

## **Zakat Accounting for Business: A Case of Medan City, Indonesia**

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### **ABSTRACT**

The aim of this paper is to analyze the zakat accounting for business as practised among zakat payers (muzakkī) in Medan city, Indonesia. Generally most of the corporate in Indonesia using working capital method in assessing zakat for business. The problems is, what accounting methods adopted by muzakkī in Medan city? This is because if the working capital method is applied, then zakat could be imposed as long as working capital is positive even if the corporate suffered a loss and vice versa. The question is, what is the accounting method practiced among muzakkī in Medan City? To obtain primary data, structured interviews were carried out among selected muzakkī who paid zakat to Badan Amil Zakat National in Medan, Indonesia. The findings showed that first; most of the business muzakkīs in Medan used the profit method for their business zakat as it is more practical. Second, there is still inconsistency in recognized income, allowable operation expenses, and current assets subject to zakat and current liabilities to be exempted from zakat for the assessment of zakat.

**Keywords:** zakat accounting, profits, current assets, current liabilities, Medan City, Indonesia.

### **1. INTRODUCTION**

Zakat on business is one of the zakat imposed on business owned by Muslims. It covers a wide range of business sectors namely industrial products, consumer products, construction, plantation, infrastructure, trading, and services (Teh Suhaila, 2017).

Zakat accounting is the process of determining and evaluating a zakat-obligatory property, determining the zakat rate, assessment the amount of zakat, collecting and distributing zakat to the zakat recipients based on the rules set by Shariah (Husain Shahatah, 1990). Zakat accounting for business, therefore, is the process of identifying the assets or property of a business that is obligatory to zakat, determining the conditions of the zakat-obligatory property, ensuring the zakat rate, and assessing the zakat on the property (Zahri Hamat, 2014).

Sarea (2013) analysed the method of zakat accounting for business suggested by AAOIFI (2008), that are namely net asset methods, and net investment funds method. While in Malaysia and Indonesia, most of the companies used working capital method.

Business zakat is compulsory upon any business with positive working capital. Business zakat is compulsory upon any business with positive working capital. The business zakat accounting which is based on working capital

can create unfairness. This happens when a business could be exempted from zakat if working capital is negative, is not obligatory to pay zakat even if the operations are profitable. Working capital can be negative when the business operations are too dependent on short-term loans in their business operations. This will cause working capital to be negative (Zahri Hamat, 2014).

Wan Rohana Mat Saad and Hairunnizam Wahid (2016) proved in their study a company earned a pre-tax profit of RM525,011 in 2008, RM551,491 in 2009, RM1,509,796 in 2010 and RM3,106,192 in 2011, but the company was not subject to zakat. They referred to the Selangor Zakat Board officer to assess the business zakat. And by application of adjusted working capital method, it was found that the company was not charged any zakat for the four years.

The question is, is there any harmonization for business zakat accounting especially in Medan, Indonesia regarding to this issue? What is the business zakat accounting method practiced among *muzakkī* in Medan? How are the income, operating expenses, current assets, and current liabilities determining during the assessment of zakat?

This paper aims to discuss the development of business zakat accounting methods practices in Medan City, Indonesia. Then, it will explore the business zakat accounting method practiced by business companies in Medan City, Indonesia.

## 2. LITERATURE REVIEW

### 2.1 Reform in Business Zakat Accounting

Basically, business zakat is only obligatory upon business goods or inventories. This is based on the Hadith of Prophet Muhammad (pbuh) as reported by Abu Dawud from Samurah b. Jundub which means:

“The Prophet (pbuh) used to order us to pay *al-sadaqah* (zakat) out of what we have for sale” (Abu Dawud, No. 1557).

An item is categorized as a business goods if it is the goods are acquired through the business and is intended for business purposes when it is acquired. For the business zakat accounting method, the value of a business item should be based on market price at the time of zakat is required regardless of the purchase price or the cost of the goods (Abu 'Ubayd, 1991).

