Zakat

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline

For Zakat Base Additions

According to the Implementing Regulations for Zakat Collection

Issued in 1445 AH

Version One I 2025

This guideline represents the Zakat, Tax and Customs Authority's ("ZATCA" or "Authority") understanding and interpretation of the implementation of the Implementing Regulation for Zakat Collection issued by the Minister of Finance under Decision No. (1007) dated 19/8/1445 AH.

The Zakat, Tax and Customs Authority ("ZATCA", "Authority") has issued this Guide for the purpose of clarifying certain treatments concerning the implementation of the statutory provisions in force as of the Guide's issue date. The content of this Guide shall not be considered as an amendment to any of the provisions of the Laws and Regulations applicable in the Kingdom.

Furthermore, the Authority would like to highlight that the clarifications and indicative treatments prescribed in this Guide, where applicable, shall be implemented by the Authority in light of the relevant statutory texts. Where any clarification, interpretation, or content provided in this Guide is modified - in relation to unchanged statutory text - the updated indicative treatment shall then be applicable prospectively, in respect of transactions made after the publication date of the updated version of the Guide on the Authority's website.

Content

1. Introduction

1.1 About Zakat

Zakat is the third pillar of Islam. It is the most important financial way of worship at all. Therefore, it was mentioned repeatedly in the Glorious Qur'an. Allah Almighty has associated it with prayer in more than eighty verses. It is one of the key pillars that distinguishes a Muslim community from others, and a manifestation of the supremacy of Islamic legislations. It represents a successful way to assist entitled groups and help improve their conditions, which lead to achievement of social solidarity.

1.2 Collection of Zakat

What evidences the great regard of Zakat in Islam is assigning its management and supervision to the State. In fact, the State is the entity responsible to collect Zakat on funds and spending it on those entitled, by assigning some personnel (Zakat Employees) to visit the owners of funds throughout the Islamic State, calculate the amount of their Zakat, then collect it from them, and supervise the disbursement and distribution of it to the beneficiaries. ZACTA undertakes the task of levying Zakat. It undertakes all procedures related to the Zakat payer's Zakat calculation, starting with the registration of the Zakat payer, through the process of calculating the amount of Zakat for the Zakat payer, which includes supervision of the Zakat payer's submission of Zakat Reports, payment procedures, examination of the submitted statements, and verification of them by well-trained personnel working at ZATCA and ending with the issuance of the Final Zakat Certificate. This may also include examining the resulting Zakat payers' objections to ZATCA's Zakat amounts assigned to it.

1.3 Application of Zakat Collection in the Kingdom of Saudi Arabia

The collection of Zakat and its disbursement to those entitled is one of the basic tasks of the State, as stipulated in the Basic Law of Governance in Article 21, which reads as follows: (Zakat shall be collected and disbursed in its disbursement Sharia channels). Article 7 set forth evidence of the State's attention to the duties of Sharia and its commitment to it in general, which includes collecting Zakat and disbursing it to the beneficiaries. It stipulates as follows: (The government in Saudi Arabia derives power from the Holy Qu'ran and the Prophet's tradition. They are the rules governing the Law as well as all State laws).

In confirmation of the preceding, during the reign of the Founder King Abdul-Aziz -may Allah have mercy on him- Royal Decree No. (17/2/28/8634) dated Jumada Al Awl 29, 1370 AH corresponding to April 6, 1951 AD, was issued containing the order to collect Zakat. The said Royal Decree was followed by many royal decrees confirming it and executive ministerial resolutions, in addition to the regulations and circulars that explain and clarify it, including: Royal Decree No. (M/40) dated Rajab 2, 1405 AH, and the Implementing regulations for collecting Zakat issued by Ministerial Resolution No. (2082) dated Jumada Al-Thani 1, 1438 AH. Corresponding to (28 February 2017 AD) and the Implementing regulations for collecting Zakat issued by Ministerial Resolution No. (2216) dated 7 Rajab 1440 AH corresponding to (14 March 2019 AD), which applies to the Zakat years starting from January 1, 2019 AD for all Zakat payers, except for those who are accounted for by the arbitrary method according to the fourth section of the regulations, the application of the regulations applies to their declarations submitted after December 31, 2019 AD, and the Implementing Regulation for Zakat Collection issued by the Minister of Finance under Resolution No. (1007) dated 19 Shaban 1445 AH (corresponding to Thursday, 29 February 2024), which shall apply to fiscal years commencing on or after 1 January 2024 for all Zakat payers.

The Implementing Regulation for Zakat Collection has been concerned with clarifying the provisions for levying commercial activities in general and has also elucidated the provisions for specific activities and cases. Moreover, the Regulation has encompassed the procedures for Zakat collection, as well as the rights and obligations of Zakat payers.

The Zakat proceeds collected by ZATCA are received and deposited in the Social Security Account, which is responsible for disbursement to the poor and needy in accordance with Royal Decree No. (61) Dated 05 Muharram 1383 AH corresponding to (May 28, 1963 AD), wherein Paragraph (1) provides for: "Zakat shall be collected in full from all joint stock companies, and others, and individuals who are subject to Zakat." In addition, Paragraph (2) stipulates: "All amounts collected shall be returned to the Social Security Fund."

Legislative Hierarchy of Zakat

1. **Royal Decree dated 29/6/1370 H.**
   which mandates the collection of Zakat from Saudi nationals

2. **Ministerial Resolution No. (394) dated 7/8/1370 H.**
   to establish the Authority as a governmental body

3. **Royal Decree No. (M/40) dated 2/7/1405 H.**
   which included the order to collect Zakat in full from all companies, institutions and other organizations as well as individuals who are subject to Zakat.

4. **The implementing regulations of the Royal Decree (M/40)**
   were issued under Ministerial Resolution No. (2082) dated 11/6/1438 H.

5. **On 20/7/1438 H.**
   the Zakat, Tax and Customs Authority was formed by Council of Ministers Resolution No. (465) approving the Authority's organization.

6. **By Ministerial Resolution No. (2216) dated 7/7/1440 H.**
   the implementing regulations for Zakat collection were issued applicable from 1 January 2019

1.4 Zakat, Tax, and Customs Authority

The Zakat, Tax, and Customs Authority is a Saudi government agency established by a Royal Decree No. (570) issued on 23 Ramadan 1442 AH (May 4, 2021 AD) including the merger of the General Authority of Zakat and Income and the General Customs Authority - earlier - under the name of the Zakat, Tax, and Customs Authority.

1.5 Zakat, Tax, and Customs Authority Tasks

ZATCA's Regulations defined the tasks of ZATCA in Article (3) thereof, which include the following:

- Collecting Zakat and taxes as well as customs fees from Zakat payers as per the relevant regulations and instructions.
- Providing high-quality services to Zakat payers to support them in fulfilling their duties.
- Liaising with Zakat payers and taking the necessary measures to ensure the collection of dues.
- Raising awareness among Zakat payers, enhancing the degree of understanding and voluntary commitment to compliance and ZATCA instructions and controls, within its tasks.
- Leveraging modern technology in implementing, monitoring, and facilitating ZATCA's operation, and in enhancing the security role in combating customs smuggling.
- Cooperating with the private sector in implementing and managing some supportive works.
- Develop the necessary plans to organize, manage, and invest in the facilities of customs ports in coordination with the relevant authorities.
- Setting standards for following up on the performance indicators of ZATCA's works and plans, which ensure the development of its performance and services. ZATCA may coordinate with whomever it deems appropriate from the relevant authorities.
- Cooperating and exchanging experience with regional and international bodies and organizations, and specialized consulting firms both within and outside the Kingdom, within the Authority's tasks.
- Representing KSA in regional and international organizations, forums and conferences related to ZATCA's tasks.

Legislative Hierarchy of Zakat

Providing high quality services to help and serve the Zakat payers.

Collecting zakat, taxes, and customs duties.

Cooperation and exchange of experiences with regional and international bodies and organizations.

Follow up the Zakat payers to ensure collection of the amount's dues.

Representing KSA in regional and international forums and conferences related to ZATCA's tasks.

Spreading awareness amongst Zakat payers and monitoring their commitment to the instructions and controls issued by ZATCA.

1.6 About this Guideline

This Guideline includes clarifications of procedures and instructions related to addition items of the Zakat base and the detailed rulings ralated to them. It helps to form a clear vision and provides detailed guidance regarding the handling of addition items of the Zakat base, in addition to presenting practical application cases related to this matter.

This Guideline represents the concept of the authority and its interpretation regarding the application of the Implementing Regulation for Zakat Collection issued by the Minister of Finance's Decision No. (1007) dated 19/8/1445 AH.

For guidance on any specific transaction, you can visit the official website of the authority (ZATCA.gov.sa), which contains a wide range of tools and information specially designed to assist taxpayers, including visual guidance materials, all relevant data, and responses to frequently asked questions.

2. Addition Items and Methodology for Separating between Equity and Liabilities

2.1. Introduction

The Zakat due on a Zakat payer holding statutory accounts is calculated based on the result of calculating the Zakat base, in accordance with the provisions outlined in the regulation. Article 21 of the regulation specifies the mechanism for calculating the Zakat base for the Zakat payer, which involves adding the addition items represented by sources of Zakat-able funds according to the provisions of the regulation (equity and its equivalents, and liabilities that must be added within the limits of deductions), subtracting the deduction items in accordance with the procedures and concepts outlined in the regulation. Article 23 of the regulation included the main addition items, while Article 26 outlined the basic deduction items.

2.1.1 Addition Items

The addition items to the Zakat base include three essential elements, which are outlined in Article 23 of the regulations, including the following:

1. Equity and its equivalents:

Equity items are considered sources of funds for entities and are a fundamental component of the Zakat base. All equity items are added to the Zakat base at the end-of-period balance. Equity includes all items classified as equity in the Zakat payer's financial statements, as well as items reclassified as equity for Zakat purposes, such as provisions treated as equity and profits under distribution.

The detailed provisions for adding equity and its equivalents to the Zakat base will be reviewed starting from paragraph 3 of this Guideline.

2. Liabilities Within the Limits of Deducted Assets:

Liabilities are considered entities's sources of funds. Adding liabilities required to be added to the Zakat base is done at the end-of-period balance. The process of adding liabilities involves several steps and treatments, including corrective measures for adding liabilities-if applicable-which refers to placement procedures when deducting a current asset or when a non-current asset is not deducted, as will be detailed in paragraph 4 of this Guideline.

Article 29 of the regulations includes the liabilities required to be added to the Zakat base as follows:

1. Non-current liabilities, which include the following:

- Debts classified as non-current at the end-of-period balance, whether from prior years or added during the year; such as advance payments from customers of the Zakat payer, and issued bonds and instruments.
- Provisions representing a settled debt owed to non-owners; such as: end-of-service benefits provision, vacation balance provision, and similar provisions.
- Deferred tax liability.
- Proven contract liabilities item according to approved accounting standards.
- Lease contracts liabilities.
- Negative derivative financial instruments.

2. Article 29 also includes the addition of current liabilities exclusively in the following cases:

- If a current asset is deducted, the addition of current liabilities is made in accordance with Article 25 of the regulations.
- If the value of current liabilities exceeds the value of current assets, the difference is added to the Zakat base.
- If it is proven to the authority that a current liability is treated as a non-current liability; for example, if the Zakat payer renews a debt classified as current with the same creditor for the same purpose, or if the debt is rescheduled with the same creditor for the same purpose.

Adding liabilities also requires verifying the deducted assets and their nature for the following reasons:

A. To determine the amount of deducted assets that serve as a limit for adding liabilities.

B. To distinguish between deducted and current assets, as well as between undeducted and non-current assets for placement purposes.

The detailed provisions for adding required liabilities will be reviewed in paragraph 4 of this Guideline.

3. The difference between adjusted net profit/loss and book net profit/loss after Zakat and tax:

Adding this item is directly linked to equity items, as the equity items added to the Zakat base include the addition of retained earnings item at the end-of-period balance. It is known that the retained earnings item includes the book net profit for the year, which may contain certain expenses that are not accepted to be deducted for Zakat purposes or some undeclared revenues. Based on this, the difference between the book net profit and the adjusted net profit is added to the Zakat base as an amount that should be reinstated to the book net profit previously added to the Zakat base under equity items.

The detailed provisions for adding the difference between adjusted net profit/loss and book net profit/loss - after Zakat and tax - will be reviewed in paragraph 5 of this Guideline.

2.1.2. Distinguishing Between Equity Items and Liabilities

From an accounting perspective, a distinction is made between equity and liabilities. International Accounting Standard 1 (IAS 1) - Presentation of Financial Statements - refers to the information that financial statements provide about the entity, which is related to the following:

1. Assets.
2. Liabilities.
3. Equity.
4. Income and expenses, including gains and losses.
5. Owner contributions and distributions to owners.
6. Cash flows.

Accordingly, a distinction is made between liabilities and equity for accounting purposes, as follows:

- Equity refers to the rights of the entity's owners and includes the amounts invested in the entity, along with the profits or losses resulting from its operations.
- Liabilities are the commitments of the entity to third parties in exchange for receiving goods, services, or loans.

From a Zakat perspective, the provisions for addition related to equity differ from provisions for addition related to liabilities in several aspects, as follows:

- There is no limit to adding equity and its equivalents to the Zakat base, while liabilities required to be added are included up to the limit of deductible items in the base.
- No adjustments or corrections are made when adding equity and its equivalents to the base, whereas corrections must be made when adding liabilities to the base in specific cases according to the placement provisions outlined in Article 25 of the regulation.
- Equity and its equivalents in addition to the difference between the net book profit or loss and the adjusted net profit or loss, represent the maximum limit of the Zakat base, whereas this does not apply to the items of liabilities required to be added to the base.

This necessitates a distinction between equity and liabilities for Zakat purposes due to the differences in the related addition provisions. The regulation includes precise provisions for differentiating between liabilities and equity from a Zakat perspective, as this affects the calculation of the Zakat base. The basis for this distinction can be outlined as follows:

1. All items classified as equity are treated according to their accounting classification -equity items- for Zakat purposes, and no item from equity is reclassified as a liability for Zakat purposes.
2. Liabilities are treated according to their accounting classification as liability items for Zakat purposes, and they are not reclassified as equity items, except for the following under specific cases and conditions outlined in the regulation:
    1. Provisions according to what is stated in Article 24.
    2. Profits under distribution according to what is stated in Article 36.
    3. Partners' credit loans according to what is stated in Article 30.

Reclassifying liability items as equity requires excluding these items from their previous classification, which affects other procedures for calculating the Zakat base. For example, when treating profits under distribution classified under current liabilities as equity, the following actions are taken:

- Adding profits under distribution to the equity items at the end-of-period balance.
- Excluding profits under distribution from current liabilities, which affects other Zakat base procedures, such as the placement of liabilities, which in some cases relies on adding a percentage of current liabilities to the base.

The detailed provisions for reclassification between liability items and equity and the resulting effects will be reviewed in paragraph 6 of this Guideline.

2.2. Definitions and Related Terms

1. Sources of Funds

Liabilities and equity financing for the assets of the entity.

2. Reclassification

A procedure outlined in the regulation requires the reclassification of liability items to another group in the financial statements according to the provisions of the regulations.

