

## Leases Between Accounting Thought and the Islamic Economics and their Position in Contemporary Zakat Accounting

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**Summary:** This study focuses on leases as one of the most modern financing tools, issued by the International Accounting Standard (IAS 17) then subsequently the (IFRS 16), It, also, highlights the position of these contracts in the contemporary Zakat accounting and after adapting them so that they correspond to the requirements of the Islamic economics. The research concluded that the concept of leases is among the well-established concepts in Islamic thought. However, it has resulted in many practices, most notably leases, that are contrary to Islamic principles. Thus, the closed-end lease has appeared to deal with these illegal transactions, allowing the contemporary Zakat accounting to take its right of this contract.

**Keywords:** Leases; Islamic economics; closed-end lease; contemporary Zakat accounting.

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### I- Introduction :

Accounting profession has kept pace and been synchronized with the economic developments the world has recently witnessed; given to the variety of the enterprises and the magnitude of funds invested in them in various fields, leading to the interest and necessity of the standardization of the international accounting process in the form of accounting standards, which would the international acceptance, set for providing the best information on the economic enterprise to the parties benefiting from and utilizing that information. This has led to the appearance of new contemporary accounts and transactions. These accounts has increased possibilities for researchers in the Islamic accountancy field so that they work hard to find out its position in the Islamic contemporary Zakat accounting without prejudice to the general principles of the Islamic economics. The standards of the international accounting would, thus, contribute to the application of the financial statements and, also, to give the way to the emergence of Islamic standards special to some of these transactions; Since without the emergence of these cotemporary transactions, no possibility of its Zakat accounting would raise.

Leases, are among the contemporary transactions brought by the international accounting standards; particularly the financial leases that are considered among the available funding means via the ownership transfer of the benefit, than the ownership transfer of the in kind itself at the end of the period. Islamic statutory thought has set particular conditions for the leases, which may partly correspond to the parameters of the Islamic economics and conflict with them in other parts. Therefor we have attempted, in this research, to deal with leases from the point of view of the Islamic economics and the statutory economic thought, and with the way of the Zakat accounting of these leases.

In this sense, we have posed the following question: Are the leases which based on Islamic economics different from those brought by the accounting thought (IFRS 16/ IAS 17)? And what is the view of the contemporary Zakat accounting to these leases?

As a provisional answer to this problematic we have set the following hypotheses:

The International Accounting International Financial Reporting Standard (IFRS16) covered the accounting side of leases. The thing that, totally, corresponds to the requirements and parameters of Islamic economics;

Leases; notably finance ones, have received a considerable concern by the Islamic bodies interested in Islamic economics;

The position of leases in the contemporary Zakat accounting has been moderated due to contemporary efforts by researchers and competent Islamic bodies.

The present research is important as it deals with the topic of leases that have become among the most widespread transactions nowadays, of whom we should recognize the Zakat provisions in order to, effectively, contribute in the revitalization of the economics, on one hand, and to strengthen the Zakat collection on the other hand.

We may summarize the objectives of this research in the following:

Recognizing the accounting aspect of leases according to the international accounting standards and the Financial Accounting System.

Highlighting the transactions included in leases, which do not correspond to the parameters of Islamic economics;

Defining the closed-end lease as an alternative form to the finance leases and dealing with their relative Islamic standard;

Shedding light on the method of accounting the Zakat rights arising from the leases for the lessor and the lessee.

To display the content of the present research, we have deployed the descriptive method with reference to the content of both leases standards (IAS17/ IFRS16) in order to display the accounting aspect of these leases. We have, also, referred to the accounts of Algerian Financial Accounting System in the accounting record of these leases. Moreover, we have followed the various resolutions and recommendations on leases by the competent Islamic bodies and several researchers in the Islamic world in order to derive the special rules relating to the transactions included in these leases, as well as the different parameters that must be provided in them, in addition to the way of commending them to the lessor and the lessee. We have treated all this in three principle themes; treating in the first the accounting aspect of leases according to the Islamic thought, and highlighting, in the second, the Islamic view to these leases, meanwhile, in the third theme, we displayed the method of their Zakat accounting.

## **II. Leases according to the accounting though (IFRS16/IAS17)**

In 1982, the International Standard (IAS 17), relative to the accounting of leases, has been published by the International Accounting Standards Committee. This standard have witnessed many modifications seeking the declarations and the accounting policies relative to the lease of the lessor and lessee; since it has been replaced by the modified standard (IAS17); entitled “Leases”, I,1997, that has, also, been modified in December 2003, in the International Accounting Standard (IAS17) revised “Leases” by the International Accounting Council, that has interred into force until 01 January 2019, the date in which it has been replaced by the International Financial Reporting Standard (IFRS16) “Leases” which entered into force on 01 January 2019. The sixteenth International Financial Reporting Standard kept most of the contents of the seventeenth International Accounting Standard with some amendments and additions to some clauses of the replaced standard.

