AN ANALYSIS OF BUSINESS ZAKAT REPORTING IN ISLAMIC BANKING INSTITUTIONS: EVIDENCE FROM MALAYSIA, INDONESIA AND BRUNEI

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ABSTRACT

The reporting requirements for business zakat accounting in Islamic banking institutions are still in their early stages, with only minimal zakat disclosure currently mandated. Consequently, the disclosure of zakat accounting is insufficient despite its crucial role in enhancing transparency and accountability, building the trust and confidence of the stakeholders, and ensuring compliance with Shariah principles. The primary objective of the study is to analyze zakat reporting requirements and compare them with current business zakat reporting practices in Islamic banking institutions in Malaysia, Indonesia, and Brunei. This study employs a qualitative research approach by examining the annual reports of three selected Islamic Banks, chosen based on the availability and accessibility of their audited financial statements and annual reports for the financial year ending 31 December 2023. A content analysis of the annual reports of Bank Islam Malaysia Berhad, Bank Muamalat Indonesia and Bank Islam Brunei Darussalam Berhad was performed to evaluate the recognition of zakat expenses, the measurement of assets and liabilities for zakat, and the presentation and disclosure of business zakat. The findings are mixed yet interesting. In the absence of approved accounting standards for Islamic financial institutions, Bank Islam Malaysia Berhad has demonstrated full disclosure practices on its business zakat reporting. Whereas, Bank Muamalat Indonesia is still insufficient in reporting the business zakat despite having a proper accounting standard for zakat. For Bank Islam Brunei Darussalam, the business zakat reporting is adequate even though Brunei has only one enactment related to zakat collection and distribution. The measurement, recognition, presentation, and disclosure criteria should be upheld, with additional requirements for full disclosure by zakat-paying business entities. This study proposes the proper establishment of zakat accounting standards to provide comparable and reliable financial information for various stakeholders.

Keywords: Business Zakat, Zakat Reporting, Zakat Disclosure, Islamic Banking Institutions, Zakat Assessment

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INTRODUCTION

The zakat obligation for business entities was initially imposed on tangible products for trading such as in the manufacturing, retail, wholesale, and shipping industries. However, as jurists have broadened and redefined the scope for products and services subject to zakat, financial products and services have also become obligatory. In Malaysia, the rapid progress and growth in the Islamic financial system have demanded zakat reporting disclosure for Islamic Financial Institutions (IFIs). The Shariah Advisory Board and Shariah Committee play a crucial role in monitoring the compliance of IFIs activities with the Shariah requirements. The IBIs are encouraged to provide zakat reporting disclosure to present the business zakat assessment process, the business zakat methods, and the treatment of zakat expense and zakat payable amounts within an accounting period (Noor, Rashid & Mastuki, 2011). Shariah disclosure, including zakat reporting, is crucial for Islamic Banking Institutions (IBIs) to enhance transparency and trustworthiness that meet stakeholders' needs by increasing comparability and facilitating the assessment of IBIs' financial position, performance and in compliance with Shariah with Islamic business principles (Abojeib et al., 2023; Bank Negara Malaysia, 2022; Benamraoui et al., 2023; Wan Abdullah et al., 2012). Consequently, IBIs can further strengthen their reputation, foster stakeholders' confidence, and contribute to societal well-being by providing full disclosure on the business zakat. Therefore, it is critical to consider the issuance of accounting pronouncement for business zakat.

In light of the Malaysian regulatory and legal framework, Malaysian Accounting Standards Board (MASB) issued Technical Release *i*-1 *Accounting for Zakat on Business* to provide guidance on the application of generally accepted accounting principles to the recognition, measurement, presentation, and disclosure for zakat on business in 2006. In 2009, MASB released the Technical Release *i*-3 *Presentation of Financial Statements of Islamic Financial Institutions* that laid down the basis for the presentation and disclosure of financial statements of IFIs. To assist MASB in developing future pronouncements on financial reporting, Statement of Principles *i*-1 *Financial Reporting from an Islamic Perspective* has been issued that concerned with the presentation and disclosure of information that forms part of financial reporting from an Islamic perspective. Starting in 2005, Bank Negara Malaysia (BNM) issued a series of guidelines on financial reporting for Islamic banks and kept them updated to align with ongoing improvements. The latest policy document on *Financial Reporting for Islamic Banking Institutions* was issued on 29 April 2022 by BNM. The guideline clarifies and sets minimum expectations for the application of the MFRS to an IFI with the primary aim of ensuring adequate disclosures.

In Indonesia, the government promulgated the *Zakat Law Number 23* in 2011. The law mainly focuses on the management of zakat. The Indonesian Accounting Institute (IAI) has issued Shariah accounting standard No.101 (PSAK No.101) *Presentation of Shari'ah Financial Reports.* The standard stipulates that Shariah entities, including Indonesian Islamic banks, are mandated to present zakat disclosure in the statement of source and use zakat in the financial statements (Andriani & Mairijani, 2019; Wan Abdullah et al., 2013). However, the law stated that companies are not subject to that zakat law, resulting in zakat potential not being collected at its optimum level (Andriani & Mairijani, 2019). Previously, the IAI published the *Statement of Financial Accounting Standards (PSAK) No. 109* regarding zakat accounting in 2009.

Currently, the Islamic Religious Council of Brunei Darussalam (MUIB) was given authority by the Law of Brunei, 1/1984, Religious Council and Kadi Courts, Chapter 77, Section 114, to collect and distribute zakat funds on behalf of His Majesty and according to

Shariah Law (Kasim & Abdullah, 2022). Zakat is distributed to six asnaf in Brunei as the Mufti Fatwa No 14 MKB 3/1969 excludes the slave and fi sabilillah asnaf categories.