3. Fair Value

The price received to sell an asset or paid to transfer a liability in an statutory transaction between market participants at the measurement date.

4. Adjusted Net Profit

The net book profit after it has been adjusted by the regulation's requirements, such as unaccepted expenses or undeclared revenues.

5. Adjusted Net Loss

The net book loss after it has been adjusted by the regulation's requirements, such as unaccepted expenses or undeclared revenues.

6. Accepted Expenses

Expenses that the regulation accepts to be deducted absolutely or under specific conditions stated in the regulation.

7. Instruments or Bonds

Securities issued by governments or corporations to raise funds from investors for a specified period with a predetermined maturity date.

8. Deferred Tax Liability

Income tax amounts that will become due in future periods related to taxable temporary differences.

9. Debtors and Creditors Partners' Loans

Amounts owed to or by partners, excluding capital and carried forward or accrued profits.

10. Contract Liabilities

Amounts received in advance from customers until the contract or service liabilities are fulfilled, and their execution on the revenues.

11. Financial Derivatives

Financial instruments that derive their value from actual asset (such as commodities like gold), a financial asset (such as stocks or bonds), or a market index. These instruments are used in in financial risk management, hedging, and for purely speculative purposes, among others.

In general, financial derivatives are characterized by the following:

- Their value changes with changes in the underlying asset, which is the item agreed upon in the contract, such as interest rates, exchange rates, or the price of a specific commodity like oil or gold.
- They do not require a net initial investment when the contract is entered into, or only small amounts may be paid as premiums at the time of contract initiation.
- They will be settled in the future.

12. Lease Liabilities

Liabilities arising from finance lease contracts held by the lessee.

13. Equity

The remainder of the assets' value after excluding the value of liabilities. The components of equity differ according to the legal form of the establishment and usually include: Capital, reserves, retained earnings, and accumulated losses

14. Retained Earnings

The cumulative balance remaining on the financial statements as of the reporting date for the net profit or loss of previous years and the current year, after being adjusted for any dividend distributions, allocations to reserves, or any other adjustments resulting from the application of the requirements of the applicable accounting standards.

15. Profits Under Distribution

Profits declared for distribution but not yet deposited into the shareholders' accounts.

16. Distributed Profits

Profits declared for distribution and deposited into the shareholders' accounts.

17. Treasury Shares

Shares of the company reacquired by the company itself.

18. Carried-Forward Losses

Balance of retained losses from previous years.

19. Unrealized Gains

Gains or profits resulting from the revaluation differences of certain types of assets.

20. Provisions

Liabilities with uncertain timing and amount, presented in the statement of financial position according to their nature.

21. Holding Company

A joint-stock company, a simplified joint-stock company, or a limited liability company, which establishes companies or owns shares or stocks in existing companies, thereby becoming their subsidiary.

22. Subsidiaries

It is a joint stock or limited liability company, which is controlled by a joint stock or limited liability holding company.

2.3. Provisions

Provisions are important components in the statement of financial position of entities. They are defined as uncertain timing or amount of liabilities. To distinguish between provisions and other liabilities, such as receivable to creditors, as stated in International Accounting Standard 37 (IAS 37) -Provisions and contingent liabilities - this is based on the absence of certainty regarding the timing or amount of the expenses due in relation to provisions, while amounts owed to creditors are considered definite outstanding liabilities with specified timing and value according to the agreement made with the supplier.

According to the requirements of International Accounting Standard 37 (IAS 37) - Provisions and contingent liabilities - the recognized amount (as a provision) must be the best estimate of the expenses required to settle the current obligation at the date of the statement of financial position, that is, the amount that the entity is reasonably expected to pay to settle the liability at the financial statement date.

In general, all provisions are considered contingent and should be established when the following conditions are met:

- There is an outstanding obligation on the entity, whether legal or constructive, as a result of a past event. Examples include accrued end-of-service benefits payable or potential fines.
- It is probable that this obligation will result in an outflow of the entity's resources.
- A reliable estimate can be made of the amount owed.

Therefore, the entity should not establish a provision unless it meets these specified criteria.

Examples of provisions that an entity may create include are: provisions for employee benefits and liabilities, provisions for legal claims, provisions for Zakat or income tax, and other provisions that entities establish during the year based on the requirements of their activities.

Regarding the classification of provisions for Zakat purposes, Article 24 of the regulations clarifies the treatment of accounting provisions when calculating the Zakat base according to their nature, as follows:

1. All provisions shown in the statement of financial position are treated as equity and added to the Zakat base based on this consideration, using the end-of-period balance.
2. Provisions shown in the statement of financial position that represent a stable debt owed by the Zakat payer to non-owners, such as the end-of-service benefits provision, statutory end-of-service provision, and similar provisions, are treated as non-current liabilities.

When adding provisions, consideration should be given to what is stated in Article 17 of the regulations, which includes adopting the value shown in the statement of financial position at the end of the Zakat year of the Zakat payer as the basis for adding items to the zakat base. Accordingly, provisions that reduce assets not appearing in the statement of financial position, such as the provision for impaired inventory that reduces inventory items and the provision for credit risk for that reduces the debit balances, should not be added to the Zakat base of the Zakat payer.

Based on this, the principle treatment is to classify all provisions as equity, which necessitates their reclassification to equity for Zakat purposes. However, exceptions apply to provisions that represent a stable debt owed by the Zakat payer to non-owners, such as end-of-service benefit provisions and provisions for vacations, and similar provisions are treated as non-current liabilities.

The reason for treating provisions as equity is to consider them part of the entity's profits, given that provisions are essentially set aside from profits. Provisions are established by charging the provision expense on the income statement, indicating that if the purpose of the provision ceases to exist, it is returned to the entity's revenues.

When treating provisions as equity, the following steps must be taken:

1. Reclassify the provision to equity.
2. Add the provision to the Zakat base as an item of equity items.
3. Exclude the effect of the provision from its previous classification (before it is reclassified to equity). For example, if the provision was classified under current liabilities, it should be excluded from current liabilities, resulting in a reduction of current liabilities by the amount of the excluded provision. Provisions are presented in the statement of financial position according to their nature and purpose, as follows:

- A provision may appear under non-current liabilities, such as a provision for employee benefits.
- A provision may appear under current liabilities, such as provisions for legal claims.

Accordingly, it is important to verify the classification of the reclassified provision to equity and exclude its effect from its original classification in the statement of financial position.

Examples of provisions treated as equity or liabilities

Examples of provisions treated as liabilities	Examples of provisions treated as equity
Employee ticket provision	Provision for asset retirement
Vacation provision	Provision for legal cases
Employee benefits provision	Provision for Zakat and taxes

Example (1):

The following provisions appeared for a company at the end of its Zakat year for 2024:

Provision	Accounting Classification	End-of-period balance (SAR)
Employee benefits provision	Non-current liabilities	9,366,000
Provision for legal claims	Current liabilities	2,153,000
Provision for warranty claims	Current liabilities	1,589,489

How are these provisions classified for Zakat considerations?

The Solution

The provisions are classified according to Zakat considerations as follows:

Provision	Zakat Classification	Zakat Treatment	Amount (SAR)
Employee benefits provision	Liabilities	Added to liabilities within the limits of deducted assets	9,366,000
Provision for legal claims	Equity and its equivalents	Added to equity and its equivalents	2,153,000
Provision for warranty claims	Equity and its equivalents	Added to equity and its equivalents	1,589,489

- When reclassifying provisions to equity and its equivalents, the effect of their original classification should be excluded before reclassification.

Example (2):

The following provisions appeared for a company at the end of its Zakat year for 2025:

Provision	Accounting Classification	End-of-period balance (SAR)
Employee benefits provision	Non-current liabilities	3,907,840
Employee Vacation and Ticket Provision	Current liabilities	1,893,769
Zakat Provision	Current liabilities	5,386,586

How are these provisions classified for Zakat considerations?

The Solution

The provisions are classified according to Zakat considerations as follows:

Provision	Zakat Classification	Zakat Treatment	Amount (SAR)
Employee Benefits Liabilities	Liabilities	Added to liabilities within the limits of deducted assets	3,907,840
Employee Vacation and Ticket Provision	Liabilities	Not added to the Zakat base as it is a current liability	1,893,769
Zakat Provision	Equity and its equivalents	Added to equity and its equivalents	5,386,586

- The vacation and employee tickets provisions are not added in this case, as they are treated as Zakat-related items under liabilities that are not added to the Zakat base if they are current, except in specific cases.
- When reclassifying provisions to equity and its equivalents, the effect of their original classification should be excluded before reclassification.

Example (3):

The following statement of financial position for a listed joint-stock company at the end of 2024:

Statement of financial position		
Assets		
	2024 AD(SAR)	2023 AD (SAR)
Current assets		
Cash and cash equivalents	5,232,053	3,175,267
Debtors	4,578,410	3,512,769
Inventory	4,168,478	3,803,340
Total current assets	13,978,941	10,491,376
Non-current assets		
Property and equipment	22,650,601	23,047,211
Intangible assets	8,090,479	8,351,958
Total non-current assets	30,741,080	31,399,169
Total assets	**44,720,021**	**41,890,545**
Liabilities and equity		
Current liabilities		
Short-term loans	5,029,947	3,501,364
Accrued expenses and other credit balances	2,107,555	2,268,068
Zakat provision	999,173	900,226
Total current liabilities	8,136,675	6,669,658
Non-current liabilities		
Long-term loans	7,907,916	8,689,555
Employee benefits liabilities	3,186,775	2,980,663
Total non-current liabilities	11,094,691	11,670,218
Equity		
Capital	9,000,000	9,000,000
Statutory reserve	2,500,000	2,500,000
Retained earnings	13,988,655	12,050,669
Total equity	25,488,655	23,550,669
Total liabilities and equity	**44,720,021**	**41,890,545**

Upon reviewing the company's accounts analyses, end-of-period balances for some items appeared as follows:

1. Analysis of Debtors item

Item	Amount (SAR)
Trade Deports	5,678,410
(-) Provision for Impairment of Debtors Value	(1,100,000)
	4,578,410

2. Analysis of Inventory item

Item	Amount (SAR)
Finished Goods Inventory	5,088,478
(-) Provision for Obsolete Inventory	(920,000)
	4,168,478

3. Analysis of accrued expenses and other credit balances

Item	Amount (SAR)
Accrued Service Expenses	737,645
Accrued Rent Expenses	632,267
Provision for Fines	526,887
Provision for Employee Vacations	210,756
	2,107,555

How are provisions handled for Zakat purposes based on the company's financial statements and the account analyses outlined above?

The Solution

The provisions are classified according to Zakat considerations as follows:

Provision	Zakat Classification	Zakat Treatment	Amount (SAR)
Employee Benefits Liabilities	Liabilities	Added to liabilities within the limits of deducted assets	3,186,775
Zakat Provision	Equity and its equivalents	Added to equity and its equivalents	999,173
Provision for Fines	Equity and its equivalents	Added to equity and its equivalents	526,887
Provision for Employee Vacations	Liabilities	Not added to the Zakat base as it is a current liability	210,756
Provision for Impairment of Inventory Value	-	Not added to the Zakat base	-
Provision for Obsolete Inventory	-	Not added to the Zakat base	-

- When reclassifying provisions to equity and its equivalents, their effect should be excluded from their accounting classification before reclassification.

2.4. Profits under distribution

The profits under distribution are classified as equity absolutely for Zakat purposes. The profits under distribution refer to the profits that have been decided by the authorized person to be distributed to shareholders but have not been deposited into their accounts during the Zakat year.

- The profits under distribution are considered a liability for the entity to the owners entitled to these distributions, which have been decided to be distributed as profits for which a decision has been made to distribute but have not yet been distributed. Typically, the profits under distribution often appear under the current liabilities item, as they represent amounts payable by the entity to its owners within the next 12 months. According to Article 36 of the regulations, profits under distribution are treated as equity, which necessitates their reclassification from liabilities to equity for Zakat purposes.

The reason profits under distribution are treated as equity is that they are considered part of the retained earnings. Profits under distribution are recognized in accounting by transferring them from retained earnings, based on the distribution decision, to profits under distribution until they are actually distributed. Therefore, the profits under distribution are treated as the asset from which they were derived, which is the company's profits, this ruling is not affected by the company placing these profits in a separate account that it cannot access.

Profits under distribution are treated as equity, regardless of their designations in the financial statements. Profits under distribution may appear under different designations and classifications, including:

- Under the account of related party-creditors.
- Under the designation of profits under distribution.
- Under the designation of payable distributions.

From an accounting perspective, when the entity decides to distribute profits, it records the distributed profits through an accounting entry that necessitates a reduction in retained earnings' balance. This entry will involve, on the other side, either a decrease in the entity's cash if the profits are distributed in cash, or an increase in the entity's liabilities if the profits are not distributed. In this case, the undistributed profits remain a liability for the entity.

According to Articles 36 and 37 of the regulations, the treatment of profits under distribution that have not been deposited in the shareholders' accounts during the Zakat year is to add them to the Zakat base, treating them as equity items. Since the distributed profits reduce the retained earnings balance, they consequently reduce the equity. Therefore, it is necessary to treat the accrued profits (under distribution) as if they are not actually distributed.

The reason for treating them as equity is their reduction of the equity due to not being distributed, which necessitates their return to the Zakat base in this treatment as a trust held by the Zakat payer.

From a practical perspective, profits under distribution may remain in the entity's accounts for several years, as they can be carried forward from one year to the next in cases where these profits are not distributed to the owners for multiple years. The Zakat treatment in such cases does not change; the profits under distribution must be added to the Zakat base and treated as equity whenever they appear in the entity's financial statements, even if they recur over several years.

Example (4):

The analysis of the accrued expenses and other accounts payable shown in the statement of financial position of a company at the end of its Zakat year for 2024 is as follows:

Provision	End-of-period balance (SAR)
Accrued Insurance Expenses	120,000 SAR
Profits Under Distribution	2,679,333 SAR
Accrued Salaries	322,087 SAR

What is the Zakat impact of (Profits Under Distribution) item on the Zakat base of the company?

The Solution

The company's other accounts payable include undistributed profits (profits under distribution) amounting to 2,679,333 SAR. Naturally, these profits have reduced the retained earnings balance added to the Zakat base; however, since they have not been distributed until the end of the Zakat year, the amount of profits under distribution is added for Zakat purposes as part of equity items and its equivalents in the company's Zakat declaration.
According to the provisions of the regulation, the items of accrued insurance expenses and accrued salaries are not added to the Zakat base, as they are part of current liabilities that should not be reclassified as equity and its equivalents.

Example (5):

The statement of equity for a company at the end of its Zakat year for 2025 appears as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2024	5,000,000	1,000,000	3,000,000	9,000,000
Added during the year	0	0	320,000	320,000
Distributed during the year	0	0	(1,120,000)	(1,120,000)
Other comprehensive income	0	0	60,000	60,000
Balance as of 31/12/2025	5,000,000	1,000,000	2,260,000	8,260,000

A decision was made to distribute profits amounting to (1,120,000) SAR and the company's cash flow statement for the year showed that the cash distributed profits amounted to 1,000,000 SAR. Upon reviewing the company's Statement of financial position, it was found that an amount of 120,000 SAR appeared under the account of profits under distribution, as it had not been paid to any partner until the end of the year. This amount was transferred to the partner at the beginning of 2026.

