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Accounting Treatment for Corporate Zakat in Indonesia

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A B S T R A C T

The implementation of zakat to companies is still a debate in Indonesia. Accounting standard for zakat fund is limited to the presentation of zakat funds reports only. This research raises the issue of comprehensive accounting standards for corporate zakat in Indonesia. The research was carried out through a qualitative approach with study documentation and literature review as the main method. Accounting treatment for corporate zakat in several countries will be discussed, i.e Malaysia and Bahrain. This research shows that corporate zakat can be recognized when it is approved by the General Meeting of Shareholders (GMS). Using profit as basis calculation of zakat is not considered. It is suggested that companies using assets as basis calculation for corporate zakat. Furthermore, Indonesian Islamic Banks (IBs) treat zakat as component of costs which deduct the company profit

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INTRODUCTION

Zakat as the third pillar of Islam is an obligation for every Muslim. The obligation of zakat arises as a medium to purify property owned by individual Muslims from other Muslim rights. In the terminology of the Quran and sunnah, zakat is defined as property that must be spent in the way of Allah (Usmani, Muhammad Imran ; Qazi, 2010). Zakat itself is not limited to the issue of religiosity alone, more broadly, zakat touches social and economic issues. If managed professionally, zakat program will greatly assist poverty alleviation efforts in Indonesia. Data from the Central Statistics Agency or Badan Pusat Statistik (BPS) shows that from 2020 to 2022 the number of the poor in Indonesia ranging between 26 to 27 thousand poor people, with the poverty percentage remain steady from 9% to 10% (Badan Pusat Statistik, n.d.). With the potential of zakat in Indonesia which is actually very large, reaching up to 217 trillion in 2007, zakat will be an e effective medium for improving welfare in Indonesia (Firdaus et al., 2016).

Zakat is mentioned repeatedly in the Qur'an, at least up to 30 times, 27 of which are delivered in conjunction with the prayer (shalat) orders (Thaqafah & Qaradawi, 2020). This fact shows that zakat is as importance as pray (shalat) in Islam. The obligation to pay zakat for individual Muslims has been written clearly in the Qur'an, but the obligation to pay zakat for a business entity is still debated. A study shows that the implementation of corporate zakat varies in several countries and Government's intervention plays a vital role in this issue. Some countries stipulate business zakat as an obligation with legal consequences for those who neglect, some other countries voluntarily applied corporate zakat while most other countries leave it in the religious domain (Obaidullah, 2016).

Indonesia can be categorized as a country that voluntarily stipulates zakat because the zakat law no. 23, 2011 only regulates the management of zakat. On the other hand, in order to maximize the potency of business zakat in Indonesia, the role of regulators is considered important. At least the House of Representative (DPRD), the Indonesian Ulema Council (MUI), the Financial Services Authority (OJK), the Directorate General of Taxes (DGT) and the Indonesian Accountants Association (IAI) need to intervene to support the issuance of comprehensive and mutually supportive regulations for the implementation of zakat in Indonesia (Andriani & Mairijani, 2019)

In terms of the calculation and reporting of zakat funds for business entities, a set of accounting standard is needed to guide the entity that intends to pay zakat. Business entities in Indonesia that have reported their zakat funds until 2018 are limited to Islamic Banks (IBs). Research on the compliance of Islamic Commercial Banks to PSAK 101 shows that the level of compliance of IBs is still relatively low (Andriani et al., 2016; Razak & Firmansyah, 2021). Other study conclude that the low number of zakat entities in Indonesia is due to the absence of regulations that support the application of the entity's zakat (Cokrohadisumarto et al., 2020; Rahwani et al., 2015)

PSAK 101 which has been issued by IAI regulates the presentation of Sharia Financial Report had its last revision in 2019. Two of the nine components of the financial statements that must be presented by sharia entities are the Report of the Source and Distribution of Zakat Funds (RSDZF) and the Report of the Source and Distribution of Virtue Fund (RSDVF). However, the RSDZF and the RSDVF is not accompanied by a comprehensive accounting standard. Recognition issue and method of zakat calculation are absence in the PSAK 101.

This research was conducted to support the implementation of corporate zakat in Indonesia. As Indonesia has not established any accounting standard for corporate zakat, it is necessary to provide clear guidance for companies that willing to pay zakat. The main purpose is to provide an accounting treatment for corporate zakat in Indonesia, specifically in the issue of corporate zakat recognition and calculation method. In the aspect of recognition, we discussed when the corporate zakat can be recognized and how to recognize the corporate zakat into accounting records. In term of calculation method, we discussed two approaches, namely assets base and profit base in calculating corporate zakat.

