, particularly groups with different constituencies and different missions.

According to Gray (1988) is his well known article on cultural influences suggested that there is a relationship between accounting and culture. Even though it is an acceptable argument that accounting cannot meet the demand of all users, but the ignorance on the information needed by the Muslim users' is not addressed in it correct perspective. As such, the provision of a fair Zakat base is the primary objective of Islamic accounting (Baydoun and Willet, 1998), an extensive effort should be taken to increase the appropriateness of accounting information. Moreover, there are over 2.1 billion population or 29% of world population (Muslimpopulation, 2012) is Muslims and the information needed by this group is very crucial to be studied. The introduction of MASB TR-i1 *Accounting for Zakat on Business* in 2007 was a good initiative towards awareness on Zakat harmonization with accounting. However, another initiative is needed to ensure zakat guidelines can be applied along with accounting principle in Malaysia.

### Toward Accounting for Zakat

Kamal (1995) stated that accounting for Zakat has been defined as a branch of accounting which is concerned with determination and valuation of wealth and income. In zakat, the accounting principles are not only related to measurement and valuation, but also recording, interpreting, presentation and disclosure of accounting information (Musa, 2005). The origin of proper accounting record has been established in Islam a long ago before the origin of accounting by the western. In Quran, the fundamental of accounting has been described by Allah in the Quran;

*“O you who believe! When you deal with each other, in transactions involving future obligations in a fixed period of time, reduce them in writing, let a scribe write down faithfully as between the parties; let not the scribe refuse to write: as Allah has taught him, so let him write. Let him who incurs the liability dictate, but let him fear his Lord Allah, and not diminish aught of what he owes.” (Al-Baqarah: 282)*

Even during the era of the second Caliph, Khalifah Umar Al-Khattab from 13 – 24 hijri (633 – 644 M), the Department of Accounting has been established. During this period, a proper accounting record has been introduced to record all the inflows and outflows of the country. In this current era, all the funds received and distributed and kept in the treasury (*Baitul Mal*) must be recorded and updated to avoid any misleading of public funds.



Moreover the establishment concept of working capital has been introduced by the Muslim jurist, Abu Ubayd al-Qasim ibn Sallam<sup>1</sup> from the classic written manuscript originateas early 8<sup>th</sup> century (289 after hijrah). In the Kitab Al Amwal (the books of finance), it was reported that Malmun Ibn Mahran<sup>2</sup> has said;

*“At the time of your payment of Zakat, estimate your cash and commercial goods; determine the price of your commercial goods in cash, then include in it your that loan, which you have given to a well-off person; then exclude from this total the amount of loan that you have taken; and then pay the Zakat on the balance.”*

The statement made by Malmun Ibn Mahran was used as the basis for zakat business which was widely been used in Malaysia, which is known as the Adjusted Working Capital Method. On the same book, the concept of fair value also been revealed. Among the citation about fair value are, from the father of Abu Amr b. Himas said that;

*“Umar<sup>3</sup> passed by me and said , “O Himas! Pay Zakat on your possession.” I said, “I have nothing except these quivers and tanned skins.” He said, “Determine the price of these things and then pay their Zakat.”*

And, from Jabir b. Zayd said that;

*“When you paid your Zakat, estimate your commercial commodities and pay their Zakat also.”*

The fundamentals accounting concept which were describe in Quran and being implemented through the guidance of Prophet Muhammad (pbuh), and from the Islamic scholars thinking since the 6<sup>th</sup> century proved that Islamic accounting is a very relevant subject to be explored and studied.

In Quran, the God said that;

*“...this Book (Quran) is a perfect guidance for mankind and consists of clear teachings which show the right way and are a criterion of Truth and falsehood...” (Al-Baqarah: 185)*

From this verse, Muslims believe that Quran through the guidance of Prophet Muhammad (pbuh) is a perfect guide and example for the mankind. Islam is not limited to the worship, but it covers all aspects and facets of human life, benefited to the Muslim and the non-Muslim. Lydon (2009) stated that Islam is a distinct religion, especially as compared to Christianity whose scriptures are largely silent on economic matter. In Islam, trading transaction has been described in Quran and also through the practice of the Prophet Muhammad (pbuh). Islam had set out its own characteristics on the accounting information however this information is not available yet through conventional accounting.

A thorough study is therefore needed to harmonies the Islamic principles with the conventional accounting to ensure the demand for the Muslim can be met, and enhancing the quality of accounting information is thus possible. It is envisaged that the harmonization of syariah principles and condition of zakat for business and accounting reporting can be treated as future study.

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<sup>1</sup>Abu Ubayd al-Qasim ibn Sallam (157AH- 224AH, 774-837CE), - one of the great early hadith masters and philologists, author of Gharib al-Hadith, Fada'il al-Qur'an, and many other works. A student of Hushaym, Ibn `Uyayna, Ghundar, Ibn al-Mubarak, Waki`, Ibn Mahdi, and others.

<sup>2</sup>Maymûn b. Mahrân was a great scholar amongst the Successors. He narrated hadith from Abu Hurayrah, Aishah and Ibn `Umar – amongst others. He died in 116 or 117H.

<sup>3</sup> Umar Al-Khattab is the second Caliph after Abu Bakar Al-Siddiq. He died in 24H.

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