How should the distributed profits be treated for Zakat purposes in this case?

The Solution

The company issued the distribution decision for the distributed profits amounting to 1,120,000 SAR; however, it only distributed 1,000,000 SAR during the Zakat year. This resulted in the appearance of profits under distribution amounting to 120,000 SAR. Since the balance of retained earnings added to the Zakat base was reduced by the full amount of the distributed profits (1,120,000 SAR), it is necessary to add the undistributed portion of the profits (the profits under distribution) amounting to 120,000 SAR to the company's Zakat base as equity items and its equivalents.

2.5. Partners' credit loans

Partners' loans refer to amounts owed to them by the company, separate from profits and capital. Partners' credit loans arise from different considerations and for multiple reasons. They may result from partners providing the company with financial funding, whether in cash or in-kind. They may also arise when partners bear some financial burdens on behalf of the company, such as some partners paying company expenses on its behalf, or from commercial transactions with partners, such as purchasing from a partner on credit.

Partners' loans also appear under different classifications in the financial statements, as they may appear under current liabilities, non-current liabilities, or equity items, depending on their nature and purpose.

Partners' credit loans are listed in the entity's financial statements under various designations, such as:

- Related party-creditors.
- Additional contributions from partners.
- Partners' loans.
- Additional capital.
- Partner's current account.

The presentation and disclosure of partners' loans in the financial statements depend on the nature of the relationship between the entity and the partner, as well as the nature of the financing provided. Additionally, partner financing may be excluded in the case of consolidating the financial statements between the parent company and its subsidiary in accordance with the requirements of International Financial Reporting Standard (IFRS) 10 - Consolidated Financial Statements.

Zakat Treatment Of Partners' Credit Loans

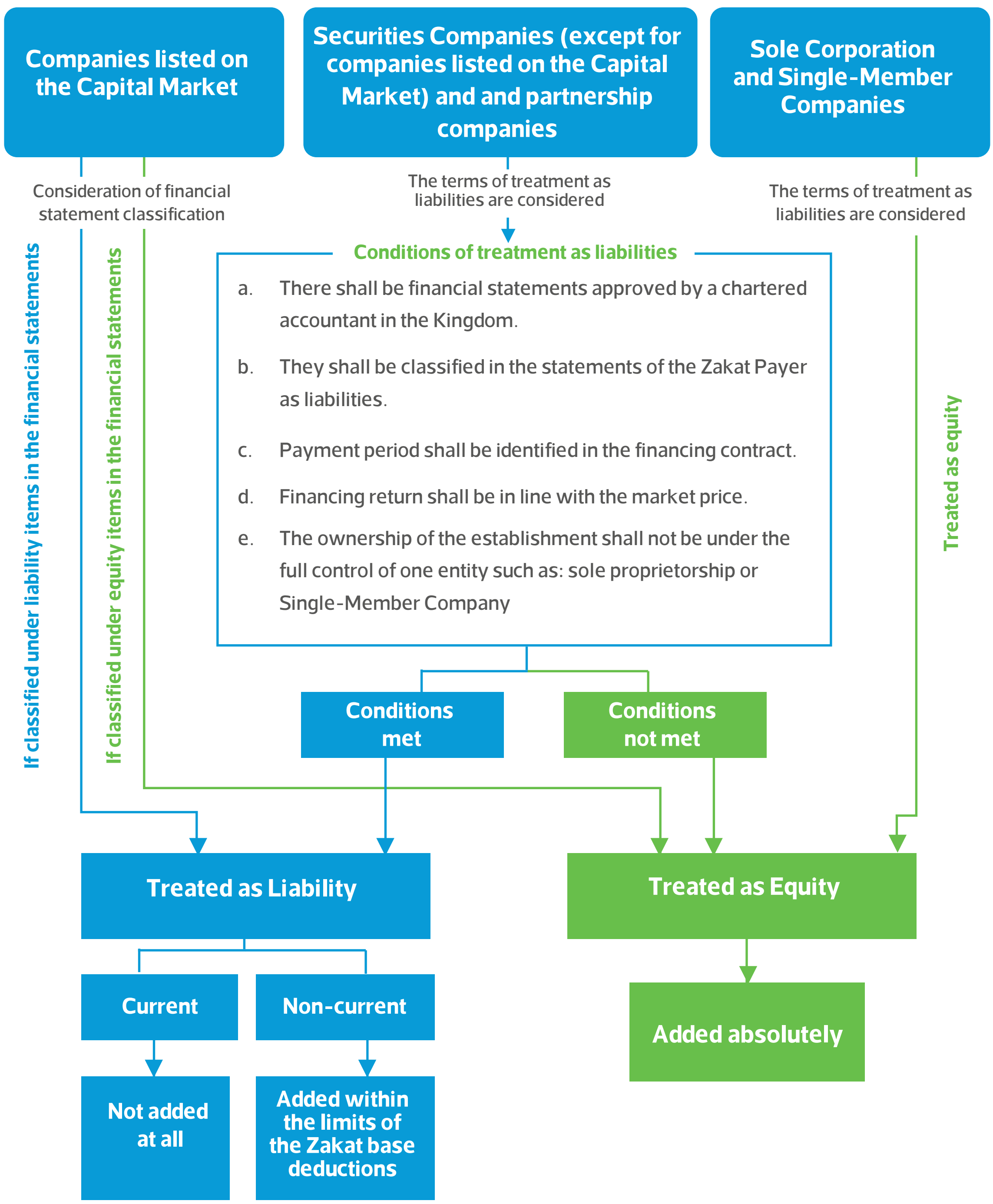
The Zakat treatment of partners' credit loans is carried out according to the regulations, regardless of their designation or classification, as Article 30 of the regulations outlines the rules and cases for treating partners' credit loans for Zakat purposes. Based on the article, partners' credit loans are treated depending on the legal type of entity, as follows:

1. Joint stock companies listed on the Capital Market: Partners' loans are treated according to their classification in the company's financial statements without any additional requirements or conditions.
2. Sole Corporation and Single-Member Companies: Treated as Equity regardless of their accounting classification.
3. Securities Companies (except for companies listed on the Capital Market): Treated as liabilities when all of the following conditions are met:

a. There shall be financial statements approved by a chartered accountant in the Kingdom.
b. They shall be classified as liabilities in the statements of the Zakat Payer.
c. Payment period shall be identified in the financing contract.
d. Funding return shall be in line with the market price.

If the above conditions are not met, partners' credit loans in securities companies (except for companies listed on the Capital Market) shall be treated as Equity and its equivalents.

Cases for Classifying Partners' Credit Loans



Example (6):

The analysis of the item "Due to Related Parties" listed under current liabilities in the statement of financial position of a limited liability company at the end of 2024 is as follows:

Party	Nature of Transactions	End-of-period balance (SAR)
Due to an Associate Company	Payments on behalf	3,000,000
Due to Partner (A)	Payments on behalf	6,000,000
Due to a Sister Company	Purchases	12,000,000

- There are no accrued returns on these balances, and there is no specified payment period.

How should the due to Partner (A) be classified in this case for Zakat purposes?

The Solution:

In this case, since the company is a limited liability company and the current balance of partner (A)'s creditor account does not meet the conditions outlined in Article 30 of the regulations for it to be treated as a liability, the current balance of partner (A)'s account will be classified for Zakat purposes as part of equity and its equivalents, and the balance will be added to the Zakat base on this basis.

It should be noted that when reclassifying the creditor balance to equity and its equivalents, its effect should be excluded from its accounting classification before the reclassification.

Example (7):

Assuming the same data as the previous example, but the company is a joint-stock company listed in the Capital Market. Accordingly, how is the due to partner (A) classified for Zakat purposes?

The Solution:

In this case, since the company is a joint-stock company listed in the Capital Market, the current balance of partner (A)'s current account is treated for Zakat purposes according to the classification in the financial statements. In this situation, it is treated as a current liability and, therefore, is not added to the Zakat base.

Example (8):

The analysis of the item (Due to Related Parties) included in the current liabilities in the statement of financial position of a closed joint-stock company at the end of 2025 is as follows:

Party	Nature of Transactions	End-of-period balance (SAR)
Due to Partner (A)	Purchases	1,030,000
Due to Partner (B)	Cash Financing	4,003,000
Due to Partner (C)	Payments on behalf of	720,000
Due to Partner (D)	Due Profits Distributions	5,900,000

- Additionally, the following information was obtained from supporting documents for these transactions:

Party	Nature of Available Information
Due to Partner (A)	There are no contracts between the parties, and the partner is not entitled to any funding returns on this amount.
Due to Partner (B)	There is a contract with the partner stating that the partner is entitled to returns on this funding in accordance with the market rate, and the payment period for this amount is twelve months.
Due to Partner (C)	There are no contracts between the parties, and the partner is not entitled to any returns on this amount.
Due to Partner (D)	Profits distributions for the year 2025, will be paid in cash during the following year.

For Zakat purposes, how should the above balances be classified?

The Solution:

The mentioned balances are classified according to Zakat considerations as follows:

Provision	Zakat Classification	Zakat Treatment	Amount (SAR)
Due to Partner (A)	Equity and its equivalents	Added to equity and its equivalents	1,030,000
Due to Partner (B)	Liabilities	Treated as liabilities and not included in the Zakat base as a current liability*.	4,003,000
Due to Partner (C)	Equity and its equivalents	Added to equity and its equivalents	720,000
Due to Partner (D)	Equity and its equivalents	Added to equity and its equivalents as undistributed profits.	5,900,000

- Assuming that the other conditions specified in the regulation apply, partners' credit loans are treated as liabilities.

Example (9):

The account (Partner's Current Account) appeared under non-current liabilities in the statement of financial position of a single-member company at the end of 2025, amounting to 9,000,000 SAR. This amount represents financing for the company's operations provided by the partner. It has been established that there is a financing contract between the partner and the company stating that the partner is entitled to returns on these amounts in accordance with the market rate, and the contract specifies that the amount will be paid within three years.

For Zakat purposes, how should this balance be classified?

The Solution:

In this case, since the company is a single-member company, owner loans are treated as equity and its equivalents. They are added to the Zakat base absolutely, without considering any other factors. Therefore, the amount of 9,000,000 SAR is treated as equity for Zakat purposes and the balance is added to the Zakat base on this basis.

When reclassifying the credit balance to equity, it is important to exclude its effect from its accounting classification before the reclassification.

3. Equity and its Equivalents

3.1. Introduction

Equity refers to the rights of the establishment's owners and includes the amounts invested in the establishment along with the profits or losses resulting from its operations, which include statutory and general reserves. It is the result of the remaining value of assets after deducting liabilities value.

Items of equity are added to the Zakat base at the end-of-period balance and appear as a separate group in the statement of financial position. Additionally, changes in equity items are presented in a separate statement titled the Statement of Changes in Equity. This statement should include, for each component of equity, the book balance at the beginning of the period and the book balance at the end of the period, as well as several disclosure requirements outlined in International Accounting Standard 1 (IAS 1) - Presentation of Financial Statements -.

Zakat Treatment Of Equity

Equity is added to the Zakat base according to the following procedures:

1. Adding all items classified under equity (basic equity items) to the Zakat base at the end-of-period balance:

   This procedure involves the treatment of the basic equity items classified under the equity group in the Zakat payer's statement of financial position, which primarily includes capital, reserves, and retained earnings or loss carried forward. This is done by adding these items to the Zakat base at the end-of-period balance, as the regulations have adopted the treatment of all items based on their end-of-period balance, including equity items and their equivalents, in accordance with Article 17 of the regulations. The Zakat payer, when calculating the Zakat base, looks at what appears in the financial statements at the end of the Zakat year, without considering any increases or decreases that occur during the Zakat year; rather, the focus is on the end-of-year balance

2. Identifying all items not classified under equity that are treated as equity and adding them to the Zakat base at the end-of-period balance:
   This procedure requires a thorough analysis of the items in the statement of financial position to identify those treated as equity for Zakat purposes. This includes provisions treated as equity, profits under distribution, and partners' credit loans based on the cases and conditions stipulated in the regulation.

3. Excluding reclassified items to equity and their equivalents from their previous classification:
   All groups of assets and liabilities that appear in the statement of financial position are linked to the provisions for calculating the Zakat base, based on the rules for calculating the Zakat base, which include adding equity items to the Zakat base and dealing with liabilities according to their accounting classification, and equality between assets and liabilities and the resulting provisions for addition and placement. In addition to the deduction items from the Zakat base that are directly linked to the liabilities added to the base in placement cases.

Accordingly, the differences in the values of groups items of the statement of financial position have an impact on the calculation of the Zakat base for the Zakat payer holding statutory accounts. Examples of these effects include, but are not limited to, the following:

- The difference in the value of current liabilities affects the value of the current liability added to the base in cases of placement.
- The difference in the value of non-current liabilities affects the value of liabilities added to the base.

This necessitates recalculating the values of these groups when reclassifying any linked item. For example, if a Zakat provision is reclassified under equity items, it must be excluded from current liabilities due to its impact on the calculation of the Zakat base.
The detailed provisions for reclassification between liability items and equity, along with the resulting effects, will be reviewed in paragraph 6 of this guide.

In addition to the above, the equity items and their equivalents after reclassification are considered the maximum limit for the Zakat base. Article 28 of the regulations states that the maximum limit for the Zakat base is equity and its equivalents according to the value shown in the statement of financial position at the end of the Zakat year, plus the difference between the adjusted net profit or loss for the year and the net book profit or loss.

3.2. Basic Items of Equity

The components of equity vary depending on the legal structure of the entity. Generally, the main components of equity can be summarized as follows:

- Capital: The money invested by the owners in the entity and any increases that occur in it.
- Reserves of Various Types: Amounts set aside from profits for regulatory purposes or agreed-upon purposes.
- Retained Earnings: The profits earned that have not been distributed from the current year and previous years.
- Other Comprehensive Income Items: Transactions related to other comprehensive income items, may be presented separately within the equity items.

In addition to the basic components items of equity, Sub-section 3 of Section 5 of Chapter 2 of the regulation includes several detailed provisions related to equity items, which will be reviewed in detail in this chapter.

3.2.1. Capital

The capital contributed to the company can be in cash, in-kind, or both, as stated in Article 13 of the Companies Law, which permits this. Some partners may contribute cash capital, while others may contribute in-kind capital.

In-kind capital refers to the partner providing their share of the capital in the form of a tangible asset instead of cash. For example, a partner may contribute their share of the capital in the form of land, a factory, vehicles, or other assets.

From an accounting perspective and according to the requirements of International Accounting Standard 1 (IAS 1) - Presentation of Financial Statements - the entity must disclose a set of information related to capital, including the following:

1. The number of authorized, issued, and fully paid shares, and shares issued but not fully paid.
2. The nominal value.
3. The reconciliation of the number of shares outstanding at the beginning and end of the period.
4. Treasury shares, including shares owned by subsidiaries and associates.
5. Shares designated for issuance under options and contracts.

