Distribution of Zakat in the Form of Productive Assets: Certain Theoretical, Practical and Accounting Implications

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Abstract

Recent innovations of zakat disbursement in Malaysia have significant implications on accounting. Traditionally, zakat has been distributed in the form of cash disbursed directly to zakat beneficiaries (asna�). This is generally referred to as consumptive distribution. With an increase in the amount of zakat collected, zakat agencies have developed various schemes to distribute zakat in the form of productive assets. Sometimes referred to as productive distribution. Such distribution helps zakat beneficiaries in generating their own income in the long run, thus contributing to the self-sustenance of beneficiaries which may eventually lead to the asna�s “coming out” poverty. Consistent with this view, State Islamic Religious Councils (SIRCs) in Malaysia have also distributed zakat in the form of productive assets. Given this, it is interesting to examine the practical and theoretical implications on the accounting of such distributions. Data was collected from 4 SIRCs to examine the extent zakat is being distributed in the form of productive assets and the accounting treatment of such distribution. Suggestions of how productive zakat distribution should be accounted for have also been proposed.

Keywords: Zakat, Zakat Distribution, Productive Assets, Accounting, Malaysia

1.0 Introduction

Zakat, is one of the pillars of Islam that is an integral, compulsory and inseparable part of the Islamic way of life. Zakat covers the moral, social and economic aspects of human life. From the moral perspective, zakat purifies oneself from greed and the material pursuit of riches, whilst socially it functions as a unique measure to abolish poverty from society as well as encouraging the rich to live up to their social responsibilities (Mannan, 1986). Thus, the question as to how zakat is distributed is pertinent. More importantly, economists have often suggested

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that zakat be used as a tool for the alleviation of poverty and that the ultimate objective of zakat distribution is ensuring that beneficiaries will be able to sustain their own well being in the long run. Such an objective has led to various zakat agencies becoming more innovative in zakat distribution. While traditionally zakat was distributed directly to beneficiaries in the form of cash, food and clothing, currently zakat agencies provide assistance to beneficiaries in the form of training, consultancy services, the giving of specific assets (such as sewing machines and food lorries) as well as capital to finance beneficiaries in starting or continuing business. The former is termed consumptive distribution for the primary reason that such items are generally consumed or used by beneficiaries, while the latter (i.e. distribution in the form of productive assets) is regarded as productive distribution. Essentially, one may regard consumptive distribution as similar to operating expenditure, whilst productive distribution is akin to capital expenditure.

Suhaili and Nor ‘Azzah (2009) argue that consumptive zakat distribution could create a permanent class of dependents. Productive zakat distribution, on the other hand, aims to ensure that beneficiaries achieve financial independence in the long run and to make them zakat payers themselves eventually. Given the fact that State Islamic Religious Councils (SIRCs) in Malaysia are actually distributing zakat monies on the basis of consumptive and productive distributions- and these are indeed different in terms of nature and objectives- there are various pertinent questions that may be raised. The paper is significant as it raises several important issues related to productive zakat distribution. First, it reviews scholars’ discussions on the permissibility of productive zakat distribution. Second, it looks into the current practices by SIRCs on productive zakat distributions. Third, it discusses the accounting implications of productive zakat distribution.

Discussing accounting implications of productive zakat distribution is essential as they are various approaches toward productive zakat distribution. At the moment, all zakat distribution, be it consumptive or productive distribution, is expense off in a statement of receipt and payment. The first argument for a significant change to the current practise is, that if an asset is exist at the financial year end, it should be recognised in the statement of financial position. Second, small value assets such as sewing machines and boat engines could still be recognised as an expense if the purchase of such assets remain in the organisation for a while pending an immediate distribution to beneficiaries. However, if at the end of the year there is still a balance of assets from the purchase, it should be recognised as inventory in the statement of financial position. Third, long-term assets, such as buildings should clearly be recognised in the statement of financial position. However, the calculation of yearly benefits disbursed to beneficiaries should not be simply based on the useful life of a building. Rather, other approaches such as occupancy rates should be used to calculate the amounts of benefits disbursed.

The rest of the article is organised as follows. Section 2 provides a detailed discussion on the theoretical aspects of productive zakat distribution while section 3 presents prior literature on productive zakat distribution. Section 4 focuses on current practices of 4 SIRCs in Malaysia, particularly on the extent these SIRCs have undertaken productive distribution. Section 5 focuses on the accounting implications of productive zakat distribution, while section 6 is the
conclusion.

