

## EXPLORING THE QUALITY OF ZAKAT REPORTING OF ISLAMIC BANKING INSTITUTIONS: EVIDENCES FROM MALAYSIA

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### ABSTRACT

*Reporting requirement on business zakat accounting for Islamic Banking Institutions (IBIs) is still at the infancy stage as minimal zakat disclosure is required. The banking and finance institutions in Malaysia are not compulsory to comply with any accounting pronouncement specifically with regards on business zakat. The objective of this study is to identify the extent of business zakat reporting among IBIs in Malaysia. In the light of the Malaysian regulatory and legal framework, a policy document on Financial Reporting for Islamic Banking Institutions issued by Bank Negara Malaysia (BNM) and a guideline on Technical Release i-1: Accounting for Zakat on Business (TRi-1) issued by Malaysian Accounting Standard Board (MASB) are examined to assess the recognition, measurement, presentation and disclosure of IBI's business zakat. In comparing with international accounting standard, Financial Accounting Standard 9: Zakah issued by Accounting and Auditing of Islamic Financial Institutions (AAOIFI) are also referred to. A qualitative research approach is adopted in this study by analyzing sixteen public listed IBIs zakat reporting. Content analysis procedure on the selected annual reports of the IBIs was conducted to identify the zakat expenses recognition, measurement for assets and liabilities for zakat, presentation and disclosure of zakat on business. The outcomes of this study highlight the similarities, differences and current state of business zakat reporting of the IBIs. This study reveals that different assessment methods for business zakat are necessary in order to fit with their own businesses' characteristics. As far as IBIs is concerned, the computation method adopted for business zakat is dissimilar even though the businesses are in the same Islamic banking sector. The use of different methods in computing business zakat should be acceptable as long as to ensure zakat is computed in line with the Shariah principles and the most importantly is to avoid zakat being ignored. Thus, this study provides suggestions for a business zakat reporting standard to provide a comparable and reliable financial information of IBIs. At the same time, with a high quality of zakat information in the annual report, the transparency could be enhanced. It is eventually lead to better facilitate the assessment of an IBI's financial position, financial performance and the level of Shariah compliance.*

*Keywords: Zakat reporting, Islamic Banking Institutions, Shariah compliance, disclosure and zakat base.*

### INTRODUCTION

Zakat obligation on business entities was originally imposed on tangible products which are meant for trading purposes. As the scope of products have been broadened and redefined by jurists, business zakat on financial products and services are becoming obligatory to be discharged by the business owners. In Malaysia, financial sectors comprising Islamic financial services as well as the conventional financial services. With dual banking environment in Malaysia, the Islamic financial system operates in parallel with the conventional financial system. The Islamic financial system encompasses the Islamic banking system, Islamic money market, Islamic insurance or takaful, Islamic capital market and the specialised financial institutions which provide alternative sources of financing (BNM, 2005). The rapid progress and growth in Islamic financial system has demanded for zakat reporting disclosure prepared by Shariah Advisory Board of Islamic Financial Institutions (IFIs).

The Shariah Advisory Board or Committee plays an important role in monitoring the compliance of IFIs activities with the Shariah requirements. With regard to the zakat obligations disclosure, IFIs are required to disclose the responsibility towards payment of zakat either on the business or shareholders or on behalf of depositors. The disclosure is presented in the annual report under the Report of Shariah committee of IFIs. Besides that, the reporting on business zakat should comprise the recognition of zakat, measurement of assets and liabilities for zakat, presentation and disclosure of zakat in ensuring the completeness of business zakat obligation made by IFIs. Zakat reporting disclosures are encouraged among the IFIs as to give clear picture on how business zakat is assessed, what methods used and what is the zakat expense or zakat payable amounts within one accounting period (Noor, Rashid, & Mastuki, 2011).

However, reporting standard on business zakat accounting for Islamic Banking Institutions (IBIs) is still at the infancy stage as minimal zakat disclosure is required. The banking and finance institutions in Malaysia are not compulsory to comply with any accounting pronouncement specifically with regards on business zakat. In the light of the Malaysian regulatory and legal framework, a policy on Financial Reporting for Islamic Banking Institutions issued by Bank Negara Malaysia (BNM) and a guideline on Technical Release i-1: Accounting for Zakat on Business (TRi-1) issued by Malaysian Accounting Standard Board (MASB) are examined to assess the recognition, measurement, presentation and disclosure of IBI's business zakat. In comparing with international accounting standard, Financial Accounting Standard 9: Zakah issued by Accounting and Auditing of Islamic Financial Institutions (AAOIFI) are also referred to. The IBIs seems to be on its own in deciding what to report for the business zakat paid for one accounting period.