Reported from Maimun b. Mahran in *Kitab al-Amwal*, however business zakat is also imposed on working capital for a business not only on business goods. Maimun b. Mahran reported as follows:

“When it is time for you to issue zakat, tell us how much cash you have, how much you value your business, then evaluate the whole items with the value of cash, and where the debt is settled (which is agreed to be paid), and deduct the debt that needs to be paid, then issue the zakat upon the balance “(Abu 'Ubayd, 1991: 362).<sup>1</sup>

However, the authors argue that the business zakat accounting method is not rigid, and it shows some gaps which allow for open discussions based on the following reasons:

- i. The Qur'anic verse (al-Baqarah, 2: 267) which is used as the argument about the obligations of business zakat is only general in terms of its application. This paragraph does not explain the business zakat accounting method.
- ii. Hadith reported by Abu Dawud mentions that only goods reserved for business are subject to zakat. It has been supported by some other Hadiths.
- iii. It was reported that Maimun b. Mahran reported that the business zakat accounting method is based on working capital (Abu Ubayd, 1991). It is a change in the business zakat accounting method.
- iv. It was reported that Ibn 'Abbas, that it no harm to wait until the goods are sold and then zakat will be imposed on the price (Abu 'Ubayd, 1991). Assessment of business zakat is also based on income.

Based on the mentioned reasons, it shows that the business zakat accounting method is not rigid. The Qur'an mentions the obligations of business zakat in the general form (al-Baqarah, 2: 267). Prophet Muhammad (pbuh)

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<sup>1</sup>Based on the working capital method, there are four steps that must be taken in making the assessment of business zakat. First, calculate all cash available at that time; second, to calculate the merchandise owned at that time and then the total value of the business goods is based on the currency; third, calculate how much real debt can be recovered from the debtor; fourth, calculate the amount of debt due and sum up the cash, the value of the business and the debt to be received, then deduct the debt due. Zakat is charged at 2.5% on the balance known as business working capital (Yusuf al-Qaradawi, 1999).

then explains the business items that are subject to zakat. Maimun b. Mahran introduced the working capital method. Ibn 'Abbas reported that it no harm to wait until the goods are sold. This is showed that the development of business zakat accounting methods.

In other word, business zakat accounting method mentioned in the Qur'an and Hadith in general form, the scholars have debated the specific methods in their writings. The general term used in the debate is called *'urud al-tijarah* which means business goods. Various interpretations have been made on the term of *'urud al-tijarah* and this resulted the occurrence of diversification in the business zakat accounting method.

In addition, there are researchers who suggest that a re-evaluation be made on the method of zakat accounting because current practices have inconsistent base principles. Ahmad and Othman (2010) conclude that the different treatment of financial and non-financial debt as well as the inventory of finished and semi-finished goods will result in different zakat assessment values. The inconsistency of this principle will cause some business entities to feel oppressed and can ultimately affect their motivation to pay business zakat.

In Malaysia, there are at least three methods of business zakat accounting (Mohamed Abdul Wahab et al., 1995). The first method, business zakat is only charged on current assets. These accounting methods are practiced in Perak, Kedah, and Kelantan. The second method, business zakat is charged on the current assets including the profits from investments. This method is practiced by Baitul Mal Perlis and Lembaga Tabung Haji. The third method, zakat is imposed on business profits and the working capital.

To coordinate the diversity of the methods, a National Zakat Convention was held from 18 to 19 September 2001. As a result of the convention, two business zakat accounting methods are proposed to be practiced. First, the capitalized method is to consider the equity of the business entity owner, the source of financing and adjustments for certain items. Second, the working capital method, which considers the current assets position of the business is deducted with current business liabilities and is adjusted for certain items. The two methods have been agreed by Shariah, accounting and professional experts in several workshops and conferences organized by the Selangor Zakat Centre.

To align the practices of business zakat accounting methods by states in Malaysia, the Islamic Development Department of Malaysia (JAKIM) had published a book titled Zakat Guide in Malaysia in 2001. In 2008, the book had been republished by the Department of Waqf, Zakat and Hajj (JAWHAR) under the title of the Zakat Counting Management Manual. In the book, two business zakat accounting methods have been proposed. First, the adjusted growth capital. Second, the adjusted working capital method.<sup>2</sup>

The adjusted growth capital is considering for the equity of the entrepreneur of the business entity, sources of financing and adjustments for whether they are mixed or otherwise. In other words, the adjusted growth capital is to sum up both capital and profit. The adjusted growth capital can be summarized as follows:

Equity Owner + Long Term Liability - Fixed Assets - Non-Current Assets +/- Adjustment = Business Properties Subjected to Calculating Zakat.