Overall, the reporting requirements for business zakat accounting in IBIs are limited (Andriani & Mairijani, 2019; Wan Abdullah et al., 2013) due to minimal zakat disclosure requirements (BNM, 2022). Furthermore, the guidance on the recognition, measurement, presentation and disclosure of zakat by zakat-paying entities is lacking (MASB, 2006). As far as Malaysia is concerned, IBIs have relied heavily on the prevailing guidelines issued by the BNM and on Shariah rulings issued by Shariah advisors due to the absence of specific accounting guidance (MASB, 2009). To date, the IBIs are still not required to comply with any accounting pronouncements specifically concerning business zakat. The decision on reporting business zakat expenses, zakat payments, and zakat liabilities for an accounting period depends on the IBIs themselves.

This study primarily aims to identify policies, guidelines, and legal requirements related to business zakat reporting. Subsequently, it compares these requirements with the current business zakat reporting practices in selected IBIs in Malaysia, Indonesia and Brunei. Specifically, this study explores the extent of business zakat reporting regarding the recognition of zakat expenses, measurement of assets and liabilities subject to zakat, and the presentation and disclosure of zakat on business. This study employs a qualitative research approach by examining the annual reports of Bank Islam Malaysia Berhad (BIMB), Bank Muamalat Indonesia (BMI) and Bank Islam Brunei Darussalam Berhad (BIBD) for the financial year ended 31 December 2023. The selection criterion of these IBIs is mainly based on the availability and accessibility of the audited financial statements and annual reports. The following section provides a brief background on BIMB, BMI and BIBD.

BANK ISLAM MALAYSIA BERHAD

BIMB is the pioneer of Islamic banking globally, significantly contributing to the development and growth of the nation's Islamic financial industry. Currently, BIMB focuses on addressing society's financial needs in the most sustainable and ethical manner possible, staying anchored on the Shariah rules and principles. In the financial year ended 31 December 2023, the BIMB clearly stated that the bank fulfilled its obligation to pay zakat on its business to state zakat authorities by adopting the capital growth computation method. The computation method used is in compliance with the Banking Zakat Management Manual (*Pengurusan Zakat Perbankan*). The BIMB paid the zakat on the Bank’s portion, namely, shareholders’ fund and other funds received by the Bank, excluding depositors’ fund and Investment Account Holders’ fund (BIMB Annual Report, 2023). Several zakat authorities had mandated the BIMB as their agent to distribute a portion of the zakat paid by the bank to eligible beneficiaries as guided by an approved Business Zakat Guideline.

BANK MUAMALAT INDONESIA

PT Bank Muamalat Indonesia Tbk (BMI) (“BMI”, “Bank”) is Indonesia's first bank to operate under the Sharia banking concept. The company was established based on Deed of Establishment No. 1, dated November 1, 1991 (24 Rabiul Akhir 1412 Hijriah), created before Notary Yudo Paripurno, SH, in Jakarta. The deed was approved by the Minister of Justice of the Republic of Indonesia through Decree No. C2-2413.HT.01.01 of 1992, dated March 21, 1992, was registered at the Central Jakarta District Court office on March 30, 1992, under No. 970/1992. It was subsequently announced in the State Gazette of the Republic of Indonesia No. 34, dated April 28, 1992, with additional number 1919A. The annual report contains the words "the Bank," "Bank Muamalat," and "Bank Muamalat Indonesia (BMI)" which are defined as PT Bank Muamalat Indonesia Tbk engaged in sharia banking activities. Interestingly, the Indonesian National Amil Zakat Agency nominated BMI as the Best Zakat Payment Service Provider Bank at the BAZNAS Award 2023. The BMI accepts zakat deposits from internal and external parties, such as customers and recipients. However, the BMI does not directly carry out the function of managing zakat funds but rather channels the zakat funds through the zakat management entity. (Annual Report BMI, 2023).

BANK ISLAM BRUNEI DARUSSALAM

Bank Islam Brunei Darussalam (BIBD) is the leading Islamic financial institution in Brunei and the largest bank in the country. BIBD's vision is to serve Brunei through Islamic solutions as its premier financial institution, while its mission is to become the best Islamic bank in the Asia-Pacific region. With the largest network of branches and ATMs strategically located across Brunei's four districts, BIBD's headquarters are in Bandar Seri Begawan. At BIBD, we prioritize strong corporate governance to ensure transparency, accountability, and the highest ethical standards, fostering trust among our stakeholders and enabling sustainable growth (Annual report BIBD, 2023).

RELATED EVIDENCE ON BUSINESS ZAKAT OBLIGATION

Business inventory is called by jurists 'urud al-tijarah', which means any commodities obtained for the purpose of resale for profit, except liquid monetary assets. Muslim who owns business wealth equal to nisab of money or more at the end of hawl must pay zakat at the rate of 2.5%. This zakat is levied on both principal capital and any growth or accruals on it. The obligation of zakat on business is derived from several evidences from al-Quran, al-hadiths, al-ijmak ulama and al-qiyas. The most prominent verse regarding zakat on business is as follows:

Allah S.W.T says, "0 you who believe! Spend of the good things which you have earned, and of that which We have produced from the earth for you and do not aim at that which is bad to spend from it, (though) you would not accept it save if you close your eyes and tolerate therein. And know that Allah is Rich (Free of all wants), and Worthy of all praise"

(Al-Baqarah : 267)

According to al-Tabari, (Muhammad, 2000), "spend of the good things which you have earned" refers to economic activities such as the business sector. Thus, business entities are obligated to perform zakat on what they have put on their efforts in generating income and profit. At the same time, the business entities have to ensure the business assets must be from halal sources and all the business activities too must come from halal activities or services. Imam al Ja'ssas and Imam Abu Bakr ibn al 'Arabi have been reported to assert the same opinion which zakat is obligatory on the trading activities (AI-Qaradawi, 1999: 204).

Hadith from Rasulullah s.a.w as narrated by Abu Dawud reported from Samurah ibn Jundub,

"The Prophet (s.a.w) used to order us to pay the sadaqah (zakat) on what we have prepared for trade (urud al-tijarah)"

(Abu Dawud, 1557)

The above hadith clearly stated that zakat is obligatory on goods or inventories which are ready to be sold. Prophet s.a.w gave an order to perform zakat on business inventory. Many jurists referred business inventory as urud al-tijarah, which means any commodities obtained for the purpose of resale for profit (Abu Bakar, Ibrahim & Md Noh, 2014). However, some jurists defined urud al-tijarah differently and it has contributed to various business zakat accounting methods used by business entities (Zahri, 2014).

