Zakat Construction for Manufacturing Companies: Accounting and Sharia Perspectives

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Abstract. Zakat is an obligation for every Muslim who meets certain conditions, by setting aside part of the wealth with a certain amount, and is given to the recipient of zakat which fulfills certain conditions as well. Zakat is a personal obligation, not an institutional obligation like a business entity. Meanwhile, from an accounting perspective, the owner of the company is a separate part of the business entity. Therefore, the problem is, can the zakat calculated from the company's net assets be used as a proxy for the zakat of the company owner? If in sharia perspective, corporate zakat can be used as a substitute for zakat for the owner, how is the recognition and reporting of zakat from an accounting perspective? This article is unique because during this time research on zakat is often related to zakat management organization, and does not touch on the legal construction aspect of zakat company.

Keywords: Zakat Company, Sharia Perspective, Accounting Perspective, Business Entity

1 Introduction

Zakat is one of the pillars in Islam which is the obligation for every Muslim who has qualified certainly to perform zakat. Zakat is given to certain Muslims who are eligible to receive zakat (8 zakat recipients). The criteria of assets that must be paid are that it has been owned by the person who is charged zakat (muzakki) for one haul (one year Hijri period) [1] and is calculated from his net assets and has qualified one nishob (a certain amount based on the fiqh rule).

In Indonesia, zakat affairs are institutionalized. The government regulates this zakat management agency through Law no. 23 of 2011 on Zakat Management. In more detail, IAI then issued standard guidelines for zakat managers in PSAK 109. Zakat Management Organization (OPZ) is tasked with managing and distributing zakat and alms by using PSAK 109 to ensure transparency and accountability.

In Malaysia, as in Indonesia, zakat affairs are also institutionalized. Each state authority involved in the administration of zakat carries out the following responsibilities: promotion, collection, and distribution of zakat; organized assistance for the poor and needy; including other ashnaf under sharia-defined guidelines. Although there are institutions that manage

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zakat, both in Indonesia and in Malaysia, there is no obligation to force every Muslim to perform zakat through the government-established zakat management agency. In Indonesia, there are no standards that govern specifically on zakat trade, whether about zakat issued by individuals or business entities. Accounting Standards governing zakat accounting are intended for Zakat Management Organization (OPZ) set out in PSAK 109.

Zakat is an individual obligation with the conditions specified in Sharia. In this perspective, there is no obligation for business entities to issue zakat. On the other hand, the conceptual framework of accounting requires the assumption of the Economic Entity in the process of recognition, assessment, and financial reporting of business units[3]. Based on these assumptions, the business entity is considered a separate entity from the owner. Synergy with the assumption of economics entity is required to issue zakat is the owner (individual), and not the corporate entity.

Sharia law which clearly states the nature of zakat as a personal obligation has the consequence that the net assets (equity) of business entities still contain assets that have not been issued zakat. If at any time the equity is issued as dividends received by shareholders or issued due to the taking of assets by the owner, then dividends or assets issued from that entity must be paid. On the other hand, the equity that still settles in the entity unit is the property of the financier. This means that there are still net assets owned by shareholders that should be issued as zakat but postponed zakat expenses due to accounting regulations and principles. Based on this fact, the question is: 1) is there a legal opportunity to construct zakat payments by business entities as proxies of zakat financiers? 2) If sharia has the opportunity to construct the concept of zakat entity, then how is the recognition and reporting of zakat in the accounting system?

2 Literature Studies

2.1 Tijaroh Concept

The *term tijarah* in Arabic means trade. Zakat Tijarah is one of several types of zakat mall oriented towards trade. In physiological terminology, *tijarah is* defined as the turnover/management of property through exchange and profit-oriented [4]. *The term tijarah* or trade is essentially a very out-of-the-80s categorization. The elements that exist in the term tijarah *can* include some transactions that are commonly done by humans. Among the transactions that are common among humans, among others are buying and selling, renting, profit-*share, syirkah,* or company, as well as other profit-oriented transactions. That is, in all of these agreements, there is a duty of zakat.

The legal basis for the *obligatory zakat of the tijarah* is the hadith of the Prophet Muhammad. [5] as follows:

فِي الْإِبِلِ صَدَقَتُهَا وَفِي الْغَنَمِ صَدَقَتُهَا وَفِي الْبَقَرِ صَدَقَتُهَا وَفِي الْبَزِّ صَدَقَتُهُ

It means: “In the camel there is zakat, in the goat there is zakat, in the cow there is zakat, and in the cloth there is zakat”.