2.0 Productive Zakat Distribution

Shari’ah scholars have a firm view on how and when zakat received should be distributed. Most argue that zakat should be distributed immediately and, more often than not, in the form of direct cash distribution (Ibrahim Nuhu Tahir and Gapur Oziev, 2018). On the basis of this view, there is little room to allow for the distribution of zakat in the form of productive zakat distribution. The discussion on whether the distribution of zakat should only be restricted to consumptive distribution or may be extended to productive distribution would rest on several important factors. First, beneficiaries who are in need of immediate consumption from zakat distribution should be given priority. Second, productive zakat distribution could be made when the immediate consumption needs of the main groups of zakat beneficiaries, particularly the poor and the needy, have been fulfilled. Third, the basis of productive zakat distribution is based on the principle of zakat investment.

Most Muslim scholars are of the view that zakat should be distributed immediately. However, Wan Ahmad (2012) argues that the concept of investment in zakat property could be derived from the tradition of the Messenger of Allah (peace be upon him). In a hadith narrated by Anas, the Messenger of Allah (peace be upon him) gave milk to a group of people, from a camel received as payment for zakat (refer USC-MSA website at https://quranx.com/Hadith/Bukhari/USC-MSA/; Book 24, Hadith No. 577). From this instance, some are of the opinion that the camel was not actually provided for investment purposes. However, because it is pending distribution to valid beneficiaries, the act of the Prophet (peace be upon him) in giving milk to the beneficiaries while still preserving the camel may indicate that investing zakat monies is indeed permissible. Further, according to Wan Ahmad (2012), Islam allows zakat monies may be distributed in the form of consumptive and productive distributions from the following:

"...a person who is in need and can be given a charity until he becomes rich ..."

In order to ensure beneficiaries fulfill their needs or beneficiaries become richer, zakat money could either be distributed consumptively or productively (Wan Ahmad, 2012, p. 66). Productive zakat distribution could be in the form of capital assistance or tools for beneficiaries earning income. Suhaili and Nor ‘Azzah (2009) provide a lengthy discussion on the theoretical aspect of productive zakat distribution. They argue that productive zakat distribution could also be viewed from the perspective of zakat for income generation. Among the main goals of zakat distributed for productive purposes is to enable beneficiaries to generate income so eventually these beneficiaries will become self-sufficient and independent- a point alluded to earlier. Subsequently, these beneficiaries would no longer require a zakat allocation or allowance anymore and would one day become zakat payers themselves. However, the objective of productive zakat distribution should not be restricted only to the economic and monetary goals. These benefits could also be measured based on the social and non-monetary benefits.
For example, an SIRC would distribute zakat in the form of productive assets to asnaf such as sewing machines and engines for boats, which they could use in generating income for themselves and their families. From another perspective, sometimes an SIRC would allocate a certain amount of zakat distribution in order to construct a building which would be used to provide shelter for those who just embraced Islam, because they do not have fixed abodes as their families may have abandoned them.

The idea of zakat for income generation has been greatly discussed in contemporary Muslim scholarship. Ahmed (2004) believes that a zakat authority should provide necessary inputs to zakat beneficiaries, which include human as well as physical and financial inputs, in order to ensure that these zakat beneficiaries will rise above the poverty level. According to him, specific programmes must be designed to provide support for skills development, provision of physical capital such as taxis and sewing machines, as well as financial capital to start a business so that the poor can earn a living (Ahmed, 2004: 64). His view is also supported by Rahman (1986) who highlighted the need for zakat agencies to provide technical equipment and machinery to beneficiaries to enable them to earn a living and be self-sufficient, eventually. As discussed earlier, Suhailli and Nor ‘Azahah (2009) identified four programmes that zakat agencies could provide to achieve this. They are the provision of advisory services, training, direct services (for example, a non-profit organisation could be established in helping poor farmers market their produce) and financing in order to ensure that such productive distributions will meet its noble objective of ultimately making beneficiaries self-sufficient. The latter may be in the form of cash as capital or providing capital assets such as sewing machines, food lorries and other physical non-monetary assets. The type of capital provided (whether in the form of cash or non-monetary assets) is important as it has different implications in accounting. For example, Lembaga Zakat Selangor has certain schemes for zakat distribution with the objective of asnaf economic development. Specifically, capital assistance would be provided for qualified asnaf towards their businesses. The Fatwa Committee of Selangor in 1994 decided that business capital assistance would only be provided to three categories of asnaf: the poor, needy and reverts. There are two types of business capital assistance, the first being capital assistance to assist asnaf to start new businesses while the second is to assist asnaf to expand their current businesses.