Ijmak ulama related to zakat obligatory is as reported by Aby Ubayd (1991).There is a report from Abu 'Amr ibn Hammas, from his father, who said:

“Umar passed by me and 'said, 'Oh Hammas, pay zakat of your possession (wealth)". I said, I’ have nothing except hides and bags. He said, "Determine the price of these things and then pay their zakat"
(Abu 'Ubayd, 1991: 362)

Abu ‘Ubayd al-Qasim (1991) reports the ways of calculating zakat as perceived by some of the great followers. He quotes Maymun ibn Mahran as saying,

“When zakat is due, calculate the amount of money, add to it the value of inventory and the amount of debts on customers that you expect to be paid, sum the total, deduct whatever debts you owe to others and pay zakat on the net”. (Kitab al-Amwal, 454, 1185)

With reference to the above quote, the formula for business zakat computation is clearly mentioned, and it is still relevant and practical to be applied in today’s business environment. The formula represents how to work out the net assets or working capital of the business. The computation of zakat on business still remains the same as per the calculation reported by Abu ‘Ubayd (1991). In today’s modern businesses, adjustments on certain items of the business’s assets and liabilities are needed to arrive at accurate business zakat payable and in compliance with the Shariah principle. However, the recognition of current assets which are subject to zakat and recognition of current liabilities that are not subject to zakat is not uniform among the business entities (Zahri, 2014). Thus, it leads to different treatment of current assets and current liabilities that are subject to zakat. Consequently, the business zakat computation will be misleading and inaccurate. It is suggested that thorough discussions among zakat practitioners be conducted to achieve a consensus on treating the current assets and current liabilities items.

In determining the zakat base in Malaysia, business entities may apply one of the following methods as recommended by the Malaysian Islamic Development Department (JAKIM) in Panduan Zakat di Malaysia, 2001:(a) Adjusted Working Capital method or (b) Adjusted Growth method. The adjusted working capital method calculates the zakat base as net current assets, adjusted for items that do not meet the conditions for zakat assets and liabilities. The adjusted growth method calculates zakat base as owners' equity and long-term liabilities, deducted for property, plant and equipment and non-current assets, and adjusted for items that do not meet the conditions for zakat assets and liabilities as determined by the relevant zakat authorities. The adjusted working capital model is accepted as the most closely complied with the Shariah principles, and it has been supported by several jurists (al-Qaradhawi, 2000; Rohila & Mohd Zulkifli, 2012; Zahri, H., 2014; Ahmed et al., 2016). The resulting difference represents the net assets or net wealth of the business, which is then multiplied by the zakat rate of 2.5%. The zakat payable amount then must be presented on the face of the Statement of Financial Position, and the zakat expense must be presented on the face of the Statement of Profit or Loss.

APPLICATIONS OF ACCOUNTING AND REPORTING STANDARDS AND GUIDELINES FOR ISLAMIC FINANCIAL INSTITUTIONS

The need for a sound accounting and reporting system for IFIs has been called since the 1990s to meet the Shariah requirements and be relevant to practice. One of the main financial reporting disclosures aimed at zakat obligation to be discharged by IFIs (A. R. Abdul Rahman, 2003). However, there is low compliance with zakat disclosures among Shariah compliance companies, including IFIs. The information disclosed is very limited and some explanatory notes are missing. If the business has fulfilled its zakat obligation, then it should disclose the related zakat information on its annual report (Noor et al., 2011). The requirement for an accounting standard for zakat has become the main concern nowadays. However, no separate Islamic accounting standard is needed. Instead, the option needs to be within the IFRS framework with the collaboration work of AAOIFI and the IASB (Mohammed et al., 2015). The convergence between Islamic and conventional accounting, particularly concerning zakat reporting, will produce complete and transparent financial reporting. Previous studies highlighted that harmonization between zakat assessment and zakat accounting is highly needed (Abdullah Ibrahim et al., 2012) and (Mohammed et al., 2015). Ismail et al. (2013) added that applying zakat for business is still a long way to arrive at a consensus or agreement among the stakeholders, including the Islamic banking sector business.

ZAKAT REPORTING REQUIREMENTS IN MALAYSIA

In the absence of proper reporting standards for zakat, Malaysia has established four guidelines whereby three guidelines were issued by MASB comprising i) Technical Release *i*-1 *Accounting for Zakat on Business, ii)* Technical Release *i*-3 *Presentation of Financial Statements of Islamic Financial Institutions, iii)* Statement of Principles *i*-1 *Financial Reporting from an Islamic Perspective*, and the other one is a policy document issued by BNM which is *iv) Financial Reporting for Islamic Banking Institutions.*

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

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

Recognition

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

Measurement

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

Presentation and Disclosure

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

TECHNICAL RELEASE *i*-3: PRESENTATION OF FINANCIAL STATEMENTS OF ISLAMIC FINANCIAL INSTITUTIONS

This technical Release establishes a guideline for the presentation and disclosure of financial statements for IFIs engaged in Islamic banking (MASB, 2009a). The structure and content of the statement of financial position, statement of comprehensive income, and statement of changes in equity of IFIs are laid down in the guideline. As far as zakat is concerned, the disclosure of other reports in addition to the financial statements, such as the Zakat Fund, is encouraged. Additionally, an IFI shall disclose its responsibility towards zakat payment on behalf of depositors, shareholders and others. This guideline ensures comparability with previous periods and other institutions and conformity with Shariah requirements.

STATEMENT OF PRINCIPLES *i*-1 FINANCIAL REPORTING FROM AN ISLAMIC PERSPECTIVE

This Statement of Principles serves as a foundation for developing future pronouncements on Islamic financial reporting (MASB, 2009b). It was issued with the aim of documenting and communicating the Board’s approach to the public and deliberations on financial reporting from an Islamic perspective. Paragraph A11 states that the display of information needed for zakat calculation is another area peculiar to financial reporting from an Islamic perspective. Moreover, additional information on an entity's assets and liabilities may be needed to assess the business zakat payable amount.