As with other types of mall zakat, zakat *tijarah* is also required when the conditions are met. And who is in the heavens and the air, and who is in the heavens and the world, and who is in the heavens and the world, and who is in the heavens and the world, and who is in the heavens and the one who brings out zakat must be Muslim, independent, adult and sensible. The obligatory requirement of zakat in the form of Islam and independence (not slaves) is agreed upon by the Scholars. While the condition of puberty and sensible is the opinion of the Hanafiyah Scholars [6]. Common requirements of zakat *tijarah* related to the property include:

a) Perfect Property,
b) Thriving treasures
c) Reaching nishob (the minimum limit of wealth set by Sharia for zakat duty). Nishob zakat tijarah is to use the value of nishob zakat gold or silver. Nishab, which is required only when hauling, does not have to keep nishab reached during the year of trade because that is mandatory only during one year of trade [7]. The nishob of gold according to the madzhab Shafii, Maliki and Hanbali are 77.58 grams gold. While according to Madzhab Hanafi is worth 107.75 grams.
d) It is a treasure more than a primary need
e) Debt-free [1].

While the special terms that apply in zakat trade include:

a) *Haul* or even one year Hijri. Haul means it passes one year. The meaning of haul is more inherent with the Hijri year. Therefore, the habit of calculating zakat mall is to use the Hijri year. However, Baznas (Badan Amil Zakat Nasional) has issued a circular related to the time of counting haul based on the year of AD which is 2,575%. [8] This requirement also applies to capital-oriented zakat. [1] In 2014, the
b) There's an exchange. Without any exchange activity, it cannot be called a tijarah. [9] Such as heirs and grants.
c) Tijarah's intentions with the aim of profiting.
d) The treasures used are used for trade, not personal use. [10]t

If reviewed in terms of the fact, zakat *tijarah* is a type of zakat which is obligatory because of the trading activity and the benefit. Therefore, there may be two types of zakat malls collected in one particular case such as a farmer who trades against his farm animals. In this case, the farmer may be exposed to two different types of zakat mall, zakat farm, and zakat *tijarah.* The consequence is that the wealth issued in the name of zakat is different. Zakat *of the breed* is 2.5%, while for zakat the farm depends on the number of farm animals owned. In this case, if all the general and special conditions are met, then all that must be paid is zakat which is *dzatiyah* or the fact of goods that must be issued by zakat because in zakat farm, farm animals as the main commodity because zakat is obligatory. Whereas if the condition of *fulfillment of nishab* is only achieved at one of the zakat, then the one that must be issued is the one achieved nishab [7].

The uniqueness of zakat trade is when determining the assets that it zakat must be issued for one year since the start of trading. Because of course, what includes trading assets is all the assets used to trade, not just the profits. While after one year, of course, there is merchandise that is still in the form of goods and not sold yet. In determining it, it should be taken the middle ground between the possible purchase price and the retail sale price [7]. For example, the purchase price is 90 thousand while the selling price is 100 thousand, so determining the price of unsold goods is 95 thousand.

In addition to profits in trading, what must be included in the calculation of assets when haul is all trades, borrowed assets, productive objects purchased with trading assets. Consumptive items purchased from trading assets or profits are not included in the property at the time of the haul. More clearly, as a form of applicative provision for the implementation of zakat in Indonesia, Badan Amil Zakat Nasional (Baznas) has issued a circular on the calculation of zakat trading and services with the following provisions:

a) Zakat calculation is based on annual calculation (*haul)*)

b) Fixed assets supporting the business do not include obligatory zakat.
c) That can be categorized as zakat objects, among others, current assets in the form of goods, receivables, bill money, investment, and cash in the Bank.
d) The valuation of zakat is based on the current market value.
e) Liabilities that must be paid immediately in the short term must be deducted from zakat.
f) Nishab zakat is equivalent to 85 grams of pure gold.
   1. The percentage or zakat rate is 2.5% based on Hijri dating, and 2.575% based on the date of the ad. An additional count of 0.75% is due to the number of days in the year and more than 10-11 days. If one year is mandatory 2.5%, then per day it is assumed as much as 0.068%. If multiplied by 11 days, an additional amount of 0.075% is earned.
   2. The amount of zakat after it is calculated value is divided into each share, and or to the partner company [8].

   If using a simple formula Baznas, then to calculate zakat *tijarah with* the formula:

$$2{,}5\% \text{ x (current assets – short-term debt)[11]} \quad (1)$$

For example, a person has a current asset in his trade worth 300 million. Meanwhile, short-term debt totals 60 Million. If the gold price is Rp 500,000 per gram, then nishab totals 42.5 Million. Since it has reached nishab, the total zakat that must be issued for one year is 2.5% x 240 million = 6 million rupiah.

2.2 Accounting Concepts

Conceptually, accounting is the process of acknowledging, assessing, and reporting the economic activities of a business entity. The accounting hierarchy as an actual theory is only seen as a concept structured in the conceptual framework of accounting[12]–[14]. The hierarchy of the accounting conceptual framework consists of the first level, which contains the purpose of financial reporting; the second level, which contains qualitative characteristics and quantitative elements; and the third level, which contains concepts, principles, and limitations. In relation to zakat, one of the important assumptions to look at is the Economic Entity assumption. The assumption considers that the company is a stand-alone entity, and free from the interference of the company's owners.