The objective of this study is to explore the extent of business zakat reporting among IBIs in Malaysia. Based on policy document, *Financial Reporting for IBIs* issued by BNM and technical release *Tri-1, Accounting for Zakat on Business* prepared by MASB, the relationship between the quality of zakat information and zakat reporting requirement is examined. A qualitative

research approach is adopted in this study by comparing sixteen public listed IBIs business zakat reporting. Content analysis on the annual reports of the IFIs is conducted in order to identify the recognition of zakat expenses, measurement for assets and liabilities that subject to zakat, presentation and disclosure of zakat on business.

## LITERATURE REVIEW

### FINANCIAL REPORTING FOR ISLAMIC BANKING INSTITUTIONS ISSUED BY BANK NEGARA MALAYSIA (BNM)

BNM has issued a policy document on Financial Reporting for IBIs in February 2018 with the aim to ensure adequate disclosures by an Islamic financial institution in the financial statements. The policy is applicable to licensed Islamic banks, licensed banks and licensed investment banks approved to carry on Islamic banking business; and financial holding companies. The policy sets minimum expectations for the application of the MFRS to an Islamic financial institution.

#### Presentation and Disclosure

In meeting the requirement of Shariah Governance Framework for IFIs with respect to the state of compliance with Shariah principles, an Islamic banking institution shall disclose the Shariah Committee's Report as part of the Annual Report. Paragraph 11.4 expressing that the Shariah Committee's opinion on the Islamic banking institution's compliance with Shariah in respect of zakat computation shall be included in the Shariah Committee's Report. Besides that, the explanatory notes related to zakat obligation need to be disclosed in the annual financial statements of an Islamic financial institution.

#### Recognition and Measurement

Paragraph 11.6 specifically stated that an Islamic financial institution shall disclose the recognition and measurement accounting policies on an Islamic financial institution's obligation on zakat, which may alternatively be disclosed under the Director's Report. An Islamic financial institution that does not pay zakat must also disclose a statement to that effect in the financial statements. An Islamic financial institution that pays zakat shall disclose additional information regarding: (i) its responsibility towards zakat payment either on the business, and/or behalf of the shareholders; (ii) method applied in the determination of zakat base e.g. growth method, working capital method; and (iii) the beneficiaries of zakat fund.

### ZAKAT REPORTING FOR ISLAMIC FINANCIAL INSTITUTIONS (IFIs)

The need for a sound accounting and reporting system for IFIs has been called since 1990s as to meet the Shariah requirements and be relevant to be practiced. One of the main financial reporting disclosures aimed on zakat obligation to be discharged by IFIs (A. R. Abdul Rahman, 2003). However, there is a low compliance of zakat disclosures among Shariah compliance companies including IFIs. The information disclosed is very limited and some of 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 (Noor et al., 2011).

The requirement for an accounting standard for zakat becomes the main concern nowadays. However, no separate Islamic accounting standard is needed, instead the option need to be within the IFRS framework with the collaboration work of AAOIFI and the IASB (Mohammed, Fahmi, & Ahmad, 2015). The convergence between Islamic and conventional accounting particularly concerning on zakat reporting will produce complete and transparent financial reporting. Previous studies highlighted that harmonization between zakat assessment and zakat accounting is highly needed (Abdullah Ibrahim, Abdul Kadir, & Syed AdwamWafa, 2012) and (Mohammed et al., 2015). Ismail, Tohirin, & Ahmad, (2013) added that applying zakat for business is still a long way to arrive at a consensus or agreement among the stakeholders including Islamic banking sector business.

The computation of zakat on business is still remain the same as per calculation reported by Abu 'Ubayd, (1991). 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.

