

# THE CONCEPT OF ASSETS AND ACCOUNTING STANDARDS IN ZAKAT GOVERNANCE: ENHANCING TRANSPARENCY AND ACCOUNTABILITY

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**Abstract:** *Zakat, a fundamental pillar of Islamic economics, mandates the redistribution of wealth from the affluent to the disadvantaged, contingent upon specific conditions met by every Muslim. In the realm of business, discussions surrounding zakat reveal critical challenges arising from conventional business frameworks and accounting norms. Assets, pivotal element in financial statements, serve as key elements in zakat computations. This paper delves into the Islamic perspective on assets, the application of accounting standards, and the role of Maqasid Shariah in zakat practices within business contexts. The analysis highlights the imperative of understanding asset concepts in zakat computations and integrating Maqasid Shariah into Islamic economic principles. It advocates for a reassessment of asset accounting methods for zakat, tailored to its unique objectives and requirements. By refining interpretations and adopting robust accounting practices, zakat governance stands poised for enhanced efficiency and effectiveness.*

**Keywords:** *Assets, Accounting Standards, Governance, Business.*

## Introduction

Zakat, a key pillar of Islamic economics, requires wealth to be redistributed from the wealthy to the less fortunate, provided certain conditions are met by each Muslim. This system of wealth redistribution helps mitigate economic disparities within society. Beyond its economic impact, zakat nurtures a profound sense of selflessness and enhances awareness of the needs within the community.

One means of generating and accumulating wealth is through economic activities, particularly business. However, the wealth generated through business activity does not solely belong to the business. Through business zakat, entities are required to allocate a portion of their wealth to support the less fortunate, specifically the asnaf.

Among the challenges in business zakat is to determine which categories of assets that should be subject to zakat, also known as zakatable asset (Abdul Kadir & Abdullah, 2019). In a business context, these assets typically include inventory and accounts receivable. Additionally, issues related to asset valuation must be conducted fairly, reflecting current market values while remaining in accordance with Shariah principles. Shariah compliance aims to ensure that the process of determining and calculating assets for business zakat adheres to Shariah principles. This includes ensuring that the assets subject to zakat are legitimate from a Shariah perspective and that the calculations are conducted fairly and transparently.

Such issues become increasingly challenging with the diversity and differences in the views of various Islamic schools of thought regarding the types, classification and valuation of assets. This leads to confusion among business owners about the most appropriate and suitable practices. Furthermore, there may be difficulties in achieving widespread acceptance of asset determination methods for business zakat, particularly in the context of the modern economy and the various types of businesses that have emerged today. The emergence of various forms of operations and business activities has made corporate record-keeping systems more challenging, requiring financial statement preparers to remain constantly vigilant to changes in regulations and business laws (Awwad, Alkababji & Razia, 2024; Lakshan, Low & de Villiers, 2022; Rijanto, 2024). Solutions to these issues require ongoing research and collaboration between scholars, Islamic economic experts, and the business community to develop comprehensive and practical guidelines.

## Assets in Islam

The Islamic perspective on assets (the term asset and property will be used interchangeably in this article) is clearly articulated in the Quran. Ahmad and Ibrahim (2006) note that the three fundamental principles concerning property in the Quran include: (1) Allah is the true owner of all property; (2) human beings are entrusted as caliphs to administer and fulfil their responsibilities regarding property, and (3) property is seen not merely as a source of wealth but also as a means or a way to perform good deeds and contribute positively to society.

According to Ahmad and Ibrahim (2006), the characteristics of property are: (i) it can be controlled or possessed and provides direct benefits, and (ii) it can be controlled (even if not directly) and provides benefits. Furthermore, they state that something is not considered property if: (i) it cannot be controlled even though it provides benefits, such as oxygen, (ii) it can be controlled but does not provide any benefit or (iii) it can be controlled but is prohibited by Islamic law, such as carcass.

Based on the characteristics of property outlined above, every element within the earth and the universe is under the absolute ownership of Allah, while human beings are entrusted as caliphs with the responsibility to manage and administer these properties with wisdom. This responsibility must be executed with care and diligence, emphasizing that property should be managed with honesty, accountability, and integrity. Crucially, the management of property must adhere to Islamic law and be utilized in permissible ways.

Ahmad and Ibrahim (2006) further clarify that the distinction between property from the perspective of Islamic law and civil law lies in compliance with Shariah. It contrasts with civil law, which asserts that property initially has no owner, and individuals acquire absolute ownership through activities as long as these activities do not violate human-made laws. This fundamental difference underpins the concept that in Islam, Allah SWT is the true owner of property, while human beings are merely representatives entrusted with its management according to Shariah principles. In conclusion, Ahmad and Ibrahim (2006) state that under Islamic law, property is something that can be controlled or possessed, provides benefits, is lawful, holds value, and is desirable for human acquisition.