### **II.1. Types of leases according to (IFRS 16/IAS 17)**

The accounting standard (17) has defied the leases a contract in which the lessor allows the lessee to use the asset for a predetermined duration in exchange for a payment or series of payments. Other particular definitions of the different types of leases have, also, been set, as follows: (IASC, IAS 17, p. 07)

- Finance lease: A contract that, substantially, transfers all the risks and benefits related to of owning the asset. Finally the transfer of the right to use the asset may not occur. In this study we will focus on this type as is the most widespread and the most important type.

- Operative lease: other than the finance lease. we will, briefly deal with this type of leases in this study.

- Non-cancellable lease: the contract that may not be cancelled in the following cases: when a an unlikely disclosure occurs or with the permission of the lessor, in case the lessee proceeds a

new contract of the same asset or another equivalent asset with the same lessor, or when the lessee makes an additional payment so that the continuation of the lease, at its launch seems, reasonably confirmed. The launch of the lease means the date of the lease agreement or the commitment of the parties to the key-terms of the lease.

Moreover, the International Financial Reporting Standard (IFRS 16) has defined the finance lease as the contract that substantially transfers nearly all the risks and benefits of the assets in the contract. However it did not contain any definition of the non-cancellable lease and did not mention it. (IASB, IFRS 16, pp. 11,12)

Leases have become among the most widespread transactions nowadays. Indeed; a large number of financial enterprises specialized in this finance technique and broadening the use of lease in much of the world countries as well as setting rules and legislations for this purpose and the increase of investments through the finance lease, and the increase of its share compared to the bank loans in the global finance. In addition to the fluency and the simplicity that characterize the lease and its accompanying stimulus, especially fiscal stimulus. (Khaouni, Hassani, 2006, p. 01)

## **II. 2. The difference between operative lease and finance lease**

There is a difference between the operative lease and the finance lease; that is clearly obvious through the characteristics of each of the two types. Indeed; the contractual period of the operative lease does not cover all the economic life but, only, part of it. Therefor the lessor does not consume the whole value of the asset. Moreover, the asset may be leased several times so that it covers the economic (Productive) life of the asset. The lesser bears the maintenance and insurance expenses as well as the risks of the leased asset invalidity, either by consumption or falling behind the scientific developments. In addition to that, the lessee, usually, has no opportunity to purchase the asset at the end of the contract. For this reason, it can be said that the operative lease is a particular service which is not included in the financial intermediation operations. (Boulaid, 2003, p. 04)

However, the finance lease is defined by the following characteristics: (IASC, IAS 17, p. 10)

It is the contract whereby the ownership of the asset would be transferred to the lessee at the end of lease term; when the lessee gets the right to purchase the asset at a price that is sufficiently, lower than the equivalent value of the asset in the date when the right of choice may be exercised, so that it is ,reasonably, confirmed that the lessee would exercise this right at the commencement date of the contract.

When the term of the lease covers the main part of the economic life of the asset, even if the property is not transferred, (the term was defined in some references to be equal to or over 75% of its useful life)

If the current value of the actual minimum lease payment reaches, in the commencement date of the contract, at least the whole equivalent value of the leased asset (it was set, in some references, to be over or equal to 90% of the actual market price)

## **II.3. The accounting measurement of leases**

There are specific methods of measuring for both of the lessors and the lessees:

### **II.3.1. The accounting measurement of leases for lessees**

Rent payments under the operative lease should be recognized as an expense during the calculation of the results on a straight-line basis throughout the duration of the lease. Payments should, also be recognized, including the different cost services (Insurance, maintenance... etc) as an expense in the income statement on a straight-line basis. (IASC, IAS 17, p. 06)

For the finance lease, the measurement is set according to the following points: (Ali, 2013, pp. 20,21)

- Concerning the finance lease, the assets owned by the lessor should be recognized under the finance lease in the statement of financial position and exposed as receivables, with an equivalent amount to the net investments in the lease. The installment of the lessor is treated as a payment of the original amount and a finance income to compensate the lessor for his investments and services. Moreover, the finance income should be recognized based on a pattern that reflects the rate of a fixed periodic return on the net investment of the lessor in terms of the lease.

The estimations of the unguaranteed residual values are revised in the calculation of the total investment of the lessor in the lease. If any decrease in its estimation appears, the income would be distributed on the duration of the lease and every decrease in the receivables should be acknowledged.

The lessors expenses on the rental costs (insurance, negotiations...etc) are direct costs of the funding income that must be afforded and recognized in the income statement and spread over the duration of the lease as established in the contract.

Lessors must acknowledge gain and loss in the income statement according to the enterprise's sales policy.