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

The policy document applies to licensed Islamic banks, licensed banks and licensed investment banks approved to carry on Islamic banking business, and financial holding companies. It sets minimum expectations for applying the MFRS to an IFI (BNM, 2022). To ensure adequate disclosure, the policy document sets out the specific requirements for applying the MFRS, information to be disclosed in the financial statements, application requirements for dividend payment approval, and requirements on financial statement submission and publication.

Presentation and Disclosure

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

Recognition and Measurement

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

ZAKAT REPORTING REQUIREMENTS IN INDONESIA

ZAKAT LAW NUMBER 23 OF 2011

The provision of Zakat Law Number 23 of 2011 was in Indonesian language. Thus, this review is based on previous studies conducted on this law. The ratification of Zakat Law Number 23 of 2011 on the Management of Zakat marked a new era in governing and administering zakat matters in Indonesia (Beik, 2015; Wibisono, 2015; Zaki et al., 2020). The National Board of Zakat (BAZNAS) has been mandated to manage the whole zakat system and coordinate all zakat institutions in the country (Beik, 2015). The collection of zakat is coordinated by the BAZNAS central, BAZNAS province, BAZNAS regency/city and private zakat institution (LAZ) and the distribution of zakat must be based on priority after considering principles of equity, justice, and territorial proximity (Beik, 2015). Additionally, as stipulated in the zakat law, zakat institutions are required to submit management reports on zakat, infaq, sadaqah, and other religious social funds to the Provincial BAZNAS and local governments on a regular basis to meet the requirements for accountability and transparency (Rahman et al., 2021). Although the Zakat Law does not clearly define the governance of zakat institutions, it requires institutions like BAZNAZ of Jambi Province to prepare a quality policy for zakat management (Zaki et al., 2020). Under Zakat Law Number 23, BAZNAZ plays a crucial role in collecting and distributing zakat funds throughout the country. This constitutional basis strongly mandates that financial reports are compulsory for zakat fund management as a form of accountability (Rahman et al., 2021).

PSAK 109 ACCOUNTING FOR ZAKAT

Similar to Zakat Law Number 23, PSAK 109 Accounting for Zakat also uses the Indonesian language. Thus, the discussion on the content of PSAK 109 was based on the prior literature. PSAK 109 has been regulated since 2009 and sets out accounting standards for Islamic entities whose primary activities are receiving and distributing zakat and infaq or alms (Sudirman et al., 2020). The components of the financial statements based on PSAK 109 consist of balance sheets, reports on changes in assets under management, cash flow statements, reports on changes in funds, as well as notes on financial statements. The aim of PSAK 109 was to explain the recognition, measurement, presentation and disclosure of zakat transactions.

Zakat Recognition

PSAK 109 has regulated that the receipt of zakat is recognised when cash or other assets are received (Sudirman et al., 2020). There are six situations whereby zakat would have been categorised as early recognition. Table 1 describes the situations for early recognition of zakat.

Table 1: Early Recognition of Zakat

○ Receipt of zakat is recognized when cash or other assets are received. ○ A zakat which received from muzakki is recognized as an addiction to zakat funds: (a) if it is in cash, then as much as the amount received; (b) if it is in non-cash, then as much as common value of the non-cash asset. ○ Determination of the fair value of non-cash assets which received is using market prices. If market prices are not available, then other fair value determination methods may be used in accordance with the relevant PSAK. ○ Zakat which received is recognized as amil funds for the amil portion and zakat funds for the non-amil. ○ Determination of the amount or percentage in shares for each mustahiq is determined by amil in accordance with sharia principles and amil's regulation. ○ If the muzakki determines the mustahiqs who must receive zakat distribution through amil, the zakat assets received are fully recognized as zakat funds. If for this amil service gets a fee, it is recognized as an addition to amil funds.

Source: Sudirman et al. (2020)

Zakat Measurement

PSAK 109 mandates that non-cash zakat and zakat distributed to mustahik be recognized as a deduction from zakat funds if there is a decrease in the value of zakat assets (Sudirman et al.

(2020). PSAK sets that the insured amount of the loss must be deducted from either zakat funds or amil funds, depending on the cause of the loss.

Zakat Presentation

The presentation of financial reports for amil of zakat institutions must follow specific standards (Sudirman et al., 2020). On the face of the statement of financial position, amil in the zakat institutions should present zakat funds, infaq funds and non-halal funds as separate items.

Zakat Disclosure

PSAK 109 regulates that amil of zakat institutions must disclose information related to zakat transactions (Sudirman et al., 2020). Table 2 presents the disclosure guidelines for zakat transactions.

Table 2: Zakat Disclosure

Amil must disclose the following matters related to zakat transactions, but not limited to: a) Zakat distribution regulation, such as determining the priority scale of distribution and receiver; b) Distribution regulation between amil funds and non-amil funds for zakat receipts, such as percentage of distribution, reasons, and consistency of regulation; c) The method of determining the common value is used to receive zakat in the form of non-cash assets; d) Details of the amount of zakat fund disbursement including the amount of management expenses and the amount of funds received directly by mustahiq; and e) A special bond between amil and mustahiq which includes: (i). the nature of the special bond; (ii). the amount and type of assets distributed; and (iii). the percentage of assets transferred over the period.

Source: Sudirman et al. (2020)

ZAKAT REPORTING REQUIREMENTS IN BRUNEI

The study conducted by Beik (2015) on international standardization of the zakat system found that there is one enactment in Brunei, which is the Revised Brunei Islamic Edition 1/1984 of Religious Council, the Islamic Religious Council Act, Kadi Courts Act (Chapter 77). Zakat disbursement is solely the authority of the Brunei Islamic Religious Council, whereby the zakat is distributed to six groups of zakat recipients in Brunei. It is interesting to note that the Mufti Fatwa No 14 MKB 3/1969 excludes zakat distribution to the slave and fi sabilillah (struggle in the way of Allah) in their practices considering the non-existence of those two groups (Beik, 2015).