### TECHNICAL RELEASE i-1: ACCOUNTING FOR ZAKAT ON BUSINESS ISSUED BY MALAYSIAN ACCOUNTING STANDARD BOARD (MASB)

In 2006, MASB issued a technical release i-1 that deals only with financial reporting issues related to zakat on business. It sets out the overall considerations and provides guidance on the application of generally accepted accounting principles to the recognition, measurement, presentation and disclosure for zakat on business in the financial statements (MASB, 2006). This technical release is applicable to zakat paying entities including IBIs. Since there is no accounting pronouncement issued by the IASB yet, the technical release used AAOIFI entitled Financial Accounting Standard 9, (FAS 9) Zakah as the main base of reference. In addition, the technical release spells out that an entity shall refer to the relevant State Islamic Religious Council or its relevant zakat authorities for any issues relating to zakat on business such as zakat chargeability of an entity, calculation of zakat, determination of zakat base, and zakat eligibility of assets and liabilities.

### Recognition

Para 3 of the Tri-1 stated that zakat for the current period shall be recognised when an entity has a current zakat obligation as a result of a zakat assessment and an outflow of resources embodying economic benefits will be required to satisfy the zakat obligation. The amount of zakat assessed shall be recognised as an expense in the period in which it is incurred. When an entity pays zakat on its business assets, such amount of zakat is recognised as an expense and included in the Statements of Profit or Loss and Other Comprehensive Income when it is incurred.

Recognition on assets and liabilities is another important step before zakat is calculated. 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.

### Measurement

Measurement of assets and liabilities are made on the date zakat is assessed. An entity shall measure zakat assets and liabilities on the same measurement basis as used in the preparation of its financial statements. One of the conditions of business zakat to be fulfilled by an entity is a haul completion. Zakat shall be assessed when the entity has been in operation for at least 12 months. Then, zakat on business shall be calculated by multiplying zakat rate with zakat base. In Malaysia, National Fatwa Council has determined that the rate of zakat on business 2.5% of zakat base. Zakat base is referring to the net adjusted amount of zakat assets and liabilities used for or derived from business activities. An entity is advised to refer to the relevant zakat authorities for further guidance in determining the net adjusted amount of zakat assets and liabilities.

In determining zakat base, an entity may apply one of the following methods as recommended by the Malaysian Islamic Development Department (JAKIM) in *Panduan Zakat di Malaysia*, 2001 : (a) Adjusted Working Capital method; or (b) Adjusted Growth method. The adjusted working capital method calculates zakat base as net current assets, adjusted for items that do not meet the conditions for zakat assets and liabilities. 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. Adjusted working capital model is accepted as the most closely complied with the Shariah principles and it has been supported by several jurists (al-Qaradhawi, 2000, Rohila & Mohd Zulkifli, 2012, Zahri, H., 2014 & Ahmed et al., 2016).

### Presentation and Disclosure

In presenting the business zakat discharged by IFIs, para 15 specified that the amount of zakat assessed for the current period shall be presented as a line item on the face of the income statement. For disclosing the zakat obligation, Para 16 stated that an entity shall disclose in the notes accompanying the financial statements the (a) method used in the determination of zakat base; (b) its responsibility towards payment of zakat on business; and (c) major components of zakat. Further, para 17 described the components of zakat may include : (a) current zakat expense; (b) zakat payment; (c) zakat liability; and (d) any adjustments recognised in the period for zakat of prior periods. The analysis on presentation and disclosure of business zakat obligation is discussed in results and discussion.

## ACCOUNTING AND AUDITING OF ISLAMIC FINANCIAL INSTITUTIONS (AAOIFI), FINANCIAL ACCOUNTING STANDARD 9: ZAKAH

The AAOIFI FAS 9 sets out accounting rules related to zakat on business issued since 1999 (Adel, 2013). It is a guideline used by IFIs for the accounting treatments related to determination of the zakat base, measurement and recognition of items included in the zakat base and disclosure of zakat in the financial statements of IFIs. The basis of AAOIFI classification is based on the well-known shariah classification of trade commodities for the purpose of zakat (A. R. Abdul Rahman, 2003). By adopting the accounting treatment of zakah as stipulated in AAOIFI FAS 9, zakat paying business entities could enhance the transparency of their financial reporting and therefore they could be easily comparable (Sarea, 2013). A study on the influence of AAOIFI in reporting IFIs in Malaysia have shown that the AAOIFI accounting standards are being used as a reference in preparing financial statements (Mohammed et al., 2015).