### **II.3.2. The accounting measurement of leases for lessors**

Assets under operative leases must be displayed in the statement of the financial position according to nature of the leased asset. The rental income must, also, be recognized on a straight-line basis throughout the duration of the lease as established in the financial lease. The rental costs, including consumption, are recognized as a dispense. Moreover, the rental income is recognized, except the payments for rental services (insurance, negotiations...etc) while calculating the results on a straight-line basis throughout the duration of the lease, in a determined way, in order to obtain the incomes of the operative lease, either by postponing them or distributing them on the income according to the lease duration proportionally to the rental income, or by recognizing them as a dispense in the income statement. The consumption of the leased assets is calculated proportionally to the policies of consumption used to calculate the asset owned by the lessor. (IASC, IAS 17, p. 04)

For the finance lease, the measurement is set according to the following points: (Ali, 2013, pp. 21,22)

- Concerning the financial lease, assets owned by the lessor must be recognized by the financial lease in the statement of the financial position and displayed as indebted in-kinds with an amount that is equivalent to the net investment in the lease. The rental installment is treated, by the lessor, as a payment of the original amount and a financial income to compensate the lessor for his investment and services, the financial income must be recognized based on a pattern that reflects the rate of a periodic fixed income on the net investment of the lessor concerning the financial lease;
- The estimations of the remained unguaranteed values of the asset are revised when calculating the total investment of the lessor in the lease. If any decrease appears in their estimations, the income distribution on the lease duration is amended, and all decrease in the amounts owed is recognized.
- Dispenes of the rental costs spent by lessors in the financial income (insurance, negotiations...etc) are, automatically, borne and recognized in the income statement then distributed on the period of the lease as established in the contract.
- Lessors must recognize gain and loss in the income statement according to the policy of sales which is adapted by the enterprise.

### **II.4. An overview on leases according to the Algerian Accounting System**

Before adopting the Algerian Accounting System relative to the leases, it was not corresponding to the developments in the field. Among the financial rules in this regard, the resolution 10-90 of 14 April 1990 concerning Money and Credit and the resolution 26-91 of 10 December concerning the national program of 1992 relative to leasing operations. The instruction

“07/96” has, also, been issued on 22/10.1996, determining the methods of establishing and adopting leases enterprises.

Since its adoption, the accounting system has not been actualized, and its clauses that are relative to previously mentioned leases have not been updated. Nevertheless, the lease, in Algeria, started taking shape, especially from accounting point of view, after the resolution determining the rules of accounting evaluation in Algeria has been issued in 2009, in which the lease has been defined as: An agreement whereby the lessor renounces his right to use an asset for a payment or several series of payments. Distinction can, also, be drawn between an accounting lease and another simple (operative) lease. (National journal, 2009, p. 19)

The Algerian law adopted the term “Rental agreement” and was not significantly different from the International Accounting Standard (IAS17) in measuring leases and defining their conditions; as it has adopted both of the operative and finance leases that we have mentioned according to (IAS17). Moreover, The Financial Accounting System has, corresponded to the Accounting Standard (IAS17) in the method of processing the financing contract based on the rule of appealing to the economic reality over the legal form

### III- Leases according to Islamic economics

After the brief deal with leases in the view of accounting thought, we attempt, in this theme, to address leases in the Islamic view; through dealing with this topic in the light of the provisions of Islamic economics and its rules, highlighting the differences between this latter and the accounting thought when processing leases, as an introduction to know the position of Zakat accounting regarding these contracts.

Since, leasing (Ijaarah), in the Islamic economics, is defined as consigning the use of a property for a specific buy-out, It is applied on either benefits from the financial in-kinds (moveable or immoveable) or the benefit resulting from work; as in case of hiring a person to do some work. (El-Jamal, 1978, p. 163). There are many Islam Legitimate evidences of leases from the Holly Cor’an and Sunnah of the Prophet PBUH, such as Allah the (One of the women said, “O my father, hire him. Indeed, the best one you can hire is the strong and the trustworthy) (surahQasas,26). Abu Huraira, Allah Be Pleased on him, narrated: The prophet, Allah Blessings and Peace be Upon Him, said: “I will be against three types of people in The Day of Judgment; one who gives covenant in My Name, but proves treacherous; one who sells a free person and eats his price; and one who hires a labourer and takes full work from him but does not pays his wages” (narrated by Al Bukhari; Saying n° 2270) This saying, explicitly, proves the litimacity of lease (Ijaarah).

#### III -1. Types of leases according to the Islamic economics

The lease, in the Islamic economic view, is divided into: (El-Wadi, 2007, p. 207)

**III-1-1 Work Lease:** a lease based on the fulfillment of a specific work for a specific wage.

**III-1-2: In-Kind benefit lease:** Based on the in-kinds via paying an owned in-kind for someone who will use it for a specific payment.