Economics Entity assumptions mean restricting the access of company owners. The owner does not freely utilize the asset for his personal benefit. In this concept, the profit share, or retained profit is not fully under the owner's control. In relation to zakat, even if the value of the profit is withheld beyond one nishob and there is already a haul (zakat period), assuming the owner's enonomic entity is not subject to zakat obligation because the wealth has not changed hands from the company to the owner. However, the dimensions of the property indicate that the net asset is the right of the owner in its entirety.

Assuming the Economics Entity is also, any addition or reduction of assets must be recorded in the accounting structure. The reduction of cash for zakat will automatically credit the position of cash and debit the zakat allocation. The problem is that zakat cannot be put as an expense. Zakat has a wider dimension of meaning than the burden because zakat is a form of submission to the rules of religion. Zakat has religious significance as an allocation of benefits for the owner.

3 Research Methods

Research was conducted in Indonesia to connect zakat in one element of financial statements. The resulting financial statements are integrated into a set of financial statements. In terms of answering two basic issues concerning sharia validity towards the use of corporate zakat as a proxy for zakat of the owner. Because based on the Qur'an and As-Sunnah has explained that zakat is a personal obligation, then all that needs to be done is to find a legal source in line with the Qur'an and Hadith through the methods of qiyas and ijma'. Qiyas means to establish a rule of law based on sharia analogies derived from the Qur'an and Hadith, while Ijma' is a discussion and agreement of scholars to determine a law based on interpretation and analogy of sharia law. This research was conducted by *way of Focus Group Discussion* (FGD) through bahtsul masail forum to discuss the validity of the company's zakat as a proxy for personal zakat.

FGD is carried out by involving 1) scholars (religious experts) and 2) accountants as accounting experts. Sources representing scholars and accountants (samples) are conducted *in a convenience proportional sampling.* There are 10 scholars (experts in religious law) and 10 accountants, both academic accountants and practitioner accountants.

Discussions are conducted on the following topics:

a) Can zakat company as the proxies of zakat owner?
b) Is total net assets or a portion of net assets planned as dividends only used as the basis for determining zakat?
c) What is the concept of recognition and reporting of zakat in the structure of financial statements?

4 The Results of the Study

4.1 Zakat Company as a Proxy of Zakat for the Owner

Zakat company can be recognized as zakat proxy owner by taking the path qiyas that in fact equity in the financial position report structure is the property of the company. The process of separating the company's entity from the owner is simply an assumption that cannot be legally charged in the fiqhiyyah rule. However, some of the basic things that are the condition of zakat must be fulfilled, such as:

a) Manufacturing companies can be identified with trading companies so that the concept of zakat tijaroh can be used.
b) The total amount of equity or net assets has met one.
c) Has fulfilled one haul (period) of the company's operations.
d) The calculation of zakat is based on the total net assets, not based on the estimated value issued as dividends. This consideration is based on the aspect of insanity ownership of the net asset.
e) Zakat in the following year is based on the total amount of net assets calculated in the year and is not based on the increase in net assets due to profit.

4.2 Concept of Zakat Recognition and Reporting

In accounting systems, it is known as *double-entry* account. The system requires a balanced recording of the credit and debit positions of each financial transaction[16], [17].

The appearance of zakat obligation at the end of the company's operating year means requiring the company to issue cash or record zakat debt (if zakat has not been paid) in the credit position. Recognition on the debit side is zakat allocation.

Although zakat allocation account is recorded on the debit side, but the reporting of Zakat Allocation in the financial statement structure is included in the credit position, under the Retained Profit account whose function reduces the Amount of Retained Profit. Thus, the structure of the Financial Position Report is not compromised by the amount of debit account balance and credit account remains balanced. On the other hand, the reporting process does not need to repeat on the recognition of Zakat Allocation as a burden that can reduce the net profit that has been calculated before reporting the financial position. Likewise, with reporting models such as the concept, Zakat Allocation does not need to be reported separately from the Financial Position Report section. Financial statements that combine Zakat Allocation in a set of financial position reports produce integrated financial statements.

5 Research Conclusions and Limitations

The study concluded three main points as follows:

a) The implementation of zakat of the company as a proxy of zakat of the owner is legally valid shar'i.
b) The calculation of zakat should be based on the total value of net assets within the period (haul) of the company's operations.
c) Zakat recognition is done by debiting the Zakat Allocation account, and crediting the Cash account if zakat is paid in cash, or Zakat Liability if zakat is paid in ta'jil (gradually). In terms of reporting, Zakat Allocation is reportedly integrated in the financial position report reducing Retained Profit.

Research has limitations in several ways:

a) The number of participants does not represent policy authorized institutions such as Ulama from the Indonesian Ulama Council, Ulama from Nahdlatul Ulama (NU) or Muhammadiyah official representatives, so the legal provisions taken through the qiyas method in the FGD cannot be declared as ijma'.
b) Participants of accountants do not formally represent accounting policy authorized institutions such as from the Indonesian Institute of Accountants (IAI).

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