**Beneficiaries of Productive Distribution**

Various issues related to productive zakat distribution have also been discussed amongst scholars (e.g. Nurul Ilyana Muhd Adnan, Zahri Hamat, Mohammad Zaini Yahaya and Mat Noor Mat Zain, 2017). Among issues discussed include the definition of an able bodied person. Most classical jurists opine that the category of “poor and needy” should not include a person who has the ability to earn a living for himself and his family. This opinion is actually based on the Prophet’s saying as follows:
“Alms are unlawful (both) for him who is materially self-sufficient and for him who is mentally and physically fit (and able to find work).”\(^2\)

According to Imam al-Shafi’i, zakat funds should not be extended to an able-bodied person if that person is able to earn sufficient income for a living. However, followers of Imam al-Shafi’i such as al-Shirazi and al-Nawawi believe that an able-bodied person with an unstable income has the right to zakat. The amount of zakat distributed should be to help these beneficiaries earn a living and eventually rise above the poverty level. However, they stressed that zakat distribution to these beneficiaries should be in the form of productive assets. Al-Nawawi in his commentary on al-Shirazi’s work clarified how zakat should be used to help unemployed beneficiaries. More specifically, he said that:

“A craftsman would be given an amount sufficient to buy tools and equipment that allow him to work and gain his sustenance. This certainly differs according to time, country and ability of the individual concerned. Some of our colleagues give examples that a person who sells vegetables might be given five or ten dirhams, while a person whose profession is selling jewels might be granted ten thousand dirham…”

**Principle of Ownership**

Another issue discussed amongst classical jurists is on the principle of ownership. In brief, the debate is about the transfer of ownership of productive zakat distribution. While the transfer of consumptive zakat distribution is immediate and thus the issue of ownership is not problematic (as ownership is transferred immediately), it may not be so clear in the case of productive zakat distribution. Certain aspects of distribution of productive assets such as a food lorry would render an immediate transfer of the assets. Whereas for certain other productive assets, such as houses, an SIRC would still hold ownership of the houses. It only passes on the benefit of such houses whereby it allows zakat beneficiaries to stay in such houses with minimum rent payment. Further, it must also be borne in mind that productive zakat distribution includes both the distribution of tangible and intangible assets. A good example of the latter would be a training course for a beneficiary that has been paid for using zakat money. As the benefits are deemed to be long term in nature, such distribution should also be regarded as productive distribution.

On the issue of ownership, Imam Abu Hanifah’s opinion is, perhaps, the strictest as he believes complete ownership should always be observed (refer to Suhaili Sarif and Nor ‘Azzah Kamri 2009: 481-482). Accordingly, this may imply that the distribution of productive zakat could only be associated with a tangible asset whereby the transfer of ownership could be clearly identified. Some modern scholars concur with this strict view on productive zakat distribution (e.g. Alim, 2015).

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Some schools of thought, such as Imam Hanbal and Shafi’i, have relaxed the requirement of individual transfer of ownership in all circumstances of zakat distribution. In certain situations, the condition of collective ownership could be utilised. In the classical jurists’ discussion, the condition of collective ownership could be applied to the second group of beneficiaries, such as *riqab* (those desiring freedom from slavery), *gharimin* (those in debt and needing assistance to meet their basic needs), *fisabilillah* (the one who strives in the cause of Allah for the betterment of the community) and *ibnus-sabil* (a stranded traveller on a permissible journey).

Yusuf Al Qardawi (2011) in his commentary on the issue of ownership stated that any distribution of zakat funds to the first four categories of beneficiaries must include the transfer of ownership. If the distribution involves productive assets, such as sewing machines and boat engines, the ownership of such assets must be transferred to the beneficiaries. On the remaining four categories of beneficiaries, distribution of zakat funds is for the purpose of providing but which might not necessarily require transfer of ownership. In relation to application of this concept in the current practice of zakat distribution, MAIWP has built Darul Hidayah for the purpose of providing shelter for those who have newly embraced Islam. In this case, the ownership of the building is still held by MAIWP.