The adjusted working capital method considers the current assets position where the current liability of the business is deducted from business, and it also has been adjusted. This adjustment is made either by adding the items that have been identified to be added or minus. The adjusted working capital method can be summarized as follows:

Current Assets - Current Liabilities +/- Adjustments = Business Properties Subjected to Calculating Zakat.

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<sup>2</sup> Adjustments need to be made for three reasons (JAWHAR, 2008). First, considering current assets, items that are not mutually exclusive and unproductive need to be deducted from current assets. Second, when considering current assets as well as all contributions, donations and charities made by the business entity at the end of the haul (the last quarter), welfare is still subject to zakat and should be added to the current asset, unless the source is from the charitable fund. Third, when considering the current liability, certain items are not allowed to deduct from current liabilities. For current liabilities items that are deductible are operating only including trade creditors, operating expenses such as salaries, electricity, telephone, and taxes. Business zakat is charged on the balance known as net working capital at 2.5 percent. Coordinated work methods are practiced only by states in Malaysia.

Both are consistent with the methodology that was formulated by Muhammad Kamal 'Atiyah (1995). First, the working capital method, which consider the current assets position of the business is being deducted with the liability during the business. Second, the capitalized capital, is considered the equity of the business entity and the resources financial financing. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (1998) named the first method as the net asset method, while the second method as the net investment funds method.

The method of working capital is based on reports from Maimun b. Mahran. The working capital method is the closest method to Islamic Law requirement because besides Maimun b. Mahran, the working capital method is also supported by other *tabi'in* people. Among them are Hasan Basri and Ibrahim Nakha'i (Yusuf al-Qaradawi, 1999). Mohammed Obaidullah (2016), one of the contemporary writers also supported the working capital method.

The growth capital method is based on the equity of the business owner, which is capitalized with profit. It is the opinion among the fuqaha Hanbali. Growing capital is a method practiced in Saudi Arabia. In Saudi Arabia, the assessment of zakat is based on a financial statement authorized by a chartered accountant. If the financial statements cannot be verified, the estimated amount of zakat will be made. Estimation is made based on original capitals which are added to the estimated profit. If the business is not active, then profit is estimated at 15 percent of the original capital. On the other hand, if the business operates actively, profit is estimated at 15 percent of revenue after deducting 30 percent of the profits as expenses (Abdul Aziz Jamjoom (1995).

AAOIFI, through Financial Accounting Standard No. 9 (FAS 9) (1998) outlines the business items to meet four key requirements. First, they are full ownership; second, they are growing; third they meet threshold (*nisab*); and fourth is the completion period for a zakah asset (*haul*).

In addition to the four main requirements, there are also several conditions. The first is halal items. Unlawful goods such as wine and pork or business outcomes from gambling and usury (*riba*) are not subject to zakat.

Secondly, the item is not for personal use. Items are taken for their own use or dependent may result in an interruption. In the event of a *nisab* shortfall at that time, zakat is not required (JAWHAR, 2008).

Thirdly, the goods are not comprised of raw materials and work in progress. Raw materials and work in the implementation or work in the process of non-obligatory zakat (JAWHAR, 2008).

Fourth only debt that can be collected should be count. The only debt that is really believed can be collected is subject to zakat. Damaged debts can be deducted from non-obligatory zakat. The debt will be subject to zakat when it is collected later (JAWHAR, 2008).

While the business zakat accounting method has been formulated, there are some problems in terms of the practice that is still unclear. Mohamed al-Badawi and Sultan al-Sultan (1992) for example have raised business problems that are too dependent on short-term loans which will cause working capital to be negative. The company is not subject to zakat even though the company is basically profitable. According to them, this situation can be overcome if the capital growth method is used. It can be overcome with assets when adjusted for a short-term debt is used to purchase fixed assets or to make long-term debt payments.