RESEARCH METHODS

The study primarily aims to identify the legal requirements and the current practices of business zakat reporting for selected IBIs in Malaysia, Indonesia, and Brunei. This study employs a qualitative research approach by examining the annual reports of BIMB, BMI, and BIBD for the financial year ended 31 December 2023. These banks were selected due to the availability and accessibility of their audited financial statements and annual reports. First, this study identifies the guidelines, policies, standards and laws related to corporate or business zakat in Malaysia, Indonesia and Brunei. Second, a content analysis of the annual reports of BIMB, BMI, and BIBD was conducted to analyze the recognition of zakat expenses, the measurement of assets and liabilities for zakat, and the presentation and disclosure of business zakat.

FINDINGS AND DISCUSSION

This study compares corporate zakat reporting practices with each country's zakat reporting requirements, highlighting the extent of compliance and implementation. For Malaysia, the comparison is made between the Technical Release i-1, Technical Release i-3, Statement of Principles i-1, Financial Reporting for IBIs and the zakat reporting disclosure of BIMB. For Indonesia, the comparison is made between Zakat Law Number 23, PSAK 109 and the zakat reporting disclosure of BMI. For Brunei, the comparison is made between the Law of Brunei, 1/1984, Religious Council and Kadi Courts, Chapter 77, Section 114 and zakat reporting disclosure of BIBD. The findings are discussed separately in the following sections, covering recognition and measurement, as well as presentation and disclosure.

Recognition and Measurement

Table 3 summarizes the findings on recognition and measurement criteria for zakat reporting. In defining the zakat term, BIMB stresses that zakat is a religious obligation that plays various significant roles in encouraging socio-economic growth, providing spiritual purification, promoting socio-economic justice, and enhancing government revenue. BIBD defines zakat as tithes payable in accordance with Shariah principles. The definition of zakat is provided in the PSAK 109 Accounting for Zakat. However, the BMI does not provide the zakat definitions in the annual reports. Reporting on the responsibility towards zakat payment has shown that only BIMB discloses its zakat responsibility in the Report of The Shariah Supervisory Council. The method applied in computing business zakat payable by IBIs is varied, and the zakat base used is either 2.5% or 2.5775%. BIMB stated that Capital Growth Method is the method used to determine zakat base. BIMB also clearly mentioned that the zakat paid by the bank was based on the Bank’s portion namely, shareholders’ fund and other funds received by the Bank excluding depositors’ fund and Investment Account Holders’ fund. BIBD revealed that zakat payable by the Bank was aimed at complying with the principles of Shariah. In terms of disclosing the beneficiaries of zakat fund, BIMB reported in the social and relationship capital whereas BMI reported in the statement of sources and utilization of zakat funds. BIBD, however, does not include in the annual reports its responsibility towards zakat payment and the beneficiaries of zakat fund.

Table 3: Recognition and measurement items derived from annual reports of BIMB, BMI and BIDB

Items	Bank Islam Malaysia Berhad	Bank Muamalat Indonesia	Bank Islam Brunei Darussalam
Zakat definitions	Zakat is one of the fundamental obligations in Islam, intended for socio-economic growth and spiritual purification. It is vital for uplifting the	Not provided	This represents tithes payable by the Group to comply with the principles of Shariah and as approved by

	living standards of the poor and bolstering public revenue in developing nations, promoting socio-economic justice.		the Shariah Advisory Board.
its responsibility towards zakat payment	Stated in the Report of The Shariah Supervisory Council	Not stated	Not stated
method applied in the determination of zakat base	Capital Growth Method	Not stated	Net Invested Fund Method
zakat base	2.5%	Not stated	2.5775%
Zakat payable	The bank paid the zakat on the Bank's portion namely, shareholders' fund and other funds received by the Bank excluding depositors' fund and Investment Account Holders' fund	Not stated	payable by the Bank to comply with the principles of Shariah
the beneficiaries of zakat fund	Reported in the social and relationship capital	Reported in the statement of sources and utilization of zakat funds	Not stated

Sources: Annual Reports, 2023

Presentation and Disclosure

Based on the items' analyses of the annual reports of BIMB, BMI, and BIBD, all institutions have presented the major components of zakat: zakat expense, zakat payment, and zakat liability. Most Islamic banks presented the amount of zakat assessed for the current period as a line item, zakat expense, on the face of the Statements of Profit or Loss or Income Statement. The provision for zakat liability is presented in the Consolidated Statement of Financial Position.

Presentation and Disclosure by BIMB

Statements of Financial Position

as at 31 December 2023

	Note	Group 2023 RM'000	Group 2022 RM'000	Bank 2023 RM'000	Bank 2022 RM'000
ASSETS					
Cash and short-term funds	3	**4,714,465**	7,145,114	**4,678,243**	7,128,159
Financial assets at fair value through profit or loss ("FVTPL")	4	**1,215,769**	299,128	**914,246**	272,735
Derivative financial assets	5	**68,412**	123,000	**68,412**	123,000
Financial assets at fair value through other comprehensive income ("FVOCI")	6	**12,520,208**	12,093,417	**12,521,567**	12,094,304
Financial assets at amortised costs ("AC")	7	**3,120,230**	3,055,256	**3,120,230**	3,055,256
Financing, advances and others	8	**66,817,115**	64,901,994	**66,817,115**	64,901,994
Other financial assets at AC	9	**863,813**	600,746	**763,308**	501,471
Statutory deposits with Bank Negara Malaysia	10	**989,407**	950,508	**989,407**	950,508
Current tax assets		**7,184**	7,203	**6,662**	6,662
Deferred tax assets	11	**174,728**	212,349	**173,756**	211,377
Right-of-use assets	12	**167,436**	184,383	**166,624**	183,959
Investments in subsidiaries	13	**-**	-	**344,049**	100,905
Property and equipment	14	**252,753**	223,995	**250,279**	221,835
Intangible assets	15	**50,354**	54,578	**50,354**	54,578
Total assets		**90,961,874**	89,851,671	**90,864,252**	89,806,743
LIABILITIES AND EQUITY					
Deposits from customers	16	**59,016,131**	60,707,504	**59,042,581**	60,821,715
Investment accounts of customers	17	**17,073,156**	14,461,439	**17,092,594**	14,564,962
Deposits and placements of banks and other financial institutions	18	**351,787**	70,068	**351,787**	70,068
Derivative financial liabilities	5	**56,548**	137,324	**56,548**	137,324
Bills and acceptance payable		**15,614**	22,441	**15,614**	22,441
Recourse obligations on financing sold to Cagamas	19	**2,004,329**	3,005,343	**2,004,329**	3,005,343
Subordinated sukuk and capital securities	20	**2,323,540**	2,222,092	**2,323,540**	2,222,092
Other liabilities	21	**2,399,093**	2,070,964	**2,276,009**	1,910,462
Lease liabilities	12	**281,174**	295,585	**280,359**	295,167
Zakat and taxation	22	**40,290**	62,668	**40,279**	62,582
Total liabilities		**83,561,662**	83,055,428	**83,483,640**	83,112,156
Equity attributable to equity holders of the Bank					
Share capital	23	**3,888,725**	3,645,043	**3,888,725**	3,645,043
Reserves	24	**3,511,487**	3,151,200	**3,491,887**	3,049,544
		7,400,212	6,796,243	**7,380,612**	6,694,587
Total liabilities and equity		**90,961,874**	89,851,671	**90,864,252**	89,806,743

