INDIVIDUAL INVESTORS' LIABILITY TO ZAKAT:
A Comparative Analysis of Assets Valuation Models of Saudi Arabia, the Sudan and Malaysia

BY

HALIRU DIKKO
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MBA/ADMIN/01000/'93-'94

BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (M.B.A.) OF THE AHMADU BELLO UNIVERSITY, ZARIA NIGERIA.

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DEDICATION

To the memory of my late brother, Ibrahim Abubakar Bello. May Allah give him Al-jannah Fir dausi – Amen.

DIGITIZED

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DECLARATION

Some of the materials used in this thesis were from many journals, books, seminar proceedings and other similar publications, which have been acknowledged in the bibliography and footnotes.

The rest are entirely the original contribution of the author, which was done through consistent handwork, determination and God guidance.

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STUDENT



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SUPERVISOR

COMPLETE SET
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CERTIFICATION

This project entitled **INDIVIDUAL INVESTORS LIABILITY TO ZAKAT: A COMPARATIVE ANALYSIS OF ASSET VALUATION MODELS OF SAUDI ARABIA, THE SUDAN AND MALAYSIA** by **Haliru Dikko** meets the regulations governing the award of the Degree of Masters in Business Administration (M.B.A.) of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation

S. A. Karwai 7/12/2000
Name and Signature of Supervisor — Date

US-SAUT - Professor Usman A. Zahradeen 20/09/2000
Name and Signature of External Examiner — Date

..... 1/12/00
Name and Signature of Head of Department — Date

..... 06/02/03
Name and Signature of the Dean, Post-Graduate School — Date

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ABSTRACT

Of the five fundamental pillars of Islam, Zakat and Holy Pilgrimage to Mecca are the less understood by Muslims, largely, because pilgrimage is only prescribed on those who are healthy and have the means to travel and Zakat equally is prescribed on those who have earned enough to save minimum of N80,000 for 12 months.

The subject of Zakat has even become less popular among the investing public as it is always wrongly associated with liquid cash not only encompassing all growing assets.

The contention, is not only limited to whether to pay Zakat on business assets, but more importantly the valuation framework, which many willing payers find to be very tasking and easy to avoid payment on such ground.

The little contribution of this work is more of creating awareness on the Zakatability of business assets and also shedding more light in the complex valuation framework within the context of modern production mechanism and business arena.

We have reviewed the assessment and collection methods of Saudi Arabia, Malaysia, and the Sudan, which # based fundamentally

on shareholders fund (owner's equity) and networking capital concepts.

In order to effectively and religiously discharge Zakat obligation, working within the context of "it is better to overpay than deliberate underpay". It became imperative to reconsider the valuation of growing assets. The objective is to neutralise the effect of mingling of the sources and application of funds in business.

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CHATPER ONE

1.1 GENERAL DESCRIPTION OF THE STUDY AREA

1.1.1 INDIVIDUALS AND INVESTMENT

The concept of investment in economic parlance is committing resources in production for a certain period of time, from which a benefit is expected to flow at a future time; the benefit can be quantifiable or unquantifiable or both. The resources could be time, money, materials, energy, knowledge etc. or a combination of some or all of these parameters. The sacrifice of investing takes place first and is unavoidable, the returns come later, if at all, and the magnitude is uncertain. Therefore, the essence of investment is time, risk and returns. There must be some gestation period, between the period when resources are invested and the period when benefits start to accrue.

Investment in finance literature is categorised into two broad categories; namely: Real and Financial Investments. Investments that will result in the creation or acquisition of physical assets are, usually described as real or tangible investments, while investments that will only result in the creation of liabilities on some persons are described to as financial investments or paper investments. It can also be categorised by time or gestation period (short term and long term investments) or by the quantum of financial and/or human resources (small and large-scale investment), and/or by the degree of risk (low risk investment and higher

risk investment). Investment as an activity is carried out directly or indirectly by individuals, companies and governments, who forego their liquidity and present consumption in order to achieve a greater consumption and liquidity in the future via risk and timing.

The individuals could be Muslims or Non-Muslims, Companies could be owned by Muslims, Non-Muslims or combination of both; and Governments could be Islamic or Non-Islamic.

The fundamental point to note is, the key players in the investment world (Investors and Investment Managers) are the individuals. Hence Individuals are the central issue in the investment arena. They commit their resources in various aspects of economic activities in order to stimulate production of both tangible and intangible goods and services. Since this study deals with the individual's Zakat liability, it is important to examine the position of Islam on Investment. This is the subject of our discussion in the following sub-section.

1.1.2 **ISLAM AND INVESTMENT**

Non-Muslim investors operate freely under a conventional economic framework i.e. socialism, capitalism or welfarism or simply under interest based economic system. Conversely, Muslim investors are enjoined to operate within the frontiers of Islamic Economic framework in accordance with the Sharia. The Islamic Economic system is neither Socialism, Capitalism nor Welfarism but a system that carries all the good part of

the conventional systems and operates within the framework of Islamic injunctions only.

Investment as part of our economic activities has its root from the Holy Quran and the Sunnah of Prophet Muhammad (PBUH). The whole economic activities are to be organised on the basis of cooperation among individuals as stated in the Holy Quran:

> "Help ye one another in the righteousness and piety, but help ye, not one another in sin and rancour" (5:3). "Eat not up your properties among yourselves in vanities but let there by amongst you, traffic and trade by mutual goodwill" (4:30).

To Muslims, investment activities are part of "Ibadah" (worship) which must be carried out in accordance to the teaching of the Holy Quran, the Sunnah of Prophet Muhammad (PBUH) and the classical Figh (jurisprudence) rulings. It is also part of the teachings and injunctions of the Holy Quran that Muslims must pay Zakat, which is one of the Five Pillars of Islam. The payment of Zakat is mandatory as soon as one's wealth has reached nisab (minimum monetary value justifying Zakah) and stays for a period of one year as the case may be.

The Holy Quran, says:

> "And remember we took a covenant from the Children of Israel: Worship none but Allah; treat with kindness your parents and relatives and orphans and the destitute; speak fair to the people; be steadfast in prayer; and give Zakat. Then did you turn back, except a few among you..." (2:83).

Many other Quranic injunctions on investment, trade and commerce could be found in Afzar-or-Rahman's (1973) classic work Economic Doctrines of Islam.

The Quran and the Sunah have given the broad guidelines for the conduct of business and investment for Muslims. The fuqaha (Islamic jurists) on their part, have made analogue on more specific cases on investment and exchange. In fact, they have drawn specific principles and rules under which economic transactions could be conducted. The traditional jurists were, however, developing these rules between the seventh and the twelfth centuries when the corporate enterprises have not emerged. The emergence of corporate enterprises in the nineteenth century has transformed world's business profile. This development shows the growth of limited liability companies that were hitherto unknown to the Muslim world.

However, having put in place the overall principles and specific rules of investment under broad categories of business enterprises, namely, the Mudaraba (partnership) and Musharakah, the Islamic jurists have defined investment framework for the Muslims. With this background, Muslims can engage in various modern business undertakings brought about by capitalist globalisation in a manner acceptable to the Shariah.

However, the globalisation and sophistication of the modern day economic and business environment requires a large chunk of capital and human resources investment, which ordinarily cannot be provided by one individual, as is the case under a simple Mudaraba. Presently, investors have to pool resources to form Partnership, Joint Stock Company or a Limited/Unlimited Liability Corporation in a manner suggestive of Musharakah. In a multi-religious state, like Nigeria, we often observe Muslims and Non-Muslims in a joint ownership of business concerns. However, as explained earlier, Muslim Investors are expected to observe the teachings of Islam in the conduct of their businesses and also pay Zakah whatever it becomes due.

In the process of complying with the above, Muslim Investors, particularly in Nigeria, are faced with many problems and challenges more especially issues such as (1) Interest Based Economy, (2) Joint Ownership of Investment with Non-Muslims, (3) Valuation of Investment for the purpose of determining "nisab" for payment of Zakat, (4) Lack of any State Organization charged with responsibilities of administration of Zakat e.t.c. Though these problems are present, they could be minimised by adhering to the principles and the rules of the Shariah. Thus, one could conclude that Islam has a coherent and compatible relationship with investment. It has a well-defined framework under which investment can

be undertaken and an elaborate Zakah system of taxation. Having established this, let us now examine the research problem.

1.2 STATEMENT OF THE PROBLEM

There are many methods of valuation of business in the conventional business finance literature. In application, the choice of each method is predetermined by the purpose of the valuation. However, the point of contention remains whether or not the criterion selected conforms to the principles of equity, fairness and justice.

In Islam economics too there are several methods of asset valuation. Islam and Muslim countries in Asia, Middle East and Africa have designed models. Here too, the choice of mode follows the purpose of valuation. However, in respect of Zakah assessment, there emerged some coherent models of valuation in some of these countries.

The main problem facing the Muslim world with regard to asset valuation models for Zakah is the question of fairness and justice, the two major principles of Islam. In other words, one would ask: are the present valuation methods being applied in Muslim countries compatible with these principles? Or are they mere metamorphosis of the capitalist criteria?

While comparing and contrasting the asset valuation methods of our sampled economies, this research seeks to provide insights for answers to these questions.

1.3 STATEMENT OF OBJECTIVES

Having outlined the problem in the previous sub-section, we set out here to outline the objectives of this research work. The overall objective is to compare and contrast assert valuation models for Zakah of Saudi Arabia, Malaysia and the Sudan with a view to identifying areas of conversance and areas of divergence. Other specific objectives would be:-

(I) To review the institution of Zakah which is the focus of our study.

(II) To examine some juristic views on issues relating to valuations for Zakah;

(iii) To examine assessment, collection and legislative processes on Zakah in the selected economies; and,

(iv) To create awareness, that legal considerations in asset valuations do not necessarily ensure equity and justice.

1.4 RESEARCH QUESTIONS

The objectives of the study enumerated above led to the formulation of the following research questions:

(i) As Zakat is ordained as one of the five pillars of Islam, what are the Zakatable Assets and Non-Zakatable Assets and

(ii) How do we attach numerical values to our Zakatable Assets to discharge our obligations of Zakat liabilities?

1.5 SIGNIFICANCE OF THE STUDY

A study of this nature is extremely important to the Muslims in general and Nigerian Muslims in particular. It will also be a valuable source of critical appreciation of an Islamic fiscal system for the non-Muslims. The study will be of great relevance to the individual Muslim Investors in Nigeria and beyond towards helping them to fulfil one of the five pillars of Islam (Zakat).

It will also assist corporate organizations with majority or minority Muslim shareholders in determining the liability of the Muslim shareholders, and the organization, towards Zakat.

With the increased awareness on Sharia application as a complete way of life, in some Muslim dominated States, the study will be of interest to those States that desire to institutionalise the administration of Zakat being an integral part of Islamic public finance.

The study will also assist Federal and State Governments' attempt to attract foreign investors particularly from the Muslim world to help in development of the Nigerian Economy.

It is further envisaged that this study will serve as a basis for more research on the quest for complete Islamization of our business activities; ranging from organization, financing, operation, marketing to general

conducts more particularly on the need to produce General Accounting Standards, Rules and Regulations based on the Islamic Principles.

1.6 SCOPE

The study is intended to cover three countries, namely, Saudi Arabia, Malaysia and the Sudan. Analytical coverage is restricted to the organised business sector. The choice of sample units and its justification could be seen in methodology.

1.7 LIMITATIONS

Perhaps the major limitation to this research work is the researcher's lack of expertise in the Islamic Law. Having received training in conventional economic, and finance, the researcher has to rely mainly on Islamic Scholars and Arabists for guidance and translation of original materials. Other limitations would include:-

(i) Lack of harmony in the usage of accounting conventions and reporting formats of the sample economies.

(ii) Possible loss of originality resulting from translation from Arabic to English; and,

(iii) Disagreements between the followership of the four major school of Islamic jurisprudence on technicalities.

1.8 PLAN OF THE STUDY

1.8.1 GENERAL

In Chapter Two, we shall review relevant literature beginning with the Islamic Economic Framework, the methods of business organisation and financing in Islam and valuation techniques. Since we are aware that some countries have put in place Zakat assessment and collection assessment method, we would review their process, procedures and method in Chapter three. Chapter four will concentrate on the analysis of the Assessment and Valuation Methods used in Countries like Saudi Arabia, the Sudan and Malaysia. This will allow us to assess Zakatable assets and income in selected companies in Nigeria. Finally, Chapter Five will conclude the study and make appropriate recommendations.

1.8.2 RESEARCH METHODOLOGY

The research has relied primarily on descriptive method with comparative analysis. The descriptive design was employed with the aim of showing the present structure employed by a selection of Muslim Countries in the area of legislation guiding the institution of Zakat, the assessment and collection methods and valuation techniques employed.

1.8.3 SOURCES OF DATA

The researcher use secondary sources of data.

The secondary data was obtained from: -

(i) The publications of The Islamic Research and Training Institute, Islamic Development Bank Jeddah, Saudi Arabia.

(ii) Zakat Laws and Executive Regulations of the Kingdom of Saudi Arabia.

(iii) Zakat laws of the Republic of Sudan.

(Iv) Publications of Kuwait Zakat House.

(v) The publications of Walf Road Mosque Forum, Kaduna, Nigeria.

(vi) Publications of Islamic Foundation, Leicestershire, U.K.

(vii) Other Islamic and Economic Journals, Seminar/Conference Papers.

The source of the data were mostly original from the publishers however library of organisations such as Islamic Foundations, Leicestershire, U.K., Department of Economics, Usmanu Danfodio University, Sokoto and African International Bank Limited, Victoria Island, Lagos are utilised in gathering the data. Internet Web Site of Zakat House, Kuwait and Malaysia were also visited occasionally to update information.

DEFINITION OF COMMONLY USED TERMS

Adl	-	Justice.
Amana	-	Trust.
Bay	-	Contract of sale.

Bay al-dain	-	Sale of a debt (which is not permissible in Islam) though transfers made as a 'hawala' (a transfer of debt at face value) may take place with mutual agreement between the original parties.
Bay al-khiya	-	Sale with option for the buyer to Cancel within a specified time period.
Bay al-muzayadah	-	Sale by public auction, such sales being frowned upon where they are subject to auction rigging (one or more parties agree with the seller to bid high prices for the item being auctioned with the intention of encouraging an unsuspecting attendee to bid an unrealistically high price).
Bay al-salam	-	Trade where payment is made in advance of delivery of goods.
Bay bithamin ajil	-	Form of Murabahah in which payment Is made in instalments (usage common in Malaysia).
Dinar	-	Gold coin prevalent soon after the Establishment of Islam, weighing 4.25 Grams.
Dirham	-	Silver coin prevalent soon after the establishment of Islam, weighing 2.98 grams.
Fiqh	-	Islamic jurisprudence.
Fuqaha	-	Islamic scholars.
Hadith	-	Saying of the Prophet Muhammad s.a.w. (Plural ahadith).
Hajj	-	Obligatory pilgrimage to Mecca.

Ibadat	-	Worship.
Ijara	-	Lease of an asset for an agreed Rental.
Ijara WA iqtina	-	Lease with a purchase at the end of the lease term, frowned upon by many scholars where the purchase price and timing is agreed prior to the commencement of the lease since it results in a predefined financial rate of return to the one leasing the asset (in the modern world, banks and hire-purchase companies use this technique as a proxy for lending there cash balances).
Ijima	-	Consensus.
Iqyas	-	Deduction through analogy.
Istislah	-	Judgement that is deemed to be in the public interest despite having no basis in Qur'an or Sunnah.
Istisna	-	Made-to-order sale contract in which Payment can be made in advance of delivery. The manufacturer designs and manufactures the item in accordance with the buyer's wishes.
Khalifah	-	Vice-regency, the responsibility of mankind towards succeeding generations with regard to the various trusts that Allah has placed upon him.
Maslahah	-	Public interest, social welfare.
Muamalat	-	Civil law, law relating to the Economic and social sphere of human activity.
Mudarabah	-	Investment contract under which an entrepreneur manages the funds of an

		Investor, the investor having no right to take executive decisions in the management of the funds invested. Profits and losses are shared in an agreed ratio and no pre-defined rate of return may be agreed.
Mudarib	-	The user of funds in a mudarabah, the entrepreneur.
Murabahah	-	Contract of sale in which it is arranged that payment is made some time after delivery of the goods transacted. Used as the basis of modern Islamic banking since the amount charged for deferred payment is in excess of the current market price (usually by an amount approximately equivalent to the prevailing rate of interest).
Musharakah	-	Contract of investment in which a group of investors pool their capital for the purpose of a given enterprise, each having a right to execute involvement in the management of the pooled funds. Profits and losses are shared in an agreed ratio and no pre-defined rate of return may be agreed.
Muslim	-	One who submits to the will of Allah
Nisab	-	Threshold of wealth owned by an individual, any excess over which is subject to Zakat. The Nisab is set to allow an individual an acceptable standard of living.
P.B.U.H.	-	Abbreviated form of 'peace be upon him', said or written by some after every mention of the name of the Prophet Muhammad s.a.w. (used instead of s.a.w. which is the preferred Arabic saying, see 's.a.w.).