Entities that do not have capital must disclose information equivalent to this required information.

Capital is provided by partners upon the establishment of the company, and it may also be increased during the company's operations for various reasons, including:

1. The entry of a new partner.
2. Meeting the entity's need for capital expansion.

The company may reduce its capital during its operations for various reasons, including:

1. Capital exceeding the company's needs.
2. Reducing capital to offset accumulated losses within the company.

The procedures for increasing and decreasing capital are subject to a number of regulatory controls and procedures that must be observed in companies, depending on the type of company. The Companies Law includes several controls, conditions, procedures, and cases related to capital increases and decreases.

Accordingly, since the capital item is one of the essential items of equity, it must be added to the Zakat base with the end-of-period balance, regardless of the transactions that may occur during the year. Examples of such transactions include:

1. Increasing capital during the year.
2. Decreasing capital during the year.

The capital is added to the end-of-period balance, regardless of these transactions or others.

Example (10):

The equity of a company appeared in the statement of financial position at the end of the year 2024 as follows:

Equity	2024 AD	2023 AD
Capital	3,000,000	2,900,000
Statutory Reserve	500,000	450,000
Retained Earnings	10,000,000	9,300,000
Total Equity	**13,500,000**	**12,650,000**

Under which balance is the capital added to the zakat base adjustments for the company?

The Solution:

The capital is added to the end-of-period balance to the Zakat base. In this case, an amount of 3,000,000 SAR is added as capital to the Zakat base of the company under the items of equity and its equivalents in the base.

Example (11):

The analysis of the capital item in the statement of changes in equity for a company at the end of its Zakat year 2025 is as follows:

/	Capital (SAR)
Balance as of 31/12/2024	40,000,000
Increase during the year	10,000,000
Decrease during the year	0
Balance as of 31/12/2025	50,000,000

The Solution:

The capital is added to the Zakat base of the company in the amount of 50,000,000 SAR (end-of-period balance), including the increases or decreases that occurred during the year.

3.2.2. Reserves

Reserves are established based on what is stipulated in the company's bylaws or incorporation articles of the company. The formation of a reserve is achieved by setting aside a percentage of the annual net profits until the required reserve amount is reached. The company may establish more than one reserve based on its objectives. Where the company may create certain reserves optionally for specific purposes, and conversely, the creation of a reserve may be mandatory for the company according to its bylaws or incorporation articles, which is known as the statutory reserve.

The use of reserves is governed by the powers specified in the Companies Law concerning joint-stock companies. Article 124 of the Companies Law states that the use of the statutory reserve allocated for specific purposes may only be done by a decision of the extraordinary general assembly. As for reserves that are not allocated for a specific purpose, they may be used by a decision of the ordinary general assembly.

From an accounting perspective, the entity must disclose the nature of each reserve and the purpose for which it was created, according to the requirements of International Accounting Standard 1 (IAS 1) - Presentation of Financial Statements.

Accordingly, since the reserve item is part of the company's set aside earnings allocated for specific regulatory purposes in the company and is one of the essential items of equity items, it must be added to the Zakat base with the end-of-period balance, regardless of the transactions that may occur during the year. Examples of such transactions include:

1. Increasing the reserve during the year from the company's net profit.
2. Decreasing the reserve during the year due to the purpose no longer being exist or for any other reason.

The reserve is added to the end-of-period balance, regardless of these transactions or others.

Example (12):

The statement of changes in equity for a company at the end of its Zakat year 2024 is as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2023	6,000,000	2,000,000	9,000,000	17,000,000
Profit for the Year	0	0	600,000	600,000
Transfer to Reserve	0	60,000	(60,000)	0
Distributed During the Year	0	0	0	0
Other Comprehensive Income	0	0	20,000	20,000
Balance as of 31/12/2024	6,000,000	2,060,000	9,560,000	17,620,000

What amount of reserves is to be added to the company's Zakat base?

The Solution:

The statutory reserve is added to the company's Zakat base in the amount of 2,060,000 SAR (end-of-period balance), including the increases or decreases that occurred during the year.

Example (13):

The details of the reserve item in the statement of changes in equity for a company at the end of its Zakat year 2025 are as follows:

/	Statutory Reserve (SAR)	General Reserve (SAR)
Balance as of 31/12/2024	7,000,000	3,000,000
Increase during the year	0	0
Decrease during the year	(130,000)	0
Balance as of 31/12/2025	6,870,000	3,000,000

What is the amount of reserves required to be added to the company's Zakat base additions for this year?

The Solution:

The reserves are added to the company's Zakat base additions with the end-of-period balance as follows:

/	Capital (SAR)
Statutory Reserve	6,870,000
General Reserve	3,000, 000
Total Reserves Added to the Base	**9,870,000**

3.2.3. Retained Earnings

Achieving profits is one of the primary goals that entities and companies strive to accomplish. Profits are not merely a measure of the financial success of the entity; they are also an important basis for making future decisions, whether those decisions relate to expanding operations, investing in new projects, or distributing these profits to shareholders.

Based on this, the entity has decided to retain its realized profits for its strategic or expansion purposes, which results in the appearance of the retained earnings item. The retained earnings item reflects the cumulative balance of net profits the entity has achieved during the current period and previous periods that have not been distributed to shareholders or partners. The entity retains the realized profits and carries them forward to future financial periods for various purposes, including reinvesting them in business activities, capital expansions, or strengthening the financial position of the entity. Retained earnings are considered an internal source of funding for growth and expansion in commercial entities, contrasted with external sources of funding for the growth and expansion of entities, such as bank loans and government funding.

Retained earnings are affected by the profit distribution policy adopted by the entity, as retained earnings decrease by the amount distributed to partners or shareholders. The distribution policy and the size of distributions vary according to the entity's goals and future plans. The Companies Law, in Article 22, permits the company to distribute profits annually or periodically throughout the year.

Additionally, Article 10 of the Implementing Regulation of the Companies Law includes several important controls for profit distribution in companies, as follows:

The Implementing Regulation of the Companies Law permits the distribution of periodical profits if the company's articles of incorporation or bylaws allow for it. This aligns with what the Zakat Collection Regulation states regarding the allowance of considering distributed profits as part of the current year's earnings, as detailed in paragraph 5.4 of this guide. However, the Implementing Regulation of the Companies Law stipulates the following conditions for the permissible distribution of periodical profits:

1. The company's manager or board of members must be authorized by the partners, general assembly, or shareholders through an annual resolution.
2. The company must have reasonable liquidity and be able to anticipate its profit levels.
3. The company must have distributable profits, according to the latest financial statements, sufficient to cover the proposed distributed profits.

Accordingly, since the retained earnings item is one of the essential items of equity, it must be added to the Zakat base with the end-of-period balance, regardless of the transactions that may occur during the year. Examples of such transactions include:

1. Increases or decreases in retained earnings during the year due to the net profit or loss for the year.
2. Increases or decreases in retained earnings during the year resulting from other comprehensive income items transactions during the year.
3. Decreases in retained earnings during the year due to distributions made during the year.

Retained earnings are added to the end-of-period balance, regardless of these transactions or others.

Example (14):

The equity in the statement of financial position for a company at the end of 2025 is as follows:

Equity Item	2025 AD	2024 AD
Capital	12,000,000	12,000,000
Statutory Reserve	3,000,000	3,000,000
Retained Earnings	5,000,000	15,000,000
Total Equity	**20,000,000**	**30,000,000**

What is the balance of retained earnings to be added to the company's Zakat base additions?

The Solution:

The retained earnings are added to the company's Zakat base additions in the amount of 5,000,000 SAR (end-of-period balance), including any increases resulting from the current year's profit or decreases resulting from profit distributions or other transactions that may occur during the year.

Example (15):

The statement of changes in equity for a company at the end of its Zakat year for 2027 is as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2026	14,000,000	10,000,000	8,000,000	32,000,000
Profit for the Year	0	0	10,000,000	10,000,000
Transfer to Statutory Reserve	0	1,000,000	(1,000,000)	0
Distributed During the Year	0	0	(6,000,000)	(6,000,000)
Other Comprehensive Income	0	0	500,000	500,000
Balance as of 31/12/2027	14,000,000	11,000,000	11,500,000	36,500,000

What is the amount of retained earnings to be added to the company's Zakat base?

The Solution:

The retained earnings are added to the company's Zakat base in the amount of 11,500,000 SAR (end-of-period balance), including any increases from the current year's profit or decreases from profit distributions or other transactions that occurred during the year.

3.2.4. Other Comprehensive Income Items

Other comprehensive income is considered a part of the total income of the entity, which includes items of gains and losses that have not been recognized and presented in the income statement as unrealized items. Companies recognize other comprehensive income items after reaching the entity's net book profit.

To differentiate between the items in the income statement (profit and loss) and the items in other comprehensive income, International Accounting Standard 1 (IAS 1) - Presentation of Financial Statements - defines profit or loss as the total income minus expenses, excluding components of other comprehensive income. The standard defines items in other comprehensive income as consisting of income and expense items that are not recognized in profit or loss as required or permitted by other International Financial Reporting Standards.

Thus, items in other comprehensive income are those gains and losses that are not presented in the income statement (profit and loss) according to the requirements of other standards but are instead presented under other comprehensive income.

It can be stated that all recognized income and expense items for a specific period should be included in profit or loss unless a standard or interpretation requires otherwise. Some International Financial Reporting Standards either require or permit the exclusion of certain components from profit or loss, instead including them in other comprehensive income. In other words, the principle is to recognize all profit and loss items in the income statement (profit or loss) except those items excluded according to the requirements of another standard.

Items in other comprehensive income include a range of unrealized profits or losses resulting from the application of relevant accounting standards, notably including the following:

- Differences in actuarial remeasurement for defined benefit plans.
- Revaluation surpluses related to the subsequent measurement of tangible and intangible asset items.
- Differences arise from converting foreign operations' financial data (translation) into the parent company's functional currency.
- Changes in the fair value of investments in equity instruments classified as fair value through other comprehensive income (available-for-sale investments).
- Changes in the fair value of derivative financial instruments.

Other comprehensive income items are presented in accordance with International Accounting Standard 1 (IAS 1) - Presentation of Financial Statements - as follows:

- Either in a single statement within the profit and loss statement, with other comprehensive income items presented after arriving atreaching the entity's net profit.
- Or in a separate statement that includes the presentation of other comprehensive income items titled "Statement of Comprehensive Income," which follows the profit and loss statement.

In both options, the final result of the total profit and loss items and other comprehensive income items is the total comprehensive income.

Statement of Profit or Loss with Comprehensive Income	
Revenues	XX
Cost of Revenues	XX
Gross Profit	**XXX**
General and Administrative Expenses	XX
Selling and Distribution Expenses	XX
Profit Before Zakat	**XXX**
Zakat	XX
Net Book Profit	**XXX**

Other Comprehensive Income	
Items that will not be reclassified to profit or loss	
Remeasurement of Employee Benefits	XX
Change in Fair Value of Investments	XX
Other Items	XX
Total	**XXX**

Items that will be reclassified to profit or loss	
Foreign Currency Translation Differences	XX
Change in Fair Value of Cash Flow Hedges	XX
Total	**XXX**
Total Other Comprehensive Income	**XXX**
Total Comprehensive Income	**XXXX**

Statement of Comprehensive Income	
Net Book Profit	XXX
Items that will not be reclassified to profit or loss	
Remeasurement of Employee Benefits	XX
Change in Fair Value of Investments	XX
Other Items	XX
Total	**XXX**

Items that will be reclassified to profit or loss	
Foreign Currency Translation Differences	XX
Change in Fair Value of Cash Flow Hedges	XX
Other Items	XX
Total	**XXX**
Total Other Comprehensive Income	**XXX**
Total Comprehensive Income	**XXXX**

Regarding the relationship between other comprehensive income items and equity items, all operations related to other comprehensive income items presented in the statement of other comprehensive income during the year are carried forward to the company's equity, just like the net profit or loss that is carried forward to the retained earnings item within equity items.

Other comprehensive income items are carried forward to equity items according to their nature, as follows:

1. Under the retained earnings item.

Or

2. Under other reserve items.

In any case, the addition of equity items at the end-of-period balance will include all operations related to the other comprehensive income items recognized during the year.

Example (16):

The statement of comprehensive income for a company for the year 2024 is as follows:

Statement of Comprehensive Income	
Net book profit	700,000
Items that will not be reclassified subsequently to profit or loss	
Re-measurement of employee benefits	(77,000)
Total	**(77,000)**
Total other comprehensive income	**(77,000)**
Total comprehensive income	623,000

The statement of changes in equity for the company at the end of its Zakat year for 2024 is as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2023	10,000,000	2,000,000	5,000,000	17,000,000
Profit for the Year	0	0	700,000	700,000
Distributed During the Year	0	0	0	0
Other Comprehensive Income	0	0	(77,000)	(77,000)
Balance as of 31/12/2024	10,000,000	2,000,000	5,623,000	17,623,000

How are other comprehensive income items treated for Zakat purposes?

The Solution:

It is noted that the transactions in the statement of comprehensive income during the year are closed in the retained earnings item. Since the end-of-period balance of retained earnings, amounting to 5,623,000 SAR, will be included in the Zakat base of the company-which includes comprehensive income transactions-therefore, other comprehensive income items will not require special treatment in the Zakat base. Instead, they will be included in the equity items and its equivalents added to the Zakat base.

Example (17):

The statement of comprehensive income for a company for the year 2025 is as follows:

Statement of Comprehensive Income	
Net book profit	300,000
Items that will not be reclassified subsequently to profit or loss	
Re-measurement of employee benefits	(12,000)
Changes in the fair value of investments in equity	(15,000)
Total	(27,000)
Total other comprehensive income	(27,000)
Total comprehensive income	**273,000**

The statement of changes in equity for the company at the end of its Zakat year for 2025 is as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Other Reserves (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2024	1,000,000	100,000	70,000	600,000	1,770,000
Profit for the Year	0	0	0	300,000	300,000
Distributed During the Year	0	0	0	0	0
Other Comprehensive Income	0	0	(15,000)	(12,000)	(27,000)
Balance as of 31/12/2025	1,000,000	100,000	55,000	888,000	2,043,000

How are other comprehensive income items treated for Zakat purposes?

The Solution:

End-of-period balance of equity items is added to the Zakat base of the company, and this balance includes the comprehensive income transactions. The remeasurement of employee benefits is closed in other reserves, while the change in the fair value of investments is closed in retained earnings. Therefore, the treatment of other comprehensive income items involves adding retained earnings with the end-of-period balance of 888,000 SAR and adding other reserves with the end-of-period balance of 55,000 SAR.

3.3. Distributed Profits

Distributed profits refer to the earnings intended for distribution to shareholders accounts. These distributed profits are deducted from the end-of-period balance of retained earnings. From a practical perspective, the profits intended for distribution during the year may be subject to the following:

1. They are distributed and deposited into the partners' accounts before the end of the Zakat year.

Or

2. They remain as one of the liability items of the entity until they are distributed in a later period, usually appearing under current liabilities as "accrued profits" or "profits under distribution" or similar terms.