In Indonesia, the issue of collective ownership and productive zakat distribution are indirectly addressed through Law No. 23 on the Management of Zakat which was released in 2011. According to Budi Rahmat Hakim (2015), Law No. 23 has redefined the meaning of the object, subject and distribution of zakat. The main articles that address the distribution and utilisation of zakat funds are Articles 25, 26 and 27. Article 27 of the Act provides that zakat “be utilised for productive efforts in the context of serving the poor and improving the quality of the ummah” and that “the utilisation of zakat for productive businesses” shall be undertaken only if the basic needs of beneficiaries have been fulfilled. The concept of collective ownership may be indirectly construed from social zakat assets. In developing the society, there will be facilities which have been built not to be individually owned. The facilities, such as a hostel for those who have newly embraced Islam, are built to provide shelter for those who have newly embraced Islam and are in need of shelter. Indirectly, such a hostel is owned by this group of beneficiaries, however, it is managed by an SIRC. Accordingly in Indonesia, productive distribution is brought about by the rule of Law. In Malaysia, the approval of various new innovative forms of productive zakat distribution should receive the approval of the Fatwa Committee. For reference, refer to Warta Kerajaan Negeri Selangor (Jilid 65, No. 3 Tambahan No. 4 Perundangan) of 2 February 2012 pertaining to the law of distribution of zakat in the form of benefits and funding sources for its management.

### 3.0 Prior Studies

Prior research examining zakat distribution by State Islamic Religious Councils (SIRCs) in Malaysia have provided evidence on the extent of productive zakat distribution undertaken by SIRCs. For example, Hassan and Muhammad Nasir (2016) analysed the prioritisation
of zakat distribution in Selangor and the Federal Territory of Malaysia. In Selangor, zakat is distributed for social development, education, economic development, human development and the development of religious institutions. Of these five, zakat distribution for education and religious institution development is regarded as falling under *asnaf fi sabiillah*. Given this, it comes as no surprise that beneficiaries receiving the highest distribution of zakat those under *fi sabiillah*. Both education and the development of religious institutions are very much aligned to the concept of productive zakat distribution, as these provide long-term social benefits to society. In Selangor, a focus on the development of religious institutions relates to the construction, repair and maintenance of *sura*, mosques and religious schools.

In the Federal Territory of Malaysia, zakat distribution is classified into direct and indirect distributions. The latter includes distribution of zakat used for the construction of infrastructure. This has a stronger impact on society and has more far-reaching benefits. Thus, zakat distribution which relates to more far-reaching benefits is consistent with productive zakat distribution. In Indonesia, Muhammad Zaid Alaydrus and Tika Widiastuti (2017) found that productive zakat distribution influences the growth of micro enterprises of beneficiaries in Pasuruan in East Java.

Ayuniyah et al. (2017) in their study of 1,309 zakat beneficiaries managed by the National Zakat Board of Indonesia (BAZNAS) found that productive zakat distribution has significantly alleviated poverty and reduced income inequality amongst zakat beneficiaries in Bogor, Depok and Sukabumi. In Indonesia, as explained elsewhere in the paper, the Zakat Act, Number 23 passed in 2011 actually provides for zakat agencies like BAZNAS to undertake productive zakat distribution. Additionally, BAZNAS, in extending microfinancing to beneficiaries from zakat, has regarded such financing as loans and accordingly, has treated this as receivables. According to Alim (2015), this practice aligns with the Statement of Financial Accounting Standard (PSAK) 109 on Zakat issued by the Indonesian Institute of Accountants. PSAK 109 specifically regards productive zakat distribution akin to loans and treats such financing as receivables. Given that a receivable, by definition, is money owed to a business by customers, Alim (2015) argues that treating such financing as a receivable is inappropriate. A productive zakat distribution cannot be treated as a receivable from the beneficiary, as the recipients are not customers of the zakat agencies and their relationship does not constitute a business relationship.

4.0 Current Practices of SIRCS Regarding Productive Zakat Distributions

Data on the current practice of zakat distribution by SIRCs in Malaysia was obtained from four zakat authorities: SIRC P, SIRC Q, SIRC R and SIRC S. The 4 SIRCs were assigned to us as researchers by Jabatan Akauntan Negara Malaysia (JANM). Although the number of SIRCs was limited to only 4, there were enough variations on how productive zakat distribution is carried out by these four SIRCs. This helped researchers to answer the research questions.
Financial statements for the year ending 31 December 2017 were examined with a view to determine the extent productive zakat distribution was undertaken by the 4 SIRCs. Besides undertaking a content analysis of the annual reports of these 4 SIRCs, panel discussions with accountants and officials in charge of zakat management in all four zakat authorities were also conducted. Based on annual reports and financial statements of the SIRCs, none of the SIRCs categorised zakat that was distributed into consumptive and productive distribution. Hence, we were unable to determine with any reasonable certainty the extent of productive zakat distribution undertaken by the 4 selected SIRCs. It was through panel discussions that we managed to garner more information on productive zakat distribution.