With recent rapid growth of IFIs, the need for specific accounting standards for IFIs such as the ones issued by AAOIFI is still lacking due to several reasons (Sarea, 2013) and (Mohammed et al., 2015). The prominent reason on the limited use of AAOIFI accounting standards in reporting IFIs is attributable to the issue of comparability. Currently, the adoption of IFRSs have been accepted globally by many countries around the world. With the introduction of AAOIFI accounting standards 20 years ago, there is an increasing trend in adopting AAOIFI standard (Maali and Napier, 2010). However, it is rather difficult to compare the zakat computation methods between businesses adopting AAOIFI standard and businesses which are referring to local reporting guidelines. Since the international accounting standard for business zakat is still absence, the comparability is unsurmountable. Moreover, the acceptability and understanding of the role of AAOIFI standards can be of high significance for policy implications, regulators, and standard. Another challenging factor in applying the AAOIFI accounting standards is the different of Islamic schools of thought in understanding the Islamic principles (Mohammed et al., 2015). Malaysia has been said to be very liberal since all the four mazhabs have been referred in formulating the IFIs' products.

In Malaysia, AAOIFI standard has not been adopted instead it has been used as a guideline by many IFIs. MASB has stated that AAOIFI FAS 9 is referred to as one of the bases in developing the guideline on the accounting treatment for zakat on business. In the Malaysian context, AAOIFI's FAS 9 is considered inappropriate because the accounting treatment prescribed are specific

for application by Islamic financial institutions that also act as collectors and distributors of zakat; and the accounting treatments prescribed might run contrary to state or federal legislation in Malaysia (MASB, 2006). As state has its own jurisdiction on matters pertaining to Shariah, the administration of zakat is under the religious council of each state in Malaysia. Collection and distribution of zakat are governed by the state zakat authorities and the procedures must be in compliance with the state legislation. In computing business zakat, zakat base must be determined accurately. Zakat base refers to the net adjusted amount of assets and liabilities used for or derived from business activities that are subject to zakat (MASB, 2006). However, zakat base determined by AAOIFI refers to net assets or net invested funds components. Thus, zakat base proposed by MASB and AAOIFI are slightly different particularly in terms of recognition and measurement of zakatable items.

The AAOIFI standard proposed two models for zakat assessment namely Net Current Assets Method and Net Invested Funds Method. Under the Net Assets method, zakat base refers to assets subject to zakah and liabilities that are due to be paid during the year ended on the date of the statement of financial position, equity of unrestricted investment accounts, minority interest, equity owned by government, equity owned by endowment funds, equity owned by charities, equity belonging to not-for-profit organizations excluding those that are owned by individuals being deducted from assets (AAOIFI, 2008). Net Invested Fund method takes into consideration the sources of fund such as paid-up share capital and reserves, provisions not deducted from assets, retained earnings, net income, liabilities that are not due to be paid during the year ended on the date of the statement of financial position and net fixed assets and investments not acquired for trading non-current assets being deducted from the capital and reserves (AAOIFI, 2008). Similar with Tri-1 treatment, AAOIFI FAS 9 requires zakat to be treated as a non-operating expense of the IFIs and included as a deduction from net income. This is appropriate in order to reflect the financial obligation of the entity. If the zakat is payable, it will be treated as a liability of IBIs.

## RESEARCH METHODOLOGY

This study aims to explore business zakat reporting among IBIs in Malaysia. In meeting the objectives of the study, a qualitative research approach is adopted. Qualitative research contributes to an understanding of the human condition in different contexts and of a perceived situation. In qualitative research, there are several data analysis methods that can be used for example ethnography, phenomenology, grounded, phenomenographic and content analysis (Burnard, 1995). This study employs content analysis in gathering and analysing qualitative data.

### Sampling and Unit of Analysis

The provision of business zakat is the obligation of all Islamic Financial Institutions in Malaysia. Currently, there are 26 commercial banks in Malaysia and 16 IBIs. All IBIs operated in Malaysia either local or foreign banks were selected as unit analysis in this study. The concept of unit analysis refers to the sample, and the researcher has to determine whether the material is to be analyzed in its entirety or divided into smaller units. The sample size should be determined on the basis of informational needs to ensure the research question can be answered with sufficient confidence (Krippendorff, 2004; Patton, 2002). According to Fridlund & Hildigh (2002) commonly data are based on 1 to 30 informants only. However, there are no established criteria when using content analysis for the size of a unit of analysis, neither the number of informants or objects to study, nor the number of pages based on the informants' own written text or transcribed data (Patton, 2002).