In both scenarios, distributed profits will reduce the balance of retained earnings and, consequently, reduce equity. Therefore, it is necessary to treat the accrued profits (under distribution) as not actually distributed. According to Articles 36 and 37 of the regulations, the treatment of profits under distribution is as follows:

1. The accrued profits (under distribution) that have not been deposited into the shareholders' accounts during the Zakat year are added to the Zakat base and treated for Zakat purposes as part of equity.

   The reason for adding them to the Zakat base is that they reduce equity and are not distributed, necessitating their return to the Zakat base.

   For example, if a company issues an accrued profits decision from an authorized party for an amount of 100,000 SAR, this amount is reduced from the carried forward profits based on the issued distribution decision. However, the company distributed an actual amount of only 80,000 SAR, leaving 20,000 SAR as profits under distribution until the end of the year.

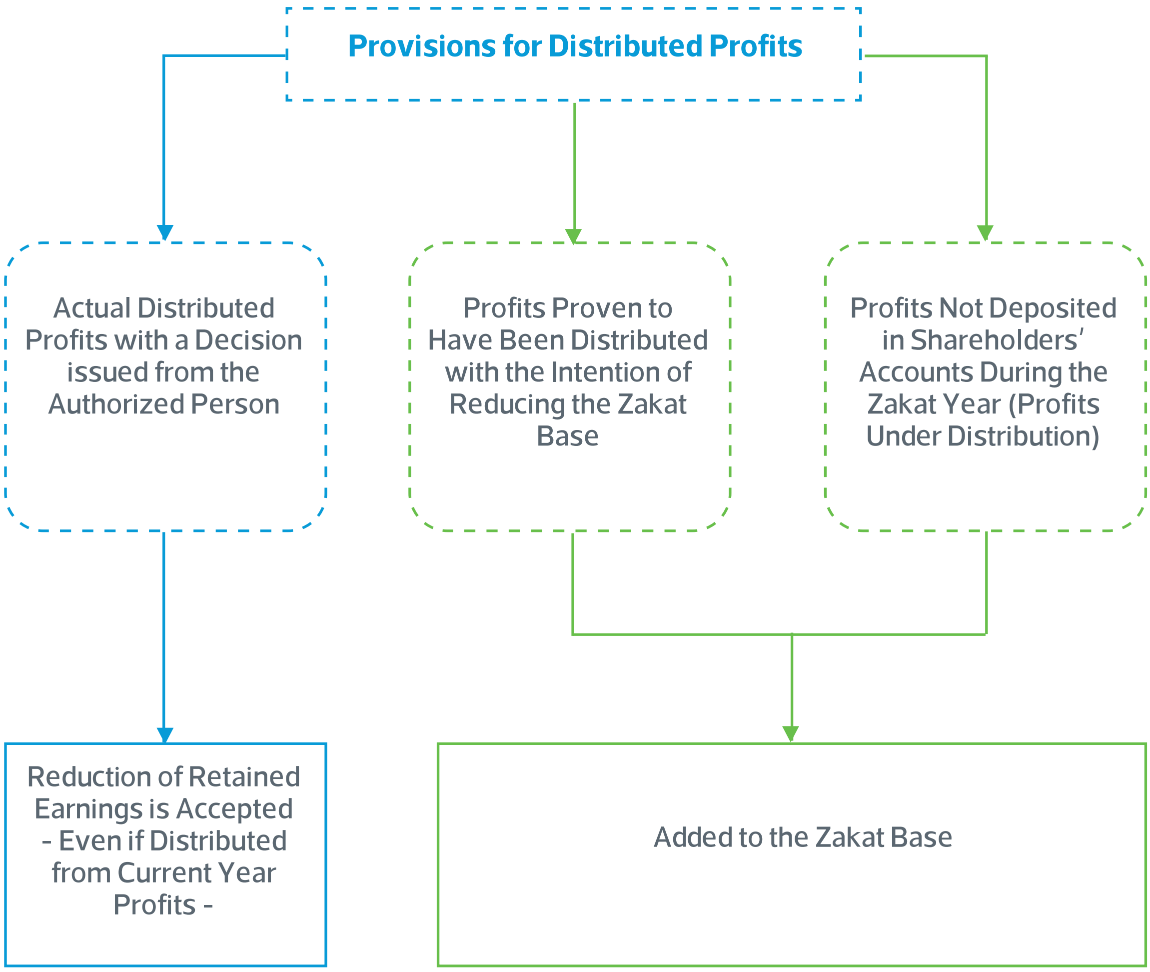
Consequently, when calculating the Zakat base, the company will add the retained earnings at the end-of-period balance (reduced by the total distributed profits) and will also add the profits under distribution amounting to 20,000 SAR to the Zakat base, considering them as undistributed profits.

When adding the profits under distribution to the Zakat base, they should be treated as equity. This requires reclassifying them to equity items or its equivalents. Consequently, the effect of the profits under distribution must be excluded from their previous classification in the financial statements for the purpose of calculating the Zakat base, as will be explained in detail in paragraph 7.6 of this guide.

2. The reduction of distributed profits from retained earnings for Zakat purposes is acceptable- even if they are distributed from the current year's profits -provided that these profits have been actually distributed and a decision has been made by the authorized person.
It is the responsibility of the Zakat payer to prove that the actual distribution of the distributed profits has taken place, by providing the necessary documentation to support this, provided that these profits are distributed in accordance with a decision issued by the authorized person as stated in the entity's statutory documents.

From a regulatory perspective, the Companies Law allows for the distribution of interim profits, as indicated in Article 22 of the law, while adhering to the detailed controls outlined in the Implementing regulations of the Companies Law regarding this matter. This aligns with what the regulations state about permitting the reduction of distributed profits from equity, even if they are distributed from the current year's profits. However, this does not apply in cases where the Zakat base is at a minimum, as it is not permissible to reduce the minimum Zakat base with distributed profits from the current year's earnings.

3. Distributed profits that have been confirmed by the authority as having been distributed by the Zakat payer with the intention of reducing the Zakat base are added to the Zakat base. As stated in Paragraph 2 of Article 37, distributed profits shall not be considered if it is proven to the Authority that the Zakat payer distributed the profits with the intent of reducing the zakat base.



Example (18):

The statement of changes in equity for a company at the end of its Zakat year for 2024 is as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2023	20,000,000	8,000,000	25,000,000	53,000,000
Profit for the Year	0	0	1,000,000	1,000,000
Transfer to Reserve	0	0	0	0
Distributed During the Year	0	0	(10,000,000)	(10,000,000)
Other Comprehensive Income	0	0	0	0
Balance as of 31/12/2024	20,000,000	8,000,000	16,000,000	44,000,000

What is the impact of the distributed profits during the year, amounting to 10,000,000 SAR, on the company's Zakat base if it is known that these profits were fully distributed in cash before the end of the year?

The Solution:

End-of-period balance of retained earnings, amounting to 16,000,000 SAR, will be added, which has been reduced by the distributed profits of 10,000,000 SAR. Since it is proved that these profits were actually distributed before the end of the year, the Zakat impact of the distributed profits is their reduction of the Zakat base, considering that they reduce the retained earnings item.

Example (19):

The statement of changes in equity for a company at the end of its Zakat year for 2025 is as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2024	1,000,000	200,000	500,000	1,700,000
Profit for the Year	0	0	100,000	100,000
Transfer to Reserve	0	0	0	0
Distributed During the Year	0	0	(550,000)	(550,000)
Other Comprehensive Income	0	0	0	0
Balance as of 31/12/2025	1,000,000	200,000	50,000	1,250,000

The analysis of the accrued expenses item and other current liabilities within current liabilities appears as follows:

Item	Amount (SAR)
Accrued Salaries	12,000
Accrued Commissions	5,000
Profits Under Distribution	30,000
Accrued Rent	6,000
Total	**53,000**

What is the impact of the profit distributions on the company's Zakat base in this case?

The Solution:

End-of-period balance of retained earnings is added to the Zakat base amounting to 50,000 SAR, which has been reduced by the distributed profits of 550,000 SAR, noting the following:

- The distributed profits of 550,000 SAR exceed the beginning balance of retained earnings of 500,000 SAR. This indicates that the company has distributed part of the current year's profits by an amount of 50,000 SAR, which is acceptable for Zakat purposes as long as a decision by the authorized person was issued for distribution and it was distributed to the shareholders.
- The analysis of the accrued expenses and other credit balances revealed profits under distribution amounting to 30,000 SAR, which must be added to the Zakat base as they are considered undistributed profits.
- Thus, the Zakat treatment for this case can be summarized as follows:
- Adding the balance of retained earnings to the Zakat base at the end-of-period balance of 50,000 SAR.
- Adding the profits under distribution to the Zakat base at the end-of-period balance of 30,000 SAR.

Example (20):

The retained earnings movement for a company at the end of its Zakat year for 2026 is as follows:

Movement	Amount (SAR)
Balance as of 31/12/2025	7,000,000
Profit for the Year	24,000,000
Transfer to Reserve	0
Distributed During the Year	(30,000,000)
Other Comprehensive Income	0
Balance as of 31/12/2026	1,000,000

Additionally, the following data appears for the company:

Item	Amount (SAR)
Zakat base	12,000,000
Adjusted net profit	25,000,000
Difference between book net profit and adjusted net profit	1,000,000
Undeducted assets	27,000,000

What is the impact of the distributed profits during the year, amounting to 30,000,000 SAR, on the company's Zakat base if it is known that this profit was distributed entirely in cash before the end of the year?

The Solution:

First: Since the adjusted net profit is greater than the Zakat base, we move to the minimum limit:

Adjusted Net Profit	Zakat Base
25,000,000 SAR	12,000,000 SAR

Second: Calculate the minimum limit for the Zakat base:

Calculate the minimum limit for the base	
Undeducted assets	27,000,000 SAR
(+) Difference between book net profit and adjusted net profit	1,000,000 S AR
Total	28,000,000 SAR
Adjusted net profit	25,000,000 SAR
We compare the above results, and the minimum limit for the base is the lower amount. Therefore, the minimum is 25,000,000 SAR.	

Accordingly, and referring to the provisions of Article 37 of the regulation, since the Zakat base in this case is the adjusted net profit as the minimum limit, the distributed profits during the year will not have any impact on the Zakat base (minimum limit). This is because the minimum limit for the base cannot be reduced by the distributed profits during the year, even if these profits are distributed from the current year's earnings, as in the case here.

3.4. Loss Carried Forward

Loss Carried Forward arises from the accumulation of the entity's losses from previous periods, and as a result, the item of carried forward losses appears within equity items. Loss carried forward reduces equity. According to Article 39 of the regulations, these losses are considered a reduction in Equity based on their balance as shown in the Zakat payer's statement of financial position.

The Zakat treatment does not differ in cases where losses carried forward are the result of a current year's loss. For example, if a company has profit carried forward from a previous year amounting to 600,000 SAR but incurs a loss of 1,000,000 SAR during the current year, resulting in a loss carried forward at the end of the year amounting to 400,000 SAR, the treatment, in this case, will be to reduce the loss carried forward in equity by the end-of-period balance of 400,000 SAR. This means that the key consideration for loss carried forward is the loss balance shown in the equity items at the end of the year, regardless of the origin of these losses or any of its amortization or reduction during the year.

Example (21):

The equity in the statement of financial position for a company at the end of 2024 is as follows:

Equity Item	2024 AD	2023 AD
Capital	6,000,000	6,000,000
Statutory Reserve	700,000	700,000
Retained Earnings	(1,000,000)	(700,000)
Total Equity	5,700,000	6,000,000

How is the balance of carried forward losses handled for the company in this case?

The Solution:

The carried forward losses are added to the end-of-period balance by deducting them from the equity added to the zakat base within addition items of the base. They reduce the equity in the zakat base by an amount of (1,000,000 SAR) within equity items in the base.

Example (22):

The statement of changes in equity for a company at the end of its Zakat year for 2024 is as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Carried forward losses (SAR)	Total (SAR)
Balance as of 31/12/2023	3,000,000	100,000	900,000	4,000,000
(Loss) for the Year	0	0	(1,200,000)	(1,200,000)
Transfer to Reserve	0	0	0	0
Distributed During the Year	0	0	0	0
Other Comprehensive Income	0	0	0	0
Balance as of 31/12/2024	3,000,000	100,000	(300,000)	2,800,000

How is the balance of carried forward losses handled for the company in this case?

The Solution:

The end-of-period balance of carried forward losses, amounting to (300,000 SAR), is added as a reduction to equity items and its equivalents within the additions of the Zakat base. This treatment is not affected by the existence of retained earnings at the beginning of the year, as what matters is the end-of-period balance of the item. In this case, the balance of carried forward losses arose due to the losses of the current year.

3.5. Unrealized Profits

Certain assets or liabilities require, from an accounting perspective, the recognition of gains or losses resulting from the revaluation of these assets or liabilities at the end of the financial period. Consequently, this affects the financial statements of the Zakat payer regarding these unrealized profits or losses.

Article 38 of the regulation states that both realized and unrealized profits are added to equity, regardless of their accounting classification. According to the requirements of accounting standards, unrealized profits can be recognized as follows:

1. Recognition of Unrealized profits in Book Net Profit: Examples include the following:

- Gains resulting from changes in the fair value of investment properties, as stated in International Accounting Standard 40 (IAS 40) - Investment Properties - which requires that gains and losses arising from changes in the fair value of investment property be recognized in profit or loss for the period in which they occur.
- Gains resulting from changes in the fair value of equity instruments held for trading, according to International Financial Reporting Standard 9 (IFRS 9) - Financial Instruments - which includes that gains on a financial asset measured at fair value be recognized in profit or loss unless the entity has chosen to present gains and losses in other comprehensive income according to the considerations outlined in the standard.

In this case, unrealized profits are recognized in the book net profit, which will be part of the retained earnings balance at the end of the year. This means adding these unrealized profits to the equity items at year-end as they are part of the end-of-period balance for retained earnings.

2. Recognition of Unrealized profits in Other Comprehensive Income: Examples include the following:

- Gains arising from the remeasurement of employee benefits according to International Accounting Standard 19 (IAS 19) - Employee Benefits.
- Gains resulting from changes in the fair value of equity instruments according to International Financial Reporting Standard 9 (IFRS 9) - Financial Instruments - which the entity has chosen to present gains and losses in other comprehensive income based on the considerations outlined in the standard.

In this case, since all transactions related to other comprehensive income that appear in the statement of other comprehensive income during the year are transferred to the equity items of the company.

Nevertheless, the addition of equity items at the end-of-period balance includes all operations linked to the items of comprehensive income recognized during the year. This means that these unrealized profits are added to the equity items at year-end as they are part of the end-of-period balance for equity items.

Example (23):

The following income statement for a company at the end of 2024 includes:

Income Statement (SAR)	
Revenues	50,000,000
(-) Revenues Cost	(23,000,000)
Gross Profit	**27,000,000**
(-) General and Administrative Expenses	(6,000,000)
(-) Selling and Distribution Expenses	(2,000,000)
Profit from Main Operations	**19,000,000**
Unrealized Profits from Valuation of Investment Properties	3,000,000
Profit Before Zakat	**22,000,000**
(-) Zakat	(4,000,000)
Net Profit	**18,000,000**

The statement of changes in equity for the company is as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2023	30,000,000	12,000,000	16,000,000	58,000,000
Profit for the Year	0	0	18,000,000	18,000,000
Transfer to Reserve	0	0	0	0
Distributed During the Year	0	0	0	0
Other Comprehensive Income	0	0	0	0
Balance as of 31/12/2024	30,000,000	12,000,000	34,000,000	76,000,000

How are the unrealized profits shown in the income statement handled?