Qiyas	-	Deduction by analogy (common technique used by Fuqaha in deriving fiqh).
Qur'an	-	Final revelation of Allah to mankind, revealed to Prophet Muhammad s.a.w.
Rabb al-mal	-	Owner of wealth who invests under the contract of mudarabah.
Riba	-	Usury.
S.A.W.	-	Abbreviated transliteration of 'salallahu alaihi.
Sadaqah	-	Voluntary charity.
Salah	-	Prayers.
Sunnah	-	Tradition or way of the Prophet Muhammad s.a.w.
Tawhid	-	The unity of Allah, essential belief for all Muslims that Allah is the only God, the only thing worth worshipping, the sole cause of all that happens in the universe and all that exists.
Tijara	-	Trade.
Ummah	-	The Muslim believers as a whole, united body.
Waqf	-	Endowment, charitable donation of the use of an asset for a specified cause.
Zakat		-Levy on wealth for spending on specific categories of beneficiary as defined in the Qur'an.

CHAPTER TWO

2.1 FRAMEWORK OF ISLAMIC ECONOMIC SYSTEM

2.1.1 THEOLOGICAL AND CONCEPTUAL DEFINITION

Islamic Economic System has solid foundations and Divine instructions from Allah. According to Ahmed (1984 p.2), "by Islamic Economy, we refer to the theoretical construct of an economy where the Laws of Islamic Sharia are enforced, and the objective and behavioural functions of different economic organizations are decided in consonance with the guidelines provided in the Holy Quran and Sunnah. Other Islamic Scholars such as Mannan (1970), Ariff (1993) and Mikailu (1995), all concur with Ahmed on the concept of Islamic Economic philosophy and a system.

Mikailu quoting Mannan argues that Islamic economics is a social science that examines the economic problem of people imbued with values of Islam (Mikailu 1995, p, 33). He went further to elaborate that, "Islamic Economics is the study of social individual having faith in the Islamic values while the conventional economics deal basically with human problems involving ordinary business engagements." This view is held by other scholars such as Ariff (1993, p.3) who sees economics as value free loaded in contrast to the conventional conceptualisation of economics as The human want, scarcities of resources are all recognized as economic problems under the Islamic system, as acknowledged under

the conventional system. However, the point of departure has been on the conceptualisation of objectives, principles and methodology.

The fundamental ethics of the Islamic system seek to curtail man's immoderate material needs in order to discharge his energy for spiritual pursuits. This is due to the fact that, in Islam, inner spiritual development, rather than outward material magnification is held to be man's highest ideal in life (Mikailu 1995,p.35).

The International Workshop on the Methodology of Islamic Economics in 1990, held at Bayero University, Kano, Nigeria came up with a theological and conceptual definition of Islamic Economics as "The acquisition and disposition of resources within the framework of Sharia." It is not confined to mere formulation and analysis of facts divorced from values. It considers values as an integral part of human life and attaches significance to facts only when they are connected with values.

2.1.2 OBJECTIVES OF THE ISLAMIC ECONOMIC SYSTEM

The Islamic Economic System does not only aim at solving problems of human beings of "wants and utility maximization" but according to Razavi (1990 p.42) it "is a means to achieve Tauhidi community in which the concept of "ungraded men" is held true where all individuals are equal partners regardless of their race, sex, wealth, rank, ethnicity, origin and class."

Other notable Islamic Economists such as Maududi (1969,p.145) and Chapra (1995, p.210) list both economic and non-economic goals of the Islamic Economic System as –

(I) Safeguarding the freedom of man.

(II) Safeguarding the moral and spiritual growth of man.

(iii) Freedom of choice for the individual.

(iv) Social Justice.

(v) Need Fulfilment.

(vi) Equality of opportunity and cooperation.

(Iii) Freedom of choice for the individual.

(vii) Economic well-being.

(viii) Respectable source of earning.

2.1.3 PRINCIPLES OF ISLAMIC ECONOMY

The fundamental principles of an Islamic Economy both as a discipline and a system are the followings:-

1. **TAWHID:** Tawhid, the unity of Allah (SWT) is the most fundamental principle of Islamic Economy . Tawhid In economic perspective, teachers that, human being should not give up entirely to spiritualism and disregard the material means of life and vis-à-vis. According to Razavi (1990, p.47) :

> "Because when morality is isolated from ecnomic activities are separated from moral restrictions, it loses of character to maintain stability and social order. By the same token when economic activities are separated from moral restrictions, it leads to

immorality, corruption , and exploitation, which in turn ruin social and economic order."

2. **KHALIFAH:** Khalifah defines the man's role as God's vicegerent on earth. This according to Ahmed (1976, p.178) "defines man's status and role, specifying the responsibilities of man as such, of a Muslim, and of the Muslim Ummah as the repository of this Khalifah, "It shows the unique Islamic concept of man's moral, political and economic, trusteeship and the principles of social organization.

Allah (SWT) says:

"It is He who has made you vicegerents on earth, and has raised some of you in ranks above others, so that He may test you in what He gave you" (6 : 165). He also commands in the Holy Quran "Believe in Allah and His Messenger, and spend of that which, He has made you trustee; and those of you who believe and spend (alright) shall have a great reward."

From the above two verses we are told that whatever resources bestowed on us by Allah (SWT) are not for the sole enjoyment of a few to the exclusion of others. Hence, those who hoard wealth and refuse to pay Zakat are warned in the Quran of a grievous penalty (9.34).

Chapra (1995) sums up the relative position of Khalifah as a fundamental principle of an Islamic Economic System:

The resources with which God has endowed this world are not unlimited. They are however, sufficient to cater for the well being of all, if used 'efficiently' and 'equitably'. The human being is free to choose between the alternative uses of these resources. However, since he is not the only one who is Khalifah and there are millions of other human beings who are Khalifahs like him and who are his brothers and equals, one of his real test lies in utilizing the God-given resources in such an efficient and equitable manner that

the well-being (Falah) of all is ensured. This is possible only if the resources are used with a sense of responsibility and a constraint determined by divine guidance and the Maqasid (goals).

3. JUSTICE (ADL)

Another underlining principle of the Islamic Economy is justice. It has been described as the very foundation of the Ummah and is directly bound to the sphere of faith. In the economic sphere, justice entails equal reward and treatment to every individual in proportionate to his contribution to the society and preventing exploitation of one individual by another. The Quran condemns all sorts of injustices and notes that:

> "Woe to the cheaters; who when they take the measure (of their due) from you, take it fully. And when they take measure out to others give less than due" (Verse 83: 1-3).

Brotherhood, which is an integral part of the concepts of tawhid (oneness of Allah) and Khalifah (vicegerent) would remain a hollow concept having no substance if it were not accompanied by socio-economic justice (Chapra 1995, 209). Justice has been unanimously accepted by Jurists to be an absolutely indispensable ingredient for the achievement of the goals of Sharia. The position of brotherhood and justice in Islam, entails that all resources, material, money and men at the disposal of human beings are sacred trust from Allah, must be used to actualise the grasp of the Sharia, which includes, economic well-being, respectable source of earning and equitable distribution of income and wealth.

4. **IBADAH**

Khalifah, Justice and Amanah are in fact part of Ibadah, which comprises all activities of life. It combines at once faith in Allah (the first principle) and His Messengers, religious rites, social conduct, decision-making, economic and commercial activities, individual onducts and all other aspects of human life. Human beings are not created by Allah for anything but to perform Ibadah (Quran:). Consequently, all our lawful activities are part of our Ibadah. These activities can be either duty toward oneself, fellow beings and to other creatures for the sake of Allah and above all duties and obligations due directly to Allah such as fasting and payment of Zakat.

2.2 ISLAMIC FORMS OF BUSINESS AND PRODUCTION ORGANISATION

One of the sterling features of Islamic Economic System is its organization of business/production activities. The nature of the Organization is fashioned on the premise of risk taking, risk sharing and non-fixed returns investment.

According to Iqbal (1992, 205) "there are four major organizational structures: owner-proprietorship, shirikah, mudarabah and ijarah". While other scholars such as Kamaludeen (1995), Chapra (1985), and Hassan (1984) argue that, the modern corporation i.e. Limited Liability Company, and Joint Stock Company are other forms of business organizations allowed, through consensus of the Ulamah. The first four structures have

been in practice during the period of Prophet Muhammad (PBUH). However, Ahmad (1992) sees Ijarah (leasing) as more of financing technique than business organization.

1. **OWNERSHIP PROPRIETORSHIP**

   It is often described as Sole Proprietorship and is a form of business organisation in which an individual owns all factors of production and all business decisions are taken by him and equally he/she bears all inherent risk associated. He alone also takes the profit.

2. **SHARIKAH (PARTNERSHIP)**

   Sharikah refers to a partnership between two or more persons and is the most important form of business organisation and most preferable. The basic principle on which Sharikah operates is the concepts of Waqalah (agentship). There is mutual delegation of powers. Each partner delegates power of decision-making to the other. Hence, as in the conventional partnership, each partner can act on behalf of the other. However, the degree of delegation of powers differs in various forms of Sharikah. Chapra (1986, p.251) classified Sharikah into two: Sharikah al-Milk (non-contractual) and Shirakah al-uqud (contractual).

Non-contractual partnership is co-ownership. It arises when two or more persons happened to get joint-ownership of some asset without having entered into a formal partnership agreement. The contractual partnership is where both parties concerned willingly entered into a contractual agreement for joint investment and sharing of profits and risks.

The contractual Shirakah al-uqud is classical in business organisation. Fiqh literature has classified it into four categories (Chapra, 1986; Iqbal, 1992:).

(i) **SHIRAKAH – al MUTAWADAH** (Full Authority and Obligation)

It can be regarded as unlimited partnership. It is unlimited in the sense that the mutual obligation of powers among the partners is unlimited. The partners must be adult, equal in capital contribution and stake and share responsibility equally. They also share profit and loss in similar vein.

The Mutawadah partnership is very strict and difficult to operate, as it cannot be formed between minor and adult, between slave and freeman, or between Muslim and Non-Muslim.

(ii) **SHIRAKAH-al-INAN**

It is another term of partnership which is mostly used by the Hanafi jurists. The important features of the partnership is that:-

(I) All partners need not be equal, such as being adults or equal share capital.

(ii) They are not equally responsible for the management of the business.

(iii) Their share of profit may be unequal, but this condition must be specified in the Deed of Partnership.

(iv) All partners act as agents but not sureties for other partners.

The underlying principles are that of unequal contribution, unequal status, unequal profit distribution and limited liability.

(iii **SHARIKAH-al-ABDAN**

This form of partnership is where the basis of participation is not capital but skills, for example, Consultancy Services, Accountancy Firms, Electrician and Plumbers coming into partnership. According to (Iqbal, 1992...), partners will all be rated according to their qualifications, experiences and efforts when it comes to sharing profits.

(iv) **SHIRAKAH-al-WUJUH**

This is an arrangement where both partners contribute no capital unlike under the first three partnerships, but participate on the basis of credit. They would seek credit on the basis of their reputation and they carry on the business.

3. **MUDARABAH** (Profit and Loss Sharing)

Mudarabah is described as a special partnership where one party provides capital (Rabb-al-mal), and another party contributes management, labour or entrepreneurship and is called the Mudarib. One or more investors may contribute the capital and also one or more individual or organisations may provide the management.

The objective of setting the Mudarabah must be of undertaking any lawful business venture whether trade, production services e.t.c. in order to make profits. The profits are to be shared by the parties on an agreed proportion. The financial loss is borne only by the financiers in proportion to their share of total capital investment. The Mudarib as long as they act and manage the business honestly and according to the conditions set by the Rabb-al-mal, their loss is limited to the labour provided and loss of reputation and means of livelihood.

According to Chapra (1986...). "The Mudarib is in the nature of a trustee as well as an agent of the business. As a trustee, he is required to act with prudence and in good faith and is responsible for losses incurred in case of wilful negligence. As an agent, he is expected to employ and manage the capital in a such manner as to generate optimum profit for the Mudarabah without violating the values of Islam."

Mudarabah, like Shirakah, could be limited or unlimited. In the case of unlimited organization, the deed of agreement does not specify

the duration, the place of business, the specific line of business and even the clients or customers to be dealt with. A restriction or limitation in terms of any of the above renders it into a limited or restricted Mudarabah organisation.

In the context of investor/management relationship, all normal expenses related to business, but no personal expenses of the management (Mudarib), can be charged to the business account. However, if it was agreed that, the management is not entitled to any share of profit, then, the management is entitled to customary remuneration for its services (Chapra, 1986 p. 250). It is, however, permitted for the Mudarib (management) to contribute capital in the business, in this case, he enjoys profit made in proportion to his contribution apart from the remuneration stated above. But the loss, if incurred, would be shared among all in ratio to their capital contribution.

The business will be liquidated in accordance with the timing, the completion of the business, the death of either of the Sahibu-al-mal or the Mudarib, or giving notice to terminate the business by either of the parities. In all the above instances, the business would only be terminated after it has reached a certain reasonable stage of the process, and at a point where justice will be done to all parties as per their contributions. For example, a business that is engaged in manufacturing of animal feeds cannot be terminated at a stage when raw materials are

purchased, mixed according to formulation and stored in the Sailors for final processing. The ideal thing should be, for the raw materials to be processed, bagged and disposed off before it can be described as just and fair to determine the profit or loss.

4. MODERN CORPORATION

Muhammad Nejatullah Siddiqii in conclusion of his classical book "Partnership and Profit-sharing in Islamic Law" submits that, "the general conclusion to be drawn is that Shirakah and Mudarabah methods can be adopted for all types of business. Capital can be invested like in commercial, industrial and agricultural businesses on the principle of Mudarabah and each enterprise can be carried on by a few capitalist jointly in partnership."(Siddiq, 1985). However, he recognises that joint stock enterprises i.e. Limited Liability Companies are becoming a common feature of the modern age. These companies mobilise a large chunk of resources by selling shares. Due to the changing production process, the technological development, the globalisation of trade, the emergence of multinational corporations, it becomes imperative for a consensus among the Ulamah on the position of the modern corporation in Islamic business organisation.

Chapra (1986) quoting Al-Khafif submits, "The corporate form of business organisation, with a separate legal entity, does not appear directly in the classical fiqh discussions. The closest approximation to the

corporate legal entity have been the bait al-mal (Public Treasury), Mosque Property, Waqf (Trusts Fund) and Murabahah (Partnership). However, Kamaludeen (1996), drawing inferences from the views of other notable scholars such as Chapra (1985), Hashime (1987). Al Qardawi (1969), Ariff, et al (1990), IQbal (1990), concludes that –

(a) "The traditional Ijtihad and classical Figh literature did not directly address the modern corporate enterprise; and,

(b) The features of the modern corporation which are comparable to those of several Islamically allowed forms of business and institutions (such as Mudaraba, Shirakah and Waqf) do not appear to violate any Islamic principle or injunction."

The conclusion to be drawn is that, the Fuqaha have now in general approved the corporate form on the basis of the Figh principles of qiyas (analogy) and Istihsan or Masaleh (public interest) (Chapra, 1986).

The main features of limited liability corporations are –

(i) Limited Liability of the Shareholders.

(ii) Divisibility and easy transferability of ownership.

(iii) Separate legal entity of the corporations apart from its stockholders (Solomon Versus Solomon) (1897).

(iv) Perpetual succession.

(v) Shareholders are relieved of the day-to-day management of the corporation.

(vi) Simplicity in making investment in the corporation (public limited liability) and also easy exit, by disposing Shareholding at the Exchange Market without the prior approval of other Shareholders.

(vii) Investment and financing decisions are to be handled by the Management and the Board of Directors.

The practice of modern corporation in non-Islamic countries like Nigeria, runs counter to the Sharia. The issues of (I) Non-barrier or non-restrictions to shareholders, (ii) Investment and financing decisions and (iii) Line of business operations are often not categorically and explicitly stated as demanded by Sharia. Under the Sharia, the company should only invest in the production of halal goods and provide only halal services. The company's capital structure should not contain fixed income debt instruments and also all borrowing and lending should be on non-interest basis.

However, even though joint ownership between Muslims and Non-Muslims is allowed, the Articles and Memorandum of Association of the Company must be drawn in accordance with the Sharia Principles.

The modern corporations in Islam, basically is a combination of Mudaraba and Shirakah al-Inan with few modifications in line with the Sharia. Essentially,

(i) All Shareholders are partners.

(ii) All Shareholders are as-habul-mal.

(iii) Directors of the Company are like Mudarib and also Sahibul al-mal. The Directors are not entitled to a fixed Management Fee or fixed remuneration.

(iv) They may be entitled to a fixed percentage of profit in addition to their normal share only if the Company makes profit, but if there is loss they get no fee for their Management Services.

2.3 ISLAMIC FORMS OF BUSINESS FINANCING

The conventional financial system has its roots on interest, which has been categorically prohibited in Islam. Islam categorically forbids interest for all intents and purposes. Riba (interest) means increment or premium to be paid the lender along with the principal amount at the due date, which is predetermined. According to Uzair (1976), the Holy Quran ordains the prohibition of "interest" (Riba) at least five times in the-second Surah. The prohibition of interest has been put as (i) Madders, (ii) A thing God wants to "destroy", (iii) A thing which if not abandoned deserves a "war" from God (iv) A thing which is anti-thesis of faith or in other words infidelity and (v) a thing if persisted in which calls for permanent abode in hell.