METHODOLOGY

This research was conducted using qualitative approach, described an alternative for companies that willing to pay zakat. Data was collected using the method of documentation study and literature review. Regulation on accounting for corporate zakat from MASB in Malaysia, IAI in Indonesia, and AAOIFI in Bahrain was thoroughly read to get useful information. Furthermore, some relevant articles were analyzed under scrutiny to have better understanding on corporate zakat implementation in some countries.

RESULT AND DISCUSSION

Accounting Standards Regarding Corporate Zakat in Several Countries

As discussed earlier, IAI issued PSAK 101 which regulates the components of financial statements that must be issued by sharia entities. The two components of the financial Steps to test your results here

statements related to the company's zakat are the RSDZF and the RSDVF. The standard gives guidelines regarding the presentation of RSDZF and RSDVF which should be followed by the sharia entities. Besides PSAK 101 there are no other standards governing corporate zakat in Indonesia.

Other standards that have been issued by IAI related to zakat are PSAK 109. However, PSAK 109 does not regulate company zakat, it is a guideline for institutions managing zakat and infaq/alms funds in Indonesia. PSAK 109 is binding on amil whose main task is to collect and distribute zakat and alms funds. Another standard related to philanthropy is PSAK 112 concerning waqf accounting. Earlier than Indonesia, several countries in the world have issued standards governing corporate zakat.

In Bahrain, the Accounting Standards Board for Islamic Financial Institutions, known as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), is an international institution that offers a fairly comprehensive accounting standard for Islamic financial institutions. The types of standards published by AAOIFI are Sharia standards, accounting standards, audit standards, governance standards and ethical standards. The standard governing the company's zakat is contained in No. 9 accounting standard or known as Financial Accounting Standard No. 9 (FAS.9) and also in Sharia Standard No.35. Specifically, FAS.9 regulates the accounting treatment of Islamic financial institutions zakat in the aspect of calculation (measurement). This standard explains the method that can be used to calculate business zakat, the basis for valuation of assets that are subject to zakat and the necessary disclosures in the notes to financial statements. Meanwhile, Sharia Standard No. 35 regulates the identification of zakat basis for Islamic financial institutions. Furthermore; the Sharia Standard No.35 also provides instructions on the types of assets that are subject to zakat, debt and allocations that must be deducted from the assets / debt. Countries that have adopted accounting standards from AAOIFI and obliged to apply them are Bahrain, Jordan, Oman, Qatar, Qatar Financial Center, Sudan and Syria (AAOIFI, 2018).

On the other hand, several other countries such as Indonesia, Pakistan and Malaysia make accounting standards of AAOIFI as the basis for the preparation of sharia accounting standards. While most other Islamic countries set AAOIFI's standards to be voluntary to be applied as internal guidelines for Islamic financial institutions in their countries (AAOIFI, 2018).

Malaysia through FRS i-1 issued by Malaysian Accounting Standard Board (MASB) regulates the presentation of corporate financial statements which generally discuss the definition of zakat, zakat treatment as an expense which is part of other debts and focuses on the importance of disclosure of zakat obligations by Islamic Financial Institutions (Obaidullah, 2016). More technically, MASB issued TR-i1 which detailed the regulations regarding the accounting treatment of company zakat. The issues covered in Tr i-1 include complete material on corporate zakat which consists of: objectives, scope, recognition, zakat assessment which in detail regulates the tariffs of zakat, zakat basis, determination of zakat basis, measurement of assets and obligations on zakat. The next issue discussed in Tr i-1 is regarding the presentation and disclosure related to company zakat (Obaidullah, 2016).

On the other hand, Saudi Arabia through the Saudi Organization for Certified Public Accountant (SOCPA) publishes Accounting Standard (AS-013) which regulates the accounting of zakat for companies (Obaidullah, 2016). Rules from SOCPA state that all Saudi companies present reports of zakat in the profit / loss report. (Ernst&Young, 2016).

According to Saudi law, every business entity must be registered with the Department of Alms and Income Tax (DZIT) which implication is the obligation to pay zakat and / or tax obligations. Companies that are subject to zakat according to law in Saudi Arabia, are entities which shares are wholly owned by Saudis or partly owned by the Gulf Cooperation Council (GCC). Companies whose shares are outside Saudi citizens and GCC residents are not subject to the obligation to pay zakat but are obliged to pay taxes. The zakat tariff of companies charged in Saudi is 2.5% of the portion of Saudi / GCC share ownership calculated from net assessable funds or calculated from net income (whichever is higher). Furthermore, net assessable funds are calculated from all components of capital formation and long-term financing less fixed assets, long-term investments and deferred costs, plus / reduced profit / loss for the current year (Ernst&Young, n.d.).