The Solution:

The company's book net profit after Zakat includes unrealized profits resulting from the valuation of the company's investment properties, amounting to 3,000,000 SAR. The retained earnings balance at the end-of-period includes the company's book net profit after Zakat. The end-of-period balance of retained earnings should be added to the Zakat base of the company, amounting to 34,000,000 SAR. Therefore, the unrealized profits are included in the retained earnings item added to the Zakat base.

Example (24):

The comprehensive income statement for a company for the year 2025 is as follows:

Comprehensive Income Statement	
Book Net Profit	550,000
Items that will not be reclassified later to profit or loss	
Change in the fair value of the investments in equity	120,000
Total	**120,000**
Total Other Comprehensive Income	**670,000**

The statement of changes in equity for the company at the end of its Zakat year for 2025 is as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2024	1,000,000	110,000	650,000	1,760,000
Profit for the Year	0	0	550,000	550,000
Distributed During the Year	0	0	0	0
Other Comprehensive Income	0	0	120,000	120,000
Balance as of 31/12/2025	1,000,000	110,000	1,320,000	2,430,000

How are the unrealized profits shown in the items of other comprehensive income handled?

The Solution:

The comprehensive income statement includes unrealized profits resulting from the valuation of investments amounting to 120,000 SAR. The retained earnings balance at the end-of-period includes other comprehensive income. Therefore, the end-of-period balance of retained earnings should be added to the company's Zakat base, amounting to 1,320,000 SAR. Thus, the unrealized profits are included in the retained earnings item added to the Zakat base.

3.6. Treasury Shares

Treasury shares refer to the shares that are purchased by the company from the market. A joint-stock company may buy its own shares if its articles of association allow for it. The company may purchase its shares for several purposes, including the following:

1. Allocating them to employees under an employee stock program.
2. Canceling the purchased shares for the purpose of reducing capital.
3. Exchanging the purchased shares for the acquisition of shares, interests, or purchasing assets.
4. Settling the rights of holders of debt instruments that are convertible to shares.
5. Any other purpose deemed appropriate by the company and approved by the Ministry of Commerce.

Accordingly, treasury shares are held for various purposes, such as resale or use as part of employee compensation programs. These shares do not grant voting rights and are not entitled to profits distribution.

According to International Accounting Standard 32 (IAS 32) - Financial Instruments: Presentation - if an entity repurchases its own equity instruments, those instruments (treasury shares) must be deducted from equity. Gains or losses from the purchase, sale, issuance, or cancellation of the entity's equity instruments should not be recognized in profit or loss. The standard also requires separate disclosure of the amount of treasury shares held, either in the statement of financial position or in the clarifications of the financial statements.

Article 34 of the Implementing Regulation of the Companies Law includes several conditions and controls related to the company's purchase of its own shares, which are as follows:

A. The purpose of the purchase must be to reduce the company's capital or to hold the being purchased ordinary shares as treasury shares.

B. The proportion of treasury shares at any time must not exceed 10% of the total class of shares of the company being purchased.

C. The value of the purchased shares must be fully paid.

D. The debit balance of treasury shares must not exceed the balance of retained earnings.

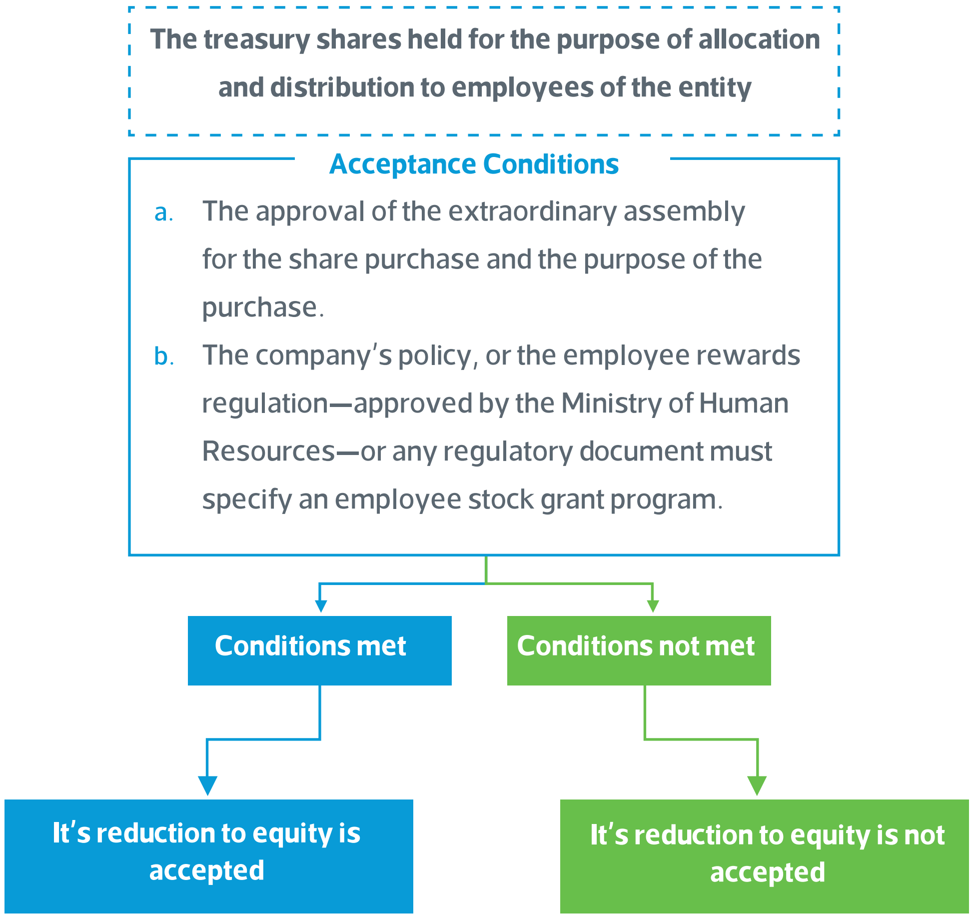
From an accounting perspective, treasury shares are considered a reduction in equity and are not recognized as an asset of the company. Instead, treasury shares are presented as a reduction of equity for the duration that the company holds them, and the company may sell treasury shares later according to the controls outlined in the Implementing Regulation of the Companies Law.
When the company purchases its shares from the market, cash in the statement of financial position is reduced by the same amount as the purchase cost, and the corresponding accounting account is recorded as a deduction from shareholders' equity (treasury shares).

According to Articles 40 and 41 of the regulation, treasury shares –if they appear in the equity items– are considered a reduction to the equity items.
For example, if a joint-stock company decides to purchase treasury shares in accordance with its articles of association, and as a result, the company purchases these shares and pays their full value, this will result in the purchased shares reducing the equity of the joint-stock company, leading to a corresponding reduction in the company's Zakat base by the same amount.

The above mentioned provision applies to treasury shares held for the purpose of allocating and distributing them to the entity's employees. Some companies acquire treasury shares for the purpose of allocating them to their employees under an employee stock program. Companies typically establish certain internal standards for this purpose, and this procedure is an important measure to motivate and retain employees, as well as to attract the best talents. The Zakat base may be reduced by the treasury shares held for the purpose of allocation and distribution to employees when the following conditions are met:

1. The approval of the extraordinary general assembly for the share purchase and the purpose of the purchase.
2. The company's policy, or the employee rewards regulation–approved by the Ministry of Human Resources–or any regulatory document must specify an employee stock grant program.

For example, if a joint-stock company decides to purchase treasury shares based on the approval of the extraordinary assembly for the purpose of allocating these shares as incentives for the company's employees, in accordance with the standards and considerations outlined in the employee rewards regulation approved by the Ministry of Human Resources. Accordingly, the purchased shares will appear as a reduction in the equity of the joint-stock company, which will consequently reduce the company's Zakat base by the same amount.



Example (25):

The equity in the statement of financial position for a company at the end of 2024 is as follows:

Equity	2024 AD	2023 AD
Capital	25,000,000	25,000,000
Treasury Shares	(20,000,000)	(20,000,000)
Statutory Reserve	12,000,000	12,000,000
Retained Earnings	33,780,000	27,120,000
Total Equity	50,780,000	44,120,000

How is the balance of treasury shares handled in this case?

The Solution:

The treasury shares listed in the company's equity items are considered a reduction to its equity. The treasury shares are included in the additions to the company's zakat base, deducted from equity in the amount of (20,000,000) SAR, which is included in the additions to the company's Zakat base.

Example (26):

The equity in the statement of financial position for a company at the end of 2025 is as follows:

Equity	2024 AD	2023 AD
Capital	50,000,000	50,000,000
Treasury Shares Held Under the Employee Stock Distribution Plan	(40,000,000)	0
Statutory Reserve	17,000,000	17,000,000
Retained Earnings	120,088,000	105,016,000
Total Equity	**147,088,000**	**172,016,000**

- During the second quarter of 2025, the extraordinary general assembly approved the purchase of treasury shares for some senior executives of the company in accordance with the company's policy approved by the Ministry of Human Resources. The shares were purchased during the third quarter of 2025.

How is the balance of treasury shares handled in this case?

The Solution:

The treasury shares which appear under the equity items of the company, held for the purpose of allocating and distributing them to employees, are considered reduction items to its equity since they meet the conditions stipulated in Article 41 of the regulation. The treasury shares are included in the additions to the company's zakat base, deducted from the equity items in the amount of (40,000,000) SAR, which is included in the additions to the company's Zakat base.

3.7. Items Reclassified to Equity

The items that can be reclassified to equity, as detailed in paragraphs 2.3, 2.4, and 2.5 of this guide, are summarized in three items as follows:

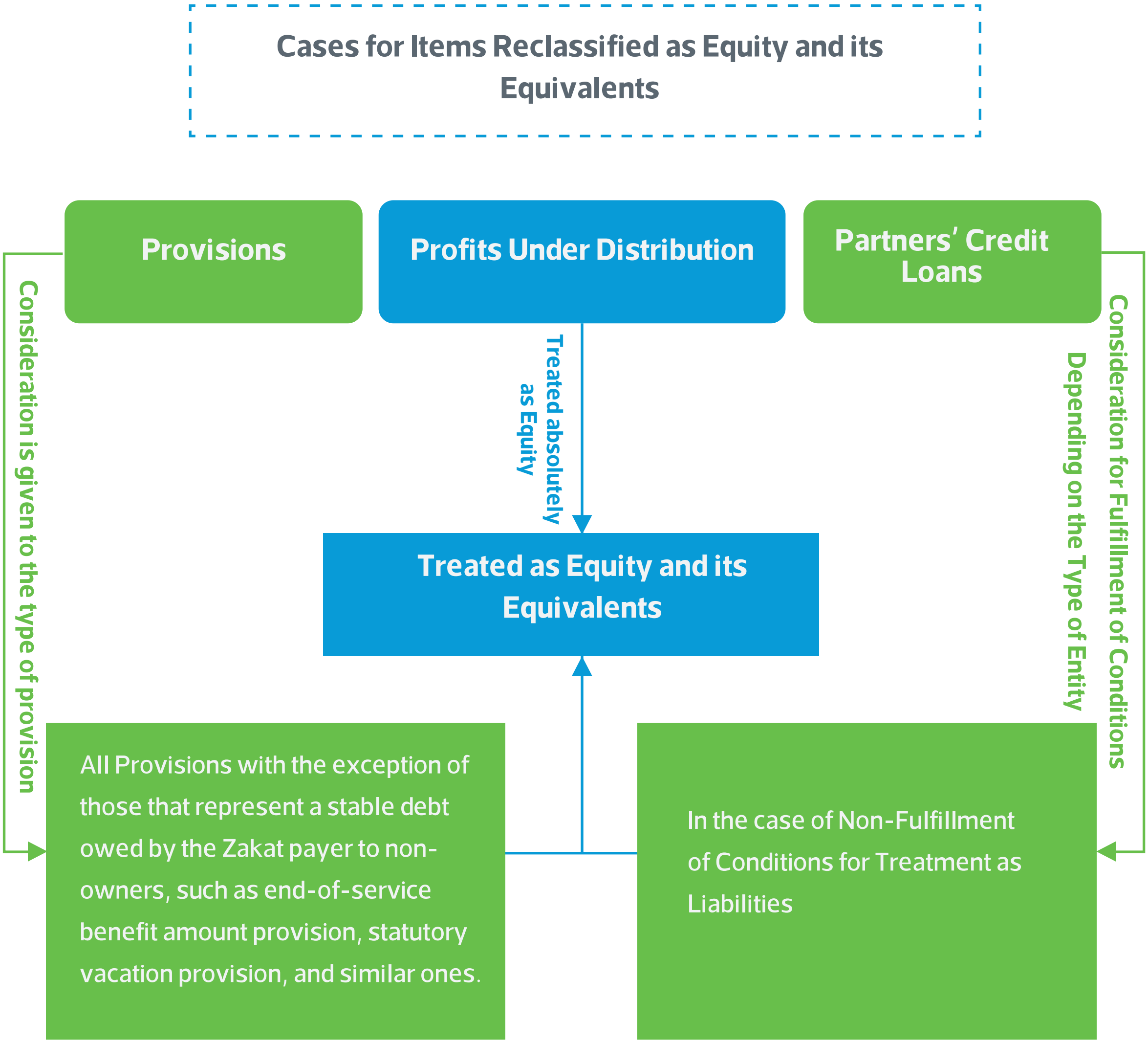
1. Provisions appear in the statement of financial position treated as equity.
2. Profits under distribution.
3. Partners' credit loans in cases where they are not treated as liabilities.

The Zakat payer is required to reclassify these items to equity for Zakat purposes. This procedure requires a detailed analysis of the items in the statement of financial position to reach the items treated as equity based on their accounting presentation in the statement of financial position.

Reclassifying items to equity requires excluding them from their previous classification, which impacts other procedures for calculating the Zakat base. For example, when treating profits under distribution, classified as current liabilities, as equity, the following steps are taken:

1. Add profits under distribution to the equity items at the end-of-period balance.
2. Exclude profits under distribution from current liabilities, which affects other Zakat base procedures, such as the placement of liabilities, which depends in one of its cases, on adding a proportion of current liabilities to the base.

