

ZAKAT DISCLOSURE OF ZAKAT INSTITUTIONS:  
PERCEPTIONS OF ACCOUNTING AND NON-  
ACCOUNTING STUDENTS

BY

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## ABSTRACT

Studies about disclosure of Islamic financial institutions is still lacking. There are some zakat disclosure studies in the perception of zakat recipients but there is no specific study related to students as the zakat recipient. The objective of the study is to investigate the perceptions of accounting and non-accounting students on the disclosure of financial and non-financial information by zakat institutions. The second objective is to identify the perceptual difference between the accounting and non-accounting students on information disclosure of zakat institutions. Downward Accountability concept and Resource Dependence Theory were applied as theoretical framework of this research. A total of 2109 questionnaires were sent to the Zakat Department of a public institution of higher learning in Malaysia. The questionnaires were distributed to the students who are studying in different fields of study in different branches of the university in Malaysia and at the same time are zakat recipients as well. The completed 1018 questionnaire were received and only 544 questionnaires were usable. The number of respondents is 127 and 417 for accounting and non-accounting respectively. The study uses descriptive analysis and t-test to analyse the results of the study. The study found out that having prior accounting knowledge can affect the perception of respondents for disclosure items for zakat institutions. The findings show that accounting students perceive that disclosure of financial information is important whereas non-accounting students perceive disclosure of non-financial information is as important as the financial information. The study found that there is a difference for rating the disclosure items of zakat institutions between accounting and non-accounting students, however, only 36% have significant difference and 64% is not different significantly. The current research is limited due to using only questionnaire survey as well as respondents are students who are zakat recipients and comparison done is only between accounting and non-accounting students. There should have the awareness program for non-accounting students to educate them to understand more about the disclosure of zakat institutions, particularly on the importance of financial information to be disclosed.

## خلاصة البحث

مازال النقص يعتري دراسات إفصاح المؤسسات المالية الإسلامية. فهناك دراسات في الإفصاح عن الزكاة في مفهوم متلقي الزكاة لكن ليست هناك دراسة معينة تطرقت لموضوع طلبة مثل متلقي الزكاة. تهدف هذه الدراسة إلى النظر في مفاهيم طلاب المحاسبة وغيرهم حول موضوع الإفصاح عن المعلومات المالية وغيرها الذي تمارسه مؤسسات الزكاة. والهدف الثاني للدراسة هو التعرف على الفروق الإدراكية بين طلبة المحاسبة وغيرهم حول الإفصاح عن المعلومات في مؤسسات الزكاة. تم تطبيق مفهوم المسائلة ونظرية الاعتماد على الموارد كإطار نظري للبحث. وتم إرسال ما مجموعه 2109 استمارة إلى قسم الزكاة في أحد المؤسسات الحكومية للتعليم العالي في ماليزيا. كما تم توزيع الاستمارات على طلبة يدرسون في مجالات وأفرع مختلفة في الجامعات في ماليزيا وكلهم من متلقي الزكاة. تم استلام 1018 كلها، كان منها 544 فقط صالحة للاستخدام. كان عدد المستجوبين 127 و 417 من طلبة المحاسبة وغيرها على الترتيب. تستخدم الدراسة التحليل الوصفي واختبار T لتحليل نتائج الدراسة. خلصت الدراسة إلى أن تلقي معلومات عن المحاسبة يمكنه التأثير على مفهوم المستجوبين في المواد التي تحتوى الإفصاح في مؤسسات الزكاة. أظهرت النتائج أن طلبة المحاسبة يرون الإفصاح عن المعلومات المالية مهم بينما يرى طلبة التخصصات الأخرى أن الإفصاح عن المعلومات المالية مهم كأهمية المعلومات المالية ذاتها. وخلصت الدراسة أيضاً إلى أنه ثمة فرق في تقييم مواد الإفصاح في مؤسسات الزكاة بين طلبة المحاسبة وغيرهم إلا أنه كان لدى 36% فقط فروق كبيرة بينما 64% لم يحوي فروق ذات دلالة. اقتصر البحث على استخدام استبيان ميداني ومستجوبين من متلقي الزكاة، وعقد مقارنة بين طلبة المحاسبة وغيرهم. وينبغي أن يكون هناك وعي لدى الطلبة التخصصات الأخرى ليتسنى لهم فهم إفصاح مؤسسات الزكاة بشكل أوضح خاصة أهمية المعلومات المالية التي يتم الإفصاح عنها.

## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Master of Science (Accounting).

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## DECLARATION

I hereby declare that this dissertation is my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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*This dissertation is dedicated to my beloved parents and siblings for all their  
encouragement and endless love.*

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## LIST OF ABBREVIATIONS

BOD	Board of Directors
BOT	Board of Trustee
CM	Council Member
MTM	Management Team Members
EPF	Employees Provident Fund
SIRC	State Islamic Religious Council
RDT	Resource Dependence Theory
CEO	Chief Executive Officer
PPZ	Pusat Pungutan Zakat
NPO	Non-profit Organisations
CSR	Corporate Social Responsibility
CCM	Companies Commission of Malaysia
ROS	Registry of Societies
GAAP	Generally Accepted Accounting Principles
MAIN	Majlis Agama Islam Negeri
RDT	Resource Dependence Theory
LZS	Lembaga Zakat Selangor
MAIWP	Majlis Agama Islam Wilayah Presekutuan
SWT	Subhanahu Wa Ta'ala
UK	United Kingdom
US	United States

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Zakat, also known as Islamic tax, is one of the five pillars of Islam which is also one of the fundamental obligations in Islam. It is a religiously compulsory duty for a Muslim who is qualified to pay zakat. Zakat can be defined in terms of three aspects: linguistically, theoretically and legally. Zakat can be literally defined as growth, blessing, pure, development and neatness (Johari, Ali, & Aziz, 2015; Johari, Aziz, & Ali, 2014). Technically, zakat is defined by Qardawi (1999) as determining a share of one's wealth to be distributed among the lawful beneficiaries that are entitled for the wealth as prescribed by Allah in the Holy Quran (Wahid & Kader, 2010). In Quran *Surah 22:78*, Allah Subhanahu Wa Ta'ala ordered us as

“...so, establish Salat and give Zakat, and hold fast to Allah...”.

In Quran, the word zakat is repeated 32 times by mentioning its importance and obligations (Muda, Marzuki, & Shaharuddin, 2006). The primary objective of zakat is to develop a balanced socio-economic growth, and to purify one's soul and wealth so that one's wealth is blessed by Allah S.W.T (Kadir, Abidin, Ramli, & Surbaini, 2014). To put it simply, zakat is a kind of sharing of wealth from rich Muslims to the poor. Zakat is taken from those who have excesses and given to the needy. According to Bakar (2007), paying zakat will enhance economic prosperity by transferring surplus wealth to the poor. Therefore, purchasing power will increase, and this may lead to a higher demand for goods. Hence, in the economical point of view, zakat serves as a wealth-distribution mechanism to help narrow the gap between the rich and the poor. Zakat, which is a compulsory charity tool in Islam, can be used to

enhance the development of the eight categories of recipients which is mentioned in Al-Quran (Johari et al., 2015, 2014). The recipients who have the right to take zakat is mentioned in the Al Quran (Surah At-Tawbah, verse 60):

Indeed, (prescribed) charitable offering are only (to be given) to the poor and the indigent, and to those who work on (administering) it, and to those whose hearts are to be reconciled, and to (free) those in bondage, and to the debt-ridden, and for the cause of God, and to the wayfarer. (This is) an obligation from God. And God is all-knowing, all-wise.

It is notable that, zakat is the most significant form of charity in Islam. Historically, the disbursement of zakat undertaken at the time of Prophet Mohammad (peace be upon him) and the collected amount were distributed in the same area and none was carried to the centre during that time (Wahid & Kader, 2010). In present-day, zakat institutions are established to manage the zakat collection and distribution of zakat money contributed by Muslims. The role of zakat institutions is important because the effective performance of zakat collection and distribution process highly depend on the good governance of zakat institutions (Wahid & Kader, 2010). In the Holy book of Quran, it is clearly stated that the collected zakat money should be distributed to the specified groups of recipients by the *Amil* (administrators) (Sapingi, Obid, & Nelson, 2013).