More specifically, the Saudi Arabian Monetary Authority (SAMA) issued special rules that apply to the banking industry by stating that Saudi banks report zakat and taxes as deductions from dividend debt and are presented in the income statement or report on changes in capital. In conditions where the bank suffers a loss and does not announce dividend distribution, zakat and tax are shown in the modification change report and are recorded on retained earnings. If the retained earnings are insufficient to pay zakat and tax, the accounting treatment requires recording it as receivables from shareholders (Ernst&Young, 2016).

Accounting Treatment for Corporate Zakat

1. Accounting Standards for Corporate Zakat in Indonesia

As stated earlier that Indonesia only touched on the issue of presenting the company's zakat in PSAK 101. Recognition, calculation and disclosure of company zakat have not been issues in the PSAK issued by IAI.

Two of the seven components of the financial statements that are required to be presented by sharia entities in their financial statements are LSPDZ and LSPDK. However, there is no uniform standard for sharia entities in determining the basis of zakat calculation. One study shows that BUS in Indonesia uses a variety of zakat calculations in calculating the zakat of its business. BUS compliance in presenting LSPDZ in its financial statements is still not optimal, in 2013 only 77.77% of BUS in Indonesia presented LSPDZ (Andriani et al., 2016). Furthermore, Andriani et al's research states that some BUS in Indonesia use a 2.5% rate of profit before zakat and tax, some others do not show what method they use so it cannot be ascertained how the BUS determines the basis for its zakat calculation. The absence of a standard for determining the basis for the calculation of zakat for BUS in Indonesia makes the LSPDZ presented by the BUS fail to meet the benchmarking principle in the presentation of financial statements. As a result, users of financial statements experienced difficulties in trying to compare the performance of BUS in their zakat management activities

2. Accounting Treatment of Corporate Zakat by AAOIFI

FAS.9 from AAOIFI at least regulates three areas related to corporate zakat, namely the determination of the zakat base, the determination of items included in the zakat base and the disclosure of the company's zakat in the financial statements (AAOIFI, 2021).

Furthermore, AAOIFI provides three criteria for determining an Islamic financial entity subject to the obligation to fulfill its business zakat. The three criteria are (1) when the law of a country requires paying the company's zakat, (2) when the Islamic bank is based on law or based on internal provisions issues an obligation to pay the company's zakat, (3) when the General Meeting of Shareholders issues a decision requiring Islamic Bank to fulfill the company's zakat. If one of the three criteria is fulfilled, the business entity can treat zakat as a non-operational cost and become one of the components forming net income in the loss/profit statement.

On the other hand, in the absence of law requiring Islamic banks to pay their zakat, the company's zakat can be applied among the following two possibilities: (1) As a deduction to dividends that will be distributed to shareholders or (2) as receivables from shareholders, if the balance of the profit was insufficient. These two conditions become an alternative because in the absence of the obligation to pay the company's zakat, the company's zakat payment is only the desire of its shareholders (AAOIFI, 2010).

FAS 9 of AAOIFI discussed the scope of corporate zakat and accounting treatment on zakat basis. The accounting treatment of corporate zakat consists of the zakat basis formula, the zakat treatment in the financial statements as well as disclosure information of zakat activities. Disclosure part was necessary to provide any information that are not sufficiently explained in the zakat financial report for Islamic financial Institutions (IFIs). In determining the basis of zakat calculation of Islamic Financial Institutions, AAOIFI offers two formulas, namely the net asset method and the net invested funds method. The tariff for zakat calculation is 2.5% or 2.5775% of the zakat base depending on the calendar system used.

The formula for calculating the zakat base with the net asset method (AAOIFI, 2010) is as follows:

Zakah base = assets subject to zakah – (liabilities that are due to be paid during the year ended on the date of the statement of financial posotion + equity of unrestricted investment account + minority interest + equity owned by government + equity owned by endownment funds + equity owned by charities + equity belonging to not-for-profit organization excluding those that are owned by individuals. (para 3)

While the formula for calculating zakat using the net invested funds method (AAOIFI, 2010) is:

Zakah base = Paid-up capital + 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 – (net fixed assets + investments not acquired for trading, e.g. real estate for rent + accumulated losses) (para 7)

Since the FAS 9 covers Sharia Finansial Institutions, the above formula are more opt for financial institutions. The company’s zakah then presented as the adding of non-operational expense in income statement. AAOIFI also states that IFIs must present nine financial reports components including LSPDZ and LSPDK.