Source: BIMB, 2023

Figure 1: Presentation and disclosure of zakat liability of BIMB

Figure 1 presents the zakat payable under zakat and taxation liability item on the face of the Statement of Financial Position as at 31 December 2023. The disclosure of zakat and taxation liability is presented separately in note 22. BIMB clearly stated that business zakat obligation has been discharged to state zakat authority and distributed a portion of zakat paid following the BIMB' Business Zakat Guideline (BIMB, 2023).

Statements of Profit or Loss

for the financial year ended 31 December 2023

	Note	Group 2023 RM'000	Group 2022 RM'000	Bank 2023 RM'000	Bank 2022 RM'000
Income derived from investment of depositors' funds	26	**3,263,158**	2,585,912	**3,263,158**	2,585,912
Income derived from investment account funds	27	**716,208**	587,924	**716,208**	587,924
Income derived from investment of shareholders' funds	28	**549,964**	402,459	**609,759**	378,885
Net allowance for impairment on financing and advances, net of recoveries	29	**(175,263)**	(140,032)	**(175,263)**	(140,032)
Net allowance for impairment on other financial assets		**(3,698)**	959	**(8,698)**	959
Direct expenses		**(18,596)**	(11,414)	**(18,596)**	(11,414)
Total distributable income		**4,331,773**	3,425,808	**4,386,568**	3,402,234
Wakalah fees from restricted investment accounts	17	**11**	59	**11**	59
Income attributable to depositors	30	**(1,701,718)**	(1,072,342)	**(1,702,071)**	(1,072,524)
Income attributable to investment account holders	31	**(350,469)**	(194,066)	**(351,966)**	(196,535)
Total net income		**2,279,597**	2,159,459	**2,332,542**	2,133,234
Personnel expenses	32	**(861,251)**	(821,955)	**(817,794)**	(788,420)
Other overhead expenses	33	**(559,968)**	(483,467)	**(574,967)**	(483,266)
		858,378	854,037	**939,781**	861,548
Finance cost	36	**(111,549)**	(107,171)	**(111,533)**	(107,156)
Profit before zakat and tax		**746,829**	746,866	**828,248**	754,392
Zakat		**(11,544)**	(13,682)	**(11,432)**	(13,622)
Tax expense	37	**(182,235)**	(241,512)	**(181,786)**	(240,369)
Profit for the year		**553,050**	491,672	**635,030**	500,401
Earnings per share (sen)	38	**24.57**	22.86		

Source: BIMB, 2023

Figure 2: Presentation and disclosure of zakat expense of BIMB

Figure 2 presents the zakat expense under the Statement of Profit or Loss for the financial year ended 31 December 2023. Additionally, the zakat paid for the year is disclosed on their Statements of Cash Flows of BIMB. Interestingly, BIMB also presents the zakat paid in its Value Creating Business Model through Social and Relationship Capital, highlighting its commitment to business sustainability (BIMB, 2023).

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Presentation and Disclosure by BMI

PT BANK MUAMALAT INDONESIA Tbk
LAPORAN SUMBER DAN PENYALURAN DANA ZAKAT
TANGGAL 31 DESEMBER 2023
(Disajikan dalam ribuan Rupiah)

PT BANK MUAMALAT INDONESIA Tbk
INTERIM STATEMENTS OF SOURCES AND DISTRIBUTION OF ZAKAT FUNDS
AS OF DECEMBER 31, 2023
(Expressed in thousands of Indonesian Rupiah)

	Catatan/ *Notes*	31 Desember / *December 31* 2023	31 Desember / *December 31* 2022	
Sumber Dana Zakat				***Sources of Zakat Funds***
Internal Bank		664.527	223.176	*Internal Bank*
Eksternal Bank		5.106.833	7.122.293	*External Bank*
		5.771.360	**7.345.469**	
Sumber Dana Wakaf				***Sources of Waqf Funds***
Internal Bank		171.060	342.110	*Internal Bank*
Eksternal Bank		168.457	9.944	*External Bank*
		339.517	**352.054**	
Penyaluran Dana Zakat				***Distribution of Zakat Funds***
Baitul Maal Muamalat (BMM)		1.693.245	2.476.281	*Baitul Maal Muamalat (BMM)*
Dompet Dhuafa		--	--	*Dompet Dhuafa*
BAZNAS		4.481.474	4.465.829	*BAZNAS*
		6.174.719	**6.942.110**	
Penyaluran Dana Wakaf				***Distribution of Zakat Funds***
Baitul Maal Muamalat (BMM)		333.836	352.054	*Baitul Maal Muamalat (BMM)*
Wakaf Saham ITB		5.681	-	*ITB Shares waqf*
		339.517	**352.054**	
Surplus/ (Defisit)		**(403.359)**	**403.359**	***Surplus/ (Deficit)***
Saldo Dana Zakat dan Wakaf pada Awal Tahun		**403.359**	--	***Zakat and Waqf Funds at Beginning of the Year***
Saldo Dana Zakat dan Wakaf pada Akhir Tahun		-	--	***of Zakat and Waqf Funds at End of the Year***