The Islamic financial system as demonstrated by many notable Islamic Scholars such as Chapra (1995), Siddiqi (1988), and El-Bdour

( ) is based on interest free, uncertainty in returns and sharing of risk. It is fundamentally and largely based on a system of business relationship between the providers of capital funds and the users on the basis of sharing profit or loss as the case may be.

To appreciate the wisdom of interest-free financial system, we have to look at the Islamic view on the relations between man and man and the nature of our world in which we engage in our daily productive economic enterprise. It is a world characterised by uncertainty, in which the outcome of an investment cannot be predetermined. To claim a predetermined positive return to money capital and enterprise jointly engage in production runs counter to reality. According to El-Bdour ( ) it amounts to exploitation of the entrepreneur by the owners of capital, as the entrepreneur is left alone to bear the uncertainty that in reality revolve on both. The Islamic forms of financing have been defined as "the systematic and detailed Sharia rules that govern the contractual relationship of an investment activity that can be applied for attracting money capital" (Hassan, 1997).

The Sharia provides various forms of finance distinct from the conventional forms and each has its own distinctive features and utilisation as contained in different rulings and stipulations deduced from the Holy Quran, the Sunnah the classical Fiqh literature and the general consensus of the scholars.

Going by the above definition, there are several possible financing methods, which suit the Islamic principles, and researches are being carried out on continuous basis to design more techniques in line with our contemporary business-financing requirement.

However, fundamentally, there are five modes of financing techniques under the Islamic system, even though there might be other methods, but they are basically derived from the five basic methods. The modes, according to Khan (1994) are -

(i) Mudaraba

(ii) Musharakah

(III) Ijara (leasing)

(iv) Bay'al Salam (deferred delivery advance payment)

(v) *Bay'- Mudaraba (Make-up - based technique).*

As our research interest revolves round the financing of corporation, we shall review the above and other methods vis-a-vis, their modalities, the position of investors in terms of risk, rate of return and the cost to the beneficiary of the finance. The review will give an insight into whether the above financing techniques fits into the Islamic model of investment which emphasizes the fundamental principles of risk bearing and uncertainty of return as against the conventional interest and fixed return on investment.

(i) MUDARABA

Mudaraba has earlier been identified as one of the forms of business organisation sanctioned by Sharia. However, it is also one of the financing methods, it has a feature of equity financing instrument; non-debt creating technique. The finance user, (Mudarib) is, not obliged to pay back the total amount of investment but only the cost of the capital, that is the profit realized in accordance with the agreed sharing formula. In other words, the user pays only according to the benefit realized. The above features are characterized with equity financing, where shareholders receive only share of the declared profit.

According to Hassan (1997) quoting Ibn Rushd and Al-Kassani, capital contribution (investment) by the investor should be liquid money and cannot be in the form of assets. The Maliki School subscribe to this view. However, the Hanafi and Hanbali schools approved the method of contribution through assets, but only when the asset is sold and its value is added to the total capital.

The capital should –

(I) Be designated by quantity.

(ii) Be well defined by type and quality.

(iii) Not be unforeseen or in the form of debt which is due on the working partner to the investor.

(iv) Be delivered to the working partner in full.

The investor after providing the capital, does not participate in the management of the business. He or She assumes the position of an ordinary shareholder under the conventional business financing. The management of the enterprise has absolute control over the funds and is expected to be honest and operates within the powers bestowed on it by the agreement. The manager is immune from any loss that may arise, but if he acts out of his power, he bears the consequences including refunding the entire capital contributed by the Mudaraib.

Under Mudaraba financing technique, the investors assume risk proportionate to their financial contribution. They also bear all financial loss until the project is completed or the business is completed or voluntarily wound up.

According to Fahmy & Sarkar (1997), quoting Ibn Rushd and Al-Maududi, all the Schools of Islamic thought except the Shafii school have approved the inequality of the shares of the partners in the partnership and also the capital must be in liquid money. But Malik school allows capital to be in the form of assets, though they have to be evaluated according to their market value.

A very fundamental point to note here, is that, the technique is not immune to risk and we can conclude that any return expected, ex-ante, has some elements of uncertainty, hence the rate of return cannot be predicted with certainty in variance to the rate of interest or fixed return

in the case of preference shareholders and debenture loan stock holders under the conventional business financing methods.

(ii) MUSHARAKAH

Musharakah has earlier been identified as one of the classical forms of business organisation in Islamic Economics, however, it is also one of the basic financing methods recognised by the Sharia.

As a financing method, it shows similar features with Mudaraba. It is an equity investment type and not a debt-creating instrument. The partners provide complete finance and they all have right to participate in the management of the business. A partner is, however, allowed to waive this right, and allow other partners to run the business. The profits are to be distributed according to an agreed ratio, which need not to be the same as the capital proportion. Ahmed (1993) argues, in practice, the partner who chooses not to participate in running the business may get a lesser percentage than participating partners. The losses, if any, are shared exactly in the same proportion the finance was provided.

Most institutional investors (i.e. Islamic Banks) participate in the equity of companies through either permanent Musharakah or diminishing musharakah.

In the case of permanent musharakah, the investor participate in the equity of a company and receives an annual share of profits in

proportion to his contribution indefinitely or until the business is liquidated.

The diminishing Musharakah operates differently. The aim here is to gradually withdraw and allow one of the partners who manage the asset to become full owner of the business. The investors participate, in full or in part, in a project with a given income forecast. The partners sign an agreement. The institution that finances (in full or part) the business, will be receiving its share of the profit on annual basis and also gradually reducing its participation by receiving payment out of the profit due to other party. In this method, the equity participation of the investor is gradually reducing and the other party gradually taking over the business. This method has been successfully applied by the Jordan Islamic Bank mainly to finance Real Estate Projects and Construction of Commercial Buildings and Housing Projects, Hassan (1997 page).

The risk element is also present under these techniques as observed under the Mudaraba. The whole money invested by the finance providers is at stake. However, the financial loss is proportionate to the contribution of each partner, until the project or business is completed and the investment recovered, the risk is there. The total expected return also remains uncertain until the end of the transaction.

(iii) IJARA (LEASING)

Leasing is defined as the transfer of ownership of a legitimate and well-defined asset for a specific period against a specific return. Majority of Scholars have agreed that leasing is a financing technique but not another form of business organisation; Chapara (1986), Ahmad (1993), Khan (1991), Mannan (1993). However, Iqbal (1992) sees leasing as a form of business organisation. According to Iqbal, the difference between Musharakah and Ijara is that in Musharakah, entrepreneurship comes on the basis of profit sharing. Production organisation according to Ijara shall be based on commission or fixed salary instead of a share in the profit. The proponents of Ijara as financing techniques rest their argument on the understanding that there could be a company that specializes in leasing of assets. However, even this company has to run either on ownership proprietor basis or on Shirakah basis or any other form. The latter view is more convincing. Hence, we regard leasing as a financing technique for the purpose of this review. Leasing, like Mudaraba and Musharakah, is regarded as an equity financing being a non-debt creating. The lessee purchased on identified asset(s) and entered into contract with the lessor for the usage of the asset under a specified period of time.

The contract is only entered and remains valid when the asset is physically acquired and ready for delivery to the lessor.

Like any other Islamic contract, a lease contract has to fulfil all conditions of a valid contract. The conditions include:-

(i) Clarity.

(ii) Mutual Consent.

(iii) Equivocation of right and responsibility (Charity and Mutual Consent.

(iv) The agreement to lease should be for a known period and against a known price.

(v) The lessor has to bear the risk of loss and all undeliberate destruction of the asset. He also has to bear all capital expenditure (depreciation) and other Insurance instalments related to that asset, while the leasee should bear current expenditure that may be necessary for utilizing the asset during the leasing period. (For some detailed explanation of this position see No. (1) of the Organisation of Islamic Conference.

(vi) During the period of lease, the asset remains in the ownership of the lessor, but the physical possession of the asset and its right of use is transferred to the lessee.

The lease-purchase transaction (Ijara wa Iqtimah) is allowed in Islam. The lessor also has right to give the asset free after the lease period to the lessor, but according to Fahony and Sarkar (1997) if it is

only made under a separate contract and after the asset has already been owned and passed by the lessor.

The risk and uncertainty of returns cannot be ruled out. The capital invested to purchase the asset remains at stake until realized from the periodic rental payment or disposal of the asset. Other risks associated with leasing are:-

(I) Uncertainty of the productive life of an asset.

(II) Uncertainty of the rate of return.

(iii) The lessee is not certain at what price the asset can be disposed before it reaches scrap value. No discounted value.

(iv) The period the asset will remain leasable and the possibility of getting another lessee when and if the original lessee decides not to continue with the lease.

(v) The technology today is very dynamic, the risk of the asset becoming obsolete is another factor.

The practice of lease financing has been a significant investment vehicle for many Islamic financial institutions. In Saudi Arabia, Pakistan, Iran, Egypt, Malaysia and other countries in Asia, America, Europe and Africa.

(iv) BAY'AL-SALAM

Bay'al-Salam is a medium term mode of financing business permissible under the Sharia. The concept is that of future delivery of a

commodity against a specified and definite price, where the price is received on the spot. Bay'al-Salam contract is permitted in the Quran Surah 7, verses 265 and 278 and in the Hadith "He who makes salah should do that for a specific quantity, a specific weight and a specific period". Umar (1995) quoting Al Bukhari : in Hashiyat al Sindi, said: Bay'al-Salam operates as follows:

- The buyer and the seller enter into an agreement for the advance purchase of a commodity, say agricultural produce.
- Specification on the complete details of the commodity, the quality, price, place and time of delivery.
- Payment of the price at the time of entering into the agreement.
- When the commodity is produced and supplied to the buyer, the buyer is then free to sell the commodity as it wishes.

Like other financing methods and contracts under Sharia, it is subject to the following conditions as enumerated by Umar (1995) and Khan (1997):

1. Price should be determined and fixed at the time of entering into the contract.
2. The commodity should be identified.
3. Price must be paid to the seller in advance and in lump sum.

4. The contract is not permitted when the commodity to be sold is money or other currency.

5. The commodity should be a thing that can possibly be delivered.

6. The buyer (financer) can make payment in kind e.g. supplying fuel to a textile factory in exchange of clothes; the deal is regarded as permissible because it involves no riba element according to all the fuqaha. But they have disapproved the payment, in the form of seeds of wheat against wheat to be produced for delivery.

7. The contract should be binding and with no option to opt out.

8. The buyer cannot dispose the commodities before taking delivery as sanctioned by the three schools of thought of Shafii, Hanbali, and Hanafi. But the Maliki School of Thought permits it, but with the exception of foodstuff and drinks.

9. If the borrower wishes to deliver the commodity sold before the agreed date, it is permissible provided the buyer agrees to that.

10. However, if conflict arises between the two as regards early delivery,

the interest of the buyer should be regarded as par the terms of the contract.

(v) **MURABAHAH (MARK-UP)**

Murabahah is one of the permissible contracts of sale and purchase being used by individual and institutional investors including Islamic

Banks worldwide. Murabahah is defined as an contract between two persons (seller-buyer) for selling a commodity from the former to the latter at its previous (original) price plus a specified mark-up. The mark-up may be a fixed amount of money or a certain percentage over the previous price (Fahmy and Sarkar, 199).

Murabahah is used in financing the purchase of raw materials, machinery, equipment, consumer durable goods, short-term trade financing, and importation e.t.c.

1. The contract (first sale) must be legitimate from the point of view of Sharia.
2. The original price of the commodity including all expenses must be disclosed to the buyer upon by both the parties.
3. The profit the seller expects must be disclosed to the buyer.
4. The place and conditions of delivery and methods of payment must be agreed upon by both the parties.
5. Payment by the buyer can be on instalment basis, but must be agreed by the seller.
6. Before the contract is signed, the seller must be in possession of the commodity (Resolution of OIC Fiqh Academy, Fifth Session, Kuwait, 1409).
7. If the commodity was inflicted by any defects, the seller has to inform the buyer about it, because Murabahah sale is based on

trust sale and the seller should not betray his buyer. Fahmy and Sarkar (1997; quoting Al-Khatif and Ibn Juzzy argue that if the buyer discovers that the seller has defrauded him either on price or quality, then he has the choice to either accept the commodity or reject it.

From the above the technique is considered as a debt creating contract, as the buyer stands obliged to pay back the entire financing plus the mark-up. The seller also undertakes management of funds in respect of purchase, since he deploys the funds as the buyer receives only the goods.

In Murabahah financing, the risk is less than that involved in other financing techniques. The risk bearing is only up to the stage when goods are handed over to the buyer and not until the capital is returned. Once the goods are delivered according to the specification of the buyer, all risk lies with him. That is why some Islamic Banks demand for collateral before financing Murabahah transaction, (Ahmed,1993).

Although, the rate of return is fixed, but still full of uncertainty before delivery, as the seller stands the risk of having the goods rejected on the ground of quality e.t.c. In the practice, the rate of return remains uncertain until the goods have finally arrived and handed over to the buyer.

2.4 ZAKAT AND INVESTMENT

The economic activities of man are expected to result into, among other things, the increase in the level of standard of living, poverty eradication, and social security within the human society. However, Sadeq (1994) quoting Maududi, submits that, man is inherently selfish in nature, which wants to confine all the goodness to him alone and thus lacks a sense of sharing with others. If all activities, including economic ones, are guided by such a philosophy of self-interest, it will lead to undesirable consequences in the society. Such a selfish behaviour in the economic front will lead to concentration of wealth, leading to poverty and eventually social unrest, social and economic crimes, and so on.

Islam being a universal religion and which being path of peace and equality teaches that man should help one another, and as a result, the whole society will be better off and be beneficial to all including the rich and poor. The above was decreed in the form of Zakat and Sadaqah.

Zakat is one of the five pillars of Islam ordained in the Holy Quran. The literal meaning of the Arabic word "Zakat" is "purity", "cleanliness" and "growth". The act of giving away part of one's valuable possession to the poor and needy purifies his wealth and also the heart. The growth, according to Sadeq (1994), quoting Zannan, "has two dimension, first, spiritual development by pleasing Allah, second Zakat redistributes

income, leading to "an urge for greater enjoyment and in turn to greater production." Accumulation and hoarding affects production and on the other hand, distribution and circulation stimulates production and growth."

According to Al Sayyid Sabiq in his book "fiqhu-Sunnah", Zakat can be defined as "that portion of a man's wealth, which is designated for the poor."

The position of Zakat in Islam is demonstrated in many verses of the Quran. It is also associated with prayer in many Quranic Verses. Ibn'Abbas reported that when the Prophet sent Muadh Ibn Jabal to Yemen his Governor, he said to him, "you are going to a people who are people of the scripture. Invite them to faith; that there is no God but Allah and I am His Messenger. If they accept and affirm this, tell them that Allah, the Glorious One, has enjoined five prayers upon them during the day and night. If they accept that, tell them also that he has enjoined Sadaqah upon their assets, which will be taken from the rich of the (Muslim) community and distributed to the poor. If they accept that, refrain from laying hands on the best of their goods and fear the cry of the oppressed, for there is no barrier between Allah and it" (Fiqh - Sunnah).

Al-Tabarani relates in al-Awsat and as-Saghir, on the authority of Ali, that the Prophet said, "Allah has enjoined upon rich Muslims a due to

be taken from their properties corresponding to the needs of the poor among them. The poor will never suffer from starvation or lack of clothes unless the rich neglect their due. If they do so Allah will surely hold them accountable and punish them severely."" According to At-Tabarani: "it was reported only by Thabit Ibn Muhammad az-Zahid". Of Thabit's credibility, al-Hafiz in turn says: "Thabit was an honest and trustworthy person. Al-Bukhari and others related from him, and the rest of the narrators in the chain are considered as accepted authorities."

In the early days of Islam at Makkah, no limit or restriction was placed on the amount to be donated. The decision was left to the individual Muslims conscience and generosity. In the second year of Hijrah, according to the widely known authorities, both the type and the quantity of Zakat revenues were determined, and detailed illustrations were provided.

2.4.1 SOCIO-ECONOMIC BENEFIT OF ZAKAT

In a research paper titled: "The Survey of Institution of Zakat: Issues, Theories and Administration" by Abu Al-Hassan Sadeq, the economic dimensions of Zakah were critically examined as they relate to savings, investment, income distribution, economic growth and social security. (Sadq, 1994).

(i) SAVINGS

Zakat will increase national savings as it takes away a part of precautionary savings. Hence if incomes are expected to fall short of subsistence, the people will tend to save more as a precautionary measure. Likewise, the higher the uncertainty about the expected rate of return on investment, the higher will be favourable effect of Zakah on ex-ante savings.

However, savings are a function of consumption behaviour of the people. Under the conventional economic system, the consumption patterns follow the relative income hypothesis, permanent income hypothesis and the absolute income hypothesis. If the consumption patterns are in line with absolute or permanent income, the effect on savings will not be positive, but if it is based on the relative income, the effect will be positive.

In the final analysis, Islamic economic system being distinct from the conventional system has distinct consumption pattern and savings behaviour.

(ii) INVESTMENT

Zakat imposes a penalty on the idle resources since it eats up the idle resources in due course. This is because the owner of the wealth will have to pay Zakah every year, which will reduce the size of the wealth,

year after year, and eventually it will vanish if it does not grow. This is an incentive to invest.