3. Accounting for Corporate Zakat by MASB

Malaysia through the TR i-1 document publishes guidelines for the application of generally accepted accounting principles for the recognition, measurement, presentation and disclosure of business zakat. Furthermore, Tr i-1 presents two methods in determining the basis of the company's zakat calculation, namely the adjusted working capital method and adjusted growth method (MASB, 2014). The adjusted working capital method makes current assets a basis for calculating zakat that is adjusted to assets and obligations that do not meet the requirements in determining the zakat base. While the adjusted growth method calculates the zakat base based on capital and long-term debt reduced by property, plant and equipment (PPE) and fixed assets adjusted to conditions that do not meet the requirements in determining the company's zakat as determined by the authorized institution. Both methods offered by MASB as well as the methods offered by AAOIFI should provide the same basis for zakat calculation (Akhyar Adnan & Barizah Abu Bakar, 2009). However, even though MASB has issued Tr i-1 as an accounting standard related to corporate zakat, government regulations provide flexibility for the authorized institutions in each Malaysian state in determining the basis of the company's zakat. As a result, the practice of applying zakat in Malaysia still shows no uniformity (Nasir, Norita Mohd; Hassan, 2003).

The application of various zakat base calculations in Malaysia was shown in several studies. The research by Abdul Wahab quoted by Obaidullah in his paper shows that there are at least three methods of calculating the company's zakat base in Malaysia, namely on the basis of current assets, current assets plus the benefits of investment and based on net working capital plus current income. While other studies cited by Obaidullah show there are five methods of calculating the zakat base recommended by the Malaysian zakat collection center, namely: net assets (or working capital), net capital (growth model), net profit after tax, combination method and dividend method.

Like AAOIFI, MASB also agreed to classify corporate zakat as part of the burden and displayed on the income statement as a deduction from company profits. However, unlike AAOIFI, MASB does not regulate the form of corporate zakat reporting that is specific. Information regarding zakat paid by the company can only be accessed through the income statement.

Regulation of Corporate Zakat

1. Regulation of Corporate Zakat in Indonesia

A study shows that government support for the implementation of zakat in Indonesia is still very minimal. The absence of regulations governing the issue of corporate zakat is suspected to be a major factor in the low level of the company's zakat payments (Rahwani et al., 2015). Until 2017 there were only two regulations related to company zakat, Law No. 23 of 2011 concerning zakat and accounting standard No. 101, which obliged the sharia entity to present the Report on the Source and Use of the Zakat Fund (LSPDZ) and the Report on the Source and Use of the Virtue Fund (LSPDK). Law No.23 of 2011 regulates zakat management in general without discussing in more detail the company's zakat.

Other research shows that the application of corporate zakat in Indonesia will be easier to implement if the stakeholders issue a number of supporting policies. There should be at least provisions in Article No.23 of 2011 which contains recommendations to companies to pay their zakat. In addition, regulations that support each other are needed between the taxation regulations and the company's zakat, so that the amount of the tax payable can be deducted from the company's paid zakat. Another strategic support is the need for a fatwa from the Indonesian Ulema Council (MUI) regarding the obligation of the company to pay its zakat (Andriani; Mairijani, 2018; Faisal et al., 2023).

Furthermore, another issue that need to be discussed is the comprehensive accounting treatment for the company's financial reporting activities.

2. Accounting treatment for corporate zakat in Indonesia

As discussed in the previous section, the reporting of company zakat is regulated in PSAK No. 101 which states the obligation of sharia entities to present reports on the company's zakat activities to the LSPDZ and LSPDK. However, unlike Malaysia and Bahrain, accounting treatment for corporate zakat in Indonesia does not contain recognition, measurement and disclosure. To discuss the alternatives to the accounting treatment of corporate zakat in Indonesia, aspects that need to be discussed are in the area of definition, scope, recognition, measurement and presentation.

3. Study of Definition and Scope of Sharia Entity in PSAK 101

Compared to FAS.9 from AAOIFI and TR i-1 from MASB there are differences in aspects of scope as follows: FAS.9 limits its standards to Islamic Financial Institutions (LKS) while TR i-1 gives wider scope both in the form of LKS or non-LKS. Furthermore, TR i-1 provides flexibility for companies to be guided by the rules of each of the states that protect them, while AAOIFI makes FAS.9 a reference standard for LKS that apply company zakat.

Sharia PSAK No. 101 limits the scope of the application of the PSAK only to sharia entities. Furthermore, in par 02, it is stated "Sharia entities are entities that carry out sharia transactions with business activities based on sharia principles stated in its articles of association". This definition shows two criteria for a company to be bound by Sharia PSAK, namely: (1) The entity carrying out the sharia transaction (2) the statement that the company is labeled as sharia is indicated in its articles of association. In fact, today, companies in Indonesia state in their articles of association that their business is based on sharia principles is the sharia banking industry. Therefore, it can be indirectly drawn the conclusion that PSAK 101 is only binding on Islamic financial / banking institutions.