#### **Assets and Business Zakat**

Financial Accounting Standard No. 9 (FAS 9), issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) outlines specific conditions for zakat on business assets. According to FAS 9, the requirements for zakat on traded assets are as follows:

- a) Business activity: Trade assets must be acquired through purchase, exchange, or debt settlement. Assets obtained through inheritance or donation are not considered trade assets.
- b) Intention to trade: There must be an intention to trade or sell the asset immediately upon acquisition. Assets acquired for use as fixed assets are not subject to zakat. If a fixed asset is later converted into a trading item, zakat must be paid on the cash proceeds if the nisab (minimum threshold) is reached and the cash remains at the end of the financial year. However, assets initially acquired for trade but later converted into fixed assets are no longer considered trade assets.

#### **Business zakat calculation**

Specifically, there are two methods for calculating zakat for businesses. According to the Manual Pengurusan Pengiraan Zakat (MPPZ, 2008) published by the Department of Waqf, Zakat, and Hajj (JAWHAR), the applicable methods are working capital and growing capital

The formulas for both methods are as follows:

##### **i. Working capital method:**

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

##### **ii. Growing capital method:**

$[(\text{Owner's Equity} + \text{Long-term Liabilities} - \text{Fixed Assets} - \text{Non-current Assets}) \pm \text{Adjustments}] \times \% \text{ of Muslim Share Ownership} \times 2.5\%$

Based on the methods outlined above, the asset element is one of the most critical factors in determining zakat. Therefore, understanding and applying the asset calculation must be done meticulously to ensure that the business zakat amount is accurate and complies with the established requirements.

### Accounting treatment

FAS 9 also states that zakat is obligatory on accounts receivable recognized by debtors who can pay them. Zakat is also required if a debtor refuses to acknowledge the receivable but there is evidence that it is owed and collectible. Furthermore, according to FAS 9, for other types of assets, the funds subject to zakat are recognized and measured by calculating the nisab, depending on the nature and type of the assets, whether cash, livestock, agricultural produce, trading goods, or otherwise.

For asset valuation purposes, FAS 9 stipulates that trading assets should be valued for zakat purposes at their selling market price (equivalent cash value), rather than at historical cost. In addition, zakat is levied at a rate of 2.5% when calculated based on the lunar calendar, and at 2.5775% if based on the solar calendar.

Meanwhile, according to the Malaysian Accounting Standards Board (MASB) through Technical Release i-1 (TR i-1), the basis for zakat is the net adjusted amount of assets and liabilities used in or derived from business activities. The term "zakat assets and liabilities" refers to assets and liabilities as defined by MASB. The Conceptual Framework for Financial Reporting, issued by the International Accounting Standards Board and adopted by MASB, defines an asset as:

"An asset is a present economic resource controlled by the entity as a result of past events."

In line with the guidelines provided by TR i-1, for the purpose of asset valuation, entities should measure zakat assets and liabilities using the same basis of measurement as applied in the preparation of their financial statements.

According to FAS 9, the disclosure requirements within the context of Islamic financial institutions include:

- The method used to determine the zakat base and the items included in determining the zakat base.
- The Islamic bank's Shariah supervisory board's rulings regarding zakat-related issues.
- Whether the Islamic bank, as a parent company, pays its share of zakat obligations within its subsidiaries.
- If the Islamic bank does not pay zakat, a disclosure must be made in the notes regarding the amount of zakat that needs to be paid.
- A statement of the amount of zakat payable from the equity of investment account holders.
- Whether the Islamic bank collects and pays zakat on behalf of investment account holders and other accounts.
- Restrictions set by the Islamic bank's Shariah board in establishing the zakat base.
- The disclosure requirements in Financial Accounting Standard No. (1): Presentation and General Disclosure in the Financial Statements for Islamic Banks and Financial Institutions must be adhered to.

In accordance with TR i-1, regarding the presentation of financial statements, the zakat amount must be presented as a separate line item on the face of the income statement. For the purpose of disclosure in the financial statements, an entity is required to include the following information in the accompanying notes:

- (a) The method employed to determine the zakat base;
- (b) The entity's obligation concerning the payment of business zakat; and
- (c) The primary components of zakat, which may encompass: (i) current zakat expenses; (ii) zakat payments; (iii) zakat liabilities; and (iv) any adjustments made in the current zakat period for prior periods.

Interestingly, the MASB holds a distinct perspective regarding FAS 9. MASB asserts that FAS 9 is not suitable in the Malaysian context because: (a) the specified accounting treatment is specifically tailored for use by Islamic financial institutions that also serve as zakat collectors and distributors; and (b) the specified accounting treatment may be in conflict with Malaysian legislation.