Zakah also discourages use of savings for non-income producing assets like jewellery by imposing carrying costs. Another motivating factor for investment is that the invested amount is Zakat free and while the return is subject to Zakat.

(iii) <u>ECONOMIC GROWTH</u>

Zakat contributes to economic growth as it leads to a healthy circulation of wealth and thus ensures continuous growth and prosperity of an Islamic economy.

As Zakat encourages investment by penalising the behaviour of keeping the resources idle, it will obviously have a positive growth effect.

Zakah also redistributes wealth into consumption leading to higher aggregate demand. It also penalises hoarding and provides a powerful stimulus for investing idle resources, which gets momentum because of allowing profits for sleeping partnership in the economic activities.

Even under a situation where the rich do not invest their wealth all over the year, and also try to evade the Zakah by investing just before the completion of the year, the growth effect is there, as once the resources are invested, employment and aggregated out-put increase, and also the return from investment will ultimately be Zakatable. Thus, this evasion will not also be free from growth effect.

2.4.2 **Socio-Economic Effects of Zakat** Professor Sule Ahmad Gusau, in his paper, titled "The Objectives of Zakat and the likely Behavioural Influences of its Implementation", he highlighted the likely behavioural influences of Zakat in the social and economic contexts.

(I) EFFECTS OF ZAKAT ON WORK AND LEISURE

Although it has been argued by critics of social security, which Zakat is, that charitable giving to those who are unemployed, invalid, sick or poor, will increase people's desire to consume leisure rather than work.

Gusau (1997) argued that, a good number of Muslims would not have behave this way for the following reasons:

(I) The Quran and Hadith strongly encouraged hard work and also discouraged begging and depending on others.

(ii) Islam specifically mentioned people who are entitled to Zakat.

(iii) Majority of the believers by their nature do not like humiliation and would instead of living on Zakat prefer to work hard and even pay Zakat.

(ii) **EFFECTS OF ZAKAT ON SAVINGS**

Zakat stimulate savings within the society contrary to the argument put by the western economist such as Pechma (1968) and Feldstein (1974) who hypothesised that "charity for contingencies such as

sickness, widowhood e.t.c. will reduce the need for people to save or seek private insurance and this lowers the nation's total saving.

Gusau (1997) support the views of eminent Islamic economists such as Najmul (1984), Austat (1987) and Khan (1988) who debunked the above views and argued that the aggregate consumption will be lower in Muslim economy due to the peculiar nature of Zakat as it is likely to increase savings. They also submit that aggregate consumption will be lower in Muslim economy due to the value moderation, and so savings will be higher.

(iii) EFFECTS OF ZAKAT ON INVESTMENT

Gusau submits that investment will increase as a result of Zakat payment, because the marginal propensity to consume of the poor is higher than that of the rich. Therefore, payment of Zakat will raise aggregate demand as the poor consume more. The above will generate investment as producers expand their businesses to satisfy the additional demand. Furthermore, it was argued, when the poor take Zakat, they are in fact taking away from the rich what the latter would have spent on extravagance.

(iv) EFFECTS OF ZAKAT ON INCOME DISTRIBUTION

Zakat is supposed to move (payment) from owners of Nisab to those who do not have wealth up to the Nisab. It is also expected to move from healthy to the sick, from the adult to the children, from the

able to the disabled and from youth to the retired as the case may be. While Zakat will not involve much horizontal and vertical distribution of income, according to Gusau (1997), there are some qualities, which it possesses which can enhance redistribution of income.

(i) Zakat is on only those who have Nisab regardless of race, colour, sex, or social status. All payers are to pay the same rate.

(ii) The recipients of Zakat in the same category of need must be treated equally, and those with dissimilar situations are to be treated differently.

2.5 ASSETS SUBJECT TO ZAKAT

The leading authority on issues of Zakat in the light of modern means of business and investment is Dr. Yusuf Al Qardawi who carried a comparative study of Zakat in the light of the Quran and Sunnah. According to him, "the Quran does not give definition of all the kind of wealth on which Zakat should be paid nor does it provide the required percentages of Zakat. It was left to the Sunnah to give, by example or by directives, details of the general Quranic Command and to convert the theoretical axioms of the Quran into a living reality in human life." (Qardari, 199).

However, the Quran does mention a few kinds of Zakatable assets such as –

- Gold and Silver as mentioned in (9:34).

- Crops and fruits as referred in (6:141).
- Earning from trade and other business ventures as referred in (2:267).
- What is brought out from beneath the earth as mentioned in (6:141).

Except, the specific mentioned above, the Quran mentions Zakat in general on (assets or wealth). For an asset or wealth to be zakatable it must meet the following conditions according to Al-Qardawi (1999).

1. Undivided and absolute right of ownership.
2. Growth (growing or have the potential for growth).
3. Reaching the minimum amount (Nisab).
4. Exceeds essentials and trade needs.
5. Freedom from debt.
6. The passage of a year (except crops, fruits, honey and extracted mineral, e.t.c.).

From the above conditions, it is clear that, Zakat on Business Assets and Investment is due on any completely owned property or its returns (clear of debt) for business transaction but not business tools, growing in value and lasted for one year and it exceeds minimum amount (Nisab).

2.6 CONVENTIONAL METHODS OF VALUATION OF BUSINESS ASSETS

The fundamental questions are: (i) What is an asset and (ii) What is the value? According to Granof (1977), assets represent right to future services or economic benefits. Value on the other hand, represents quantitative measure that should be assigned to a potential service or benefit. However, value as reflected in the Financial Statements can have at least three distinctive meanings.

(i) It is an assigned or calculated numerical quantity; as in Mathematics, the quantity or amount for which a symbol stands is nominal.

(ii) The worth of something sold or exchanged, the worth of a thing in money or goods at a certain time or its fair market price.

(iii) Worth in usefulness or importance to the possessor, utility or merit.

Each of the three definitions suggests different principles of valuation. Where do we go?

We start by submitting that valuation is contingent upon the purpose or the ultimate usage of the value.

An asset could be valued due to any of the following reasons:-

(i) For purchasing.

(ii) For disposal.

(iii) For replacement.

(iv) For exchange.

(v) For payment of essential liabilities i.e. Zakat, Tax.

(vi) For information to owners and other stakeholders.

The scope of our study is limited to the valuation of assets for the purpose of payment of associated liabilities, specifically Zakat. Basically, we have three types of values in Financial Literature:-

(i) Book Value.

(ii) Market Value.

(iii) Liquidation Value.

(I) **BOOK VALUE**

Book value is the classic accounting determination of the net worth of an asset. It reflects the initial cost of an asset less than portion of initial cost already observed as an expense i.e. depreciation.

The book value is contingent upon the accounting convention used, either, the Current Cost or Historical Cost Method of Valuation. The value represents the worth of an asset if it is disposed off without incurring any further expenses and in a company or business concern, the assets are sold and liabilities liquidated at their recorded amounts.

The book value is very theoretical, and conservative, however is important because it is produced through the Generally Accepted Accounting Principles (GAAP) and in most cases prepared or attested to

by an independent third-party. Depending on the type of asset, from experience, the real value of an asset or business concern may be five times its book value (Sulaiman, 1998).

(ii) **MARKET VALUE**

The market value is the price at which investors can buy and sell assets on the spot. Generally, the value is directly or the market is influenced theoretically by:

1. All the factors that influence general economic conditions.
2. Investors' expectation concerning the present and future of the business.
3. The earnings of the business concern or the return of the asset.

The market value is always expected to be higher than the book value and liquidation value.

(iii) **LIQUIDATION VALUE**

The liquidation value is the net amount the owners of an asset would receive if the business discontinued operations and liquidated by selling its assets, paying its liability plus cost of liquidation.

The liquidation principally assumed selling at worst situation, at the terminal life of the business or asset and usually whatever market is ready to pay. However, the value may be less or more than the Book Value or Market Value. But in most cases the liquidation value is far

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below the Book Value and the Market Value. Liquidation value is always used as a benchmark. That is the least value expected or acceptable of an asset.

The consideration is the assumed net worth realisable asset value of the business if all the assets are sold individually to generate optimal sales price and all liabilities to be deducted at the worst market scenario.

The three values identified above are determined by the use of many quantitative methods and in conjunction with other qualitative factors.

The basic quantitative methods are:

(I) Net Assets/Net Realisable Method.

(ii) Cost of Replacement Method.

(iii) Maintainable Earning Basis Method.

(iv) Future Earning (Discounted Cash Flow) Method.

COST OF REPLACEMENT METHOD

The method estimates the cost of replacing for the company, the plant, equipment, and materials e.t.c. The method is usually applied to industrial companies or even to an individual asset. In the case of industrial company, two kinds of replacement value analysis can be used.

(I) Replacement of only assets i.e. fixed and current assets.

(II) The entire business is considered, including human assets more especially in the area of hiring and training of skilled

and unskilled personnel, products designing, production and marketing, building customer relationship and goodwill, developing and installation of internal operational control systems e.t.c.

The method is very complex and rigorous and has elements of the book value and the market value. But often very confusing as, we are saddled with the question of what do we replace? Or can we quantify and replace established system, goodwill, and human resources e.t.c. The assets to be replaced at what value or quality we replace? The depreciated old existing machines with the brand new? Or the replica of the old machines.

THE NET ASSET/NET REALISABLE METHOD

The net asset basis or net realisable value is derived from the book value after excluding all intangible assets and other non-saleable equipment. This principle compliments the negative point of obsolete and ancient equipment. The net realisable value confirms to the Islamic principles of non-value for intangible assets such as trademark, patent e.t.c.

The net asset basis, even though fundamentally part of book value has elements of market value as the assumption is that: 'the assets will be disposed off at an open market not under a worst scenario such as forced sale or liquidation or break-up.' It is pertinent to mention that, the

above method is one of the two accepted by the Nigerian Securities and Exchange Commission (SEC) to be followed in determining the value of any corporation to be introduced or quoted at the Nigerian Stock Exchange Market.

DISCOUNTED CASH FLOW METHOD

The method is considered the most theoretically valid model for valuing and pricing assets or business concern. It is based on streams of cash inflows and outflows. It works by weighing the amount invested against the amounts and timing of all future net free cash generated over the life of the investment (asset) net of depreciation capital allowances and working capital needs. An internal rate of return can be obtained, and compared to requirements.

The future cash flows can be discounted to present value and compare to the initial investment. This calculation gives the net present value, being the difference between what was invested and the expected cash inflows in present value terms.

THE EARNING BASIS METHOD

The earning basis of valuation business concern or asset, estimates the value by capitalising earning capability with appropriate chosen discount rate. The value may be determined using the earnings basis, through Accounting Rate of Return Approach (ARR) or Price Earning (P/E) ratio approach.

The ARR method applies a predetermined rate of return that an investor would expect from such venture to the estimated maintainable earnings of the venture.

The price-earning ratio, on the other hand, reflects the maintainable earnings capitalised by an appropriate factor. The formula expressed as the price earnings multiple, which is effectively an inverse of the expected return on investment. The maintainable earnings before interest and tax or net profit after tax is multiplied by an appropriate price-earning ratio to arrive at the price. The price-earning ratio is determined by the characteristics of the business concern and the industry in which it operates and can also be attached from similar business traded at the market and anticipated growth in the business operations.

The earning basis method is one of the two methods approved by the Securities and Exchange Commission in Nigeria to be followed in valuing any company to be quoted or listed at the Nigerian Stock Exchange.

THE DISCOUNTED CASH FLOW AND EARNING BASIS

The Discounted Cash Flow and Earning Basis Methods suffer from many deficiencies, but however contain what a market value turns to signify. The Discounted Cash Flow is full of many uncertainties. Many assumptions regarding markets, products, pricing, competition,

management interest rates e.t.c. have to be made, such that the confidence level becomes severally eroded, (Sulaiman, 1998).

Even though, the economic benefits associated with an asset ordinarily take the form of cash receipts, which is expected to be greater than disbursement, it is essentially difficult to measure cash receipts, considering that most assets result in cash receipts only when used in conjunction with other assets that in a world of uncertainty future cannot be readily estimated.

The two methods use the concept of time value of money and fixed return on investment as a discounting factor, which is not in line with Islamic thinking.

However, Khan (1991), while addressing the question of discounting factor and time value of money submits that:

(a) Islam has nothing against having a positive time preference. However, it is more reasonable to think of time preference as a function of time rather than treating it as fixed and independent of the time frame under consideration.

(b) There is also nothing against realizing time value of money as long as it is not claimed as a predetermined value.

(c) The expected rate of return on Islamic Bank's Deposits of different maturities can be treated as close proxies for rates

of time preference and hence are the most appropriate rates to be used for the purpose of discounting.

THE ACCOUNTING PRINCIPLES/CONVENTIONS UNDERLYING THE VALUATION METHODS

The assets based methods are defined as those valuation methods that derived value from the fixed and current assets of the company. They are, replacement value methods, and net assets basis/net realisable value method. The above methods are fundamentally determined partly by the Historical Cost Accounting, Current Cost Accounting Convention, and other Accounting Rules.

HISTORICAL COST ACCOUNTING

It is derived from the original book keeping records and based on the cost price of the asset. It shows nothing more than the initial cost less than portion of the cost already observed as an expense by way of depreciation. It disregards the rising level of inflation and changes in price levels.

Because of the above characteristics, it is neither an approximation of neither the fair market value nor the worst of the services, which the asset will provide.

It is rooted to the Concept of Conservatism of the Accounting in valuating assets and income determination. Under Historical Costing, the Balance Sheet does not and is not supposed to show the real value of the business. The charge for cost of stock consumed is always inadequate to

replace it, because stocks are charged at the cost of purchase not at the cost of replacement.

CURRENT COST ACCOUNTING (CCA)

The CCA method of valuing assets is based on their (assets) value to the business and not at their depreciated value. Value to the business is defined as being identical in amount with the adverse value of the entire loss, direct and indirect, that the company might expect to suffer if it were deprived of those assets.

The CCA measures value of an asset in three ways:

(I) The value at which an asset can be sold or exchanged for money – The net realisable market value.

(ii) The value at which an asset can be bought for sum of money – The replacement value.

(iii) The value to the business, if an asset is held and used to earn money – The economic value or future earning value.

Under the CCA, the fixed assets are recognised at their value to the business and not at the lower of their original cost or net realisable value (HCA Concept). The cost of stock consumed is also valued at their value to the business at neither the date of consumption not at the date of purchase nor the day of consumption. The value to the business of an asset is determined from the three measures of value enumerated above.

It is the written down current replacement cost except in a situation where the net replacement cost is greater than both net realisable value and the economic value, in which case the value of the asset to the business is the net realisable value or economic value whichever is the greatest.

The Current Cost Accounting Method has tried to address some of the observed shortcomings of the Historical Cost Convention, as observed above.

GOING CONCERN ASSUMPTION

The rule is an attempt to provide a support for the utilisation of Historical Costing. The assumption is that, an entity will survive long enough to carry out its commitments and fully realise its existing assets in its present line of business.

This presumption according to Gambling and AbdelKareem (1991) is used mainly to justify:

1. The adoption of current-non-current classification of assets and liabilities.
2. The use of the Historical Cost of fixed assets as prepayments of expenses, which can be matched against revenue for income measurement purposes.

From Islamic perspective, neither reason is relevant. The objective of classifying assets as current and fixed is to identify the wealth that is

subject to Zakat. This is important because Zakat is largely assessed on wealth acquired for trading (i.e. net working capital including cash) and not on wealth provided for utilisation (i.e. fixed assets) (Shahata, 1970 Qardawi, 1999). The trading wealth are intended to be consumed, sold, or converted into cash during the Zakat period, while the fixed assets are to be retained beyond the period of Zakat.

The equation of fixed assets with prepaid expenses, Islamically contradicts the requirements for true valuation of wealth (whether or not it is subject to Zakat).

CONSERVATISM

The use of historical cost for asset valuation according to Gambling and Abdelkarim, (1991) is justified basically by the Concept of Conservatism. According to, (Stanling, 1967); Cost is not a fundamental tenet of accounting; instead, it is a derivative of the Conservative Principle of Valuation.

The conservatism rule implies that, if there is some doubts over the treatment of a particular transaction, income should be under-estimated and expenditure over-estimated, so that profits are more likely to be understated and losses overstated. Many rulings cast big doubts on the relevance of the Concept of Conservatism in Islamic Financial Reporting. However the demand to determine the true wealth of each person as much as possible is a necessity in Islam.

From empirical evidence, the use of conservatism principle would lead to under statement of the funds that could be subject to Zakat. For example, the valuation of inventories and quoted equity on the basis of lower of cost or market value would in most cases under-estimate the true net realisable value.

PERIODICITY ASSUMPTIONS

The preparation of Financial Statement would involve the periodicity assumptions. In the conventional system of accounting, the assumptions might be justified since the users of the information cannot practically wait until the end of the life of the business before the position is determined. The assumption has led to development of the concept of accruals accounting and the rules of income recognition and matching.

In Islamic accounting, a similar assumption of periodicity would be justified on a totally different ground. As we have seen, one whole lunar year should elapse before any wealth could be liable to Zakat. Accounting Statements, would therefore, be prepared for that particular period, showing the amounts on which Zakat would be levied.