A study states that the definition of sharia entities in PSAK 101 can inhibit the application of sharia PSAK for companies that in fact carry out sharia transactions but do not state them in their articles of association (Andriani; Mairijani, 2018). An example is a company that carries out sharia securities transactions on the capital market on the stock exchange. This company is indexed in the ISSI and JII indexes on the stock exchange because it trades sharia securities products such as sharia stocks, sukuk and sharia deposits, but its articles of association do not indicate that the company is classified as sharia. The absence of justification that the companies are sharia entities in the articles of association unrestricted the company from the obligation of making LSPDZ and LSPDK.

Furthermore, the Basic Framework for the Preparation and Presentation of Sharia Financial Statements (KDPLK Syariah) explains that one of the principles that becomes the root transaction of sharia is balance (tawazun) which emphasizes that sharia transactions not only focus on business interests but also social. Based on the principle of balance, sharia transactions should not only aim to fulfill the interests of shareholders but for all parties who can feel the benefits of these economic activities. With the principle of balance in sharia

KDPLK, it should not be an exaggeration if companies that conduct sharia transactions are also asked to present the LSPDZ and LSPDK in their financial statements (Andriani; Mairijani, 2018).

As an alternative, the definition of sharia entities in PSAK 101 does not need to be changed. Furthermore, the scope of the standard that is made more specific, namely "limited to sharia entities, one of which activities is conducting sharia transactions inside or outside the capital market either listed or not listed. in the articles of association. "

By containing the scope as stated above, companies that trade sharia securities products in the capital market can be bound to present LSPDZ and LSPDK as part of the components of their financial statements. The presentation of LSPDZ and LSPDK will provide added value to the company because it shows its integrity towards social care. In addition, the nature of transparency and accountability will be more fulfilled, because the company can explain the reporting of zakat in the financial statements. The presence of LSPDZ and LSPDK will also add to the comparability of the company's financial statements, because it will make it easier for users to compare the company's performance regarding its zakat payment activities. Furthermore, LSPDZ and LSPDK can be one of the determinants of consumers in deciding their investment in companies that conduct sharia transactions on the stock market.

Recognition of Company Zakat

The term recognition in accounting science contains two main discussions, namely when the account can be recognized and how to recognize the account into accounting records.

One of the three conditions that must be fulfilled as the basis for the imposition of business zakat according to AAOIFI is if there is a formal law that requires it, if the business entity (in this case is the LKS) states the obligation to pay zakat or if the shareholders ask the company to fulfill their business zakat payment obligations. From the conditions presented by AAOIFI it appears that the availability of formal law that requires the imposition of zakat on a company is the main requirement that must be met.

On the other hand, TR i-1 as a zakat accounting guide in Malaysia is not mandatory for companies in Malaysia. TR i-1 is not part of Malaysian accounting standards because of its nature only as a technical guide for companies that intend to apply zakat to their business. It is more specifically stated that the regulations of the state government, whether through the religious department or the authorized zakat institution, are the main references in the application of business zakat in Malaysia. However, the presence of TR i-1 can at least help reduce diversity in financial reporting for corporate zakat activities in Malaysia. The fact that happened in Malaysia shows that the government regulations that apply in Malaysia are the main reference for the company's zakat activities in Malaysia.

If departing from accounting, then after conditions that require the issuance of zakat of the entity the standard can discuss how the company's zakat can be recognized. TR i-1 states that corporate zakat is recognized in a period if an outflow of resources embodying economic benefits will be required to satisfy the zakat obligation. Furthermore, the amount of zakat is recognized as a burden and becomes part of the component that forms the income statement in the period in which it occurs.

While FAS.9 from AAOIFI does not provide a special space for the term recognition of zakat, the definition of zakat and the status (law) of zakat; assets that are subject to zakat and conditions that require zakat are regulated by AAOIFI in Sharia Standard No.35. According to these standards zakat is defined as the rights which then become mandatory (if the conditions have been met) of certain types of assets and then distributed to mustahik who meet the requirements. Furthermore, in paragraphs 2/2 of FAS No.9, AAOIFI provides the same treatment as Tr i-1 by categorizing business zakat as one of the forming of the income statement and classifying it as non-operating costs.

If it refers to classical fiqh law, zakat can be recognized if the ownership of assets has exceeded the time requirements and fulfilled the nisab. Terms of the ownership are if the asset has been held for at least one year, while the requirement for nisab will depend on the type of asset owned. This nisab requirement is further discussed in accounting science as a basis for tax imposition. The timing of MASB asset ownership states that entity zakat in Malaysia can be calculated if the company has been operating for at least one year or equal to one haul period.