Source: BMI, 2023

Figure 3: Presentation and disclosure of sources and distribution of zakat funds of BMI

Figure 3 represents the interim statements of sources and distribution of zakat funds as of 31 December 2023. With reference to the above statement, the collection of zakat funds is derived from Internal and External Banks. Subsequently, the distribution of zakat funds is channelled by Baitul Maal Muamalat (BMM), Dompet Dhuafa and Badan Amil Zakat Nasional (BAZNAZ). In 2023, BAZNAS RI won as the Best Zakat Payment Service Provider Bank. The implementation of CSR activities conducted in partnership with Baitulmal Muamalat (BMM) is supported by the zakat funds. These activities encompassed various areas including Social Da'wah, Humanity, Education, Health and Economy (BMI, 2023). Proper presentation and full disclosure of zakat collection and distribution funds will enhance transparency, facilitate informed decision-making in the distribution of zakat funds, and promote accountability and good governance. This ensures stakeholders clearly understand how business zakat is collected and allocated, thus fostering trust and integrity in the process.

PT BANK MUAMALAT INDONESIA Tbk
NOTES TO FINANCIAL STATEMENTS
As of December 31, 2023
And For The Year Then Ended
(Expressed in thousands of Rupiah, unless otherwise stated)

26. OTHER LIABILITIES

31 Desember/ *December 31,* 2022	
300.146.476	*Operational financing funds*
54.077.434	*Accrued expenses*
20.464.448	*Dividends payable*
13.853.556	*Unclaimed funds*
5.842.526	*Obligation under capital lease*
379.779	*Security deposits*
36.520.051	*Others*
431.284.270	***Total***

Operational financing funds represents Bank's obligation to third party to be immediately fulfilled as agreed which is related to collection, financing process, cost of notary, insurance of collateral, and other costs incurred due to confiscation of collateral.

Accrued Expense represents reserve related to the Bank's operational activities, such as electricity, water, and telephone expenses, corporate zakat, consulting service, and reserve for personnel, such as rewards, performance bonuses, promotion, training and uniform for staff.

Dividends payables represents dividends from previous years which have not been claimed by the shareholders as of December 31, 2023 and 2022.

Unclaimed funds represents Bank's obligation that will be paid to costumers related to financing process, such as cost of notary, insurance for collateral, and other costs exceeding the period of 1 (one) year (365 days).

Source: BMI, 2023

Figure 4: Presentation and disclosure of corporate zakat Liability under accrued expenses item of BMI

Figure 4 shows that BMI's corporate zakat payable is presented in the Notes to Financial Statements for the year ended 31 December 2023. The zakat payable is presented under the Other Liabilities item on the face of the Statement of Financial Position.

Presentation and Disclosure by BIBD

Bank Islam Brunei Darussalam Berhad
and its Subsidiaries
Financial statements
Year ended 31 December 2023

Income Statements
Year ended 31 December 2023

		Group		Bank	
	Note	**2023 B$'000**	**2022 B$'000**	**2023 B$'000**	**2022 B$'000**
Profits from financing, leasing and investments	3	461,460	338,176	430,700	288,762
Profits paid/payable to depositors	4	(111,584)	(47,709)	(108,631)	(45,159)
Net profit margin		349,876	290,467	322,069	243,603
Fee and commission income	5	54,447	47,318	52,208	45,413
Fee and commission expense	5	(18,323)	(13,760)	(18,323)	(13,760)
Net fee and commission income		36,124	33,558	33,885	31,653
Gain from derivatives and investments	6	13,688	48,043	13,688	48,043
Net foreign exchange loss	6	(48,025)	(57,336)	(48,025)	(57,336)
Other operating income	7	24,815	24,381	45,585	49,296
Total income		376,478	339,113	367,202	315,259
Less:					
Personnel expenses	8	(83,565)	(77,348)	(71,946)	(66,790)
Other expenses	9	(74,591)	(70,898)	(64,558)	(63,418)
Total operating expenses		(158,156)	(148,246)	(136,504)	(130,208)
Operating profit before allowances		218,322	190,867	230,698	185,051
Less:					
Allowance for impairment on financial assets	10	(9,557)	(2,248)	(9,245)	(1,768)
Operating profit		208,765	188,619	221,453	183,283
Share of profits of associate and joint ventures (net of tax)	24	12,263	3,937	-	-
Profit before zakat and tax		221,028	192,556	221,453	183,283
Less:					
Zakat	11	(4,862)	(3,027)	(4,862)	(3,027)
Income tax expense	12	(37,420)	(14,934)	(32,707)	(16,218)
Total zakat and income tax expense		(42,282)	(17,961)	(37,569)	(19,245)

Source: BIBD, 2023

Figure 5: Presentation and disclosure of zakat expense item of BIBD

Figure 5 presents the zakat expense on the face of the Income Statement of BIBD for the year ended 31 December 2023. As stated in Note 11, the amount of zakat is determined by using 2.5775% based on the net invested fund method and is payable by the Bank to comply with the principles of Shariah (BIBD, 2023).