INCOME MEASUREMENT

There are two basic methods of measuring income under the conventional accounting system: Revenue-Expense Model and Assets-Liability Model.

The revenue-expense model, concentrates more on the flow of funds through the business and makes use of the concept of revenue recognition and matching principles in the identification and measurement of revenue and expenses and then establishes arbitrary methods to match them. These practices enable accountants to analyse and measure the flow between capital and revenue and income and expenses.

Under the Assets-Liability Model, the emphasis is placed on the definition, recognition and measurement of Assets and Liability, while revenue recognition and matching principles would become less significant. The letter method is suitable to the needs of all the users of Islamic Financial Information. Because, the conventional Shareholder (Investor) is not interested in what is going on in the business and does not attempt to analyse its underlying value. Instead, he is concerned mainly with the market analysis. Such a framework is not acceptable in Islam. Muslim Shareholders have responsibilities to know what is taking place in the organisation in which they are investing.

Islamic approach to income measurement is fundamentally rooted to what constitute growth of wealth. According to Attia (1984 ...) Islamic approach rest on the following:-

1. Profit: realised gains resulting from the sale of current Assets.

2. Gilah: unrealised gains resulting from the increase in the value of current assets; or

3. Fa'edah: realised and unrealised holding gains on fixed assets.

ISLAMIC THEORY OF VALUATION OF ASSETS

The Islamic Economic System is normative base, which is derived from Quranic Verses and several traditions of the Prophet of Islam (PBUH). It emphasises the need for equitable distribution of economic resources.

As noted in Chapter One, Muslims have to abide by the Islamic injunctions in both the social and the economic aspects of their lives. This implies that they would tend to follow a normative deductive approach in setting accounting standards and methods. This consists of deducing the objectives of financial reporting, the postulates of accounting, and the definitions of and concepts from Sharia points of view.

Gambling and Abdelkarim (1991) gave many reasons to justify their arguments for an Islamic approach to valuation of business:

1. Islam does not admit that there is a distinction to be drawn between what is 'good for business' and any other sense of 'the good'.

2. Islam discourages ambiguity in business. For example, accounting for leases is only a problem where it is thought right to create leases as legal fictions for tax avoidance or window dressing purposes.
3. Zakat is one of the five pillars of Islam, and its calculation and payment is a duty, which Muslims have to fulfil.
4. Accounting has a significant role to play in providing information to enable business organisations determine the amount liable to Zakat. This is one of the major objectives of the Financial Statements of Islamic Organisations.
5. Muslims are encouraged neither to dwell upon what is past, nor to speculate unduly about the future. The Khalifa principle and the spirit of al-Istikhara prayer enjoin openness to God's will and whatever it may require of the believer. The possibility of an urgent need to realise existing assets in order to acquire others is always before a Muslim, and his or her assessment of their value (and of the income they generate) should reflect this fact.
6. Islam has its own cohesive values, which dictate how a business should be run. These values can be applied at any time and in any culture. Accounting Theory and Practice have

to pursue these rules if they are to be of any relevance to complying Muslims.

2.9 VIEWS OF ISLAMIC JURISTS AND MODERN SCHOLARS ON VALUATION OF BUSINESS FOR ZAKAT PAYMENT

Payment of Zakat is ordained in the Holy Quran, but its technical details are interpreted by the Islamic jurists. Nasseet (Encyclopaedia of Seerah (1986) states, "the rate of payment, exemption limit, and other rules based on the Prophet's teaching." Abu Amir Ibn Hammas reported from his father that he said: "I used to sell leather and containers. One day, 'Umar Ibn al-Khttab passed by me and said', 'pay the Sadaqah due on your property', I said: 'O Commander of the Faithful, it is just leather'. He replied: evaluate it and pay its due Sadaqah." (Sabiq, in Fiqh Zakat).

STOCKS, BONDS AND SHARES

The ruling on the payment of Zakat on trade and investment assets is not controversial, however, the issue of method of valuation has been a subject of controversy for example. Jabir Ibn Zayd, recommends the sale value (market value) on the day on which Zakat is to be paid. Kahif (1981) recommends market value for stocks and bonds, jewellery at market value if the market exists, otherwise at historical cost.

Qardawi (1999), shared the same view with Abu Zahra, Hassan and Khallah, that "shares and bonds are used in exchange, like commodities, purchased and sold, usually at a market value that is different from the

face value", shares and bonds are to be valued at market value. Kamaludeen (1999) used similar principle.

WORKING CAPITAL ITEMS

Shahata uses current value in valuing working capital items at the end of Zakat year. However, he takes into consideration the issue of expected profits of the business. Ibn Rushd's opinion is the purchase price. Majority of the Jurists agree with the market value but opined that, it does not take into consideration the environmental factors such as charges, commissions, cost of advertisement and transportation. They believe, the valuation method should be the net realisable value, which is simply, the selling price less any expected expenses or charges. Other Jurists are of the opinion of using the replacement cost concept include El-Baalami and Al-Sultan (1999) and Qardawi (1999) who submit that, "the majority view is obviously the most reasonable here." But it should be noted that wholesale prices, and not retail prices must be used, if liquidation of stock is to be done, it will be at current wholesale prices and not retail prices. Kamaludeen (1996), one of the proponents of the net realisable values submit "that growth (physical or constructive) which is recurring characteristics of all Zakatable items, as agreed by the Fuqaha) is natural condition of Zakatability and is crucial to the determination of the true value of corporate assets. Consequently, those assets are Zakatable in the current (growth) values subject to associated cost. The

accounting entries are based on historic cost reporting basis of valuation for Zakat purposes. Kamaludeen submitted that revaluation of Zakatable assets of their net realisable values is imperative.

El-Baalami and Al-Sultan (1992.....) looked at the issue of valuation from the angle of the net working capital and growing capital concepts. They observed that net working capital approach may not meet the debt-free and passage of one-year conditions to equal Zakatable amount. However, they proposed an adjustment mechanism to determine the growing capital. Net working capital plus short-term debt used to finance long-term assets or reduce long-term debt. Minus long term debt used to finance current assets and any increase in share capital during the year.

INCOME GENERATING ASSETS

Qardawi (1999) quotes Ibn Ajil, a great Hanbali Jurist, that, "income-generating assets are Zakatable like trade goods." However, Qardawi (1999) disagree with Ibn Ajil's view on the ground that, trade goods are those obtained for resale for profit, drawing analogy with the agricultural is more practicable and evidence, factories may cease production and valuation may be too cumbersome, and expensive. Qardawi take the view of payment on the basis of generated income. The above view seems to enjoy application in Saudi Arabia, Sudan and Nigeria.

Having reviewed the related lit erature on valuation methods, we now turn to the applied aspects of our case study in the following chapter.

CHAPTER THREE

INSTITUTIONALIZATION OF ZAKAT IN SELECTED MUSLIM COUNTRIES

KINGDOM OF SAUDI ARABIA (KSA)

1. LEGISLATION

Kingdom of Saudi Arabia was the first country in the world to institutionalise the practice of Sharia in general and Zakat administration in particular. A Royal Decree, No. 17/2/28/8634 dated 7th April 1951, was promulgated, providing for the collection of all Zakat from individuals and companies. The Ministerial Decision No. 393 and No. 394 in August/September followed it 1970, which established Zakat Executive Regulations and the Special Government Agency that would assess and collect Income Tax and Zakat. This Agency was called Zakat and Income Tax Department and was made part of the Ministry of Finance and National Economy. Thereafter a number of Decrees and decisions were made, which dealt with the ways of implementing the Decrees calling for the collection of Zakat, particularly with respect to its assessment, disbursement and penalty resulting from refusal to pay Zakat.

2. ZAKATABLE ASSETS

In the Kingdom, Zakat is compulsorily levied and collected from the following by the government:-

Livestock.

Crops and Fruits.

Merchandise, which includes all wealth intended for investment, whether in trade, industry or services.

While the owner is left with discretion to pay Zakat on the following invisible wealth:-

Bank Accounts.

Fixed Deposits.

Properties including, stocks and shares, gold, silver and other possessions.

The following items of wealth are not Zakatable:

The funds of the State and its Institutions.

Waqf for public body.

Illegal wealth, and

Personal effects including, tools of trade.

3. METHODS OF ASSESSMENT AND COLLECTION

(i) LIVESTOCK

Government officials who work both in summer and winter period collect Zakat on livestock. The collectors are divided into units and consists of those who are experienced in Zakat collection, they are literate, trustworthy and of good behaviour. The personnel visit the livestock at the grazing area to determine the amount of

Zakat due in each case. The government has worked out general rules for the collection, as follows:

(a) The Ministry of Interior (Internal Affairs) should determine the localities, which units may pass through a map to be given to each unit.

(b) A unit must calculate and trace livestock and should not ask owners or any other person to do the job on their behalf.

(c) After assessment, the Units compile the list of livestock owned by every individual, indicating types and number of livestock. A copy of the list shall be submitted to the Ministry of Finance

(d) Sharia Courts and Qadis shall assess the value of livestock according to location, time, fertility and infertility. These prices and values shall be provided to the units so that they may act accordingly.

(e) Zakat shall be collected in kind, but it may be in cash if any one chooses to pay at the set prices. The collection and distribution is decentralized and subordinated to the State Governors.

(ii) AGRICULTURAL PRODUCE AND FRUITS

Committees comprising of government officials and other experienced persons collect Zakat on agricultural produce. The Committees make three trips a year to estimate dates, wheat and maize, according to the degree of usefulness of such crops as determined by the Ministry of Agriculture and Water in the past, and recently by the Department of Zakat on Agricultural Produce, Fruit and Livestock of the Ministry of Finance.

With the development in planting and manufacturing of wheat in the Kingdom of Saudi Arabia, the produce (wheat) are delivered to the Government Bound for Silos and Flour Mills. The Revenue Department assesses the Zakat on every farmer, according to the quantity he delivers to it, deducting Zakat at source and transferring it to the Ministry of Finance. The collection as in the case of livestock is decentralized and subordinated to State Governor,

(iii) **MERCHANDISE AND BUSINESS ASSETS**

(a) COLLECTION

The Kingdom of Saudi Arabia started collection of Zakat on business assets and merchandise in 1307H. The following categories are required to pay their Zakat through the State:-

Saudis - Moslems male, female, mature and minor, adult and underage.

Saudi Partners in (a) Saudi Joint Venture Companies and (b) Saudi Limited Partnerships or Companies limited by Shares.

Saudi Associations of Capital in which Saudis own Shares.

The Saudi Government's share subscribed by general establishments and authorities and banks.

Those who are treated as Saudis, namely, nationals of the Arab Gulf Corporation Council who practise business in the Kingdom.

Owners of Hotels and Cooperative Societies.

The above categories either submit Audited Accounts or subjected to random assessment to determine the amount payable through the established authorities.

Owners of other assets and those who do not fall in the above categories are not subject to compulsory collection. They are left with their discretion, either to pay through the authorities or to be disbursed by themselves,

(b) **METHODS OF ASSESSMENT**

Zakah on merchandise, which includes all wealth, invested in trade, industry and services are valued on one of two bases as follows:

(a) Those establishment or individuals, which kept and submit accounts certified by a Chartered Accountant. Zakatable Assets will be determined as follows:

Add: -

Share Capital.

All reserves and allocations except allocations for depreciation of fixed assets.

Current Creditors' Account of the owner(s).

Profit brought forward.

Current Year Profit plus non-acceptable expenditures, less:

Net fixed assets after depreciation.

Balance of formation expenses.

Investment at home and abroad.

Losses in previous years.

Balance = Legally Zakatable assets (@ 2.5%).

(b) Those establishments that do not submit Accounts.

Add:-

Capital as declared (while registering the business).

Estimated profits at the rate of 15% of capital (in case of inactive business) or

Contractor s profit computed at 15% of the aggregated works carried out during the accounting year after deduction of 30% of the estimated profits against expenditures.

Balance = legally Zakatable amounts at 2.5% or 1/40.

(i) Capital is determined at the beginning of the year by various methods, such as consulting the Commercial (Companies) Register, the Contract (Deed) of Association or any relevant documents,

(ii) Net profit is determined on the basis of total operations undertaken by the Zakat payer during the year, provided that net profit is not less than 15 per cent of documented general revenue or on the basis of the number of capital turnovers. The profit rate is 10% in the case of Importers of specific food provisions and 5% in the case of importers of vegetable, fruits and livestock. For other business activities, the rate is 15%.

THE ISLAMIC REPUBLIC OF SUDAN

The institutionalisation of payment of Zakat in the Sudan can be traced to the period of the Mahdists (1881 to 1898). However, since the fall of Mahdists the system was abandoned, even after the attainment of political independence in 1956.

In 1980, the Zakat Act was promulgated to govern the collection and distribution of the Zakat in the country. The significance of the Act was the making of the payment of the Zakat in the country voluntary, probably with the aim to prepare the people for the performance of this noble duty, which the state had ignored since after the Mahdists Era.

In 1984, the Act was amended, making Zakat payment compulsory for all Muslims male and female. The Act establishes Zakat chamber and charged it with the following duties among others:-

(a) To collect, manage, invest and distribute Zakat.

(b) To collect and distribute the Zakat among beneficiaries who are eligible according to Shariah.

(c) To receive statements from those who are clearly specified as legally required to pay Zakat.

(d) To examine their statements and calculate the amount of Zakat to be paid accordingly.

The Act also provides among other things that:-

(a) Every Sudanese Muslim inside or outside the Sudan who has Nisab is bound to pay Zakat.

(b) Every Sudanese Muslim with Nisab who works or lives in the Sudan is also bound to pay Zakat.

(c) Any one who refuses to pay or delays payment of Zakat shall be fined and Zakat shall be taken from him by force.

ZAKATBLE ASSETS

The following are subject to Zakat-:

(a) Trade Funds and Merchandise

(b) Agricultural Produce

(c) Livestock

(d) Income generating items, i.e. industries, factories e.t.c.

(e) Money and what is used as money, i.e. bank notes, shares, stocks, deposit, foreign currencies e.t.c.

(f) Gold and silver.

(g) Precious minerals,

(h) Salaries and wages.

(i) Income of professionals.

The following are not subject to Zakat:

(a) Personal articles of the payer and his dependants.

(b) Essential tools of work and fixed assets for commercial industrial, agricultural, professional and technical purposes.

(c) All original waqf made to a public charitable organisation or donated to such an entity.

METHOD OF ASSESSMENT AND COLLECTION

Trade Funds And Merchandise

This cover all wealth intended for trade regardless of whether used in industry, agriculture or services. There are two assessment methods applied contingent upon the system and information available.

THE FIRST METHOD

Current Assets Less Current Liabilities

Net Working Capital = Zakatable amount.

Current Assets to be valued at market price.

THE SECOND METHOD

Add

Capital + profits carried forward + reserves.

Less

Net Fixed Assets

Balance = Zakatable amount.

The net fixed assets are deducted on condition that all their values is paid and the amount should be within the paid-up capital plus reserves.

AGRICULTURAL PRODUCE

The law stipulates that everything yielded by the land is subject to Zakat. Zakat is collected on maize, wheat, millet, barley, cotton, sesame, peanuts, beans, sunflower, as well as banana, mango, oranges e.t.c.

Assessment is based on estimation as the best practice, which was employed by the Prophet (PBUH) himself.

The collection is mostly in cash at the prevailing market price. The Republic of Sudan has organised crops markets where crops are exchanged and in this case Zakat is withheld at source upon the sale of such crops.

ZAKAT ON SALARIES AND WAGES

The above is to be deducted at source after deducting the value of basic necessities and the balance is above the Nisab. It may be paid through monthly instalment and deducted at source by employers who will make transfer to the Zakat Chamber on or before the middle of the following month. Zakat in the Sudan on salaries and wages was legally adopted based on the practice of Muaniyah and Umar Ib. Abdulaziz of levying Zakat on soldiers' salaries. The deduction is carried out as follows:-

Annual salary	-	XX
Less basic needs	-	(XX)
Less Nisab	-	(XX)
Zakatable amount	-	XX

Annual basic needs is arrived at from the study on the basic needs of an average Sudanese family. The Zakat amount is paid on monthly basis by dividing each variable by 12 (months).

ZAKAT ON INCOME OF PROFESSIONALS

The law provides that, Zakat shall be deducted at source, also requiring any one who pays professional commission or fee to any payers of Zakat, in return for work or services, to deduct therefrom. The practice is similar to Zakat on salary and wages. The basic needs and Nisab are deducted before Zakat is levied.,

MALAYSIA

Legislation

Malaysia is a Federation of States like Nigeria and the power to administer Zakat in each State is subjected to the respective State Laws. Initially, it was the responsibility of the Local Government Authority, until in 1986, when the Federal Law was enacted making it the responsibility of individual State Governments.

Each State has its own enactment on the administration of Islamic affairs, which includes general clauses on Zakat administration. Subject covered in these clauses included the basic system of Zakat collection, that is, through the designated official, recipients of Zakat proceeds and the liability of the prosecution for those who prevent others from paying Zakat and do not themselves pay Zakat or pay through unofficial means, except where stated otherwise. The amount of fines or the prison sentences imposed on such offences are also stated.

