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B.Com Honours | Semester VI | Calicut University

ACCOUNTING FOR ISLAMIC FINANCIAL INSTITUTIONS

Course Code: COM6EJ311 • Module 4 Notes

Module IV: Ijarah Financing & Zakat Accounting

Covers Operating Ijarah, Ijarah Muntahia Bittamleek (Lease-to-own), Sukuk securities accounting, impairment provisioning, AAOIFI disclosure rules, and Zakat accounting on business net assets.

Unit 18: Accounting for Ijarah Financing (Operating Lease)

Operating Ijarah: Bank purchases asset & leases usufruct to client for rental income. Bank retains ownership risk & depreciates asset; rental income credited to P&L.

Unit 19: Accounting for Ijarah Muntahia Bittamleek (Lease-to-Own)

Ijarawaiqthinah: Lease ending with ownership transfer to lessee via gift or nominal sale at lease term end.

Unit 20: Accounting for Sukuk & Securities Financing

Sukuk Accounting: Asset-backed Islamic bonds representing undivided ownership shares in tangible underlying assets.

Unit 21: Accounting Measurement Issues & Impairment

Provisioning: Impairment testing for defaulted Murabahah receivables & Ijarah assets per AAOIFI standards.

Unit 22: Accounting Disclosure Requirements

AAOIFI Disclosures: Detailed notes on Shariah compliance, profit distribution to investment account holders, & Zakat base calculations.

Unit 23: Principles of Zakat & Zakat Accounting on Business Assets

Zakat Accounting: Mandatory religious levy calculated using **Net Assets Method**:
$ \text{Zakat Base} = \text{Zakatable Current Assets} - \text{Short-Term Liabilities} $.
Zakat Payable = $ \text{Zakat Base} \times 2.5\% $ (Lunar calendar year).

Practical Solved Zakat Accounting Problem (Net Assets Method Calculation): Calculate annual Zakat obligation for an Islamic financial enterprise with Zakatable Current Assets = $ ₹50,00,000 $ (Cash, Inventory, Murabahah Receivables) and Short-Term Current Liabilities = $ ₹10,00,000 $. Applicable Zakat Rate = $ 2.5\% $.

Zakat Base = Zakatable Current Assets - Current Liabilities | Zakat = Base * 2.5%

Step-by-Step Zakat Computation Working:

1. Zakatable Current Assets = $ \mathbf{₹50,00,000} $.

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2. Deduct Short-Term Liabilities = $\mathbf{₹10,00,000}$.
3. **Net Zakat Base** = $₹50,00,000 - ₹10,00,000 = \mathbf{₹40,00,000}$.
4. **Annual Zakat Payable** = $₹40,00,000 \times 2.5\% = \mathbf{₹1,00,000}$.

Practical Case Framework 2 (Ijarah Operating Lease vs Ijarah Muntahia Bittamleek Matrix): Compare Ijarah type, ownership transfer condition, asset valuation rule, and end-of-term accounting treatment.

Ijarah Lease Types Accounting Comparison Table:

Ijarah Lease Type	End-of-Term Ownership Condition	AAOIFI Depreciation & Transfer Accounting
Simple Operating Ijarah	Asset returned to Bank (Lessor)	Bank depreciates asset over economic useful life
Ijarah Muntahia Bittamleek	Ownership transferred to Client (Lessee)	Asset transferred via gift (Hiba) or nominal price sale

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