Shaari Hamid, Clarke and Craig (1996) argued about the valuation of business items is made based on historical cost, which is the current cost of the goods obtained. Should business items be evaluated at market prices when zakat is required? Business goods that are valued at historical cost are not suitable for zakat accounting. The haul or period of one year must be based on the year of Hijri. When it is only one year, zakat for business is charged at 2.5 percent. Muhammad Kamal 'Atiyah (1995) believes that if the financial statements are prepared based on the year of AD, not Hijri, the rate of zakat should be adjusted to 2.424 percent.

This rate differs from the rate set by AAOIFI (1998) which proposes zakat rates at 2.575 percent. Abdullah Ibrahim (1997) is among others who think zakat can be imposed on income from an economic activity. This is especially for income from mining, fishery, rental, industrial and transport activities. However, zakat on the income of these activities can be attributed to agricultural zakat. In other words, all these activities can be reclassified by sector. Among the sectors that Allah s.w.t. in al-Qur'an is the work (al-Mulk, 67: 15), (Qaf, 50: 7) and livestock (al-Nahl, 16: 66), industrial such as warfare (al-Anbiya' : Al-Nahl, 16: 92), glass (al-Naml, 27: 44), steel (al-Kahfi, 18: 96) (Saba ', 34: 13), shipping (Hud, 11:37) and trading (al-Nisa' 4:29). The interests of these sectors may change as time and circumstances change.

Even Muhammad Akram Khan (2013) states that there is no strong argument why the business zakat accounting method differs from the method of agricultural zakat accounting. According to him again, it is unfair to impose

zakat on a business that has suffered losses. Even the income-based business zakat accounting method has been practiced by Baitul Mal Aceh Darussalam. Qanun of Nanggroe Aceh Darussalam Province, Number 7 the Year 2004 About Zakat Management, Chapter IX - Rates, *Nisab* and *Haul*, Clause 29 mentions:

“Trading, enterprise and industrial property that profit has reached *nisab* worth 94 grams of gold a year is obliged to issue zakat by 2.5% per annum.”

A study by Irfan (2016) on all business companies paying zakat in the District Amil Zakat Board (BAZDA), North Sumatra found that most of the companies used profit method. This is in line with the purpose talent of a business or business company, which is to gain profit (Mohammad Taquiuddin Mohamad, Joni Tamkin Borhan, Mohd Sollehudin Shuib, Ahmad Azam Sulaiman @ Mohamad, 2012).

The reform in zakat accounting is not something new. The most notable one is during the reign of Khulafa 'al-Rasyidin (Zahri Hamat, 2011). The renewal can be divided into three categories. Firstly, the zakat law upon the horse has been reviewed even when the Prophet Muhammad pbuh has not required any zakat. Second, the basic property of zakat is extended, for example, the output of marine and agricultural products such as nuts, cotton and olive oils are subject to zakat. Third, zakat rate changes are also implementing where honey zakat was charged at 5 - 10 percent depending on the employed person. In Malaysia, most small businesses face problems in managing working capital as financial records are not kept in order (Zahri Hamat, Nor Malina Malek, Khoo Suet Leng, Parthiban & Aiman Syazwan Husain, 2014). It is very difficult for small traders in Malaysia to determine the amount of payable zakat using working capital.

Traders should also have sufficient knowledge of business zakat payment methods available from the Zakat Management Centre. With clear information traders will not have problem in paying a business zakat at the Zakat Management Centre. In addition, from the knowledge gained, traders can also help people who want to venture into the zakat in making easy and fast zakat payments (Mohd Ghadafi and, Wan Mohd Rushdi, 2019).

The findings show that there are significant differences in assessment methods based on the type of business. This difference is due to variations in the method of assessment by the businesses in question when it comes to sole proprietorship and unregistered businesses. Although there are three methods that have been introduced, study have found that methods based on profit and loss is the most widely practiced (Shamsuddin, Nor, Tajuddin, Hilmi, Bahari & Azman, 2021).