From the discussion above, it can be concluded that the first condition of the company's zakat can be recognized if there is a legal law that supports the application of zakat payment for the business. This is in line with other studies which state that formal legal support from policy makers is the main condition that needs to be prepared in the effort to implement zakat in Indonesia (Andriani; Mairijani, 2018). Currently zakat has been applied by most sharia banking industries in Indonesia. which is legally regulated in the General Meeting of Shareholders of each bank. Of the five BUS that pay the company's zakat in 2017 in Indonesia, four of them show that the decision to pay the company's zakat is issued by the GMS. The legalization of the company's zakat payment by the GMS is in line with the conditions required by AAOIFI. Furthermore, in an effort to support the acceleration of the application of corporate zakat in Indonesia, at least from the religious side, it is necessary to issue a fatwa from the MUI stating the company's obligation to pay zakat for its company (Andriani; Mairijani, 2018).

After a provision that requires the company to pay zakat exists juridically, the next step is determining the company's zakat assessment.

1. **Measurement of Company Zakat: Basic Imposition of Corporate Zakat (Profit or Assets?)**

Company zakat can be recognized if based on the zakat assessment that has been done, the company fulfills the requirements to be categorized as subject to pay zakat. Included in the assessment zakat is the condition of asset that can be subject to zakat both the type and amount of assets and the time of ownership.

Zakat Fiqh jurisprudence literature from Yusuf Qardhawi explains the zakat asset very comprehensively. Qardhawi distinguishes the basis of taxation depending on the type of asset that is owned as follows: zakat on cattle, zakat on gold and silver, zakat on merchandise, zakat on agricultural produce, zakat on honey and animal products, zakat on mineral and yield sea, zakat on mining, zakat on employee income, zakat on shares and bonds (Thaqafah & Qaradawi, 2020).

Meanwhile Sharia Standards No. 35 par 3/1 from AAOIFI explain that zakat must be fulfilled on the types of assets in the form of gold, silver, currencies, commercial goods, livestock (camels, cattle and goats), agricultural products, minerals and treasures. Furthermore, zakat is also not required to be paid for leased assets, namely fixed assets that generate income and are not held for trading, but zakat must be issued on the income balance at the end of the year generated by the leased assets. Zakat is also not mandatory for wealth which is public property rights, for waqaf property or for insurance from public institutions.

Muslim scholar Yusuf Qardhawi delivered by Mohammed Obaidullah stated that the basis for the imposition of corporate zakat was urud al-tijarah. Furthermore, it is explained that tijarah is a commodity that is owned for the purpose of being resold (Obaidullah, 2016). The definition of urud al tijarah if viewed from an accounting perspective will be categorized as an inventory account. The inventory base as the basis for tax imposition seems to come from the analogy that the company is seen as a trading business where at the time of the Messenger of Allah the trading business was the main activity that moved the joint economy. Qardawi in his book Zakat Jurisprudence quoted Abu Daud's statement stating that Samurah said "the Messenger of Allah asked us to pay sadaqah from what we have for sale". The statement indicates that assets that can be subject to zakat are assets owned for sale or in accounting terms known as "inventories". There is no statement interpreting the profit from sales as the basis for imposing corporate taxes.

Furthermore, according to Khan, the basis for the imposition of zakat should not be limited to the supply/inventory accounts but to all types of assets, both current assets and fixed assets (Kahn, 2013).

A verse about zakat that is general said "*and on their wealth and possessions there is the right for he who asked and he who is deprived*" (51:19). Another verse stated "*Out of their goods take sadaqa so by it you might purify and sanctify them*" . Additionally, source from the companion stated that Abu 'Ubaid reported from 'Abd al Qari " *I was appointed as treasurer at the time of 'Umar bin al Khattab. When the time of collection came, he used to calculate the assets of merchant, both present and absent asset, and then take zakat on them all, out of the assets that were present*". Another report from Abu Ubaid concerning the ways of calculating zakat which is perceived by great followers saying quotes from Maimun bin Mahram as follow "When zakat is due, calculate the amount of money, add it to the value of the inventory and the amount of debt on customers that you expect to be paid, sum the total, deduct whatever debts you owe to others and pay zakat on the net". In line with statement from Maimun bin Mahram, Al Hasan al Basri said "When zakat is due, one must add the amount of the money, plus the value of inventory, plus the amount of debts, excepts the amount of hopeless debts, and pay zakat on the total". Explanation from Ibrahim al Nakha'i also agrees that one must evaluate one's trade assets and pay their zakat along with zakat due on one's other holdings". Evidences from Quran and sunnah above indicate that there is no sound reason for using net profit as zakat base. It is said that zakat was asesed from wealth and possession, it is also stated that sadaqa is taken from one's goods which merely explained as one's assets not just the revenue that are generated by the assets. Moreover, in regards to the report from the companion above, it can be assumed that zakat was taken by merchant's asset.Whether the business generate profit or loss was not considerated in calculating zakat.As a consequence,there is merit in incentivizing assets as basis of zakat calculation.