As stated in the highlighted Surah At-Tawbah, there are eight *asnaf* (zakat recipient) groups such as the poor (*Al-Fuqara*), the needy (*Al-Miskin*), the debtor, the slaves, those who are employed to collect zakat (*Amil*), the people who convert to Islam, the travellers in need and in the way of Allah (*Fisabilillah*). People who live below the poverty line and do not afford to live in a normal life like others are *Al-Fuqara* whereas *Al-Miskin* are unduly poor and needy people. The administrators of zakat, who are authorized to collect and distribute zakat also have the right to get

zakat. Zakat can also be given to those who freshly converted to Islam in order to bring their hearts closer to Islam. The slaves are also able to get zakat in order for them to free themselves from slavery. Debtors are the group of people who are not able to repay debts on their own. *Fisabilillah*, who are striving in the path of Allah are also qualified to receive zakat. Lastly, the traveller who need financial assistance to fulfil their objective of travelling is also entitled to get zakat. Although, eight recipient groups of zakat are mentioned in the Quran, the poor and the needy are the first priority groups in the allocation of zakat fund for the purpose of reducing poverty in the Muslim community (Johari et al., 2015).

In general, there are two main types of zakat namely *zakat al-mal* (the zakat of a religious levy on wealth) and *zakat al-fitr* (the zakat of the body) (Ahmad Razimi, Romle, & Muhamad Erdris, 2016; Wahid & Kader, 2010). *Zakat al-mal* means the zakat which is deducted from the wealth owned by Muslims whereas *zakat al-fitr* is the zakat that all Muslims are required to pay in the Holy month of *Ramadhan* (Kadir et al., 2014). Zakat can be collected from various source such as zakat on silver and gold, zakat on savings, zakat on wages, zakat on shares and Employees Provident Fund (EPF), and zakat on crops. All Muslims scholar agree that businesses are also subjected to zakat because it is obligatory (*wajib*) for companies, as long as Muslims have interests in it (Kadir et al., 2014). Companies need to pay zakat according to the percentage of Muslims' ownership (Arif, Alwi, & Tahir, 2011).

The zakat institution has become one of the most important institutions in Islamic finance (Saad, Idris, Shaari, Sawandi, & Derashid, 2017). It plays a major role in distributing the zakat collected to the eligible recipients (*asnaf*). Efficient management of zakat institutions from the aspects of collection and distribution is crucial so that resources can be pooled to ensure social justice among the people



(Saad, Aziz, & Sawandi, 2014). Zakat institutions are the trustees for both zakat payers and recipients. Zakat institutions have to make sure that the funds are managing in accordance with Islamic *Shariah*.

As trustees, they need to disclose how effectively they are collecting and distributing the funds. According to Lewis (2001), Muslim *Ummah* (community) has the right to know the effects of the operation of the organizations on its wellbeing and to be advised within the requirements of the *Shariah*. In the Islamic context, it is very important to disclose the truth for both businesses and individuals (Maali & Napier, 2007). Religious organizations perform an essential role in society. Besides they are unique and distinct from other non-profit organizations as they are driven by faith (Afifuddin & Siti-Nabiha, 2010). Therefore, the perception of students on the disclosure of zakat institutions in Malaysia will be investigated in this study. Zakat and its disclosure will be discussed in chapter 2 of this research.

## **1.2 PROBLEM STATEMENT**

The information disclosure of non-profit organisations (NPOs) is very important (Sapingi, Obid, & Nelson, 2014). As zakat institutions are part of NPOs, the information disclosure of zakat institutions is also important. There are some prior studies on the disclosure of zakat institution in Malaysia such as Nelson, Sapingi, & Ahmad (2017); Sapingi & Nelson (2016); Sapingi, Nelson, & Obid (2017); Sapingi, Obid, & Nelson (2014) and Taha, Ali, Zulkifli, & Paizin (2015). However, there is no specific study on students' perception on the importance of disclosure among zakat institutions in Malaysia. According to Wahid & Kader (2010), many studies have revealed that zakat payers are not satisfied with zakat management. However, there is

no study that focuses on zakat recipients and their perceptions towards zakat institutions (Wahid & Kader, 2010).