The second type of leases is the one that will be dealt with, in this paper, and which is , in turn, divided into:

**III-1-2-1. The operating Ijaarah (Lease):** such type of leases constitutes a source of financing for the lessee; since it provides him with the required asset without any need to buy it. It, also, ensures for him the maintenance service whose cost is, usually, taken into consideration when estimating the value of lease payments (Ali, 2013, pp. 10,11), since it is a lease of legitimately permitted and specific benefits for a specific payment to a fixed time limit, without a promise of titling at the end

of the lease term. As it is equivalent to the simple operating lease set by the Accounting standard (IAS17).

**III-1-2-2. Closed-end Ijaarah:** Among the contemporary emerging contracts. It is derived from the finance lease in the accounting view, yet after amending its conditions so that it corresponds to Islamic economy rejecting all what may go against the principles of the Islamic jurisprudence.

The Closed-end Ijaarah is defined as the titling via the capital lease; the way through which the lessee uses the leased asset for long term duration that, often, covers the useful life of the asset, for the payment of a specific amount of money (which is called the rental value) with a certain period of the lease term. (Mabyedh, 2010, p. 28)

### **III.2. Conditions for the Closed-end Ijaarah according to Islamic Economics**

The closed-end Ijaarah is different from the finance lease according to the accounting which is characterized by transactions rejected by Islamic economics; the first of them is that the contract contains usurious interests, in addition to other rejected transactions, such as containing renting and sale together; indeed, it is one of the prohibited sales as it is classified in the section of Two sales in one, and the lessor bears the remaining payments, in cases where the contract has been avoided. Which is considered, clearly, unfair as it is classified in the section of devouring the substance of men in Falsehood.

For these reasons, the international bodies interested in Islamic economics sake for setting specific conditions to the finance lease so that it can be adapted in accordance with the requirements of the Islamic jurisprudence, by means of researches and resolutions issued by them; such as: the international conferences and seminars about Islamic Economics, conferences and seminars of the international Islamic Fiqh Academy, Zakat House Kuwait and other international bodies that are interested in Zakat. Indeed, the first seminar held by the Kuwait Finance House authorized the operative lease and considered the following: If the contract is concluded between the owner and the lessee, provided that the lessee benefits from the underlying assets for series of payments that are distributed on specific periods of time and owns it by the end of the contract period, this contract would be legal if it takes into consideration the following: (Abunnacer, 2009, p. 15)

- Setting the period of the lease and applying its provisions in all that duration.
- Indicating the amount of each lease payment.
- Transferring the property to the lessee, by the end of the duration, through giving him its ownership, and fulfilling the early promise between the lessor and the lessee.

Therefore, according what is issued by the international bodies interested in Islamic economies; So that the closed-end Ijaarah contract is valid, its special terms must apply/ these conditions are different from terms of the lease according to the accounting thought, namely: (Ali, 2013, pp. 10,11)

The condition of covering the main part of the useful duration of the leased asset by the contract. This is legal in Islam; since determining the duration is one of Ijaarah conditions, and there is no duration limit provided the benefit is collectible.

The non-cancellation of the contract. In case of its cancellation, the lessee bears the remained payments of the lease duration. From the point of view of jurisprudence, to this condition, we find that the lease is a binding contract; as none of the parties may, separately, cancel the contract. Nevertheless, if any necessity of the cancellation exists, we must check whether this necessity is related to the disappearance of asset subject to the benefit completion, the Ijaarah is cancelled without obligations on the lessee, by consensus of all Islam jurists. Yet, if an excuse, such as risking the lack of utilization, exists for any circumstance, the doctrine explained that it is not among the requirements of dissolution or cancellation.

The value of the lease should cover the current value of the asset in addition to the investment income, which is part of the section of the mutual consent of the two parties of the contract.

The transfer of the asset ownership to the lessee by the end of the lease duration, via obligation or giving the lessee the right of making the purchase. This is legally rejected Islam, as in inters in the section of (Two deals in one). Yet, if this occurs as a promise to set a separate act, it is legally permitted in Islam.

The lessee bears the risks of the asset, including the assurance and maintenance, the maintenance represents the cost of loss, and the lessee does not bear the cost of the asset loss if this latter is resulted through no fault of the lessee. Indeed; Charging the lessee by costs of the finance lease is against the Islamic law, as it inters in the section of the inclusion of the lessee the asset, which damages the contract. Moreover, the lessee bears the dispenses of the periodical maintenance, meanwhile the lessor bears the cost of the non-periodical maintenance (Reform), and charging the lessee to pay them is not legally permitted in Islam.

Taking into consideration the following notes: (EL-Hassoun, 2017, p. 44)

The lease should be effective and not covering the sale.

If the act contains the assurance of the leased in-kind, this assurance must be collaborative Islamic not commercial, and borne by owning lessor and not the lessee;

Provisions of Ijaarah must be applied on the closed-end lease for the duration of lease. Provisions of sale must also be applied by the ownership of the in-kind.

