

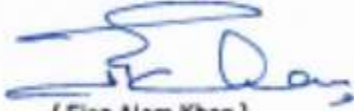
GOVERNMENT OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Islamabad, the 16th February, 2024

NOTIFICATION

S.R.O. 240(I)/2024.- The Securities and Exchange Commission of Pakistan, in exercise of powers conferred by section 510 read with sub-section (1) of section 225 of the Companies Act, 2017 (Act No. XIX) is hereby pleased to direct that the annexed Accounting Standard on 'Financial Statements Disclosures of Zakat Received by an Entity' shall be followed by companies that receive zakat, and are required to prepare their financial statements in conformity with the financial reporting standards as applicable in Pakistan, for the preparation of financial statements for the annual reporting periods beginning on or after January 1, 2024 (earlier application is permitted).

[File No. SMD/ PRDD/Comp/(108) 2023]



(Ejaz Alam Khan)
Joint Director (CS)

Annexure as above

Accounting Standard

Financial Statements Disclosures of Zakat Received by an Entity

The Institute of Chartered Accountants of Pakistan

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Accounting Standard ***Financial Statements Disclosures of Zakat Received by an Entity***

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Objective

1. The objective of general-purpose financial reports of a not-for-profit organizations (NPOs) is to provide information about the NPO that is useful for accountability and decision making by users of the financial reports.
2. Entities, mainly NPOs, receive and utilize zakat in Pakistan. The contribution and utilization of zakat also involve a large number of donors and beneficiaries.

The contributions received in the form of zakat could be material to the NPOs financial statements. Financial information about zakat is also relevant and useful for the users of financial statements, including contributors and other decision-makers.
3. Financial reporting standards as applicable in Pakistan, including International Financial Reporting Standards, IFRS for Small and Medium-sized Entities, Revised Accounting Standard for Small-sized Entities, and Accounting Standard for Not-For-Profit Organizations do not provide specific disclosures regarding zakat received and utilized by an entity.
4. The objective of this Accounting Standard is to specify the disclosures of zakat received and utilized by entities to ensure sufficient, relevant, and faithful information is provided to the users of entity's financial statements.

Scope

[Refer: Basis for Conclusions paragraphs BC15- BC18]

5. The Accounting Standard shall be applied by the entity that receives zakat.

The receipt of zakat by an entity may be significant for the preparation of the financial statements for two reasons. Firstly, if resources have been transferred, an appropriate method of accounting for the transfer must be found. Secondly, it is important to provide users of financial statements, including entities that are providing zakat, information about the utilization of zakat.
6. An entity shall apply this standard to disclose information about zakat received and utilized during the period.

The entity is also required to comply with accounting and disclosure requirements of the financial reporting standards (for example, International Financial Reporting Standards, IFRS for Small and Medium-sized Entities, Revised Accounting Standard for Small-sized Entities, and Accounting Standard for Not-For-Profit Organizations) that are applicable to such entity.
7. This Standard does not specify the recognition and measurement of zakat received and utilized by an entity, and included in the income for the years. The accounting shall be done in accordance with the financial reporting standards applicable to the entity.
8. The Standard also does not prescribe modes and purposes of utilization of zakat. The Standard also does not specify any accounting basis for the recognition and utilization of zakat.

Disclosures

9. An entity receiving zakat shall provide following specific disclosures:

- a) The accounting policy adopted for the utilization of zakat, stating the basis on which zakat utilized by the entity is recognized in the financial statements.

The entity shall adopt a basis for accounting the utilization of zakat, and apply it consistently. For example, the basis of recognizing zakat's utilization could be at cost of services and goods rendered, or it could be cost-plus margin basis. These are few examples of zakat utilization and it is not an exhaustive list. Management is required to select the basis for utilization of zakat and disclose the same in the accounting policy.

Where an entity has chosen to recognize zakat utilization at cost plus margin basis, the percentage of margin on cost shall also be disclosed by the entity.

- b) The following shall be disclosed in a separate note to the financial statements:
- i. Movement in the zakat balance during the reporting period, reconciling the opening and closing balances of zakat.
 - ii. Information about the nature and amounts of costs/expenditures for which zakat was utilized by the entity during the year.
 - iii. Information about the nature and amounts of zakat received (including in kind) during the year.
 - iv. Closing balance of zakat and its representation by the net assets (e.g. cash and bank balances, accrued liabilities).

Where an entity has recognized an item of zakat received in kind as per requirement of financial reporting standards as applicable in Pakistan, it shall disclose its value including name of valuer, date and basis of valuation.

10. Depending on the significance of zakat received and utilized in the operations, an entity can also provide additional qualitative and quantitative disclosures in the financial statements.

Effective Date

11. An entity shall apply this Standard for annual reporting periods beginning on or after January 1, 2024.

Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact.