Summary of Cases for Items Reclassified as Equity and its Equivalents



Example (27):

The following data appeared in the statement of financial position of a limited liability company at the end of the year 2024:

Statement of financial position (SAR)			
Assets		**Liabilities and Equity**	
Current Assets		Current Liabilities	
Cash and Banks	190,000	Short-term Loans	60,000
Prepaid Expenses	220,000	Accrued Expenses and other Credit Balances	250,000
Other Debit Balances	260,000	Zakat Provision	90,000
Total	**670,000**	**Total**	**400,000**
Non-current Assets		Non-current Liabilities	
Fixed Assets	250,000	Long-term Loans	150,000
Investments	220,000	Employee Benefits Liabilities	140,000
Total	**470,000**	**Total**	**290,000**
		Equity	
		Capital	300,000
		Statutory reserve	60,000
		Retained Earnings	90,000
		Total	450,000
Total	1,140,000	Total	1,140,000

Additionally, the analysis of the item (Accrued Expenses and Other Credit Balances) appears as follows:

Item	Amount (SAR)
Creditors	40,000
Provision for Ongoing Cases	110,000
Profits Under Distribution	100,000
Total	250,000

What items need to be reclassified as equity and its equivalents?

The Solution:

The items that need to be reclassified as equity and its equivalents are as follows:

Item	Accounting Classification	Reclassification	Amount (SAR)
Provision for Ongoing Cases	Current Liability	Classified as equity and its equivalents for Zakat purposes	110,000
Profits Under Distribution	Current Liability	Classified as equity and its equivalents for Zakat purposes	100,000
Zakat Provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	90,000

- When reclassifying for Zakat purposes, it is essential to exclude the reclassified items from their previous accounting classification, represented by current liabilities.

Example (28):

The current liabilities of a company appeared in the statement of financial position at the end of the year 2024 as follows:

Current Liabilities	2024 AD	2023 AD
Commercial Creditors	4,000,000	2,600,000
Zakat Provision	300,000	400,000
Due to Related Parties	8,000,000	8,600,000
Total Current Liabilities	12,300,000	11,600,000

- The item "Due to Related Parties" relates to one of the partners and consists of commercial transactions at cost price, with no returns entitled to the partner.

What are the items that need to be reclassified as equity and its equivalents?

The Solution:

The items that need to be reclassified as equity and its equivalents are as follows:

Item	Accounting Classification	Reclassification	Amount (SAR)
Zakat Provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	300,000
Due to Related Parties	Current Liability	Classified as equity and its equivalents for Zakat purposes	8,000,000

- When reclassifying for Zakat purposes, it is essential to exclude the reclassified items from their previous accounting classification, which is represented by current liabilities.

3.8. Comprehensive Applications

Example (29):

The following statement of financial position for a limited liability company at the end of the year 2025:

Statement of financial position		
Assets		
	2025 AD (SAR)	2024 AD (SAR)
Current Assets		
Cash and Cash Equivalents	10,615,229	8,412,292
Due from Related Parties	6,031,143	5,910,520
Total Current Assets	**16,646,372**	**14,322,812**
Non-Current Assets		
Property and Equipment	12,058,127	12,178,708
Intangible Assets	4,296,271	4,339,234
Total Non-Current Assets	**16,354,398**	**16,517,942**
Total Assets	33,000,770	30,840,754
Liabilities and Equity		
Current Liabilities		
Accrued Expenses and Other Credit Balances	3,315,126	3,248,823
Zakat Provision	1,287,716	1,261,962
Total Current Liabilities	**4,602,842**	**4,510,785**
Non-Current Liabilities		
Long-Term Loans	2,012,150	1,971,907
Employee Benefit Liabilities	1,385,778	1,358,062
Total Non-Current Liabilities	**3,397,928**	**3,329,969**
Equity		
Capital	10,000,000	10,000,000
Statutory Reserve	2,000,000	2,000,000
Retained Earnings	13,000,000	11,000,000
Total Equity	**25,000,000**	**23,000,000**
Total Liabilities and Equity	33,000,770	30,840,754

The analysis of the item (Accrued Expenses and Other Credit Balances) is as follows:

Item	Amount (SAR)
Accrued Expenses	500,000
Vacation Provision	1,200,000
Legal Provision	1,115,000
Fines Provision	500,126
Total	3,315,126

What equity items should be added to the Zakat base?

The Solution:

The equity items and their equivalents are reached as follows:

First: Add the basic equity items at the end-of-period balance:

Item	Accounting Classification	Zakat Classification	Amount (SAR)
Capital	Equity	Classified as equity and its equivalents for Zakat purposes	10,000,000
Statutory Reserve	Equity	Classified as equity and its equivalents for Zakat purposes	2,000,000
Retained Earnings	Equity	Classified as equity and its equivalents for Zakat purposes	13,000,000
Total Basic Equity Items			25,000,000

Second: Compile all items that are treated as equity and add them to the Zakat base at the end-of-period balance:

Item	Accounting Classification	Zakat Classification	Amount (SAR)
Zakat Provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	1,287,716
Legal Provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	1,115,000
Fines Provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	500,126
Total Items			2,902,842

Thus, the equity items that should be added to the Zakat base are as follows:

Item	Accounting Classification	Zakat Classification	Amount (SAR)
Capital	Equity	Classified as equity and its equivalents for Zakat purposes	10,000,000
Statutory Reserve	Equity	Classified as equity and its equivalents for Zakat purposes	2,000,000
Retained Earnings	Equity	Classified as equity and its equivalents for Zakat purposes	13,000,000
Zakat Provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	1,287,716
Legal Provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	1,115,000
Fines Provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	500,126
Total Equity Items			**27,902,842**

When reclassifying for Zakat purposes, items that have been reclassified should be excluded from their previous classification.

Example (30):

The following statement of financial position for a company listed in the Capital Market at the end of the year 2025:

Statement of financial position		
Assets		
	2025 AD (SAR)	**2024 AD (SAR)**
Current Assets		
Cash and Cash Equivalents	22,822,742	18,086,429
Debtors	6,483,479	6,353,809
Inventory	12,966,957	12,707,618
Total Current Assets	**42,273,178**	**37,147,856**
Non-Current Assets		
Property and Equipment	15,924,973	16,184,223
Intangible Assets	9,236,983	9,329,352
Investments	12,157,689	7,773,535
Total Non-Current Assets	**37,319,645**	**33,287,110**
Total Assets	**79,592,823**	**70,434,966**

Liabilities and Equity		
Current Liabilities		
Creditors	17,127,520	6,984,970
Due to Related Parties	20,315,000	19,541,000
Profits Under Distribution	11,276,168	12,736,344
Zakat Provision	2,768,589	2,713,218
Total Current Liabilities	**51,487,277**	**41,975,532**
Non-Current Liabilities		
Long-Term Loans	4,326,123	4,239,600
Employee Benefit Liabilities	2,979,423	2,919,834
Total Non-Current Liabilities	**7,305,546**	**7,159,434**
Equity		
Capital	21,500,000	21,500,000
Statutory Reserve	4,300,000	4,300,000
Carried Forward (Losses)	(5,000,000)	(4,500,000)
Total Equity	**20,800,000**	**21,300,000**
Total Liabilities and Equity	**79,592,823**	**70,434,966**

What equity items are required to be added to the Zakat base?

The Solution:

The equity items and their equivalents are determined as follows:

First: Add the basic equity items at the end-of-period balance:

Item	Accounting Classification	Zakat Classification	Amount (SAR)
Capital	Equity	Classified as equity and its equivalents for Zakat purposes	21,500,000
Statutory Reserve	Equity	Classified as equity and its equivalents for Zakat purposes	4,300,000
Carried Forward (Losses)	Equity	Classified as equity and its equivalents for Zakat purposes	(5,000,000)
Total Basic Equity Items			20,800,000

Second: Identify all items treated as equity and its equivalents and add them to the Zakat base at the end-of-period balance

Item	Accounting Classification	Zakat Classification	Amount (SAR)
Profits Under Distribu-tion	Current Liability	Classified as equity and its equiva-lents for Zakat purposes	11,276,168
Zakat Provision	Current Liability	Classified as equity and its equiva-lents for Zakat purposes	2,768,589
Total Items			14,044,757

Thus, the equity items and their equivalents that should be added to the Zakat base are as follows:

Item	Accounting Classification	Zakat Classification	Amount (SAR)
Capital	Equity	Classified as equity and its equivalents for Zakat purposes	21,500,000
Statutory Re-serve	Equity	Classified as equity and its equivalents for Zakat purposes	4,300,000
Carried Forward (Losses)	Equity	Classified as equity and its equivalents for Zakat purposes	(5,000,000)
Profits Under Distribution	Equity	Classified as equity and its equivalents for Zakat purposes	11,276,168
Zakat Provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	2,768,589
Total Equity Items			34,844,757

When reclassifying for Zakat purposes, the reclassified items should be excluded from their previous classification.

Example (31):

The following statement of financial position for a limited liability company at the end of the year 2024:

Statement of financial position		
Assets		
	2024 AD (SAR)	**2023 AD (SAR)**
Current Assets		
Cash and Cash Equivalents	15,361,092	13,364,150
Receivable Debits	7,322,848	6,370,878
Inventory	12,513,725	10,886,941
Due from Related Parties	33,916,861	22,911,150
Total Current Assets	**69,114,526**	**53,533,119**
Non-Current Assets		
Property and Equipment	20,645,843	21,176,419
Intangible Assets	2,830,847	2,972,389
Right of use Asset	2,721,843	2,857,935
Investments	19,123,748	16,637,661
Total Non-Current Assets	**45,322,281**	**43,644,404**
Total Assets	**114,436,807**	**97,177,523**
Liabilities and Equity		
Current Liabilities		
Short Term Loans	2,254,680	1,961,572
Lease Contracts Liabilities – Current Portion	1,990,969	1,732,143
Accounts Payable and Other Current Liabilities	12,678,024	11,029,881
Due to Related Parties	7,532,957	6,553,673
Zakat Provision	1,562,745	1,359,588
Total Current Liabilities	**26,019,375**	**22,636,857**
Non-Current Liabilities		
Long-Term Loans	6,081,721	5,291,097
Lease Contracts Liabilities – Non-current Portion	1,608,093	1,399,041
Employee Benefit Liabilities	977,618	850,528
Total Non-Current Liabilities	**8,667,432**	**7,540,666**

Equity		
Capital	15,000,000	15,000,000
Statutory Reserve	7,000,000	7,000,000
Other Reserves	2,750,000	3,000,000
Carried Forward Profits	55,000,000	42,000,000
Total Equity	**79,750,000**	**67,000,000**
Total Liabilities and Equity	114,436,807	97,177,523

The Comprehensive Income Statement appeared as follows:

Comprehensive Income Statement	
Net Book Profit	20,150,000
Items That Will Not Be Reclassified subsequently to Profit or Loss	
Remeasurement of Employee Benefits	(150,000)
Change in Fair Value of Equity Investments	(200,000)
Total	(350,000)
Items That Will Be Reclassified subsequently to Profit or Loss	
Foreign Currency Translation Differences	(50,000)
Total	(50,000)
Total Other Comprehensive Income	(400,000)
Total Comprehensive Income	19,750,000

The statement of changes in equity appeared as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Other Reserves (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2023	15,000,000	7,000,000	3,000,000	42,000,000	67,000,000
Profit for the Year	0	0	0	20,150,000	20,150,000
Distributed During the Year	0	0	0	(7,000,000)	(7,000,000)
Other Comprehensive Income	0	0	(250,000)	(150,000)	(400,000)
Balance as of 31/12/2024	15,000,000	7,000,000	2,750,000	55,000,000	79,750,000

Some analyses of the end-of-period balances for items in the statement of financial position appeared as follows:

Analysis of Accounts Payable and Other Current Liabilities:

Item	Amount (SAR)
Creditors	3,000,000
Claims Provision	5,000,000
Profits Under Distribution	2,000,000
Lawsuits Provision	2,678,024
Total	12,678,024

Analysis of Amounts Due to Related Parties:

Item	Type of Transaction	Amount (SAR)	Transaction Details
Due to Partner	Expenses on behalf	7,532,957	Expenses on behalf charged with costs, and the partner is not entitled to returns on them
Total		7,532,957	

What equity items should be added to the Zakat base?

The Solution:

Equity items and their equivalents are reached as follows:

First: Add basic equity items at the end-of-period balance:

Item	Accounting Classification	Zakat Classification	Amount (SAR)
Capital	Equity	Classified as equity and its equivalents for Zakat purposes	15,000,000
Statutory Reserve	Equity	Classified as equity and its equivalents for Zakat purposes	7,000,000
Other Reserves	Equity	Classified as equity and its equivalents for Zakat purposes	2,750,000
Retained Earnings	Equity	Classified as equity and its equivalents for Zakat purposes	55,000,000
Total Equity Items			79,750,000

Equity items include all operations of other comprehensive income.

Second: Identify all items treated as equity and their equivalents and add them to the Zakat base at the end-of-period balance:

Item	Accounting Classification	Zakat Classification	Amount (SAR)
Due to related parties	Current Liability	Classified as equity and its equivalents for Zakat purposes	7,532,957
Zakat provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	1,562,745
Provision for legal claims	Current Liability	Classified as equity and its equivalents for Zakat purposes	5,000,000
Profits under Distribution	Current Liability	Classified as equity and its equivalents for Zakat purposes	2,000,000
Provision for lawsuits	Current Liability	Classified as equity and its equivalents for Zakat purposes	2,678,024
Total Items			**18,773,726**

The items of equity and their equivalents that must be added to the Zakat base are as follows:

Item	Accounting Classification	Zakat Classification	Amount (SAR)
Capital	Equity	Classified as equity and its equivalents for Zakat purposes	15,000,000
Statutory Reserve	Equity	Classified as equity and its equivalents for Zakat purposes	7,000,000
Other Reserves	Equity	Classified as equity and its equivalents for Zakat purposes	2,750,000
Retained Earnings	Equity	Classified as equity and its equivalents for Zakat purposes	55,000,000
Due to related parties	Current Liability	Classified as equity and its equivalents for Zakat purposes	7,532,957
Zakat provision	Current Liability	Classified as equity and its equivalents for Zakat purposes	1,562,745
Provision for claims	Current Liability	Classified as equity and its equivalents for Zakat purposes	5,000,000
Profits under Distribution	Current Liability	Classified as equity and its equivalents for Zakat purposes	2,000,000
Provision for lawsuits	Current Liability	Classified as equity and its equivalents for Zakat purposes	2,678,024

When reclassifying for Zakat purposes, items that have been reclassified should be excluded from their previous classification.

4. Liabilities

4.1. Introduction

4.1.1. Liabilities Required to be Added to the Zakat Base.

Liabilities are considered one of the essential components of the Zakat base. They can be defined as commitments made by the entity to others in exchange for acquiring goods, services, or loans, which appear on the credit side of the statement of financial position. Liabilities may be classified as either current or non-current based on the nature of these liabilities, their purpose, and the expected settlement periods. International Accounting Standard 1 (IAS 1) - Presentation of Financial Statements - provides criteria for classifying liabilities as a current liability; if these criteria are not met, the liability must be classified as a non-current liability.

The addition of liability items in the Zakat base is based on the end-of-period balance, within the limits of the deducted assets from the base. The default is to add them to non-current liabilities, as current liabilities are not added to the Zakat base except in specific cases as stated in Article 29 of the regulation.