The lessee should not claim an advance payment considered by the lessor as a right that should be given to him by the lessee. This payment is not considered as an advance rent, nor as an assurance of the rent payment in the required time, in case of the distress. Yet, it is an advance payment for the lessor who takes it as part of his right.

the Accounting and Auditing Organization for Islamic Financial Institutions has set some standards, estimated at ninety five standards, divided into; Legal standards, accounting standards, governance standards, moral standards. Among the legal and accounting standards, two special standards linked to the Ijaarah and the closed-end Ijaarah, are the following:

The Islamic Accounting Standard number (08) Lease and Closed-end Ijaarah: which deals with the accounting aspect of Ijaarah and the Closed-end Ijaarah.

The Islamic Accounting Standard number (09) Lease and Closed-end Ijaarah: which deals with the Legal aspect of Ijaarah and the Closed-end Ijaarah.

Both of these standards are applied on leasing the in-kinds an operative or a closed-end lease, either the enterprise is a lessor or a lessee. However they are not applied on people lease (employment contract). The legal standard (09) has defined the different types of Ijaarah and closed-end Ijaarah, that are legally permitted. And it has, also, set different terms concerning the titling. (Ayoufi, 2002, pp. 152,153)

#### **IV- Contemporary Zakat accounting of leases**

The financial statements are considered as the fundamental conductor and the main outline of the international accounting standards. It is, also, the first resource by which Zakat is calculated nowadays. Indeed, the contemporary Zakat accounting depends, while applying its foundations and principles, on the outputs of the accounting information System consisting, basically, in the financial statements. Given that these financial statements are highly influenced by the international accounting standards. In addition to the gradual changes, on their clauses and contents, within the successive versions of the accounting standards, this has led to the emergence of new contemporary accounts; such as leases.

The topic of the Zakat accounting consists in measuring the amount of funds Zakat, and indication its distribution on its distribution on its different spends and declaring that according to

the Zakat Fiqh. Moreover, it has specific principles governing the processes of determination, measuring, display and declaration of Funds Zakat information, that are derived from the Zakat jurisprudence. This occurs in specific stages. Indeed, the Zakat accounting is derived primarily from the provisions of the Zakat obligation which is legally defined as a title for taking a particular part of a particular fund depending on specific characteristics of a specific category (Hammad, 2008, p. 83). Meanwhile the Zakat accounting, which is known as the accounting of Zakat is a branch of accounting science that is committed to a set of principles derived from Islam legacy, that are competent in collecting and analyzing the financial data in order to determine the Zakat pool/ base. (Alkhateeb, 2005, p. 56) The Zakat is considered among the Islam mandatories. It is an obligation on every Muslim; men or women, if the following conditions apply, as Allah the Almighty says: (Establish Prayer and dispense Zakah. Whatever good deeds you send forth for your own good, you will find them with Allah. Surely Allah sees all that you do) (Surah 2 Al-Baqarah, Ayat 110-110).

Same as the financial accounting has its governing principles, the Zakat accounting, also, has common principles with the general accounting principles. Moreover, it has its particular principles and different stages through to reach the estimated amount of Zakat.

#### **IV.1. Stages of the contemporary Zakat accounting**

The contemporary Zakat accounting passes through different stages starting from the verification of the availability of Zakat Condition ending by the calculation of the Zakat amount according to the rate estimated to a quarter of ten (2.5%) in the trade offers and the monetary wealth, or the rates: half a quarter of ten (5%), a tenth (10%) a fifth (20%) for all the other funds that are subject to the Zakat taxation. During these stages, the end of the lunar year, the Zakat money and commitments of the zakat payer to the determination of the Zakat Nissab are determined. this latter differs according to the type of the zakatable kind or activity that changes from one year to another according to the price of gold each year, which is determined –in Algeria- by the National Agency for the Conversion and Distribution Gold and other precious Metals (AGENOR), that set the price of a gram of 18 karat in 1441 H corresponding to 2019/2020 by 8.300.00 DZD. Thus the Nissab is determined, by the Ministry of Religious Affairs and Endowments, as follows:

$$85 \text{ gm} \times 8.300.00 \text{ DZD} = 705.500,00 \text{ DZD. (http://www.marw.dz, 2021)}$$

After passing by all the pre-cited stages, the Zakat Base is determined through two ways, as follow:

##### **IV.1.1. The net assets method (the uses of the funds):**

The way through which the working capital is calculated from the bottom of the budget, according to this method, the Zakat base is calculated as follows: (Barakat, 2017, p. 11)

$$\text{Zakat base} = \text{Net assets} - \text{Current liabilities}$$

This method of calculating the Zakat base is applied on all the different enterprises, and their divisions regardless of the nature of their activity. It is, also, considered as the most famous method, used by several contemporary Islam scholars who search the Zakat accounting, because they depend the market value principle while evaluating the elements of this base. After calculating the Zakat base, according to this method- is multiplied in the Zakat rate, estimated to the quarter tenth, to get, finally, the estimated Zakat amount.