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Basis for Conclusions

Accounting Standard *Financial Statements Disclosures of Zakat Received by an Entity*

From Paragraph

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This Basis for Conclusions accompanies but is not part of the Accounting Standard, *Financial Statements Disclosures of Zakat Received by an Entity*. It summarizes the considerations of the Board when developing the Accounting Standard.

Introduction

- BC1 The Accounting Standard sets out specific disclosures regarding receipt and utilization of zakat.

Financial reporting standards as applicable in Pakistan provide no specific guidance on the zakat related disclosures. The Standard responds to the need for specific disclosures about utilization of zakat to ensure transparency and accountability by the entity that receives zakat.

- BC2 The Basis for Conclusions explain the need and scope for this Standard. The Basis for Conclusions also contain an illustrative disclosure of zakat.

Need for this Accounting Standard

- BC3 Under the Companies Act, 2017, the financial reporting standards as applicable in Pakistan include:

- International Financial Reporting Standards;
- International Financial Reporting Standard for Small and Medium-sized Entities;
- Revised Accounting Standard for Small-sized Entities; and
- Accounting Standard for Not-For-Profit Organizations.

Entities that are not registered under the Companies Act (for example, trusts, societies) can prepare their financial statements in accordance with the above-noted financial reporting standards or another framework (i.e. cash basis of accounting).

- BC4 The objective of general-purpose financial statements is to provide financial information about the reporting entity that is useful to a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.

The general-purpose financial statements provide information about the financial position of a reporting entity, which is information about the entity's economic resources and the claims against the entity. They also provide information about the effects of transactions and other events that change a reporting entity's economic resources and claims. The general-purpose financial statements allow users to make decisions and develop expectations based on their assessment of the amount, timing and uncertainty of future net cash inflows to the entity.

Zakat, ordinarily, is received by the Not-profit-organizations (NPOs). NPOs receive and utilize zakat for their charitable activities.

In the context of an NPO, wide range of users of general-purpose financial statements include those to whom NPO provides goods and services, providers of resources (i.e. zakat, donations), those providing oversight functions and the public at large.

- BC5 The Board noted that zakat collection is a significant resource for a number of NPOs. The disclosure about zakat (receiving of zakat and delivery of goods and services by utilizing zakat funds) provides useful information regarding the fiduciary duty of an NPO.

Users of financial statements can benefit from the financial statements disclosure about zakat. Public confidence in general can also be gained by transparent and full disclosure of financial information about zakat, received and utilized by the entity.

Basis for Conclusions

Accounting Standard *Financial Statements Disclosures of Zakat Received by an Entity*

The Financial reporting standards as applicable in Pakistan, however, do not prescribe any specific disclosures related to the utilization of zakat.

Accounting Standard for Not-For-Profit Organizations

- BC6 The Accounting Standard for Not-For-Profit Organizations contains principle-based discussion regarding the 'Objectives of Preparing NPO's financial statements' and the 'Relevance of financial information'.

Paragraphs 2.6 and 2.8 of the Accounting Standard for Not-For-Profit Organizations are relevant in the context of the objectives of preparing financial statements of NPOs. These paragraphs state that

"Members, contributors, and creditors of Not-for-Profit organizations are interested, for the purpose of making resource allocation decisions, in the organization's cost of service and how that cost was funded and in predicting the ability of the organization to meet its obligations and achieve its service delivery objectives." "Members and contributors also require information about how the management of an organization has discharged its stewardship responsibility to those that have provided resources to the organization. Information regarding discharge of stewardship responsibilities is especially important as resources are often contributed for specific purposes and management is accountable for the appropriate utilization of such resources."

The Accounting Standard for Not-For-Profit Organizations includes the 'Qualitative Characteristics'. Included in these characteristics is 'Relevance'. Paragraph 2.12 explains Relevance as under: *"For the information provided in financial statements to be useful, it must be relevant to the decisions made by users. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact of past, present, or future transactions and events or confirm, or correct, previous evaluations. Relevance is achieved through the information that has predictive value or feedback value and by its timeliness."*

- BC7 For an NPO there are two broad categories of income: income from exchange transactions (contract income) and income from non-exchange transactions (gifts).

Income from exchange transactions is received by the charity for goods or services supplied under the contract. The income the charity receives is approximately equal in value to the goods or services supplied by the charity to the purchaser. The essential feature of income from a non-exchange transaction is that the charity receives value from the donor without providing equal value in exchange

Income from non-exchange transactions (gifts) are donations of money, goods, facilities, or services that are given freely to the NPO by a donor.

- BC8 Zakat received by an NPO is a contribution. It is a non-exchange transaction/non-reciprocal transfer of assets where the donor provides zakat amount without receiving equal value in exchange.

The Accounting Standard for Not-For-Profit Organizations defines 'contribution' as a non-reciprocal transfer to a Not-for-Profit organization of cash or other assets or a nonreciprocal settlement or cancellation of its liabilities. Government funding provided to a Not-for-Profit organization is considered to be a contribution."

- BC9 Under the Accounting Standard for Not-For-Profit Organizations, zakat received by an entity would be classified under 'Contribution'.