### Data Collection and Data Analysis Methods

Data collection method is the process on how data of the study has been gathered. In qualitative study, there are varieties of data collections method such as interviews, content analysis, observations and other. As for this study, researchers applied Annual Report content analysis as the suitable method to fulfil the research objectives. Content analysis can be defined as “a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the context of their used” (Krippendorff, 2004). In addition, Down-Wambolt (1992) underline that “content analysis is a research method that provides a systematic and objective means to make valid inferences from verbal, visual, or written data in order to describe and quantify specific phenomena”. The method of content analysis enables the researcher to analyse a bulk of textual information and systematically identify its properties (Sekaran and Bougie, 2016). As the objectives to identify the zakat expenses recognition, measurement for assets and liabilities for zakat, presentation and disclosure of zakat on business, annual report content analysis is suitable method to be used. Generally, content analysis can be used on all types of written texts no matter where the material comes from. To achieve the objectives of the study, all annual report in the year 2018 of 16 IBIs in Malaysia was collected and analysed based on themes identified.

In content analysis, there are two techniques of data analysis whether the analysis is based on manifest analysis or latent analysis. If the data analysis is based on the manifest analysis, the researchers describe the information from informants, used the word themselves, rely very close to the texts and describe the visible and obvious in the context. However for latent analysis, researchers find the meaning of the text and what is the text talking about (Berg.B.L,2001). As for this study, latent analysis has been used in which all the information and objectives of the study answered from the annual report of the IBIs.

## FINDINGS AND DISCUSSION

### Recognition and Measurement

Both in the Financial Reporting for IBIs and MASB Tri-1 have required recognition and measurement criteria on i) IBIs responsibility towards zakat payment; (ii) method applied in the determination of zakat base; and (iii) the beneficiaries of zakat fund. Reporting on IBIs responsibility towards zakat payment has shown that only one bank does not disclose its zakat responsibility even though the zakat distribution is revealed. IBIs used different statements or reports to disclose their responsibility towards zakat. With reference to Table 1, the method applied in computing business zakat payable by IBIs is

varied and the zakat base used are either 2.5% or 2.5775%. Only three banks adopted an Adjusted Growth method as highly recommended by MASB in its technical release Tri-1 which is same as suggested by Malaysian Islamic Development Department (JAKIM) in the book of Panduan Zakat di Malaysia. That method calculated zakat base as net current assets and include adjusted for items that do not meet the conditions for zakat assets and liabilities. It shows that IBIs have adopted zakat computational methods which are approved by Shariah Committee Members. In terms of disclosing the beneficiaries of zakat fund, half of the IBIs under study stated it in their annual reports. Overall, even though these recognition and measurement criteria on zakat is only minimum requirements set by BNM and MASB, the level of zakat reporting is still lacking as there is no full disclosure on zakat obligation. The summary of the findings on recognition and measurement criteria for zakat reporting is shown in the following table:

**Table 1: Recognition and Measurement Criteria for Zakat Reporting**

No	Recognition and measurement of zakat	and of	(i) its responsibility towards zakat payment	(ii) method applied in the determination of zakat base		(iii) the beneficiaries of zakat fund
				Method	Zakat base	
1.	Affin Islamic Bank Berhad		Stated in the Director's Report	Asset Growth Method	2.5775%	Stated in the annual report
2.	Ambank Berhad	Islamic	Stated in the Shariah Committee's Report	Profit and Loss Method	2.5%	Stated in the annual report
3.	Bank Islam Berhad	Malaysia	Stated in the Report of The Shariah Supervisory Council	Capital Growth Method	2.5%	Stated in the annual report
4.	Bank Muamalat Malaysia Berhad		Stated in the Disclosure Shariah Committee	Growth Model Method	2.5%	Not stated
5.	Hong Leong Bank Berhad	Islamic	Stated in the Shariah Committee's Report and under summary of significant accounting policies on zakat	Net Asset Method	Not stated	Not stated
6.	Maybank Berhad	Islamic	Stated under accounting policies on zakat	Adjusted Growth Method	2.5%	Not stated
7.	Kenanga Bank Berhad	Investment	Stated under accounting policies on zakat	Not stated	Not stated	Not stated
8.	CIMB Holdings Berhad	Group	Stated in the Director's Report	Adjusted Growth Method	Not stated	Not stated
9.	HSBC Malaysia Berhad	Amanah	Stated that its shareholder has no obligation to pay zakat	No obligation to pay zakat	No obligation to pay zakat	No obligation to pay zakat
10.	Public Islamic Bank Berhad		Stated under the significant accounting policies on zakat obligations	Profit and Loss method	2.5%	Stated under the significant accounting policies on zakat obligations
11.	MBSB		Stated under the significant accounting policies on zakat	Working Capital Method	2.5%	Stated under the significant accounting policies on zakat
12.	Kuwait House Berhad	Finance (Malaysia)	Stated in the Disclosure Shariah Committee	Opening Reserve Method of KFH (Malaysia)	Not stated	Not stated
13.	OCBC Berhad	Al Amin	Stated under the significant accounting policies on zakat contribution	Growth Capital Method	Not stated	Stated in the Shariah Committee's Report
14.	RHB Islamic Bank Berhad		Stated under the significant accounting policies on zakat	Working Capital Method	2.5%	Stated under Basel II Pillar 3 Disclosures
15.	Al Rajhi Banking & Investment Corporation (Malaysia) Bhd.		Stated under the significant accounting policies on zakat	Not stated	Not stated	Not stated
16.	Alliance Islamic Bank Berhad		Not stated	Not stated	Not stated	Stated under Calendar of Significant Events