ZAKATABLE ASSETS

Zakat is officially collected on the following:-

(i) Business.

(ii) Agriculture (Paddy Rice).

(iii) Savings.

(iv) Livestock.

(v) Mining.

(vi) Other kinds of wealth i.e. salary earning, gold and Jewry, Employees' Provident Fund.

(vii) Zakat at Fitr (payable at end of the month of Ramadan).

- Zakat on Agriculture is an income derived from Paddy Crops.
- Zakat on livestock is on income derived from Cattle/Buffalo, Sheep/Goat and husbandry.
- Zakat on mining activities is an income derived from gold and silver.
- Zakat on Savings is obtained from Zakat paid by the Lembaga Urusan dan Tabung Hajj on behalf of its depositors, as well as from Individuals' deposits with banks.
- Zakat on business is derived from companies owned by Muslims, trade and Industries.

METHODS OF ASSESSMENT OF BUSINESS ASSETS

There are three methods for computation of business Zakat that are currently practiced in various states and institutions in Malaysia. The basic differences among these methods lay in the interpretation of the term 'Urud al-tijarah' which means wealth meant for transactions and also the applicable price of the asset.

METHODS OF ZAKAT COLLECTION

The methods of collection formally and officially recognised are in three categories:

1. Collection by designated official.
2. Collection through offices of the State Religious Departments.
3. Collection through salary deductions by employers.

All the States have practised the first method, however, the authority given to the officials differ from State to State. The second method also has a wider adoption. Individual Zakat payers came to the nearest Zakat offices to have an assessment of their wealth and then pay accordingly. The third enables the Muslim employees to pay Zakat through deduction at source from salary, which is done by the employers, similar to the Income Taxes Collection. Individual is allowed to claim for rebate from Income Tax on their Zakat payments.

However, a substantial proportion of the Muslims Community in Malaysia pays its Zakat on wealth informally, through certain private organizations or directly to the individuals or families.

As mentioned earlier, each State has their laws on Zakat administration, same State allows the payer to freely distribute 1/3 of the Zakat to individual, while 2/3 paid directly to the State.

FIRST METHOD

Urud-al-tijarah is viewed to comprise only the –

- Current Assets, i.e.
- Cash in Banks.
- Accounts receivable, whose collection is definite
- Stocks and inventory (valued at cost price).

SECOND METHOD

Urud-al-tijarah is viewed to comprise current assets and profit from investment, i.e.

- Cash in hand.
- Cash in banks.
- Account receivable.
- Stock and inventory (at current market prices).

THIRD METHOD

Urud-al-tijarah, is defined as the difference between Current Assets and Current Liabilities. Called net working capital, i.e.

Add:	Current Assets	
Less:	Current Liabilities	
	Net working Capital	
Add:	Profit for the year.	

In Malaysia, only individual Muslims are expected to pay Zakat. Companies, be they Sole Proprietorships, Partnership, Limited Liability, Private Liability, although separate entities, do not fall under the category of Individuals Muslims, hence are not expected to pay Zakat, but it is the duty of owners, partners or shareholders to make sure that their companies pay on their behalf.

If all the shareholders are Muslims, the company pays in proportion to each individual holding. If the shareholders include non-Muslim(s), the shareholding of non-Muslim(s) proportion is not paid but given back to him.

CHAPTER FOUR

DATA AND INFORMATION ANALYSIS

4.1 INTRODUCTION

In this chapter, we shall attempt to analyse the information presented in Chapter Three in the light of our research questions and also within the context of our literature review.

The analysis will be on the following:-

(a) Legislation on Zakat Payment and Collection.

(b) Zakatable Assets.

(c) Non-Zakatable Assets.

(d) Methods of Collection.

(e) Methods of Assessment with Numerical Examples.

4.2 LEGISLATION ON ZAKAT

COUNTRY	PROPORTION OF MUSLIMS TO NON-MUSLIMS	LEGISLATION COVERAGE/LEVEL
SAUDI ARABIA	OVER 95%	COUNTRY-WIDE/NATIONAL
SUDAN	OVER 85%	COUNTRY-WIDE/NATIONAL
MALYSIA	LESS THAN 60%	STATE BY STATE/STATES

COMMENT

Saudi Arabia and Sudan have national legislation on Zakat Administration largely due to the high proportion of Muslims to Non-Muslims. The two countries operate under the Sharia System.

Malaysia's legislation is at state level, each state is allowed its own legislation on Zakat Administration. Some States have no any legislation on Zakat probably because of the low proportion of Muslims to Non-Muslims. It is clear that Malaysia has similar characteristics with Nigeria in terms of religion and political administration.

4.3 ZAKATABLE ASSETS

SAUDI ARABIA	SUDAN	MALAYSIA
Livestock	Livestock	Livestock
Agricultural Produce (Including Crops and Fruits)	Agricultural Produce (including crops and fruits)	Agricultural Produce (including crops and fruits)
Merchandise and Business Assets	Merchandise and Business Assets	Merchandise and Business Assets
Stocks and Shares	Stocks and Shares	Stocks and Shares.
Gold and Silver and other precious minerals.	Gold and Silver and other precious minerals.	Gold and Silver and other precious minerals.
Cash at hand and Deposits and Savings	Cash at hand and Deposits.	Cash at hand and Deposits and Savings.
Income of Professional.	Income of Professionals.	
	Salaries and Wages.	Salaries and Wages.

COMMENT

(a) In all three countries, Zakat is compulsorily levied on livestock, agricultural produce, business assets, stocks and shares, gold and silver, and cash at hand and all forms of deposits and savings.

(b) However, in Saudi Arabia and Sudan, Zakat is paid on income of professionals such as Doctors, Consultants, Chartered Accountants, Estate Agents.

(c) While in Sudan and some States in Malaysia, Zakat is deducted or paid out of workers' salary and wages.

Zakat on Salaries and Wages has become controversial as it is not practised during the period of the Prophet Muhammad (PBUH) and its inclusion in Sudan and Malaysia is based on the Ijama or consensus of the Ulama.

4.4 NON-ZAKATABLE ASSETS

SAUDI ARABIA	SUDAN	MALAYSIA
Public Funds	Public Funds	No information
Waqf Funds	Waqf Funds	No information
Illegal Wealth	-	No information
Personal Effects	Personal Effects	No information
Fixed Assets	Fixed Assets and Tools of Trade	No information

COMMENT

It is clear that the Non-Zakatable Assets are similar between Saudi Arabia and Sudan, except illegal wealth, which is not specifically

mentioned in Sudan. However, the payment of Zakat on illegal wealth does not purify the wealth, but by the general consensus of Ulama, it should be paid.

4.5 METHOD OF ZAKAT COLLECTION

COUNTRY	METHODS
Saudi Arabia	(i) By government appointed officials. (ii) Direct deduction at source. (iii) Voluntary payment to Government Department.
Sudan	(i) By government appointed officials. (ii) Direct deduction at source. (iii) Voluntary payment to Government Department.
Malaysia	(i) By States Government appointed officials. (ii) Direct deduction at source. (iii) Voluntary payment to State Government Department.

4.6 METHODS OF ZAKAT ASSESSMENT FOR BUSINESS ASSETS

4.6.1 INTRODUCTION

Under this section, we shall show numerical examples of assessment of Zakat for corporate business entities utilising the financial statements of limited liability companies. The statements are prepared as per the statutory requirement of Nigerian Companies Act of 1991. The accounts have been prepared according to the historical cost conventions.

In the previous section, we have shown the assessment adopted by each of the three countries we have taken as our case study.

COUNTRY	METHODS
Saudi Arabia	Owner's equity method.
Sudan	Net working capital and owners equity method.
Malaysia	Net working capital and current assets.

For the purpose of our numerical examples, we shall use –

(i) Networking capital method (Sudan and Malaysia).

(ii) Owners Equity Method, (Sudan and Saudi Arabia).

(iii) Growing capital concept.

The growing capital concept was developed by El-Badami and Al-Sultan, as a further refinement of networking capital method, as was mentioned in our literature Chapter Two, Section 28.

EXAMPLE 1a

ASHAKA CEMENT COMPANY PLC
CALCULATION OF ZAKAT FOR THE YEAR ENDED DECEMBER 1998
NETWORKING CAPITAL METHOD (NWC)

		N'000
NWC as at 1/12/97		1,524,414.00
Net income	551,668.00	
Depreciation	135,053.00	
Funds generated	686,721.00	
Cash from sales of Fixed assets	1,954.00	
Cash from other short term sources	133,825.00	822,500.00
Less Application		
Dividend paid	118,700.00	
Redemption of Debenture Stock	12,241.00	
Purchase of Fixed Assets	121,289.00	
Taxation	285,811.00	538,041.00
NWC as at 30/11/98		1,808,873.00
Total Zakatable Amount		**1,808,873.00**
Zakat due for the year at 2.5%		**45,221.83**

ADJUSTMENT FOR GROWING CAPITAL

NWC as at 30/11/98	
ADD:	1,808,873.00
Short term fund used to purchase Fixed Assets	
To repay long term debt	119,335.00
Zakatable Amount	12,241.00
Zakata due for the year at 2.5%	1,940,449.00
	48,511.23

EXAMPLE 1b

GWANDU NIGERIA LTD
CALCULATION OF ZAKAT FOR THE YEAR ENDED DECEMBER 1998
NETWORKING CAPITAL METHOD (NWM)

		N'000
NWC as at 1/12/97		43,160.00
Net income	123,367.00	
Depreciation	22,886.00	
Funds generated	146,253.00	
Cash from long term sources	51,431.00	
Cash from other short term sources	88,944.00	286,628.00
Less Application		
Short term debtors	95,840.00	
Net Interest paid	101,478.00	
Repayment of debenture stock	-	
Purchase of Fixed Assets	92,258.00	
Capital Work in Progress	11,000.00	
Taxation	2,046.00	302,622.00
NWC as at 30/11/98		27,166.00
Total Zakatable Amount		27,166.00
Zakat due for the year at 2.5%		679.15

ADJUSTMENT FOR GROWING CAPITAL

NWC AS AT 30/11/98	27,166.00
ADD:	
Short term fund used to purchase Fixed Assets	51,827.00
To repay long term debt	-
Zakatable Amount	78,993.00
Zakat due for the year at 2.5%	1,974.83

NOTE TO THE EXAMPLES (1A & B)

(i) Net income is net profit before interest and tax.

(ii) Cash from other short term sources is a balancing figure applied to the computation of NWC. The objective was to segregate the long term and short term sources of funds, against the long term and short term applications.

(iii) Short Term funds used to purchase fixed assets is arrived from -

	N'000	
	Ashaka Plc	Gwandu Limited
Purchase of fixed assets	121.00	103.00
Less: Cash from sales of fixed assets	(-1.90)	-
Less: Cash from long term sources	-	(51.00)
	119.1	**52.00**

(iv) Ashaka Cement Company is a public limited liability company located in Gombe State. Gwandu Textile Limited is a fictitious name, but the statement of accounts are real because the real company is a private limited liability company and the shareholders would not like the company to be identified hence the change in name.

v) The statement of accounts are prepared under historical cost convention and were used without any adjustment to current cost convention.

COMMENT AND ANALYSIS ON NUMERICAL EXAMPLES (1A & B)

1. The networking capital (NWC) figure, which is the Zakatable amount is the difference between the current assets and current liabilities. In the case of Ashaka NWC is N1.8Billion and Zakat liability is N45Million. While for Gwandu Limited NWC is N27Million and Zakat liability is N.679Million (See example 1a & b).
2. As can be observed both companies had increased their fixed assets significantly. However, whereas Gwandu saved long term capital during the year, Ashaka did not.
3. It is obvious that Gwandu Limited used N52Million of its short term funds to acquire more fixed assets to the tune of N103Million. On the other hand, Ashaka used about N120Million for the same purpose.
4. The NWC method is characterised by the possibility of the mingling of sources and application of funds. It is very common to observe, short term funds being used to purchase fixed assets.
5. Our concern is not with the Financial Management's implication vis-à-vis using short term funds to purchase fixed assets which creates portfolio mismatch. We are concerned with the possibility of Zakat payer trying to evade or avoid their liability of paying Zakat, as is the case in tax evasion and or avoidance. This can arise if they

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choose to expand much on fixed assets, which are fundamentally non-Zakatable, thereby eroding the networking capital. This by implication, means potential Zakatable liability would emaciate and tend to zero.

6. The adjustment for growing capital was further applied to the above two companies and we have Ashaka Plc liability to Zakat increasing to N48Million and Gwandu Limited Liability increase to N1.9Million (See examples 1A & B).

7. The different between the networking capital method and the adjustment for growing capital can be explained due to the uses of short term funds to finance fixed assets. While short term assets are growing assets and subject to Zakat, the fixed assets are waste assets and not subject to growth hence not Zakatable.

EXAMPLE 2A: **ASHAKA CEMENT PLC**

CALCULAATION OF ZAKAT FOR THE YEAR ENDED DECEMBER 1998
OWNERS' EQUITY METHOD (OEM)

		N'000
Paid in Share Capital as at 1/12/97		302,500.00
Revenue Reserves		2,013,456.00
Profit for the Year		393,682.00
LESS:		
Long Term Liability	20,000.00	
Net Fixed Assets	798,845.00	
Short Term Liabilities Attri. To Fixed Assets	(19,335.00)	
Net Fixed Assets Free From Debt		699,510.00
Total Zakatable Amount		2,010,128.00
Zakat Due for the Year		50,253.20

EXAMPLE 2B: **GWANDU LIMITED**

CALCULATION OF ZAKAT FOR THE YEAR ENDED DECEMBER 1998
OWNERS' EQUITY METHOD (OEM)

		N'000
Paid in Share Capital as at 1/12/97		24,000.00
Revenue Reserves		45,592.00
Profit for the Year		20,994.00
		90,586.00
LESS:		
Net Fixed Assets	330,638.00	
Long Term Liability	(275,264.00)	
Short Term Liabilities Attri. To Fixed Assets	(51,827.00)	
Net Fixed Assets Free from Debt		3,547.00
Total Zakatable Amount		87,039.00
Zakat Due for the Year		2,175.98

COMMENTS AND ANALYSIS ON EXAMPLES (2A & B)

1. The net owner's equity method gives us a different Zakatable amount and Zakat liability for both Ashaka Cement Plc and Gwandu Limited. For Ashaka, the Zakatable amount is N2Billion and Zakat liability is N50Million. While Gwandu Limited has Zakatable amount of N87Million and Zakat liability of N2.7Million.
2. In both companies, we have added back that part of fixed assets not fully covered by equity contribution; but by short term and long Borrowings. The underlining principle was that "only fixed assets that are apportioned by ordinary share capital or shareholders' funds are to be deducted from the funds as non-Zakatable". We have earlier indicated in our Literature Review and also as was the practice in Saudi Arabia and Sudan that all fixed assets and business tools are non-Zakatable.
3. In a situation, where the net value of fixed assets free from debt is greater than the owners' equity funds as at the beginning of the year. Zakatable amount should be the net profit for the year. The above condition is the practice in Saudi Arabia and Sudan. It satisfies the theological conception of realisation growth and apparent growth as one of the conditions that must be satisfied before business assets become Zakatable.

COMPARATIVE ANALYSIS OF DIFFERENT VALUATION METHODS

		N'000	N'000
Method/Company		**Ashaka Plc**	**Gwandu**
1.	NWC	45,221.83	679.15
2.	Adjusted NWC	48,511.23	1,974.83
3.	OEM	50,253.20	2,175.98
4.	% Difference between (1) & (2)	7%	66%
5.	% Difference between (1) & (3)	10%	69%
6.	% Difference (2) & (3)	30%	9%

A comparative analysis of the three methods as presented above shows very interesting result.

1. The variation between methods (1) and (2) is very high and also between (1) and (3). But the variation between (2) and (3) is very low.
2. Method (1) in comparison with methods (2) and (3) shows a higher variation, but we observed a lower variation between methods (2) and (3).
3. As shown under examples 1 and 2, method (3) gives higher Zakat liability, followed by method (2) and the least is method (1).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY AND CONCLUSION

5.1.1 ISLAMIC ECONOMIC FRAMEWORK

Investment is part of our economic activities that aimed at providing the needed resources for production and distribution of tangible and intangible goods to the society. As an activity, individuals, companies and governments, who forego their liquidity and present consummations in order to achieve a greater consumption and liquidity in the future via risk and timing, carry it out directly or indirectly.

The central issue of our research is Zakat, which is the consequence of our economic activities, as we are directed by Allah (SWT) to pay Zakat out of our worldly possessions and earnings generated from our investment. We have tried to link our investment activities at micro level to our economic activities at macro perspective.

As Zakat has been identified as an integral part of Islamic public finance, the ideal framework to analyse it is within the Islamic Economic Framework. Islamic economic system has solid foundations and divine instruction from Allah (SWT). It has been defined as the acquisition and disposition of resources within the framework of Sharia. It is not confined to mere formulation and analysis of facts divorced from values.

The objectives of the Islamic Economic System includes among others, to safeguard the freedom of man and his moral and spiritual growth, social justice, equality of opportunity and co-operation to the ummah, economic well-being and above all ensure respectable source of earning.

To achieve the above objectives, the system is based on certain fundamental principles, which include: -

(I) Tawhid (oneness of Allah).