##### **IV.1.2. The invested net money method:**

The way through which the working capital is calculated from the bottom of the budget, according to this method, the Zakat base is calculated as follows: (Barakat, 2017, p. 11)

Zakat base = Permanent funds (Private funds– non-current liabilities) - non-current liabilities

Nevertheless, this method does not adapt the evaluation via the actual market price at the time of the Zakat obligation, especially within the accountants who are not content with, entirely, mentioning the method of calculating the Zakat base according to this method while dealing with it. (Abunnacer, 2009, p. 2)

#### **IV.2. The view of contemporary Zakat accounting on the in-kinds fixation**

The in-kinds fixations are considered as financial assets owned by the enterprise in order to use them in the production process or the supply of goods and services or their rental to others or for administrative use (IAS, IAS 17, p. 01), provided that this rental occurs over multiple time periods. Indeed, it is entitled, in the Zakat accounting as the “Acquisition offers”; or the goods acquired by the person in order to use it and not for sale. Indeed, since these contracts are set to be used in the trade activity, they are not zakatable, according to the majority of bodies interested in Zakat.

The Islamic bodies that are interested in Zakat accounting agreed on the in-kind fixations are not subject to the Zakat, due to the following reasons: (Abunnacer, 2009, pp. 13,14)

These assets are non-sale, so they are not included in the Zakat base, according to the text of the saying of Smura Ibn Jundub: “The prophet of Allah, peace be upon him, used to order us to pay the Sadaqa from what we intend to sell”

These assets are set for meeting the basic or original needs of the institution. It is well established that the increase from the basic needs is considered among the conditions that must be available in the zakatable money. The evidence of that is the saying of the prophet of Allah, peace be upon him: (“No Zakah is to be paid on one’s horse (that he rides) or one’s slave.” Related by Al-Bukhari (Number 1464). The horse and the slave are but models of the fixed assets that used to be utilized during the reign of the Prophet –PBUH- to be referred to while measuring the contemporary fixed assets (Material or moral).

The preparation for growth is considered among the requirements in the zakatable money. Growth is not achieved without commercial intention, which has not been achieved in these assets.

It is well established that growth is the condition of Zakat obligation and that the presence, or absence, of Zakat rule is relative to this condition. Therefore, Zakat is due, only, on money meeting this condition.

Islam cared about the capital preservation and development. This is illustrated by the command of the Prophet –PBUH- to trade in the money of orphan.

When the use fixation is owned, then the intention is changed and the owner seeks- through it- trade, the International Zakat Organization states that the change of intention is not sufficient so that Zakat be due to these assets. Yet the assets should be sold so that the Zakat can be due to them. Zakat is, also, due to these fixed assets in case if they are made of gold or silver, and their return is zakatable in case if they are owned in order to collect the income, such in case of: properties, rental cars...etc (operative leases and financial leases)

#### **IV.3. The view of contemporary Zakat accounting on leases**

As we have previously seen, Zakat is not due on fixed assets that are owned to be used and considered as non-commercial. However, it is different for leases, because they generate a considerable income for the lessor. This income must be subject to Zakat according to Islamic jurisprudence as one among Zakat types, namely “Exploited items Zakat”; Exploited items are all rental items; such as the real estate, cars, busses, planes... etc. the difference between “exploited item” and the “trade offers” is that trade offers, passenger ships, vessels carrying cargo... etc are items used by people in order to sell their in-kinds, meanwhile exploited item do not mean the in-kind sale, but the benefit from its income.

Many resolutions have been issued by the international bodies interested in Zakat, concerning the lease; such as the Islamic Fiqh Academy in his twelfth session, resolution number

10 (4/12) that permitted zakat of leases according to specific conditions. In the doctrine, Zakat is neither due on the exploited in-kinds nor on their value, but on its net production by a quarter of a tenth, meanwhile some jurists consider that Zakat is due on the value of exploited in-kinds and their production, by a quarter of a tenth, just like in the trade offers/. The Islamic Research Academy, in its second Fiqhi conference held in Cairo, adapted the first view, stating that Zakat is not due on the in-kinds of exploited buildings, ships, planes and similar items, but it is due on their net incomes when the Nissab and the Lunar year are achieved. As it was issued in the recommendations by the Islamic Fiqh Academy in his second session held in Jaddah, when it decided the following: (Abunnacer, 2009, p. 16)

Zakat is due on the assets of immovable and land leased.

Zakat is due on production, and estimated at a quarter tenth after a lunar year that follows the date of payment, taking into consideration the presence of Zakat and the absence of any impediments.

