Executive summary

The Saudi Organization for Certified Public Accountants (the SOCPA) has amended its accounting standard on zakat\(^1\) to bring it in line with the International Financial Reporting Standards (IFRS). The amendment is part of the IFRS implementation process in Saudi Arabia.

The amended standard will be applicable for fiscal years beginning on or after 1 January 2017.

Detailed discussion

**Significance and objective of the new amendment**

A study conducted by the SOCPA found that the difference in accounting for zakat, between the 100% Saudi-owned entities and the mixed owned entities (an entity owned by Saudi and non-Saudi owners), is inconsistent with the accounting principles of various legitimate Islamic advisories (Fatwa), and government directives or regulations. Under the various Fatwa and specialized international board, zakat is considered as an expense in the statement of income of an entity.
The amendment to the standard includes elimination of disclosures relating to mixed owned entities and amendments to some provisions to conform with the IFRS implementation in Saudi Arabia.

Implication of the new amendment

After implementation of the new amendment, the zakat expense for a particular period of a mixed owned entity, shall be presented as a separate item in the statement of income of the entity. Previously, zakat and income tax charge for a mixed owned entity was required to be recorded in the statement of changes in equity.

The SOCPA opinion on the impact of zakat and income tax on owners’ equity in the case of a mixed owned entity

The opinion addresses the issue of how to present the impact of zakat and income tax on individual owners’ equity in the case of a mixed owned entity, in the case of an agreement between the owners on their individual responsibility for sharing zakat and income tax.

In the case of a mixed owned entity, where the owners have agreed to share zakat and income tax, that entity shall present the impact of zakat and income tax on the individual owner’s equity in the statement of changes in equity.

Endnote

1. Zakat is an obligatory payment made annually under Islamic law on certain kinds of assets and used for charitable and religious purposes. It is considered a religious obligation.
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