### 3. METHODOLOGY

The selection of informants was intended to answer the questions presented in this study and was selected through the snowball method. The companies were selected because they consistently paying the zakat for their business. This is because the company pays the zakat to BAZNAS is kept private and confidential.

The method used in this study is snowball sampling technique. Snowball sampling technique was used to identify and approach respondents because it was hard to find them randomly. Vogt (1999) define that snowball sampling is a technique for finding research subjects in which a subject gives the researcher the name of another subject, who in turn provide the name of the third and so on. Through the snowball sampling technique, social contact of the researcher will help to find other individual to fulfil the eligibility criteria for the interview

Eight companies were selected to become informants. Senior Manager of the companies were selected for a comprehensive interview about corporate zakat accounting practices in Medan, Indonesia. List of companies that paying zakat in the city of Medan, Indonesia shows in Table 1.

**Table 1:** Companies Paying Corporate Zakat in Medan City of Indonesia

Name of Company/Industry	Type of business
PT.Garuda Plaza Hotel	Sevices
PT.Madju Medan Cipta	Industry
PT.Garuda Citra Sarana	Trading
Pesantren Al-Muchlishin	Services
PT. Bank Sumut Syariah	Services
PT.BPR Puduarta Insani	Services
Garuda Transport	Services
Gelora Plaza	Trading

*Source:* Irfan (2020)

All of the companies in Table 1 can be divided into three business groups: five service areas, two companies trading and one industry category.

**Table 2:** Academic Experiences and Levels of Informants

Duration of Experience	SLTA	Diploma	Bachelor	Total
< 5 Years	-	-	1	1
6-10 Years	1	2	2	5
11-15 Years	-	-	2	2
>15 Years	-	-	-	-
Total	1	2	5	8
Percentage	12.5 %	25 %	62.5 %	100 %

*Source:* Irfan (2020)

Table 2 shows the years of informant’s experience divided into four-time ranges. First, the experience of the informants for a period less than five years. Second, the informant's experience ranges from six to ten years. Third, the period of informant’s experience of eleven to fifteen years. Fourth, the informant's experience exceeds 15 years. Informants can also be divided into three levels, namely Advanced High School (SLTA), Diploma and Bachelor level.

Overall, most informants, seven of the eight informants had more than five years of experience. It consisted of five or 71.43% informants with six to ten years of experience. Two or 28.57% informants had eleven to 15 years of experience.

In terms of academic level, most of the informants shows that five or 62.5% informants with a bachelor’s degree. Two of the informants or 25% received a Diploma. Only one or 12.5% of the informants were Higher Secondary Education (SLTA) students.

Based on the informant’s profile representing the eight companies above, it is shown that the selected informants can represent each company to give an overview of corporate zakat accounting practices in the city of Medan, Indonesia. This is dependent on the experience of the informants and the level of academic approval and knowledge of the informants in the field of zakat.

#### 4. RESULTS AND DISCUSSION

##### 4.1 Business Zakat Accounting in Medan City

Badan Amil Zakat Nasional (BAZNAS) Province of North Sumatra is based on Law no. 38 The Year 1999 on Zakat Management and Decree of Governor of North Sumatra Number: 451.7.05 / K / 2001. In this case, BAZNAS is responsible for the collection and distribution of zakat, *infaq* and alms. BASNAZ is also responsible for coordinating the Amil Zakat Body formed by the Non-Governmental Organization (NGO). The exact number of business companies paying zakat in Medan, Indonesia is uncertain. The business companies selected for this study are based on the criteria that the company must actively paid business zakat through BAZNAS of North Sumatra Province. A total of eight business companies have been identified and selected. The list of companies paying business zakat for 2016 in Medan City, Indonesia is as shown in Table 3.