The following has, also, been mentioned in the recommendation of Zakat conference, held in Kuwait on 29 Rajab 1404 H corresponding to 30 April 1984: "The committee agreed to consider that there is no zakat due on its in-kinds, but on their incomes. However there are different views about the way of Zakat due on this production: Indeed, the majority considered that the production is added, in the Nissab and the lunar year, to the money and offers owned by the exploited items owners, and Zakat is estimated to a quarter tenth 2.5% and the paid zakat is, thus, discharged...". On another hand The fifth symposium on the contemporary Zakat issues agreed on the first view, when the following was mentioned in Fatawa and recommendations of the fifth symposium: "the material items generating a production for the project; i.e. assets of industrial machines, rental houses are not zakatable, however their net production is zakatable by the rate of 2.5% after a year that follows the start of this production, that should be added to all funds of Zakat payer" (Abunnacer, 2009, p. 16)

#### **IV -3-1 Contemporary zakat accounting of leases for the lessee**

Concerning the lessee, and according to the conditions of Ijaarah and closed-end in Islam Fiqh, he does not have the full ownership of the asset that will not be recorded among his assets, either the lease is operative or close-end. Indeed, according to the researcher's summary. The Zakat accounting is considered as follows:

Concerning the ownership transfer promise, at the beginning of the period of the closed-end lease, it does not give the lessee the full ownership. The asset ownership remains for the lessor. Thus, the lessor pays the Zakat either the lease is operative or financial.

The amounts paid by the lessee as series of payments are considered as charges appropriate for discount for the lessee. Therefore, these payments are reduced in his Zakat base according to the two methods of determining the Zakat base according to the paid installments.

If the lessee adapts, while determining the Zakat base- the method of funds usages, the amounts of his payments would be discounted from his available cash. Taking into consideration that is among the elements of current assets; which are Zakat funds according to the method of funds usage, this leads, automatically, to the reduction of the Zakat base according to these payments.

If the lessee depends, while determining the Zakat base, on the method of funds origins, the amounts he pays as installments are considered as dispenses that would be discounted from his periodic result. Since the result is among the elements of permanent funds, or Zakat funds according to the method of funds origins, which leads, automatically, to the reduction of the Zakat base according to the amount of these installments.

Despite the emergence of the asset in the registers of the lessee after the transfer of the asset ownership from the lessor to the lessee via the new contract, it is not considered among the Zakat items, like the rest of the fixed assets that are not zakatable, except when the lessee prepare them

for sale. Thus, Zakat is due on their market value, with the rate of 2.5%, or when he prepares them for rent, so Zakat is due on their production and not their asset (only the acquired incomes) by 2.5%, after the discount of the spent expenses to obtain these incomes.

If the amounts paid by the lessee contain usurious interests (usually appearing in the financial lease), these interests are not discounted from the Zakat base, according to the two methods of Zakat base determination, because the Zakat accounting rejects does not recognize these interests as dispenses that have to be discounted from the Zakat base and it does not recognize them as permitted financial transaction, as they are sort of the prohibited Riba (usury) in Islamic economics.

#### **IV-3-2. Contemporary Zakat accounting of leases for the lessor**

Concerning the lessor and in according to the conditions of Ijaara and closed-end Ijaara in correspondence to Islamic Fiqh, he is the original owner of the asset via a full ownership. He is, also, the Zakat payer either the lease is operative or a closed-end lease. Indeed, according to the researcher's summary. The Zakat accounting is considered as follows:

Regardless of whether the lease is operative or a close-end one, the value of the leased in-kind is not zakatable, because it is among the fixations that are not zakatable as long as they rental until they are sold.

The lessor pays Zakat of the obtained incomes at 2.5% after reducing the discountable dispenses (Dispenses of non-operative maintenance and assurance dispenses)

Moreover, the following must be taken into account, in case of the Zakat accounting of the closed-end lease: (Daghi, 2014, p. 29)

The intention to titling, when it comes to titling the leased asset as a full ownership for the lessee via donation, does not affect the Zakat as long as this intention is not executed because the leased asset remains fully owned by the lessor. Consequently, he must pay Zakat of the realized payment during the year. Indeed, Zakat is due on the total amount of the realized payment during the same year as long as its total reaches the Nissab. Thus, it is zakatable for 2.5%.

If the intention (or the deal) of titling the leased asset for the lessee, via sale, exists, the rules of trade offer are applied – in terms of the asset and the general principle- because the lessor bough the leased asset with the intention of sale, and promised the lessee by that. Consequently he meets the conditions of trade offer. Indeed, when the deal (or promise) to make the sale in more than a year, the annual rental fee is zakatable (the total income) by 2.5% until the leased asset is sold for the lessee. Then, Zakat will be due on its value by the same rate 2.5%

#### **V- Conclusion:**

According to displaying the topic of leases among the accounting thought and Islamic economics, in addition to their position in the contemporary Zakat accounting; we have concluded that the lease is amongst the well-established concepts in the Islamic thought. Moreover, within the development of the traditional practice in the accounting thought and the emergence of in the international accounting standards, in general, and the international accounting standards (IAS/IFRS 16,17), more particularly, several practices were issued on this contract, most notably the financial leases, which were marked by their opposition to the Islamic principles. In this paper we have concluded that there is a difference in the view on leases, between Islamic economics and the statutory economic thought, which is due to the difference of principles and foundations of each system. The construction of the closed-end lease is adopted as a method of the contemporary funding modalities, which is applied in several Islamic banks in several states. Indeed, the difference between the closed-end lease and the finance lease is that titling the asset in the closed-end lease occurs through a separate subsequent act, whereas for the finance lease it occurs in a unique act including the lease and the subsequent sale in the same act. We have, also, concluded that there is an accounting method set for determining the position of these leases in the

contemporary Zakat accounting, including the lessees and lessors confirming the fluency of the Islamic economics through all times.