Statements of Financial Position
As at 31 December 2023

		Group		Bank	
	Note	2023 B$'000	2022 B$'000	2023 B$'000	2022 B$'000
Assets					
Cash and cash equivalents	15	2,002,117	2,999,315	2,004,962	2,998,853
Balances with Brunei Darussalam Central Bank	16	512,770	556,603	470,826	518,660
Placements with and financing and advances to banks	17	1,028,516	1,533,155	1,692,025	1,976,347
Government sukuks	18	9,859	97,332	9,859	97,332
Investments	19	1,414,646	1,401,781	1,414,646	1,401,781
Derivative financial assets	20	67,839	136,613	67,839	136,613
Financing and advances	21	4,952,429	4,282,642	4,145,225	3,541,522
Finance lease receivables	22	12,497	12,529	12,497	12,529
Investments in subsidiaries	23	-	-	32,844	32,844
Investments in associate and joint ventures	24	31,001	49,745	7,080	22,358
Other assets	25	223,515	361,405	255,086	387,065
Property and equipment	26	98,027	94,885	77,992	76,993
Investment property	27	20,270	21,458	20,270	21,458
Deferred tax assets	28	9,537	12,628	9,700	12,592
Assets held for sale	43	30,524	-	15,278	-
Total assets		10,413,547	11,560,091	10,236,129	11,236,947
Liabilities and equity					
Deposits from customers	29	8,121,271	9,329,368	8,022,020	9,229,972
Deposits from banks and other financial institutions	30	329,327	406,047	376,936	322,395
Placements from other financial institutions	31	184,569	-	184,569	-
Derivative financial liabilities	20	15,710	15,569	15,710	15,569
Other liabilities	32	351,360	475,282	349,794	464,679
Zakat		8,612	3,882	8,612	3,882
Provision for taxation		43,412	36,597	38,333	31,394
Total liabilities		9,054,261	10,266,745	8,995,974	10,067,891

Source: BIBD, 2023

Figure 6: Presentation and disclosure of corporate zakat liability of BIBD

Figure 6 demonstrates that zakat liability is presented separately from taxation under Liabilities and Equity in the BIBD Statement of Financial Position as at 31 December 2023.

CONCLUSION

The trend of business zakat reporting among IBIs is rising, thus a need for a proper accounting standard is crucial. Establishing such a standard is essential to encourage IBIs and other Islamic business entities to fulfil their zakat obligations. Zakat reporting serves not only the stakeholders but also underscores the role of IBIs in fulfilling their social responsibility. Moreover, proper zakat reporting can motivate IBIs to promote a sustainable business environment, facilitate regulatory oversight, provide reliable financial information, improve stakeholders' communication, and encourage adopting best practices. This study proposes that the development of zakat accounting standard is timely needed to provide comparable and reliable financial information for various stakeholders. With the rapid growth of IFIs locally and internationally, the convergence between Shariah principles and accounting has proved useful in developing objective, transparent and complete accounting standards for zakat on business. In addition, accounting standards would improve the quality of zakat reporting disclosure in the financial statements and improve the comparability of reported financial information on zakat of the IFIs. By providing complete and transparent business zakat reporting to the public, it would be able to encourage more businesses to fulfil their zakat obligations.

As far as IBIs are concerned, the computation method adopted for business zakat is dissimilar even though the businesses are in the same Islamic banking sector. Different assessment methods for business zakat are necessary to align with the unique characteristics of each business entity and should be generally accepted as long as they adhere to Shariah principles. The choice of different business zakat methods might be influenced by the size of the business, the performance and the position of the business and the decision made by Shariah Committee members. Using different methods in computing business zakat should be acceptable to ensure that the zakat computed is in line with the Shariah principles and to avoid being ignored.

The findings are mixed yet interesting. In Malaysia, BIMB has shown high compliance with business zakat reporting requirements, as evidenced by the recognition, measurement, presentation, and disclosure criteria. Even though the approved accounting standard for business zakat has not been gazetted yet, BIMB has demonstrated full disclosure practices in its business zakat reporting. Based on the analysis of the zakat fatwa on companies, Rosele and Abdullah (2021) revealed that the state fatwa committee decided on the laws related to zakat and eventually gazetted the fatwa decisions as law. In upholding the principle of social accountability, zakat reporting disclosure is crucial to enhance the comparability and quality of the reported financial and non-financial information on zakat. Additional information may be included in the financial reports to meet the needs of various stakeholders.

The zakat reporting disclosure of BMI is insufficient despite Indonesia having such a proper accounting standard for zakat, that is PSAK 109 Accounting for Zakat. This finding is consistent with the study conducted by Rahman et al. (2021), which found that aspects of recognition, measurement, distribution, and disclosure of zakat funds and infaq/sadaqah funds at BAZNAS Gorontalo Regency are not constructed according to the PSAK 109 standards. The Zakat Management Act No. 23/2011 regulates only the management aspect of zakat. The Act primarily focuses on the National Board of Zakat but does not mandate zakat payment from a legal perspective. Consequently, zakat collection is predominantly driven by individuals (Beik, 2015). Andriani and Mairijani (2019) suggested that new accounting standards should be established considering the current business environment and zakat practices. To strengthen the corporate zakat policy, standardised and consistent zakat computation methods should be employed in assessing corporate zakat in Indonesia. Furthermore, obligating companies to pay zakat can raise a significant amount of additional funds, helping to redistribute wealth effectively and address societal economic inequalities properly.

BIBD presented adequate business zakat reporting disclosure even though Brunei has only one enactment related to zakat collection and distribution in general. To date, specific laws on business zakat are still lacking in Brunei. Without specific legal requirements, compliance with business zakat obligations is often voluntary (Kasim & Abdullah, 2022). This can lead to many businesses neglecting their zakat responsibilities, resulting in lower zakat collection. The contemporary zakat governance must move forward to confirm that the compulsory implementation of zakat through rules and laws is effective and efficient in reducing inequality in the distribution of income and wealth (Bashir & Ali, 2012).

This study concludes with several recommendations to enhance the zakat governance in terms of the quality of business zakat reporting disclosure among IBIs in Malaysia, Indonesia and Brunei. Accounting standards should be developed and harmonised within the international financial reporting conceptual framework while ensuring alignment with Shariah requirements and compliance with Shariah law. There is no need for a separate Islamic accounting standard to enable global application and acceptance. This promotes consistency and comparability of financial statements across different jurisdictions. The measurement, recognition, presentation, and disclosure criteria should be upheld, with additional requirements for full disclosure by zakat-paying business entities. This is essential for promoting transparency and comprehensive business zakat reporting among IBIs. Future research should include face-to-face interviews with preparers and officers who are involved in preparing financial statements of IBIs to explore the reasons behind selecting specific zakat assessment methods. Additionally, critical analysis of the process and procedures involved in the business zakat assessment can be conducted through focus group discussion.

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