An important issue that was examined the type of productive zakat distribution undertaken by the 4 SIRCs. Essentially, this referred to whether zakat agencies provide non-monetary assets that have low monetary value such as sewing machines, grass strimmer machines, washing machines and others (that have a shorter useful life) or assets that are generally very expensive such as buildings (which have a longer useful life). In addition, to the nature of the assets provided, there is also training and consultancy services that zakat agencies provide to beneficiaries for them to either become better qualified in order to be gainfully employed or assist them in their businesses. Accordingly, the type of productive zakat distribution has implications on accounting, which will be discussed in Section 5.

SIRC P distributes zakat in the form of productive zakat by providing beneficiaries with assets that are both short-term and long-term productive assets. The former consists of the provision of motorcycles and engines to be fitted to fishing boats. The provision of such assets to zakat beneficiaries simultaneously transfers ownership of such assets to the beneficiaries. Long-term productive zakat distribution is a project in which the SIRC collaborates with the state government to build houses for beneficiaries. The land is waqf land provided by a subsidiary of the state government and the houses are built by SIRC P using zakat funds allocated for the poor and needy. When completed, such houses are regarded as houses leased to beneficiaries. The beneficiaries are required to pay a minimal rent and the utility bills. In this situation ownership is not transferred to the beneficiaries.

SIRC Q also distributes zakat in the form of productive zakat. Specifically, this involved a project where the SIRC Q built houses on its land, which was provided by the state government, using zakat funds provided by a zakat authority from another state. This was an interesting joint effort by two zakat authorities from different states to provide benefits to beneficiaries. When the houses were completed, selected beneficiaries were allowed to stay in them. Additionally, in order to help these beneficiaries, they are provided with this accommodation, the Department of Agriculture provided them with training in the planting of red chilies and monitoring is carried out by SIRC Q. A certain percentage of revenue from the sale of chilies are set aside as savings for the benefit of the beneficiaries in the future. It is envisaged that over time, these beneficiaries will become self-sufficient. Subsequently, a new group of beneficiaries will be selected for the same project or similar ones. The intention is to make beneficiaries more independent and rise above the poverty level. Another project
undertaken by SIRC Q, which may be regarded as productive zakat distribution, is providing vocational and entrepreneurship courses to selected beneficiaries. The primary objective of this is to upgrade their skills that will in turn enable them to obtain jobs to support themselves and their families. In this specific project, SIRC Q has collaborated with a local university.

SIRC R and SIRC S have also been actively involved in productive zakat distribution. The most recent endeavour of SIRC R is the construction of a hotel and a student hostel in Cairo. The construction of the building is expected to generate more income to increase the zakat funds of SIRC R, which will then be distributed to the beneficiaries. SIRC S, in addition has constructed a hostel for those who have newly just reverted to Islam.

With regard to the presentation and disclosure of zakat received and disbursed, such information has been disclosed consistently by all SIRCs. More importantly, information on zakat distribution has generally provided the amounts distributed to the various categories of beneficiaries. As for accounting treatment of productive zakat distribution, SIRC P, SIRC Q and SIRC R regards productive zakat distribution similar in a manner to that of consumptive distribution, i.e. by crediting cash and debiting distribution. Such a distribution is then regarded as an expense for the SIRC for that accounting period. Only SIRC S has capitalised productive distribution.

5.0 Accounting Implications

Discussion on the accounting implications of productive zakat distribution centers on three main issues: recognition, measurement and presentation and disclosure.

5.1 Recognition

Technically, on the basis of general accounting principles, the recognition of an asset would require fulfilling certain conditions such as control, measurability and existence of future economic benefits. AAOIFI (2020) in its revised conceptual framework for financial reporting of Islamic financial institutions also has a similar definition. However, when such principles are to be applied to zakat funds, the general conditions may require certain modifications. Within this context, in order to recognize an item as an asset, the criterion of ownership is important, as well as the issue of control. Thus, to avoid any ambiguity in the claim of an asset by any party, the ownership of the asset and the issue of control are very pertinent. The claim of an asset should only be made by a party who controls the benefits accruing to the asset AND also the legal ownership of the asset. More importantly, if the criterion of control and ownership are in conflict, the criterion of ownership should take precedence.