Based on the above, we may test the hypotheses set at the beginning of this paper as follows:

The first hypothesis is incorrect: since the accounting aspect of the leases is, actually, covered by the international accounting standard (IAS17) then the International Financial Reporting Standard (IFRS16); yet it does not, completely, correspond to the requirements and disciplines of Islamic economics, since it contains transactions that are not recognized by this latter.

The second hypothesis is correct: Since leases met a considerable care by the relevant Islamic bodies in the Islamic economics and gave her a position in their financial and banking system, highlighting the interference in both of leases natures, then sale and the correct method of linking these two contracts so that the transaction be based on giving people their rights and the non-exploitation of each other. This is evident via setting the Islamic Accounting Standard number (08) and the legal standard number (09) concerning Ijaarah and closed-end Ijaarah, via the correct application of these contracts in the financial Islamic institutions.

The second hypothesis is correct: Since Islamic bodies tended, after giving a legal structure to leases and rejecting the illegal transactions related to these contracts, to adapt the position of leases in the contemporary Zakat accounting, defining the Zakat rights resulting to these leases for both of the lessor and the lessee.

Therefore, the results of this research may be summarized as follows:

The contemporary zakat accounting is applied on all the contemporary financial transactions, after adapting them in accordance with the principles of Islamic economics. It corresponds, also, to all times, through the efforts of researchers and relevant international bodies on the Islamic economics, in general, and the Zakat updates, in particular.

Similar to the financial lease applied in several states in the world, the Islamic banks has, also adopted the structure of the closed-end lease as a type of the contemporary funding modalities that correspond to the principles of Islamic economics. Indeed, it is applied within several Islamic banks in several states.

The fundamental difference between the closed-end lease according to Islamic economics and the financial lease according to the international Accounting Standard (IAS 17) is that the asset titling in the closed-end lease occurs via a separate subsequent contract, meanwhile in the financial lease it occurs in one contract containing both of the Ijaara and the subsequent sale.

The Legal Islamic Standard (09), issued by the Accounting and Auditing Organization for Islamic Financial Institutions, has depended on the existence or the absence of an advance titling promise, to distinguish between the operative lease and the financial lease. Indeed, the operative Ijaarah is not preceded by a titling promise meanwhile this promise precedes the closed-end Ijaarah.

The rental payments by the lessee in both of the operative or the financial lease, are considered as obligations that are appropriate for discount from the Zakat base according to the principles of the contemporary Zakat accounting. Indeed, they are expenses borne by the lessee and reduced from the period result, consequently the reduction of the Zakat assets (permanent funds) concerning the method of funds origins. These amounts are, also, paid in cash. Consequently, the Zakat assets (current assets) are reduced in accordance to the method of funds use. However, if these

Payments are usurious interests (concerning the finance lease), the contemporary Zakat accounting does not recognize them as obligations that are appropriate for discount. Moreover, in case of ownership of the leased asset by the lessor, this asset is not zakatable, as long as it is set for the use as a fixed asset. However, it is zakatable if the lessee use it for sale of rents it, as we have previously stated.

Incomes obtained from the lessor in both of the operative lease or the finance lease are considered among the Zakat assets. Only incomes are zakatable by 2.5% after the discount of the disbursements spent on the leased asset which is not zakatable according to the principles of the contemporary accounting, as long as it is rental, except when it is sold or titled for the lessee; then its market value is zakatable by 2.5%.

Based on the concluded results we give a set of recommendations as follows:

Reminding the dealers with the finance leases that these contracts contain transactions that are not recognized by the Islamic economics.

Expanding the sphere of dealing with the closed-end lease instead of the financial leases, with its current nature.

Applying the Islamic accounting standard number (08) lease, closed-end, the legal standard number (09), the lease and the closed-end lease in all the Islamic financial institutions.

Defining the stages, principles and foundations of the contemporary zakat accounting, and informing the parties of the leases so that they take into consideration the existence of an accounting method through which these leases are zakatable, via the addition to the zakatable assets or the discount from the obligations according to each party.

The governments of the Islamic states call for imposing of the contemporary zakat accounting on the economic institutions, since it is considered as a considerable resource that collects a large amount of funds of these institutions, especially with its huge increasing number, especially since their channels the benefit a large group of Zakat duers.

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