Meanwhile, the MASB and the AAOIFI provided two different methods which result in similar amount of zakat base. While the MASB offers *adjusted working capital method* and *adjusted growth method*, the AAOIFI offers *net asset method* and *net invested fund method*. In line with the above discussion, each method using assets as zakat base calculation.

In contrast, practices that have occurred in Indonesia so far do not consider assets but make corporate profits as the basis for tax imposition. A study shows that most Islamic Commercial Banks (BUS) in Indonesia use a rate of 2.5% of their net income as the basis for the imposition of zakat on their entities. Some other BUSs cannot be traced to how to calculate the entity's zakat. The absence of standards in determining the method of calculating zakat for entities in Indonesia makes LKS decide for themselves the calculation of entity zakat they apply (Andriani et al., 2016). In fact, this study shows that until 2017 it was known that five BUS in Indonesia that paid zakat for his company used a calculation of 2.5% of profit, be it net profit, or profit before zakat and tax.

Whereas the previous discussion shows that the use of profit as the basis for the imposition of zakat is not the right method because it will make the calculation of zakat an understatement (Obaidullah, 2016). Furthermore, there are no evidences said that zakat was assessed from profit. Using profit as zakat base was not clearly expalained by Rasulullah nor the companions. The opinion saying net profit is the base of business zakat probably came from an analogy with traditional agriculture where zakat is taken from the output of the land not the land itself. Zakat on agriculture is calculated on the net profit that is generated by the land (Obaidullah, 2016).

Based on the above discussion, the most appropriate application of the basic imposition of zakat is actually from the company's assets. Because the condition of the world economy is currently quite complex, where the types of businesses that develop are not purely only for livestock, agriculture, mining or trading businesses, the imposition of current assets owned by the company as a basis for zakat calculation can be an alternative to be implemented in Indonesia. Yet zakat tariffs should be set in accordance with the rules of fiqh.

2. Orporate Zakat Measurement

Assets as basis of corporate zakat calculation: Current assets or Fixed Assets?

It has been argued that using assets as calculation of basis zakat is the most fit formula, in addition, what type of assets to be included in the calculation needs further discussion.

Some scholars agree to include all type of assets on zakat base calculation. The reason of this premise because without considering current asset or fixed asset, a company use all assets to generate revenue or profit (Kahn, 2013). Alternatively, three options on zakat base calculation were offered by Obaidullah, i.e: net profit, total assets, current assets (Obaidullah, 2016). In contrary with Kahn's view, Obaidullah argued that the best formula on calculating zakat base is by using current asset. According to Obaidullah using net profit as zakat base calculation will be understatement. As stated initially that the use of net profit on zakat base calculation was probably based on traditional agriculture at the time of prophet. This view agrees that zakat should be estimated on the dry product after the final form which was ready to sale (Thaqafah & Qaradawi, 2020). Meanwhile, using current assets to calculate zakat might be based on business inventory of trading at the time of prophet. There were no evidences stated that zakat should also be calculated on the land nor the machinery. Consequently, including all assets on zakat calculation will be overstatement. Fixed assets like containers, cages, scales, machinery, tools have to be excluded from zakat calculation. Moreover, according to Obaidullah, basing zakat calculation on current assets would improve operational efficiency and profitability of the business (Obaidullah, 2016).

Furthermore, exempting total assets from zakat calculation is followed by the MASB and the AAOIFI. According to these standard setters, current assets are the most fit formula in zakat base calculation. Additionally, there is merit in using current assets as basis of corporate zakat calculation in Indonesia. On the contrary, it is showed that in 2017 among 13 islamic banks in Indonesia, five banks using profit as their basis of zakat calculation, while the rest 8 Islamic banks did not paid their corporate zakat. Most Islamic banks in Indonesia were using profit as their zakat base. This probably because they preferred to pay less zakat. Therefore, as most Islamic banks in Indonesia used net profit as basis of zakat calculation, offering assets in calculating basis of zakat might rise controversy. In comparison with profit-based assessment, using assets as basis of corporate zakat calculation will result in higher amount of zakat charge. Previous research stated that using current assets will result in four to six times higher amount of basis zakat (Andriani et al., 2016).