In Malaysia, the management of zakat is reported as having a lack of transparency because of limited information was disclosed by the zakat institutions (Taha, Adam, Ali, & Ariff, 2017) . In the study of Taha, et al. (2017), the author found that from the observation of annual reports from 2007 to 2014 the zakat collection is increasing but the data were not distributed to the recipients or disclosed to the public. Therefore, the public are not satisfied with the insufficient zakat information disclosed to them.

Furthermore, in the research of Taha, Zulkifli, Embong, & Mohd Nor (2017) it was found that a lot of excess in the collection of zakat was not disclosed or mentioned in annual report. Hence, this has created a negative perception of zakat institutions. The researchers suggested that zakat institution should have a proper documentation system that could provide an avenue for the recording of excesses in the zakat collected. Their findings also showed that the administration of zakat in Malaysia was inefficient based on the recipients' perception.

There is still a lack of study which focus on the zakat recipients and their perceptions on zakat institutions. Therefore, the current study will investigate the students' perceptions on zakat disclosure among zakat institutions in Malaysia. The students who were selected in this research are the recipients of zakat and currently receiving financial assistance from the zakat institutions. The students are one of the educated *asnaf* group and they are more familiar about this disclosure items than other *asnaf*. They are potential leader of the country. They must take over these responsibilities in the future. The main reason for choosing the recipient students as

respondents is that these students are going to be the zakat payers in the future. Therefore, their perceptions matter.

### **1.3 RESEARCH OBJECTIVES**

This research is about the importance of zakat disclosure among zakat institution in Malaysia. The objectives of this study are

1. To investigate the perceptions of accounting and non-accounting students on the disclosure of financial and non-financial information by zakat institutions
2. To identify the difference between accounting and non-accounting students on information disclosure of zakat institutions

### **1.4 MOTIVATION OF THE STUDY**

Accountability is essential and vital for non-profit organizations (NPOs) and religious organizations, stakeholders and donor. In the study of Taha et al. (2017), it was found that the public and recipients were not satisfied with the current zakat distribution system in Malaysia. Moreover, they found out that a lot of excess in the collection of zakat was not disclosed or mentioned in the annual report. The consequences of this can lead the negative view of the zakat institution. They suggested that the zakat institution should have a proper documentation system that provides an avenue for the recording of excesses in the zakat collected. There is no specific prior study on the perspective of students in the matter of zakat disclosure by zakat institutions in Malaysia. This study is motivated to examine the students' perception because they are going to be zakat payers, or they may have to manage zakat institutions in the

future. In addition, there is a lack of literature for the zakat disclosure not only in the context of Malaysia but also worldwide.

### **1.5 RESEARCH QUESTIONS**

To meet the research objectives, the following research questions were developed

1. What are the perceptions of accounting students on the disclosure of financial information by zakat institutions?
2. What are the perceptions of non-accounting students on the disclosure of non-financial information by zakat institutions?
3. Is there a significant different in the perception of accounting and non-accounting students on the information disclosure of zakat institutions?

### **1.6 SIGNIFICANCE OF THE STUDY**

This study is significant for a few reasons. While there is not enough disclosure study in the context of Malaysia or internationally, this research can be a contribution to disclosure study. Most of the existing disclosure study on zakat institutions are based on the payers' and administrators' perception. It is very difficult to find a disclosure study from the perspective of beneficiaries or recipients. Both zakat payers and zakat beneficiaries are important for zakat institutions. Zakat institutions must pay attention on the beneficiaries' viewpoint as well. Accordingly, the current study will examine the recipients' perception on the zakat disclosure among zakat institutions in Malaysia. All the respondents in this research are not only students but also the recipients of zakat. In the future, these recipients' students will be the zakat payers of

the zakat institutions, so their perceptions are also important. Therefore, the recipient's viewpoint can be seen in this current research.