**Table 3:** Sector, Accounting Method and Business

Sector	Accounting Method	Business’s Name
Services	Profit	PT Bank Sumut Syariah, PT BPR Puduarta Insani, PT Garuda Plaza Hotel, PT Garuda Transport dan Pesantren Al-Muchlishin
Trading	Working Capital	PT Garuda Citra Sarana dan Gelora Plaza
Manufacturing	Working Capital	PT Madju Medan Cipta

*Source:* Irfan (2020)

Table 3 shows a total of eight business companies paying business zakat in the city of Medan Indonesia. These companies can be categorized into three sectors namely services, trade, and manufacturing. The majority (62.5 percent) of business companies in Medan used the profit method in accounting for their respective zakat. The three sectors involved are service sectors such as banking, hospitality, and transportation. The company is PT

Bank Sumut Syariah, PT BPR Puduarta Insani, PT Garuda Plaza Hotel, PT Garuda Transport and Al-Muchlishin Pesantren. Three companies (37.5 percent) use the working capital method in their business zakat accounting. Two companies are involved in the trade sector namely PT Garuda Citra Sarana and Gelora Plaza and one company engaged in the manufacturing sector namely PT Madju Medan Cipta.

**4.2 Business Zakat Accounting Based on Profits**

Most of the exegesis gives the definition of profit is based on the 16th verse of surah al-Baqarah which means:

“These are they who have purchased error for guidance, so their commerce was profitless. And they were not guide” (al Baqarah 2: 16)

Imam al-Tabari (1968) for example, considers that profit from business means the exchange of an item owned whether the exchange value is equal to or exceeds the purchase price of the item. If the exchange value is less than the purchased price, then it is considered a loss. In the business world, profits or gain means the difference between income and realizable expenses arising from a transaction for a period of operation or operation. Profit is an important figure in the financial statements as a performance appraisal of a business company.

For business muzakkīs in Medan, all informants agreed that all revenue either from operating income or non-operating income is subject to zakat.<sup>3</sup> They also agreed that non-halal income should be deducted from operating income. All informants also stated that their business companies are deducting operating expenses and non-operating expenses from income. However, there were three informants who still consider the interest expense of the bank as a deduction of income because they had not separated the Shariah non-compliant transactions.

It can be concluded that the business zakat based on the annual profit method is still not standardized in determining the obligatory income of zakat as well as in non-operating and operating expenditure.

**4.3 Business Zakat Accounting Based on Working Capital**

Based on *Kitab al-Amwal* written by Maimun b. Mahran, business zakat is imposed on working capital. Working capital refers to current assets after deducting the current liabilities. Current assets are cash or other assets that are easily convertible to cash, which can be sold or used in the manufacture of goods for the maximum period of one year of accounting or an operating cycle. For example, short-term investments, receivables, inventories, and past due expenses are current liabilities that are required to be settled in the longest term of one accounting period or one operating cycle. The current assets of the business corporation in Medan are shown in Table 4. Current assets can be divided into five categories namely first, cash and bank deposits; second, short-term investment; third, accounts receivable; fourth, inventory or stock of business goods; and fifth, prepay.

**Table 4:** Current Assets, Current Liabilities and Zakat Acceptance

<b>Aset, Liability, Inventory</b>	<b>Items</b>		<b>Zakat</b>
Current Assets	cash and bank deposits financial instrument accounts receivable inventory prepaid		compulsory must be lawful compulsory required inventory compulsory
Current Liabilities	trade not trade		compulsory compulsory
Inventory	inventory or finished goods		Financial statement

*Source:* Irfan (2020)

<sup>3</sup> Revenue is the amount of income received or the business will receive on a date from the sale of merchandise or services rendered. The revenue is divided into two, the first, the outcome of which is the income received directly from the main activity of a business. Example: clinics, and audit firms - the outcome of the services rendered, the clock shop - the results are derived from the sale of clocks. Second, non-operating revenue of income that is received indirectly or unrelated to the principal activity of a business. Example: rent received, interest on bank savings, investment dividend, profit on disposal of non-current assets.

Table 4 demonstrates that all informants agreed that cash and money in the bank account either in conventional banks or Shariah banking are subject to zakat. Likewise, savings in banks in the form of savings and short-term savings are required to pay zakat regardless of whether they are kept in Islamic banks or in conventional banks.

For investment in the form of financial instruments, the findings found that all informants believed that monetary instruments that are not based on usury will be subject to zakat. Although corporations do not have any investment account, informants still thought that a monetary-based financial instrument is banned investment. In other words, the instrument is illegal property. Illegal property is not subjected to zakat.