3. Presentation of Company Zakat Reports

Presentation of zakat activities on a specific report will help improving the transparency and accountability of the company. PSAK 101 has accommodated the need for the presentation of zakat activities in paragraph 10 where LSPDZ is one of the financial statements that must be displayed by sharia entities. As stated in the previous section the standards of IAI which regulate the mandatory presentation of LSPDZ is the adoption of AAOIFI standards. However, the practice of presenting zakat activity reports is not applied in Malaysia. MASB through TR i-1 does not regulate specific standards for the form of presentation of zakat activity reports. Information about the company's zakat funds in Malaysia can only be known in the income statement as an addition to the expense and deduction of current year's profit.

On the other hand, the conditions in the accounting world today show that corporate social responsibility activities are still voluntary. The absence of standards for the presentation of corporate social responsibility accountability reports will reduce the company's added value. A study shows that the presentation of social responsibility reports should be compulsory so that the company's social activities can be compared to users of financial statements (Amelio, 2016). Other studies state that PSAK has not provided clear guidelines on reporting corporate social responsibility in Indonesia hence each company seeks its own forms to present their social activities. The absence of social responsibility reporting standards by the PSAK seems to be a consequence of the convergence of IFRS. As a result, the comparability of the company's financial statements, especially those related to social activities, is very low (Ridi ; Andriani; & Farida, 2017).

However, the standards of AAOIFI and IAI help improving the comparability of financial statements by requiring the presentation of LSPDZ in the sharia entity financial statements. The standards of AAOIFI and the standards of the IAI that require the presentation of LSPDZ by LKS and sharia entities show the concern of this standard on the importance of transparency and accountability of zakat activities. Through LSPDZ, users of financial statements can find out information about the source of zakat receipts, distribution activities and increase or decrease in the balance of funds during a certain period. The presentation of LSPDZ is a positive practice and helps improving the company's performance. In line with Maali & Napier's research which states that compliance with Sharia principles can be demonstrated in the disclosure of corporate social responsibility. Islamic Social Reporting in this case is LSPDZ is a medium to inform the social responsibility that has been implemented by Sharia entities(Maali et al., 2006). Supporting this opinion, research by Hanifa states that to fulfill adherence to sharia principles, especially in their role in social responsibility, the company should present at least 3 of the following, namely: (1) any prohibited transactions that occur in the company, (2) the obligation of zakat that has been and will be paid, (3) social responsibility, including charities (Haniffa , R . & Hudaib, 2011).

Furthermore, the results of this study indicate that in 2017, eleven out of the thirteen BUS in Indonesia or 85% of them have applied PSAK 101 by presenting LSPDZ in their financial statements. The presentation of LSPDZ is not limited to BUS that conducts zakat activities; BUS that is not zakat activities also remains the subject to the obligation to present their LSPDZ with a zero-nominal value. Furthermore, it can be seen that of the 11 BUS that presented the LSPDZ, five of them had paid the corporate zakat. While the other six BUS only manage zakat funds sourced from other than the corporate zakat.

CONCLUSION AND RECOMMENDATION

This paper has discussed the accounting treatment for corporate zakat that is possibly applied in Indonesia. FAS No.9 and Tr i-1 from the AAOIFI and the MASB respectively were compared to offer the best alternative to be applied in Indonesia. Both standards provided useful information on the basis of zakat calculation that can be applied in Indonesia. However, the Tr i-1 from the MASB in Malaysia was not part of Malaysian accounting standard. In Indonesian context, partial accounting standard was not sufficient. PSAK 101 in Indonesia was better in regulating corporate zakat, although it was not complete.

The scope of sharia entities in PSAK 101 should be made more specific and includes companies that conduct sharia transactions, inside or outside the capital market. Corporate zakat should be recognized when there is legal law that oblige companies to pay their zakat. The legal law was produced either by the government, by its charter or by the General Meeting of Shareholders (GMS). Furthermore, corporate zakat should be treated as expense and deduct companies' profit as a result tax payment will also be reduced. In addition, report of corporate zakat has been regulated by IAI in PSAK No.101 by obliging sharia entities to present LSPDZ.

Concerning the measurement of corporate zakat, current assets should be considered as the better basis in calculating business zakat.It was believed that in accordance with literature of fiqh, current assets were more relevant as well as described by the AAOIFI in bahrain, MASB in Malaysia and other literature from other countries. Including fixed assets will result in over statement of zakat, while using profit as basis of zakat calculation will result in under statement for zakat calculation.

SUGGESTION

It was suggested that the future agenda should discusses the implementation of zakat calculation method by corporates in Indonesia. Other areas need to be discussed was the realization of corporate zakat in every province in Indonesia.

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