### **Maqasid Shariah – preservation of wealth**

The Shariah principles underlying the determination of business assets for zakat purposes involve several key considerations. In considering the Shariah requirements related to assets and business zakat, the concept of Maqasid Shariah can be regarded as a guide and reference. This concept, among other things, emphasizes the importance of safeguarding wealth—ensuring that assets are well-maintained and avoiding any actions that could harm or bring detriment to these assets, such as embezzlement or fraud (Zailani, Satar & Zakaria, 2022). Furthermore, wealth should not circulate solely within a particular group but should be channeled to those in need through zakat activities. Hence, by calculating and classifying assets based on the spirit and concept of Maqasid Shariah, the concept of assets for business zakat purposes will be perceived as more equitable and balanced, ultimately fulfilling the objectives of zakat as prescribed by Islamic law. This principle establishes zakat as a mechanism capable of lifting individuals out of poverty while simultaneously strengthening the Islamic economic system (Mohd Noh, 2022).

To that end, several factors must be considered in the determination of assets to be subjected to zakat. Firstly, full and complete ownership is essential, meaning that the assets must be entirely owned by the proprietor without any restrictions. This implies that the assets are under the full control and ownership of the business owner. Also, only productive assets are subject to zakat, requiring that they be capable of generating income or appreciating in value over time. This includes assets that have the potential to yield returns or increase in value. In addition, the concept of nisab is crucial, where the value of the assets must exceed a minimum threshold for zakat to be applicable. The nisab for business zakat is typically equivalent to the value of 85 grams of gold. Another important principle is the requirement that the assets must have been owned for a certain period, which is completion of a period of one year (haul). Furthermore, assets directly involved in the business's operations, such as inventory, are subject to zakat. However, fixed assets that are not generally used in the day-to-day operations are usually exempt. Apart from that, the valuation of asset should be fair and accurately reflect the true market value of the assets. Additionally, the principles of justice and fairness must be applied in all aspects of asset determination and zakat calculation. Every step must be carried out transparently and equitably, ensuring that no bias or injustice occurs.



### **Zakat governance**

Zakat governance and business zakat practices play a crucial role in ensuring transparency and accountability in financial reporting. The inclusion of zakat assets in financial statements is particularly significant in upholding good zakat governance. By clearly recording zakat assets within the financial statement, it demonstrates entity's commitment to fulfilling their zakat obligations. This transparency allows management, shareholders, and other stakeholders to monitor how zakat is calculated and paid. The practice of transparency will foster a more open organizational management and facilitate users' understanding and trust of financial statements (Langella, Anessi-Pessina, Botica Redmayne & Sicilia, 2023; Rajabalizadeh, 2025).

Financial statements that include zakat assets can be audited, ensuring that zakat is accurately calculated and distributed, thereby enhancing good zakat governance practice. Accurate recording of zakat assets in financial statements also ensures that the correct amount of zakat is paid, reducing the risk of underpayment or overpayment. Thus, it can reduce the risk of fraud related to zakat. Moreover, various issues concerning zakat misgovernance are frequently highlighted in the mass media and have become a central focus of zakat research (Wahb, 2023; Wahyuni-TD, Haron & Fernando, 2021). Furthermore, recording zakat in financial statements aids businesses in long-term financial planning. By knowing the amount of zakat that needs to be paid, businesses can better plan their cash flow and make more informed investment decisions. Moreover, transparency and accountability in zakat management can enhance a business's reputation and build trust among the public and customers. Businesses that are transparent and responsible in their zakat practices are often viewed more favorably by society, which can boost their reputation. Further, reporting zakat assets in financial statements indicates a business's commitment to its social responsibilities. This aligns with Islamic business principles, which emphasize the welfare of society through the equitable distribution of wealth. By taking their social responsibilities seriously, businesses contribute to the overall well-being of the community, thereby fulfilling their corporate social responsibility and supporting the welfare of the community.

### **Conclusion**

The concept of assets and accounting standards in zakat governance is integral to promoting transparency and accountability within Islamic financial systems. By effectively defining and reporting assets eligible for zakat, businesses and individuals ensure that zakat obligations are met in a manner consistent with Islamic principles. Adopting standardized accounting practices enhances the uniformity in zakat determination, mitigates risks of underpayment or misallocation, and strengthens trust among stakeholders. Furthermore, transparency in zakat reporting fosters public confidence in the equitable distribution of wealth, contributing to social justice and economic stability. As such, the integration of robust accounting standards and clear asset management practices within zakat governance not only fulfils religious obligations but also reinforces the ethical foundations of Islamic finance, promoting a more just and balanced socio-economic environment.

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