Basis for Conclusions

Accounting Standard *Financial Statements Disclosures of Zakat Received by an Entity*

The Accounting Standard for Not-For-Profit Organizations, however, does not specifically define or explain the accounting requirements for zakat.

- BC10 The Accounting Standard for Not-For-Profit Organizations in Section 6 *Contributions – Revenue Recognition*, contains the requirements for recognition, measurement, presentation, and disclosure of contributions, and related investment income received by NPOs.

As per Section 6 Para 6.10, NPOs have three types of contributions to report:

- endowment contributions,
- restricted contributions and
- unrestricted contributions.

- BC11 The Board noted that zakat is ordinarily classified as a ‘restricted contribution’ as it is subject to externally imposed (shariah) stipulations that specify the purpose for which it is to be used.

The Accounting Standard for Not-For-Profit Organizations defines restricted contribution as under:

“A restricted contribution is a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used. A contribution restricted for the purchase of a capital asset or a contribution of the capital asset itself is a type of restricted contribution.”

- BC12 The Accounting Standard for Not-For-Profit Organizations specifies disclosures for contributions. These are provided in section 6 of the Accounting Standard for Not-For-Profit Organizations.

The Board noted that the Accounting Standard for Not-For-Profit Organizations does not contain specific disclosures for the zakat.

IFRS Accounting Standards

- BC13 Under the IFRS Accounting Standards, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, specifies the accounting and disclosure requirements for the government grant. IAS 20 in paragraph 39 (a) also requires to ‘disclose the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements.’

The Board noted that IAS 20 does not specify any specific disclosure of the policy under which the grants are utilized.

- BC14 The Board noted that zakat received by entities involve significant amounts. Further, a large number of donors are involved in donating zakat. The zakat utilization also involves a large number of beneficiaries.

The Board decided that the quality of financial reporting will improve by providing adequate disclosures about zakat received and utilized by an entity. The financial information about zakat provided in the financial statements will provide relevant and faithful information to the users of financial statements. The specific disclosures will ensure that consistent and comparable information is provided by the entities.

Scope of the Accounting Standard

BC15 The Accounting Standard, *Financial Statements Disclosures of Zakat Received by an Entity*, shall be applied by the entities that receive zakat.

BC16 The entities registered under section 42 or section 45 of the Companies Act, 2017, are required to prepare financial statements in accordance with the financial reporting standards as applicable in Pakistan. For such entities, the financial reporting standards as applicable in Pakistan include:

- International Financial Reporting Standards; or
- International Financial Reporting Standard for SMEs; and
- Accounting Standard for Not-For-Profit Organizations

BC17 When applying this Accounting Standard i.e. disclosures related to zakat, an entity would also apply all other requirements of financial reporting standards and framework used for the preparation of entity's financial statements.

The recognition and measurement of zakat received (in cash or in kind) shall be in accordance with the relevant financial reporting standard. Similarly, the recognition of zakat income shall be in accordance with the relevant financial reporting standard. In the financial reporting standards as applicable in Pakistan, Accounting Standard for Not-For-Profit Organizations is specifically relevant to the NPOs. It sets out the requirements for the recognition and measurement of the contributions received and utilized by the entity.

BC18 The Board clarified that it has not prescribed any framework / criteria for evaluation of the shariah compliance relating to zakat, including computation and utilization of zakat. Compliance with shariah principles is the responsibility of the parties to the transaction/arrangement, including management of the entity.

The Standard also does not prescribe modes and purposes of utilization of zakat. The Standard also does not specify any accounting basis for the recognition and utilization of zakat.

Illustrative disclosure

BC19 An illustrative disclosure of the requirements of paragraph 6(b) of Accounting Standard is provided for guidance purposes only. This is not an exhaustive disclosure.

	20X2 (Rs.)	20X1 (Rs.)
Zakat available for utilization		
Opening balance of zakat	xxx	xxx
Zakat received during the year (Note xx.1)	xxx	xxx
	xxx	xxx
Zakat utilized during the year		
Zakat utilized on providing goods and services to the beneficiaries	xxx	xxx
Zakat utilized for general and administrative and general expenses of entity	xxx	xxx
Zakat utilized for other (mention the nature of activity/expenditure)	xxx	xxx
	xxx	xxx
Closing balance of the zakat	xxx	xxx

Basis for Conclusions

Accounting Standard
*Financial Statements Disclosures of Zakat
Received by an Entity*

Closing balance of the zakat is represented by:

Cash and bank balances related to zakat balances (Note xx.2)	xxx	xxx
Zakat-in-kind	xxx	xxx
Less: zakat related accrued expenditures	xxx	xxx
	<u>xxx</u>	<u>xxx</u>

Note xx.1

Zakat amounting to Rs. xxxx was received in kind whose details are as under:

Land	_____	_____
Gold/ Silver	_____	_____
	<u>_____</u>	<u>_____</u>