The findings of the study will be of benefit to the society considering that the focal point is on the disclosure of zakat institutions in Malaysia. This study hopes to enrich the literature on zakat specifically in the disclosure of zakat. The findings of the study are expected to improve the disclosure practices of zakat institutions in Malaysia. These institutions can know how zakat recipients, specifically accounting and non-accounting students think about their financial and non-financial disclosure practices and what the students want the institution to disclose.

According to the previous studies on Malaysian zakat institutions, the lack of disclosure on collection and disbursement can lead to public misjudgement. If zakat institutions consider the results of this study, they can overcome the unnecessary misjudgement. Due to the zakat recipient categories such as *fakir* (poor),  *miskin* (needy),  *fisabilillah* (in the cause of Allah) and others included in this study, it is hoped that zakat institutions in Malaysia can gain many benefits from this study.

## **1.7 ORGANIZATION OF THE STUDY**

The study consists of six chapters. All six chapters and the factors that will be included in each chapter are as follows.

Chapter 1: **Introduction.** This chapter provides the main ideas of the study. The introductory chapter gives a brief discussion of the background of the study, research objectives and research questions, motivation and the significance of the study as well.

Chapter 2: **Literature Review.** This chapter discusses the disclosure in the Profit Organizations, disclosure in NPO and Faith Based Charities, disclosure

from Islamic perspective and Malaysian zakat scenario, zakat and its disclosure and literature gap.

Chapter 3: **Theoretical Framework.** This chapter discusses the theoretical and conceptual framework that guides the study. It first explains the theory which is used in this study, i.e., resource dependence theory and how this theory explains the behaviour of students in showing their perception for disclosure in zakat institutions. Moreover, downward accountability concept will also be used to explain the relationship between zakat institution and its recipients. It provides the conceptual/theoretical framework that summarizes the main idea of the study.

Chapter 4: **Research Methodology.** This chapter introduces the research methods for the study. It covers the research design used, sample selection, data collection procedure and data analysis methods.

Chapter 5: **Analysis and Discussion.** This chapter presents the findings of the study and discussion about the findings in detail.

Chapter 6: **Recommendations and Conclusion.** Lastly, this chapter provides the summary, conclusion, limitations, and recommendations out of the findings and suggestions for future research.

## **1.8 SUMMARY OF CHAPTER**

In brief, this chapter addresses the role of zakat in general and its importance. Zakat can help to adjust the rich and poor level within the community. The effective management and allocation of fund is the responsibility of the zakat institutions. As administrator of public money, they have to prepare the financial statement and

disclose their performances annually to get the public trust. The chapter is followed by problem statement and the motivation of the study. Moreover, the objectives and questions of research and the significance of the study were explained in introductory chapter. Next chapter presents a literature review of importance of disclosure in different organizations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

In this chapter, a review of the prior literature on disclosure of zakat is presented. The structure of this chapter is as follows: Section 2.2 explains disclosure in profit organisations and section 2.3 discusses disclosure in non-profit organisations and Faith Based Charities. Section 2.4 provides disclosure from Islamic perspective. Section 2.5 discusses zakat scenario in Malaysia. Section 2.6 explains the zakat and its disclosure. Section 2.7 highlights the gap in the literature and the final section 2.8 provides the summary of the chapter.

#### **2.2 DISCLOSURE IN PROFIT ORGANISATIONS**

Disclosure is a predominant factor for a financial reporting and annual reports are the great platform for disclosing corporate information including financial and non-financial disclosure (Gunawan & Lina, 2015). Information is essential for investors and other users in order to reach appropriate decision. Information disclosure can be classified into two types: mandatory disclosure and voluntary disclosure (Md Tanvir & Md Zakir, 2015). Both mandatory and voluntary disclosure information were provided in a company's annual report (Ghazali, 2008).

Mandatory information indicates the information required by the Company Act, Securities Law and relevant accounting standards in a particular country (Ghazali, 2008; Tian & Chen, 2009). Voluntary disclosure can be denoted as information that is not mandated (Ousama & Fatima, 2010) and the management has the privilege to select which information to disclose (Md Tanvir & Md Zakir, 2015).