(ii) Khalifah (Vicegerent).

(iii) Al-Adl (Justice)

(iv) Ibadah (workship).

One of the sterling features of Islamic economic system is the organisation of business and production activity, which was fashioned on the premises of risk bearing and non-fixed returns of investment. The organisational structures are fundamentally based on the concept of ownership proprietorship, Mudarabah (profit and loss sharing) and Musharakah (partnership).

Other modern forms of and business and production organisations such as limited liability companies are derived principally from the above three classical methods.

Connected with the organisation methods are the financing methods, which are equally based on interest free, uncertainty in returns and sharing of associated risk. The methods are defined as the systematic and detailed sharia rules that govern the contractual relationship of an investment activity that can be applied for attracting capital.

The financing methods allowed by sharia are many and financial engineering under sharia framework is progressing, but basically, the following are the fundamental methods:-

(I) Mudaraba

(ii) Musharakah

(iii) Ijara

(iv) Bay'al Salam

(v) Bay'Murabaha

The above methods are all non-interest bearing, full of risk and uncertainty of returns to both the owners of the capital and the users of the capital. The methods are being applied worldwide by Muslim and non-Muslim investors and studies have shown that, the rate of returns on investment comparably is higher than under the conventional interest based methods.

5.1.2 THE ECONOMICS OF ZAKAT

When economic organisations are established and financing modalities set, and the corollary of that are the production of goods and services and then the inflow of income. As the main focus of our study, we have identified Zakat as a levy among others, our assets and income generation in line with their value, and period.

Zakat is one of the five pillars of Islam and its literal meaning is purification, cleanliness and growth. The act of Zakat, purifies the wealth and the heart.

The growth is multi-dimensional; spiritual development and redistribution of income which result in greater enjoyment and production. Zakat has direct and positive effect on our savings, investment, income distribution and other socio-economic endeavours of human being. The payment of Zakat is prescribed on the following assets:

- Gold and Silver
- Crops and Fruits
- Earnings from trade and other businesses
- What is brought from beneath the earth
- Assets and wealth

For an asset or wealth to be zakatable, it must satisfy the following conditions:-

- Individual and absolute right of ownership
- Growth (growing or have the potential for growth)
- Reaching the minimum amount (Nisab)
- Freedom from debt
- The passage of one year (except crops, fruits, extracted minerals, e.t.c)

From the above conditions, it is clear that, zakat on Business Assets and Investment is due on any completely owned property or it returns (clear of debt), for business transaction but not business tools, growing in value and lasted for one year and exceeds minimum prescribed amount (Nisab). There are still a number of unresolved issues among fiqh and contemporary Islamic Scholars on the issue of Zakat more especially in relation to the modern economic productions and other modern forms of income and wealth.

5.1.3 INSTITUTION OF ZAKAT

The assessment and collection of Zakat which form an integral part of Islamic public finance more especially within the Islamic States has been institutionalised in many countries across the Middle East, Africa and Asia.

In our study, we have reviewed the institutions in Saudi Arabia, the Islamic Republic of Sudan and Malaysia. We have specifically looked into the scope of the legislation, the components of the Zakatable and non-

Zakatable assets, the methods of collection of Zakat and finally the assessment methods of the business assets.

In Saudi Arabia, the laws establishing the Zakat Institution cover the entire Kingdom. The government make it compulsory to pay Zakat on livestock, agricultural produce; including crops and fruits, merchandise, while other assets such as Bank deposits accounts, shares, gold and silver and other private business incomes are left to the discretion of the owner, to assess and pay according to the established rules and regulation.

In the Sudan, they operate a replica of the Saudi system in terms of Zakatable and non-Zakatable assets. But, salary earners are equally liable to Zakat deduction at source unlike in Saudi Arabia. The two countries also have similar collection strategies; that is through government appointed agents in respect of agricultural produce, livestock and merchandise. The rest are left to the payer to pay direct to the appointed government agencies and obtained evidence of payment. Registered business organisation that maintain or did not maintain statutory books of accounts are also assessed and made to pay their Zakat. The two countries also make it a condition on all those suppliers of goods and services (contractors) to the government to show evidence of Zakat payment before they enjoy government patronage.

In Malysia, the laws establishing the Zakat agency, is applicable only at states level. Each state is allowed by the constitution, if so desired to establish an Islamic regulatory system and also Zakat agency to regulate Islamic activities and administer Zakat laws and regulations. In the states that established such agency, the government collect Zakat on agricultural produce, livestock, business assets, mineral resources gold and silver, salaries and wages and Zakat al Fitr (payable at the end of the month of Ramadan). The assessment and collection is carried out by the state designated officials, direct payment to the officers of the State Religious Department and direct deduction in respect of salaries and wages.

5.1.4 VALUATION OF ZAKATABLE ASSETS

There are many methods of valuation of business assets. However, the choice of each method is predetermined by the purpose of the valuation. In the development of valuation theory for Zakat, the criteria for selection must be based on the principles of equity, fairness and justice. Under the conventional method, the value of an asset or business is determined on the basis of the initial cost less depreciation as per the historical cost convention or the net realisable value, the replacement value or and the future earning value as per the current cost convention.

The accounting data used is arrived on certain accounting convention and standard rulers such as going concern, produce or conservation, periodicity e.t.c. The assumptions have foundations from the Western concept of accounting, which does not conform to the Islamic principles of equity, fairness and justice.

The valuation theory in Islamic perspective must be fashioned in line with the following fundamental principles.

1. Islam does not admit that there is a distinction to be drawn between what is good for business and any other sense of the good.
1. Islam discourages ambiguity in business.
2. Accounting has a significant role to play in providing information to enable organisations determine the amount liable to Zakat. This is one of the major objectives of the financial statements of an Islamic organisations.
3. Muslims are encouraged neither to dwell upon what is past, nor to speculate unduly about future.
4. The possibility of an urgent need to realise existing assets in order to acquire others is always before a Muslim, and his or her assessment of their value (and of the income they generate) should reflect this fact.

5. Islam has its own cohesive values which dictate how a business should be run. These rules can be applied at any time and in any culture.

The accounting theory and practice have to pursue these rules if they are to be of any relevance to Muslim users. The development of Islamic accounting standard and conventions must be given due prominence by the Islamic Scholars as critical aspect of the complete Islamisation of our economic activities.

GENERAL CONCLUSION

We have identified different methods of valuing assets for the purpose of paying Zakat. The methods include, market value, net realisable value and replacement cost method. However, each of the three methods has its advantages and disadvantages. But the need on the Zakat payer to always choose the easiest, less complicated method but that which would not lead to under-estimation is enjoyed up on each Zakat payer The general consensus of the scholars is the use of the net realisable value, which is usually the mid-value between market value and replacement value. That as it may be, the approach towards the valuation techniques is fundamental to the value itself.

We have identified three approaches as practised by our sampled economics. The net working capital, owners equity approach and

adjustment for growing capital concept and we have used numerical examples utilising life data to test the approaches.

We have a very interesting result such that, the owners equity approach gives the higher Zakat liability in comparison with the other approaches followed by the growing capital concept.

RECOMMENDATIONS

To the Individual Investors

1. Individual Zakat payers who have investment either as sole proprietors or joint ownership with other shareholders are liable to pay Zakat on the portion or total value of their investment as the case may be.

3. Investment to be valued on the basis of net realisable value using the owners equity approach. Or networking capital with necessary adjustments. The amount to be paid should be in proportion to the holding.

4. Quoted investment that has market value should be paid at the market price on the day the Zakat is due less associated transaction cost which is equal to the net realisable value.

5. Investors (sole proprietors) and corporate organisations managers, for the purpose of Zakat payment should keep proper records of financial transaction to distinguish the followings:

(i) Sources of funds (equity, short term debts and long term debts).

(ii) Application of each type of funds to finance fixed assets, current assets or operations.

To the Government

1. States Governments that have established Sharia institutions, should complete the system by establishing Zakat Agency. The Agency should be charged with the responsibility of the assessment, collection and distribution of Zakat.
2. Muslims should be encouraged to establish and carry out business organisations and financing in accordance with Islamic injunctions.
3. Unit of measurement for foods and cash crops should be introduced within the system, as a deliberate policy towards ensuring equity and social justice at all levels.
4. That the Islamic society does not and will never segregate religious issues from economic activities. Consequently, state affairs should be ran purely on the teachings of Holy Quran and the Sunnah without recourse to mischievous segregation of religion from other human endavours.

RECOMMENDATION FOR FURTHER RESEARCH

There are many unresolved issues in the contemporary fiqh more especially as they affect the Zakat valuation theory, general accounting standards and general business operation.

Even though, we have tried to touch on the issue of valuation, but it is just a scratch on the surface.

There is need for continued research on the following specific areas:

1. Nature and operations of limited liability companies, i.e. Executive Directors as paid employees and shareholders.
2. Zakat on modern forms of wealth and income i.e. salaries and wages, contractors income e.t.c.
3. The valuation theory which is currently based on the Western concept of value. The issue of fair value of an asset for the purpose of Zakat payment has not yet been resolved and will continue to be so until the generally accepted accounting standard are fashioned on the premises of Islamic Ethical Values.

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APPENDIX "A"



1. **Accounting Basis**
The accounts have been prepared according to the historical cost convention.

2. **Debtors**
Full provision is made against debtors which are considered to be doubtful because of their age or circumstances.

3. **Depreciation**
Depreciation is provided on fixed assets from the date of being brought into use by equal annual instalments over the estimated lives of the assets. The estimated lives of the assets are:-

Buildings and Roads	30 years
Fixed Plant	10 to 30 years
Mobile Plant, Furniture & Equipment	3 to 10 years

4. **Foreign Currencies**
Foreign currencies are translated into Naira at the rates ruling at the Balance Sheet date. Exchange differences arising in respect of trading transactions are included in Profit and Loss Account.

5. **Stocks and Work-in-Progress**
The basis of valuation is the lower of cost or net realisable value. Cost includes direct costs and appropriate overheads.

6. **Turnover**
Turnover represents the amount receivable for the Company's own manufactured goods supplied to customers by the Company and includes transport charges.

ASHAKACEM PLC

BALANCE SHEET

As at 30th. November, 1998

	Note	1998 N'000	1997 N'000
Fixed Assets	1	798,845	812,609
Prepayment for More Than One Year		3,220	3,827
		802,065	**816,436**
Current Assets			
Stocks and Work-in-Progress	2	1,966,428	1,750,361
Debtors	3	368,001	543,677
Cash at Bank and in Hand	4	905,301	734,787
		3,239,730	**3,028,825**
Current Liabilities			
Creditors	5	1,055,936	986,794
Associated Company	6	93,321	36,290
Capital Repayments	7	4,894	76,816
Proposed Dividend	8	118,700	118,700
Taxation	9	158,006	285,811
		1,430,857	**1,504,411**
Net Current Assets		**1,808,873**	**1,524,414**
Net Assets		**2,610,938**	**2,340,850**
Financed By:			
Share Capital	10	302,500	302,500
Debenture Redemption Reserve	11	0	20,000
Revenue Reserve	11	2,308,438	2,013,456
		2,610,938	**2,335,956**
Loan Capital			
Commercial Loan		0	4,894
		2,610,938	**2,340,850**

he accounts on pages 14 to 21 were approved by the Board of Directors and signed on its behalf by:

ngr. M. M. Daggash
Managing Director

Alhaji M. B. Kirfi (Wazirin Bauchi)
Chairman

ASHAKACEM PLC

STATUTORY PROFIT AND LOSS ACCOUNT

As at 30th. November, 1998

	Note	1998		1997	
		N'000	N'000	N'000	N'000
Turnover			3,892,256		3,945,792
Cost of Sales			(2,200,140)		(2,064,444)
Gross Profit			1,692,116		1,881,348
Deposit Interest			89,312		45,005
			1,781,428		1,926,353
Selling and Distribution Expenses		(498,389)		(368,451)	
Administration Expenses		(724,331)		(623,087)	
			(1,222,720)		(991,538)
Operating Profit			558,708		934,815
Interest Payable	13		(7,020)		(17,832)
Profit Before Taxation	12		551,688		916,983
Taxation			(158,006)		(285,811)
Profit After Taxation			393,682		631,172
Appropriations					
Proposed Dividend					
Preference Shares at 17% (1997 17%)	8	(1,700)		(1,700)	
Ordinary Shares at 40% (1997 40%)	8	(117,000)	(118,700)	(117,000)	(118,700)
Retained Profit for the year			274,982		512,472
Unappropriated Profits brought forward			2,013,456		1,500,285
Transfer from Debenture Redemption Reserve	11		20,000		20,000
Tax Adjustment - Previous Year	11		0		(19,301)
Unappropriated profits carried forward			2,308,438		2,013,456

ASHAKACEM PLC

CASH FLOW STATEMENT

For the year ended 30th. November, 1998

CASH FLOW FROM OPERATING ACTIVITIES	1998 N'000	1997 N'000
Operating Profit Before Interest and Taxation	558,708	934,365
Depreciation	135,053	131,276
Profit on Sale of Fixed Assets	(1,954)	(365)
Operating Profit Before Working Capital Changes	691,807	1,065,276
WORKING CAPITAL CHANGES		
Stocks and Work-In-Progress	(216,067)	(84,825)
Debtors and Prepayments	176,283	(206,472)
Creditors and Accruals	69,142	423,467
Associated Company	57,031	(101,928)
NET CASH INFLOW FROM OPERATING ACTIVITIES	778,196	1,095,518
RETURN ON INVESTMENT AND SERVICING OF FINANCE		
Bank Interest	(7,020)	(17,382)
Dividend Paid	(118,700)	(107,000)
Commercial Loan Received/(Repaid)	(64,575)	69,469
Repayment of Debenture Stock	(12,241)	(24,500)
Net Cash Outflow from Return on Investment and Servicing of Finance	**(202,536)**	**(79,413)**
TAXATION		
Income and Education Taxes Paid	(285,811)	(265,941)
	(285,811)	**(265,941)**
INVESTING ACTIVITIES		
Purchase of Fixed Assets	(121,289)	(178,490)
Proceeds on Sale of Fixed Assets	1,954	365
Net Cash Outflow from Investing Activities	**(119,335)**	**(178,125)**
Increase in Cash and Cash Equivalent	**170,514**	**572,039**
Opening Cash and Cash Equivalent	734,787	162,748
Closing Cash and Cash Equivalent	**905,301**	**734,787**

ASHAKACEM PLC

VALUE ADDED STATEMENT

For the year ended 30th. November, 1998

			1998			1997
	%		N'000	%		N'000
Turnover (Including VAT)			4,086,873			4,143,082
Less: Cost of Materials and Services Purchased			2,909,540			2,627,866
Total Value Added	100.0	%	1,177,333	100.0	%	1,493,484
Applied as follows						
To Pay Employees						
Salaries, Wages and Pension Contributions	24.5		288,959	15.4		230,103
To Pay Providers of Capital						
Interest	0.6		7,020	1.2		17,832
Dividend	10.1		118,700	8.0		118,700
Payable to Government						
Taxation	13.4		158,006	19.1		285,811
Value Added Tax	16.5		194,613	13.2		197,290
Retained in the Business for Maintenance of Assets and for Expansion						
Depreciation	11.5		135,053	8.8		131,276
Retained Profit	23.4		274,982	34.3		512,472
	100.0	%	1,177,333	100.0%		1,493,484

Fixed Assets	Buildings & Roads	Fixed Plant	Mobile Plant Furniture, Equipment	Total
	N'000	N'000	N'000	N'000
Cost				
At 1st December 1997	230,720	613,920	397,849	,242,489
Additions	18,156	95,330	7,803	21,289
Disposals			(2,304)	(2,304)
At 30th November 1998	**248,876**	**709,250**	**403,348**	**1,361,474**
Depreciation				
At 1st December 1997	66,729	187,624	175,527	429,880
Charge for the year	14,777	68,240	52,036	135,053
On Disposals	0	0	(2,304)	(2,304)
At 30th November 1998	**81,506**	**255,864**	**225,259**	**562,629**
Net Book Value at 30th November 1998	**167,370**	**453,386**	**178,089**	**798,845**
Net Book Value at 30th November 1997	**163,991**	**426,296**	**222,322**	**812,609**

Assets on Lease cost N206,258,052. Rentals have been charged to Revenue.

	1998 N'000	1997 N'000
Stocks and Work-in-Progress		
Raw Materials and Consumables	249,300	276,838
Spare Parts	1,459,756	1,257,414
Work-in-Progress	221,299	170,292
Finished Goods	36,073	45,817
	1,966,428	**1,750,361**
Debtors		
Trade Debtors	24,551	31,447
Unutilised Letters of Credit	254,314	394,332
Prepayments and Sundry Debtors	17,190	45,274
Staff Loans	8,243	10,247
Advance Payments to Suppliers	65,828	64,502
Provision for Bad and Doubtful Debts	(2,125)	(2,125)
	368,001	**543,677**
Cash at Bank and in Hand		
Bank Deposit Accounts	490,000	371,191
Bank Current Accounts	412,429	362,270
Cash in Hand	2,872	1,326
Creditors		
Suppliers	94,498	89,698
Hauliers	68,163	51,514
Accruals and Provisions	213,084	232,308
Distributors' Deposits	58,180	55,650
Advance Payments by Customers	622,011	557,624
	1,055,936	**986,794**

		1998 N'000	1997 N'000
6.	**Associated Company**		
	The Associated Company is Blue Circle Industries PLC. Industries PLC. The amount due consists of charges for services provided and Technical Opersating Agreement Fee.	**93,321**	**36,290**
7.	**Capital Repayments**		
	The following repayments are due in less than one year:		
	Commercial Loan	4,894	64,575
	Debenture Stock	0	12,241
		4,894	**76,816**
8.	**Dividend**		
	1. Proposed for the year		
	Preference Shares 17%	1,700	1,700
	Ordinary Shares 40% (1997 40%)	117,000	117,000
		118,700	**118,700**

2. The proposed dividend is subject to deduction of withholding tax at the appropriate rate.

3. Unclaimed Dividends
The Company's Registrars have advised that dividends not yet claimed by Nigerian Shareholders amount to N13,242,015.11. This amount is still being held by the Registrars.