In the case of productive zakat distribution, whether such a distribution is expensed off or treated as capitalised costs would depend on whether the benefits of an asset are given solely to a single beneficiary or to multiple beneficiaries. Essentially, if the benefits accrued are to multiple beneficiaries and an asset itself could be repeatedly exploited by different groups of
beneficiaries during different periods, then such an asset should be capitalised, for example, a hostel constructed for reverts or students. However, for assets distributed to specific beneficiaries, such distributions should be expensed off in the period distributed. A good example of this would be sewing machines given to beneficiaries. The focus of discussions on productive zakat distribution is on long-term assets, such as a hostel, as the SIRC still holds the ownership and control of such an asset. Therefore, any expenditure incurred in constructing the hostel should be capitalised as asset in the statement of financial position of the SIRC.

It is possible that another important issue to consider in capitalising a productive distribution is to regard whether if there are specific social benefits to the beneficiaries. Thus, while general accounting principles simply point to future benefits in order for an item to be recognised as an asset specific to an SIRC and in the accounting for zakat distribution, an asset is only recognised as an asset if the item has future economic and social benefits.

5.2 Measurement

Discussion on the measurement of productive zakat distribution focuses on two levels of measurement: initial and subsequent measurements.

5.2.1 Initial measurement

The initial measurement of productive zakat distribution should adhere strictly to the cost principle, as it involves actual distribution of zakat collection in the form of cash. AAOIFI (2020) has recognised the use of acquired cost for initial measurement. For short-term productive zakat assets, cost incurred should be expensed off, as alluded to earlier. However, for long-term productive assets, any cost incurred to purchase or construct an asset for the benefit of beneficiaries should be capitalised. Costs incurred should include related costs, such as legal and freight costs.

5.2.2 Subsequent measurement

Conventional accounting practices for Property, Plant and Equipment (PPE) discussed in MFRS 116 recommend either the cost model or the revaluation model for subsequent measurement of PPE. The primary reason for measuring an asset at market value is when it is expected that the organisation holding that asset would gain from the increase in the value of the asset. This manner of reasoning is, however, not relevant for assets held by SIRCs. Given that the main purpose of holding an asset by SIRCs is for the benefit of society, the cost model would be more appropriate.

5.2.3 Depreciation

If the cost model is utilised for assets held by SIRCs, then the issue of depreciation is pertinent as SIRCs have to calculate the carrying value of
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assets held by them. Here, the question arises: should SIRCs follow the same accounting procedures recommended by conventional practices? Theoretically, depreciation is important on the basis of the matching principle (i.e. the proper matching of revenues and expenses in order to calculate the profit or loss of a business). Since the cost of acquiring an asset is high, this cost is allocated to the useful life of the asset in order to provide the matching of revenues against expenses for that period. Is this matching principle relevant to the activities of SIRCs? Given that there is no revenue attached to each SIRC, particularly on the issue of zakat, then our radical suggestion is that there should be no need for SIRCs to practise cost allocation. What is important is that proper maintenance should be undertaken by each SIRC so that at the very least the cost of the asset is preserved.

Secondly, the capitalisation of productive zakat assets will always relate to the acquisition of assets which have very long useful lives, such as land and buildings. Traditionally, values of such assets will not reduce. For example, historical housing price data from National Association of Realtors (NAP) in the United States, seemed to support the theory of endlessly rising prices. In the US, the median home prices from 1968 to 2004 seemed to show an increase of an average of 6.4% in house prices during this period. In the case of Malaysia, the Department of Valuation and Property Services, Ministry of Finance, reported that from the year 1990 to 2019, the house price index in Malaysia has showed an increasing trend (with the exception of a few earlier years) (Malaysian House Price Index, 2019 p 15). Accordingly, on the basis of this, it may not be necessary for SIRCs to provide for depreciation for such productive assets.

5.2.4 Impairment
The issue of impairment of assets held by SIRCs should be based on factors such as physical damages or a clear indication of an impending significant drop in the value of real estate due to an adverse economic environment.