The findings show that all informants are subjected to pay zakat on all receivables from either trade or operations receivables or non-trade receivables. This receivable account is a net receivable account less allowance for doubtful debts. Both types of accounts are obligated to pay zakat because they fulfilled the condition of the property and can be repaid from the debtor.

Research findings show that six informants (75 percent) believed that zakat is only required on inventories or finished goods. Two informants (25 percent) stated that zakat is compulsory for all business items whether finished goods, semi-finished or raw material stocks.

Based on the findings of field study, all informants believed that previously paid accounts are still considered to be components of current assets. It must be that the first payable account is not a compulsory asset of zakat and is not subject to zakat, as the first-time account will receive the expected service.

The findings show that all informants claimed that all current liabilities may be deducted from current assets when assessing business zakat.<sup>4</sup> However, it is certain that liabilities related to bank benefits are not included in current liabilities that can be deducted from current assets.

For valuation of inventories or business goods, only one (33 percent) informant valued the method of valuation of merchandise goods may be based on either the cost, market value, fair value, value in the financial statements or the cost of replacement. The informant was PT. Madju Medan Cipta while two other informants (67 percent) stated that the valuation of business items is based on the value in the financial statements.

As the summary the findings of this study on business zakat accounting methods in Medan proved that there are still differences among business companies when determining current assets that are required zakat and current liabilities exempted from zakat.

Research findings show that six informants (75 percent) believed that zakat is only required on inventories or finished goods. Two informants (25 percent) stated that zakat is compulsory for all business items whether finished goods, semi-finished or raw material stocks.

Based on the findings of the study, it is showed that all informants stated that prepaid accounts are still considered to be current component assets. Although the first payable account is not a compulsory asset of zakat and it is not subject to zakat, since the prepaid account will receive such service as expected. It was also found that all informants that all current liabilities may be deducted from current assets when assessing business zakat. However, it is certain that liabilities which are related to bank are not included in current liabilities that can be deducted from current assets. For valuation of inventories or business goods, only one (33 percent) informant valued the method of valuation of merchandise goods may be based on either the cost, market value, fair value, value in the financial statements or the cost of replacement. The informant was PT. Madju Medan Cipta while other two informants (67 percent) stated that the valuation of business items is based on the value in the financial statements. The findings of this study on business zakat accounting methods in Medan can be summarized that there are still differences among business companies when determining current assets that are required zakat and current liabilities exempted from zakat.

## 5. CONCLUSION

Based on the analysis of the field study that was carried out, some of the following conclusions can be made. Firstly, there are two methods of business zakat accounting practiced by muzakkī in Medan, Indonesia. They are the working capital method and the annual profit method. However, there is still inconsistency in determining current assets that are subject to zakat even in business practices of working capital.

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<sup>4</sup> Current liabilities can be divided into two categories, namely trading liabilities and non-trading liabilities. Trade liabilities are the liabilities arising from the purchase of goods or services, in the ordinary course of business. Non-trading liabilities are the liabilities to settle a fixed amount of money, irrespective of the price of goods or services in the future. These non-trading liabilities such as unpaid bonds, notes unpaid and accounts unpaid.



Therefore, a standardized method must be set up for all businesses in Indonesia. This has been raised by some other researchers before this. The Indonesian Ulema Council, therefore, may cooperate with the National Amgalan Zakat Board to issue a fatwa as soon as possible on the accounting of business zakat in Indonesia.

Authorities like the Indonesian Institute of Accountants need to take action to establish standard statement of financial statements for the proper assessment of zakat to be practiced. Among other things, a note that contains a summary of significant accounting policies and other explanatory notes for non-halal income and expenses not related to operations are disbursed from the financial statements. Once the financial statements have been adjusted, the next effort is to train business officers to understand the financial statements in question.

Lastly, the information about business zakat accounting should be shared with the community and particular business owner. This is because the potential of business zakat in Indonesia is very large. Even the business muzakkī can take the initiative to make their own assessment of the value of payable zakat to their respective business companies.

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