9.	**Taxation**		
	Current Year per Profit and Loss Account	**158,006**	**285,811**

10.	**Share Capital**	**Authorised**		**Issued and Fully Paid**	
		1998 N'000	**1997 N'000**	**1998 N'000**	**1997 N'000**
	Ordinary Shares of 50k each	295,000	295,000	295,000	295,000
	Cumulative Redeemable 17% Preference Shares of N1 each	10,000	10,000	10,000	10,000
		305,000	***305,000***	***305,000***	***305,000***

The Cumulative Redeemable Preference Shares may be redeemed at any time after 31st March 1986 by the Company giving two months notice to the holders and paying them a premium of 10% of the nominal value.

11.(a)	**Revenue Reserves**	**Revenue Reserve N'000**	**Debenture Redemption Reserve N'000**	**Total 1998 N'000**	**Total 1997 N'000**
	Balance at 1st December 1997	2,013,456	20,000	2,033,456	1,540,285
	Profit for Year after Taxation	393,682	0	393,682	631,172
	Dividends 1997/98	(118,700)	0	(118,700)	(118,700)
	Transfer from Debenture Redemption Reserve	20,000	(20,000)	0	0
	Tax Adjustment	0	0	0	(19,301)
	Balance at 30th November 1998	**2,308,438**	**0**	**2,308,438**	**2,033,456**

(b) **Debenture Redemption Reserve**
Provision for Debenture Redemption Reserve of N20,000,000 has been written back in the accounts since the Debenture was fully repaid during the year.

(c) **Deferred Taxation**
The Company has a potential deferred tax liability as at 30th November 1998 of N168m (1997 N159.8m) which relates principally to timing differences between depreciation of fixed assets for book and tax purposes.

The Directors are of the opinion that the liability will not crystallise within the foreseeable future and accordingly no provision has been made in the accounts.

12. Profit Before Taxation

This is Stated after charging or (crediting)	1998 N'000	1997 N'000
Directors' Remuneration - Fees	500	490
Others	2,053	1,932
Audit Fees	1,500	1,500
Profit on sale of fixed assets	(1,954)	(365)
Depreciation	135,053	131,276
Lease Charges	87,713	86,189

13. Interest Payable

Loan Interest	5,935	12,936
Debenture Interest	977	4,896
Overdraft Interest	105	0
	7,020	**17,832**

14. Future Capital Expenditure
Capital Expenditure authorised by the Directors and not yet provided in the accounts:

Committed	60,000	0
Not Committed	504,000	290,592
	564,000	**290,592**

15. Contingent Liabilities
There are no contingent liabilities at the end of 1998.

16. Approval of Accounts
These accounts were approved by the Board of Directors of the Company on 9th March, 1999.

BALANCE SHEET AS AT 31 DECEMBER 1998

	NOTES	1998 =N=	1997 =N=
FIXED ASSETS	2	319,638,003	250,265,803
CAPITAL WORK-IN-PROGRESS		11,000,000	-
		330,638,003	250,265,803
CURRENT ASSETS			
Stocks	3	260,530,106	277,461,130
Goods-In-Transit	4	77,727,999	70,679,031
Debtors and Prepayments	5	247,256,588	151,416,311
Cash at Bank and in Hand		14,589,454	5,774,147
		600,104,147	505,330,621
LESS: CREDITORS Amout Falling Due Within One Year			
Creditors and Accrued Expenses	6	267,028,794	218,971,474
Taxation		895,520	-
Bank Overdraft		305,013,322	243,199,046
		572,937,636	462,170,520
NET CURRENT ASSETS/(LIABILITIES)		27,166,511	43,160,102
		357,804,514	293,425,910
DEDUCT CREDITORS Amount Falling Due After More Than One Year		275,264,566	223,833,751
TOTAL NET ASSETS		82,539,948	69,592,159
FINANCED BY:			
CAPITAL AND RESERVES			
Called-Up Share Capital		50,000,000	24,000,000
Reserves		32,539,948	45,592,159
		82,539,948	69,592,159

DIRECTORS

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

	1998 =N=	1997 =N=
SALES	1,350,846,551	1,393,611,786
Changes in Stock of Finished Goods and Work-In-Progress	24,378,187	(12,935,837)
Other Operating Income	48,601,805	37,352,671
	1,423,826,543	1,418,028,620
Raw Materials and Other Consumables	1,020,574,737	1,049,619,582
Other External Charges	138,335,286	172,231,453
Staff Costs	76,371,647	74,919,526
Depreciation	22,886,332	16,758,458
Other Operating Charges	42,290,661	38,672,969
	1,300,458,663	1,352,201,988
Operating profit before interest and taxation	123,367,880	65,826,632
Interest Receivable	779,232	2,825,052
Less: Interest Payable and Similar Charges	(102,257,462)	(43,896,219)
Profit on Ordinary Activities Before Tax	21,889,650	24,755,465
Less: Taxation	895,520	3,482,348
Profit on Ordinary Activities After Tax	20,994,130	21,273,117
Dividend on Ordinary Shares - (12k Gross)	6,000,000	6,000,000
	14,994,130	15,273,117
Retained Profit Brought Forward	45,592,159	30,789,736
Less: Bonus Issue	(26,000,000)	-
Under provision of taxation in the previous year	(2,046,341)	(470,694)
Retained Profit Carried Forward	32,539,948	45,592,159

CASH FLOW STATEMENT — FOR THE YEAR ENDED 31 DECEMBER 1998

		1998	1997
		=N=	=N=
1	OPERATING ACTIVITIES		
	Operating Profit before Interest and taxation	123,367,880	65,826,632
	Depreciation Charges	22,886,332	16,758,458
	Decrease/(Increase) in Stocks	9,882,056	(122,250,727)
	Decrease/(Increase) in Debtors	(95,840,274)	67,329,894
	(Decrease)/Increase in Creditors	93,488,135	127,214,893
	Net Cash Inflow/(outflow) from operating activities	153,784,129	154,879,150
2	RETURNS ON INVESTMENT & SERVICING OF FINANCE		
	Interest Received	779,232	2,825,052
	Interest Paid	(102,257,462)	(43,896,219)
	Net Cash Inflow/(outflow) from returns on investments and servicing of finance	(101,478,230)	(41,071,167)
3	TAXATION		
	Income Tax Paid	(2,046,341)	(7,445,346)
4	INVESTING ACTIVITIES		
	Payments for Capital Work-In-Progress	(11,000,000)	-
	Payments to acquire Tangible Fixed Assets	(92,258,522)	(179,332,882)
		(103,258,522)	(179,332,882)
	Net Cash inflow/(outflow) for the year	(52,998,964)	(72,970,245)
	Balance at the beginning of the year:		
	Cash/Bank Balances at the beginning of the year	5,774,147	44,354,396
	Bank Overdraft	(243,199,051)	(208,809,055)
	Balance at the end of the year	(290,423,868)	(237,424,904)
	ANALYSIS OF BALANCES AT THE END OF THE YEAR		
	Cash/Bank Balance	14,589,454	5,774,147
	Bank Overdraft Balances	(305,013,322)	(243,199,051)
		(290,423,868)	(237,424,904)

NOTES TO THE ACCOUNTS **FOR THE YEAR ENDED 31 DECEMBER 1998**

1 ACCOUNTING POLICIES

a) These accounts have been prepared under the historical cost convention.

b) All expenses and commissions relating to issue of shares have been written off to profit and loss account in the year incurred.

c) Depreciation

Depreciation of fixed assets is calculated to write-off cost on a straight line basis over the expected useful lives of the assets concerned. The annual rates used for the various classes of fixed assets are:

			%
Land and Buildings			5
Plant and Machinery			6 2/3
Office Furniture and Fittings			15
Motor Vehicles	-	Commercial	33 1/3
	-	Cars	25

d) Stocks and Work-In-Progress

Unprocessed stocks have been valued at the lower of cost or net realisable value after making due allowance for obsolete or defective items where appropriate. Work-In-Progress and finished stocks have been valued at cost plus attributable overhead based on normal level of activity. Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal.

e) Turnover

Turnover comprises the net value of goods invoiced during the year.

f) Foreign Currency Conversion

Foreign currency transactions have been converted at the rate of exchange ruling at the time of the transaction or at the Balance Sheet, whereever applicable. All exchange differences were taken to profit and loss account.

2 FIXED ASSETS

The following have been included in the net book value of the fixed assets.

	1998	1997
	=N=	=N=
Land and Buildings	57,116,910	46,302,755
Factory Machines	224,918,607	170,069,102
Generator	11,808,932	5,424,949
Office Building	4,771,355	5,006,676
House Furniture and Equipment	1,997,867	2,595,567
Office Furniture and Equipment	5,922,322	6,818,815
Factory Furniture and Equipment	2,293,293	1,932,377
Motor Vehicles	10	1,575,884
Canteen Building	3,073,550	3,261,429
Staff Clinic Building	3,854,805	4,126,744
Clinical Equipment	3,880,352	3,151,510
	319,638,003	250,265,808

		1998	1997
		=N=	=N=
3	STOCKS AND WORK-IN-PROGRESS		
	Grey Cloth	51,262,719	19,8 3,505
	Chemical and Dyestuff	106,004,011	177,205,259
	Spare Parts	25,104,298	21,2 0,353
	Packing Materials	8,885,182	10,330,264
	Fuel and Lubricant	373,114	4,245,514
	Building Materials	3,745,642	6,513,980
	Stationery	2,030,637	850,899
	Finished Goods	24,942,928	13,674,185
	Work-In-Progress	32,398,169	19,280,725
	Engraving Materials	4,084,614	2,755,116
	Uniform	563,636	474,518
	Medical Facilities	1,335,156	988,853
		260,530,106	277,461,130
4	GOODS-IN-TRANSIT		
	Chemicals	7,788,389	63,770,708
	Spare Parts	29,381,482	4,588,299
	Capital Goods	40,558,128	2,320,024
		77,727,999	70,679,031
5	DEBTORS AND PREPAYMENTS		
	Trade Debtors	205,892,271	129,801,397
	Staff Debtors	1,636,599	724,044
	Other Debtors	39,283,719	19,440,893
	Prepayments	641,999	1,449,980
		247,256,588	151,416,314
6	CREDITORS AND ACCRUALS (Amount Falling Due		
	Trade Creditors Within One Year)	198,582,624	143,231,496
	Sundry Creditors	12,020,702	32,419,635
	Accrued Expenses	15,798,418	6,685,000
	Others	40,627,050	36,635,343
		267,028,794	218,971,474

7 GROSS PROFIT

Gross profit for the year was arrived at as follows:	1998 =N=	1997 =N=
Sales - Nigeria	1,350,846,551	1,393,611,786
	1,350,846,551	1,393,611,786
Chage In Stock of Finished Goods and Work-In-Progress	24,378,187	(12,935,837)
	1,375,224,738	1,380,675,949
Less: i) Cost of grey baft	527,630,984	541,642,526
ii) Other raw materials & consumables	488,943,753	507,977,056
iii) Factory staff wages, salaries and other gratuity cost	51,888,277	54,270,512
iv) Depreciation - Factory Machines/ Plant excluding motor vehicles, Equipment and other fixed assets used outside the factory	18,367,716	13,016,325
v) Other Factory Overheads	138,335,288	172,231,453
	1,225,166,016	1,289,137,872
GROSS PROFIT	150,058,722	91,538,077

8 TAXATION

Taxation on the year's profit is calculated in accordance with the provisions of the Income Tax Act 1979 and subsequent amendments to date.

Deferred tax liability (attributable primarily to the excess of tax over book depreciation of fixed assets) have not been provided because the directors have concluded that the liabilities will not crystalise in the next three years.

Tax Rates	1998	1997
Income Tax	30%	30%
Education	2%	2%

9 CALLED-UP SHARE CAPITAL

Authorised	=N=	=N=
Ordinary Shares of =N=1.00 each	100,000,000	30,000,000

	1998 =N=	1997 =N=
Issued and Fully Paid		
Ordinary Shares of =N=1.00 each	50,000,000	24,000,(

10 LEASE OBLIGATIONS

i) In 1991, the Company concluded a Finance Lease Agreement with Leasing Company of Nigeria Limited in respect of Printing Machines. The lease will run for six and half (6 1/2) years with eighteen (18) months lease in process period. The total amount for the lease is denominated in US Dollars at an interest rate of 16 percent per annum. Lease rentals would be 60 equal monthly instalments commencing from the first day after the lease in process period.

During the year (1996) the Company paid in advance the Lease rental (Princial and Interest) to minimise the effect of the depreciating value of the Naira on the Company's finance in future.

ii) NORTEX (NIGERIA) LIMITED
In 1991 the Company concluded a Land Lease Agreement with Nortex (Nigeria) Limited in respect of the factory premises. The lease is a long term lease of twenty (20) years effective from the 1st day of April, 1991. The amount of the lease is a yearly payment of =N=150,000.

iii) In 1995, the Company concluded a finance lease agreemwnt with Nigeria Intercontinental Merchant Bank (NIMB) Limited in respect of a Steam Boiler. Lease rental would be twelve equal monthly instalments commencing from 180 days from the date of first drawn down.

iv) In 1996, the Company concluded a finance lease agreemenet with FBN (Merchant Bankers) Ltd. In respect of Generating Set (500 KVA Model). Lease rental would be thirty-six equal monthly instalments commencing after three months from the date of drawn down.

11 CREDITORS DUE AFTER 12 MONTHS
These are creditors who will not be paid within the next 12 months.

NOTES TO THE ACCOUNTS **FOR THE YEAR ENDED 31 DECEMBER 1998**

		1998	1997
12	OPERATING PROFIT	=N=	=N=
	Operating profit is stated after charging:		
	Auditors' Remuneration	900,000	850,000
13	EMOLUMENTS OF DIRECTORS		
	Fees	220,000	220,000
	Remuneration	245,000	140,000
		465,000	360,000
	The directors' remuneration shown above include:		
	Chairman	30,000	30,000
	Highest Paid Director	140,000	65,502
	Other directors received emolument in the following ranges:	NUMBER	NUMBER
	=N=10,001 - =N=20,000	6	6
	=N=20,001 - =N=150,000	2	2
	HIGHER PAID EMPLOYEES		
	Employees of the Company, other than Directors received remuneration in the following ranges:	1998 NUMBER	1997 NUMBER
	=N=60,001 - =N=70,000	2	2
	=N=70,001 - =N=80,000	1	1
14	PARTICULARS OF EMPLOYEES		
	Particulars of employees during the year are:		
	Executive Director	2	2
	Management Staff	20	20
	Senior Staff	25	25
	Junior Staff	474	474
		521	521
15	INTEREST AND SIMILAR CHARGES		
	Bank Interest	89,085,689	26,808,675
	Bank Charges	13,171,773	17,087,544
		102,257,462	43,896,219
16	APPROVAL OF FINANCIAL STATEMENTS		
	These financial statements were approved by the Board of Directors of the Company on		

STATEMENT OF VALUE ADDED

FOR THE YEAR ENDED 31 DECEMBER 1998

	1998 =N=	%	1997 =N=	%
SALES	1,350,846,551		1,383,155,024	
Stock of Finished Goods and Work-In-Progess	24,378,187		(12,935,837)	
Other Income	49,381,037		40,177,723	
	1,424,605,775		1,410,396,910	
Less: Cost of Raw Material, Replacement of Spares, Parts, Excise Duties, Services etc	1,201,200,684		1,250,067,242	
VALUE ADDED	223,405,091		160,329,668	
APPLIED AS FOLLOWS:				
To Pay Employees				
Wages, Salaries, Welfare and other staff related expenses	76,371,647	34.19	74,919,526	46.73
To Pay Providers of Capital				
Dividend (Ordinary Shares)	6,000,000	2.67	6,000,000	3.74
Interest ,	102,257,462	45.78	43,896,219	27.38
To Pay Government				
Income Tax	895,520	0.40	3,482,348	2.17
Provide for Maintenance of Assets and Expansion				
Depreciation	22,886,332	10.24	16,758,458	10.45
Retained Earnings	14,994,130	6.72	15,273,117	9.53
	223,405,091	100	160,329,668	100

NOTE:

Value added is the wealth the Company has been able to create by its own and its employees' efforts.

This statement shows the allocation of that wealth between Employees, Government, Shareholders, Providers of working capital and that retained for future creation of more wealth.