Sources: Annual Report 2018

### Presentation and Disclosure

Based on analyses of annual report of selected IBIs, most of the institutions have included the statement stating that the computation of zakat is in compliance with Shariah principles in the Shariah Committee's Report. Most of the IBIs under studies have been fully presented major components of zakat which are zakat expense, zakat payment and zakat liability except for one bank which has stated that its shareholder has no obligation to pay zakat. Majority of the IBIs presented the amount of zakat

assessed for the current period as a line item which is zakat expense on the face of the Statements of Profit or Loss and Other Comprehensive Income. On their Statements of Cash Flows, zakat paid for the year is disclosed. Disclosure on the provision for zakat liability are also presented on Consolidated Statement of Financial Position. This study provides suggestions for a business zakat reporting standard to provide a comparable and reliable financial information of IBIs. It also promotes transparency and completeness of business zakat assessments for the stakeholders.

## CONCLUSION

The trend of business zakat reporting among IBIs is increasing but the need for proper accounting standard is in quest. The promulgation of accounting standard is vital in order to encourage IBIs and other Islamic business entities to discharge their zakat obligation. Zakat reporting is not only for the stakeholders, instead it is the role of IBIs for fulfilling their social responsibility. At the same time, by providing proper zakat reporting, it would encourage IBIs in promoting towards sustainable business environment.

This study found that different assessment methods for business zakat are necessary in order to fit with their own businesses' characteristics. As far as IBIs is concerned, the computation method adopted for business zakat is dissimilar even though the businesses are in the same Islamic banking sector. The choice of different business zakat method might be influenced by the size of the business, the performance and the position of business and the decision made by Shariah Committee members. The use of different methods in computing business zakat should be acceptable as to ensure zakat computed is in line with the Shariah principles and to avoid zakat being ignored.

It is a high time for accounting standard for zakat on business being developed and practiced by businesses especially IBIs. In order for IFIs to perform the role effectively, accounting standards must be complied with by IFIs (Abdul Rahman, 2010). With rapid growth of IFIs locally and internationally, the convergence between Shariah principles and accounting is proved to be useful in developing objective, transparent and complete accounting standard for zakat on business. In addition, accounting standard would improve the quality of zakat reporting disclosure in the financial statements and improve the comparability of reported financial information on zakat of the IFIs. By providing complete and transparent of business zakat reporting to public, it would be able to encourage more businesses to fulfil their zakat obligations.

This study concludes with some recommendations in order to improve the quality of business zakat reporting among IBIs. Accounting standard should be developed within the international financial reporting conceptual framework and must be in line with shariah requirements. There is no need for stand-alone Islamic accounting standard in order to enable the standard being applied globally. The measurement, recognition, presentation and disclosure criteria have to be maintained with additional requirements to full disclosure for paying zakat entities. This is crucial in promoting the transparency and full disclosure of business zakat reporting among IBIs.

For future research, it is suggested that face-to-face interviews are conducted among the preparers or officers who highly involved in preparing financial statements of IFIs in order to explore the justifications for selection of such zakat computation methods. Besides that, the computation of zakat payable could be further investigated thoroughly from the interview sessions.

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