5.3 Presentation and Disclosure
In the context of reporting, from the perspective of the Shari’ah, disclosure of information should focus on the 3 levels of maslahah (well being of the ummah), namely daruriyyah (essential), hajiyyah (required) and tahsiniyyah (adantageous). If information is considered as daruriyyah, such information MUST be disclosed to enable users of financial statements to make more informed decisions. The absence of disclosure of such information in reports may result in the objective of financial reporting not being achieved. This may have adverse implications for the individual and users of the report. According to Imam Al-Shatibi, the concept of daruriyyah will generally meet all five elements of the Maqasid Shari’ah namely religion, life, intellect, lineage and property (refer to discussion in Hasbullah Mat Daud, 2011).
*Hajjiyah*, in the context of reporting, refers to disclosure of required information that will clarify basic information. Absence of disclosure of such information may result in the reporting being incomplete and this may result in minimal inconvenience or confusion to users of accounts. *Tahsiniyyah* is the lowest level of disclosure. Accordingly, such information if disclosed will strengthen the accountability of the organisation. However, non-disclosure does not affect the objective of the report. For example, zakat collected and disbursed in an accounting period should be regarded at the *darruriyah* level. Thus, such information should be disclosed on the face of the accounts. However, additional information on zakat collected in the last few weeks of the financial period (and still not disbursed at year end), should be provided in the notes to the financial statements. Many occasions, SIRCs have been criticised for having large zakat balances at the end of the financial year when in actual fact these amounts would be disbursed in the few months following the financial year end. Such information constitutes disclosure of required information that will help clarify basic information (*Hajjiyah*). At the level of *Tahsiniyyah*, it is possible that distinguishing between the amount of zakat distributed as consumptive and productive zakat distributions would further consolidate the accountability of SIRCs.

The sampled SIRCs disclosed zakat received and disbursed (with details about the distribution to each category of beneficiaries) in their 2017 accounts. However, of equal importance is to disclose the amount of zakat distributed in the form of consumptive and productive distribution. Additionally, productive zakat distribution should be further categorised into short-term and long-term productive distribution. The former should be expensed off in the statement of collection and distribution of zakat, while long-term productive zakat distribution should be capitalised and recorded in the statement of financial position.

Finally, with regard to long-term productive zakat distributions that have been capitalised as assets in the statement of financial position, information related to costs must be clearly shown. If impairment has occurred for the assets capitalised, such information should also be clearly stated. Any addition or disposal of assets must also be disclosed. The statement of Recommended Practice for Charities (SORP, 2019) suggests that investments in fixed assets could include social investments. Social investments could either be classified as programme related investment (PRI) or mixed method investment (MMI). The main purpose of PRI and MMI is to further the charitable purposes of an investing charity.

### 6.0 Conclusion

This study discussed a new form of productive zakat distribution, as observed in the Malaysian content. The study discussed the innovative of zakat distribution and the opinions of classical jurists and modern scholars with regard to the permissibility of such distribution. Several factors need to be looked into the permissibility of productive zakat distribution. The most important factor is to ascertain whether the immediate consumptive needs of beneficiaries have been fulfilled. Following this, only then could productive zakat distribution be undertaken.
This paper then continued with the theoretical discussion on zakat as a tool for income generation and subsequently as a tool to alleviate poverty. Data for empirical work on the extent of productive zakat distribution undertaken by 4 SIRCs in Malaysia was obtained through a content analysis of the annual reports as well as interviews with relevant officials of these the SIRCs. The study then recommended certain accounting implications pertaining to the recognition, measurement, presentation and disclosure of productive zakat distribution. Generally, if productive zakat distribution is in the construction of long-term infrastructure, such expenditure should be capitalised and reflected as PPE (Property, Plant and Equipment). Furthermore, given that such assets are for social benefit, these assets should not be subjected to depreciation. More importantly, the use of the cost model for the subsequent measurement of an asset is suggested. Finally, although all the 4 SIRCs distributed zakat in the form of consumptive and productive distributions, information distinguishing between the two categories was not evident in their financial statements. It is suggested that in addition to the information on the amount of zakat distributed according to various categories of beneficiaries, SIRCs should also disclose the amount of consumptive and productive zakat distributions that each has performed. Most importantly, Information disclosure for SIRCs should align with the three levels of maslahah, daruriyah (essential), hajjiyah (required) and tahsiniyah (advantageous). Although tahsiniyah may reflect information that is of lesser importance, it is recommended for disclosure primarily because this may consolidate SIRCs accountability to a greater extent.

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