In cases where the financial statements are presented on a liquidity basis —meaning that items of assets and liabilities are arranged in the statement of financial position based on the liquidity of each item rather than being classified by maturity as current or non-current. This results in the appearance of assets as a single group and liabilities as a single group, making it difficult to distinguish between current and non-current items from the face of the statement of financial position. Therefore, it is necessary to establish a criterion that determines the classification of current and non-current items for Zakat treatment purposes.
Article 19 of the regulation specifies that "current", as mentioned in the regulation for companies that classified their financial statements on a liquidity basis, refers to any asset or liability expected to be realized, recovered, or settled within a period not exceeding 365 days after the end of the Zakat year.

Therefore, if financial statements are presented on a liquidity basis, the Zakat payer must classify liabilities as current or non-current according to the mentioned criteria. The inclusion of liabilities in the Zakat base depends on this classification. For example, if the Zakat payer's financial statements on a liquidity basis include a bank loan, it is necessary to determine whether this loan is current or non-current by examining the specified period for settling and repaying that portion of the loan. If this period exceeds 365 days after the end of the Zakat year, that portion of the loan will be classified as non-current for the purposes of calculating the Zakat base as stated in Article 19 of the regulation.

Based on the above, liabilities are added to the Zakat base by identifying non-current liabilities at the end-of-period balance, and then reviewing the applicability of adding current liabilities to the Zakat base, which can be categorized into the following cases as stated in Article 29 of the regulation:

a. If a current asset is deducted, the addition shall be a current liability as per Article 25 of the regulation.
b. If the value of the current liabilities not added to the base after reclassification is greater than the value of current assets, the difference is added to the Zakat base.
c. If it is proven to the authority that the current liability is equivalent to the non-current liability, such as when the Zakat payer renews a debt classified as current with the same creditor for the same purpose, or if the debt is re-schedules with the same creditor for the same purpose.

Regarding non-current liabilities, Article 29 of the regulation includes liabilities and their addition to the Zakat base, which includes the following:

a. Debts classified as non-current according to the end-of-period balance, whether from prior years or added during the year; such as bank loans, advance payments made by Zakat Payer customer, instruments, and bonds issued.
b. Provisions representing a stable debt to non-owners, such as end-of-service benefit provisions, vacation balance provisions, and equivalents.
c. Deferred tax liabilities.
d. Clause of contract liabilities established as per the approved accounting standards.
e. Lease contact liabilities.
f. Negative derivative financial instruments.

Items of Liabilities Required to be Added to the Base

Non-current liabilities, including:

- Debts of various types such as: bank loans, lease liabilities, Advance payments made by Zakat Payer customers, instruments and bonds issued.
- Provisions representing a stable debt to non-owners, such as: Provision for end-of-service benefits, Employees leave provision and equivalents
- Deferred tax liability.
- Clause of contract liabilities established as per the approved accounting standards.
- Negative derivative financial instruments.

Current liabilities, in the following limited cases:

- If it is proven to the authority that the current liability is equivalent to a non-current liability.
- If a current asset is deducted as per the placement procedure.
- If the value of current liabilities not added to the base is greater than the value of un-deducted assets from the base, the difference is added to the base.

4.1.2. Procedures for Adding Liabilities to the Zakat Base

Before reviewing the details of the liabilities required to be added to the Zakat base, it is important to clarify the necessary steps for adding liabilities. The regulations include provisions requiring the Zakat payer to follow a number of procedures in order to add liabilities to the Zakat base in accordance with the provisions of the regulations.

The procedures for adding liabilities to the Zakat base can be summarized in the following steps:

First: Non-current liabilities items listed in the first paragraph of Article 29 are added to the end-of-period balances, after excluding items treated as Equity.

Second: Current liabilities are reclassified as non-current liabilities in cases where it is proven that the current liability is equivalent to a non-current one, such as when the Zakat payer renews a debt classified as current with the same creditor for the same purpose, or re-scheduled the debt with the same creditor for the same purpose.

Third: Verify the exclusion of items that will be reclassified to equity, including the reclassification of partners' credit loans to equity in accordance with Article 30 of the regulation.

Thus, the liabilities required to be added to the Zakat base are identified before correcting them according to the placement rule.

Fourth: The addition of liabilities identified in the previous two steps is corrected according to the placement cases mentioned in Article 25 of the regulation. This is done when deducting a current asset or when a non-current asset is not deducted, as will be clarified.

Fifth: The liabilities required to be added to the Zakat base, as specified in the previous steps, are added considering that the liabilities added to the base are within the limits of the deducted assets from it.

Sixth: It is verified that the liabilities not added to the Zakat base do not exceed the undeducted assets from it. This is done after carrying out all corrections, reclassifications, and their consequences. If the liabilities not added to the base exceed the undeducted assets, the difference is added to the Zakat base.

Procedures for Adding Liabilities to the Zakat Base

1. List the non-current liabilities at the end-of-period balances, ensuring the exclusion of any item treated as equity.

2. Reclassifying current liabilities as non-current in cases where it is proven that the current liability is equivalent to a non-current liability.

3. Verification of the exclusion of items that will be reclassified to equity

4. Correct the addition identified in the previous two steps according to the placement cases, if any.

5. Add the liabilities that shall be added to the Zakat base, as specified in the previous steps, without exceeding the deducted assets.

6. Ensuring that the liabilities not added to the Zakat base do not exceed the un-deducted assets. If they do, the difference is added to the Zakat base.

4.2. Non-Current Liabilities

For Zakat purposes, liability items are added to the Zakat according to the end-of-period balance, within the limits of the assets deducted from the base. The default is that the addition should be to non-current liabilities, as current liabilities are only added to the Zakat base in specific, limited cases. Article 29 of the regulations includes the items that fall under non-current liabilities, which will be detailed in this section.

From an accounting perspective, liabilities are classified according to International Accounting Standard 1 (IAS 1) - Presentation of Financial Statements - based on the criteria for classifying a liability as a current liability. If these criteria are not met, the liability should be classified as a non-current liability. The standard specifies that a liability must be classified as a current liability when one of the following conditions is met:

1. The liability is expected to be settled during the entity's operating cycle.
2. The liability is held for trading purposes.
3. The liability shall be settled within twelve months after the reporting period and cannot be deferred beyond that.

Otherwise, liabilities must be classified as non-current liabilities, considering cases where financial statements are presented on a liquidity basis. In this case, a current liability is one that is expected to be realized, recovered, or settled within a period not exceeding 365 days after the end of the Zakat year, as stated in Article 19 of the regulations. It should be considered that if the item appearing under assets and liabilities in the financial statements presented on a liquidity basis does not include a specified maturity date, it is treated as a current asset or liability. This should be done while taking into account the reclassification of items treated as equity, regardless of whether a specific maturity date is determined for them or not.

Types of Non-current Liabilities:

4.2.1. Debts of various types, such as bank loans, lease contract liabilities, advance payments from zakat payer customer, and issued instruments and bonds.

This category includes conventional financing which funds the assets of the entity, such as cash financing which encompasses various types of loans provided by financing institutions or government entities funding certain activities, in addition to debt instruments like instruments and bonds. It also includes in-kind financing represented by finance lease liabilities, which result in recognizing the right-of-use asset. Furthermore, it includes cash financing arising from transactions with customers, such as advance cash payments received from customers. All these items are added to the Zakat base at the end-of-period balance if classified as non-current liabilities.

Regarding loans, bank facilities, bonds, and issued instruments, International Financial Reporting Standard 9 (IFRS 9) - Financial Instruments - outlines how to account for financial instruments, including loans and bank facilities, instruments, and bonds. The standard addresses how to recognize and classify these financial instruments, whether at fair value or amortized cost, and how to calculate changes in their values over time.

Additionally, International Financial Reporting Standard 7 (IFRS 7) - Financial Instruments: Disclosures - specifies the disclosures that entities must provide regarding the financial instruments they hold, including loans, bank facilities, instruments, and bonds. This includes disclosing details about these financial obligations, their durations, related maturity dates, and the associated credit and liquidity risks.

Regarding borrowing costs related to these financial instruments, International Accounting Standard 23 (IAS 23) - Borrowing Costs - outlines how to admit borrowing costs linked with loans, bank facilities, instruments, and bonds. This includes criteria for admitting borrowing costs as part of the cost of an asset if the loans are linked to the construction or improvement of a qualifying asset.

Additionally, International Financial Reporting Standard 16 (IFRS 16) - Leases - includes the proof of financial lease liabilities and their disclosure. The standard requires that the lessee prove a right-of-use asset in their financial lease obligation at the commencement date of the lease contract, a right-of-use asset is initially recognized, and concurrently, a financial lease obligation is proved and settled over the lease term.

Based on the treatments of accounting standards, the financial statements of the Zakat payer are affected by the transactions that occur regarding these items. This includes the appearance of these items under liabilities in the statement of financial position, which may be classified as either current or non-current liabilities depending on their related maturity dates.

Additionally, the income statement is affected by the interest that may arise from these items, which is recognized in the income statement during the payment period.

Furthermore, the statement of cash flows is affected by the cash transactions resulting from these items, such as receiving the loan amount, paying it, or paying the interest that results from it.

Zakat Treatment for Debts

For Zakat purposes, debts of all types are added to the Zakat base at the end-of-period balance. The addition of debts to the zakat base is limited to non-current liabilities, unless one of the cases for adding current liabilities mentioned in paragraph (4.3) of this guide applies.These debts may appear under current liabilities in financial statements in cases where they are expected to be settled within the next twelve months. **Examples of this include:**

1. Advance payments to be settled within the year.
2. The current portion of long-term loans.
3. Short-term financing.

Therefore, if the financial statements of a company include items such as bank loans and lease liabilities divided into non-current liabilities and current liabilities, only the non-current liabilities are added, and the current liabilities for the same items are not added.

Example (32):

The following data is extracted from the Statement of financial position of a company at the end of the year 2024:

	2024 AD	2023 AD
Current Liabilities		
Bank Facilities	24,783,218	25,140,664
Accrued Expenses and Other Credit Balances	8,626,538	7,411,206
Total Current Liabilities	33,409,756	32,551,870
Non-current Liabilities		
Long-term Loans	22,746,603	19,334,612
Total Non-current Liabilities	22,746,603	19,334,612

What liabilities are required to be added to the Zakat base within the liabilities items?

The Solution:

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Long-term Loans	22,746,603
Total Liabilities Required to be Added to the Zakat Base	**22,746,603**

Example (33):

The following statement is extracted from the accounts of a company at the end of the year 2025:

Item	Amount (SAR)
Short-term Loans (Current)	24,736,308
Long-term Loans (Non-current)	66,772,566
Lease liabilities (Current)	19,893,986
Lease liabilities (Non-current)	30,924,838
Advance payments (Current)	10,790,783
Advance payments (Non-current)	31,105,577

What are the liabilities added to the Zakat base within the liabilities items?

The Solution:

In this case. the liabilities required to be added to the Zakat base are as follows:

Liability	Amount (SAR)
Long-term Loans (Non-current)	66,772,566
Lease liabilities (Non-current)	30,924,838
Advance payments (Non-current)	31,105,577
Total Liabilities Required to be Added to the Zakat Base	128,802,981

Example (34):

The following data is extracted from the Statement of financial position of a company at the end of the year 2025:

	2025 AD	2024 AD
Current Liabilities		
Short-term Loans	14,109,701	11,993,246
Long-term Loans - Current portion	11,079,027	9,417,173
Advance payments	8,718,916	7,411,079
Total Current Liabilities	**33,907,644**	**28,821,498**
Non-current Liabilities		
Long-term Loans - Non-current portion	10,381,966	8,824,671
Issued Instruments	14,076,922	11,965,384
Total Non-current Liabilities	**24,458,888**	**20,790,055**

What liabilities are added to the Zakat base within the liabilities items?

The Solution:

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Long-term Loans - Non-current portion	10,381,966
Issued Instruments	14,076,922
Total Liabilities Required to be Added to the Zakat Base	24,458,888

Example (35):

The following data is extracted from the Statement of financial position of a company at the end of the year 2025:

	2025 AD	2024 AD
Current Liabilities		
Short-term Loans	12,097,787	10,283,119
Long-term Loans - Current portion	1,256,857	1,068,328
Lease obligation - Current portion	4,981,729	4,234,470
Total Current Liabilities	**18,336,373**	**15,585,917**
Non-current Liabilities		
Long-term Loans - Non-current portion	25,542,372	21,711,016
Lease obligation – Non-current portion	13,866,462	11,786,493
Advance payments from customers	10,936,524	9,296,045
Total Non-current Liabilities	**50,345,358**	**42,793,554**

What liabilities are added to the Zakat base within the liabilities items?

The Solution:

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Long-term Loans - Non-current portion	25,542,372
Lease obligation – Non-current portion	13,866,462
Advance payments from customers	10,936,524
Total Liabilities Required to be Added to the Zakat Base	50,345,358

Example (36):

The following data is extracted from the trial balance of a company at the end of 2026, which analyzes some accounts of current and non-current liabilities in the company's statement of financial position:

Account	Beginning Inventory	Debit	Credit	End-of-period balance
Current Liabilities				
Bank Facilities	9,201,817	2,111,005		10,825,667
Long-term Loans - Current portion	8,817,453	340,474	602,377	9,079,356
Lease obligation - Current portion	4,941,650	1,210,143	2,141,022	5,872,529
Advance payments	5,992,435	1,374,736		7,049,924
Accrued Expenses and Creditors	2,295,557	526,627	931,725	2,700,655
Non-current Liabilities				
Long-term Loans - Non-Current portion	13,607,990	3,121,833		16,009,400
Lease obligation - Non-Current portion	16,891,336	3,875,071		19,872,160
Advance payments	13,450,964	3,085,810		15,824,664
Issued instruments	27,667,815	6,347,322		32,550,370
Government Financing	7,014,946	1,609,312		8,252,878

What liabilities are added to the Zakat base within the liabilities items?

The Solution:

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Long-term Loans - Non-current portion	16,009,400
Lease obligation – Non-current portion	19,872,160
Long-term advance payments	15,824,664
Issued instruments	32,550,370
Government Financing	8,252,878
Total Liabilities Required to be Added to the Zakat Base	92,509,472

It is noted that there is reliance on end-of-period balances without considering the transactions that occurred during the year.

Example (37):

The following statement is extracted from the accounts of a company at the end of 2026:

Item	Amount (SAR)
Accrued Expenses and Other Credit Balances (Current)	12,560,441
Long-term Loans - Current Portion (Current)	4,103,578
Lease Liabilities - Current Portion (Current)	14,962,690
Issued Instruments (Non-current)	25,026,475
Issued Bonds (Non-current)	30,366,358

What liabilities are added to the Zakat base within the liabilities items?

The Solution:

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Issued Instruments (Non-current)	25,026,475
Issued Bonds (Non-current)	30,366,358
Total Liabilities Required to be Added to the Zakat Base	55,392,833

4.2.2. Provisions Representing a Stable Debt in the Obligation to Non-Owners; such as: End-of-Service Benefits Provision, Vacation Leave Provision, and Similar Provisions.

Provisions represent a stable debt in the entity's obligations when the provision is a definite commitment of the entity, unlike ordinary provisions which are uncertain in terms of timing or amount due to the lack of confirmation regarding the timing or amount of the expenses arising from them.

Employee provisions are one of the cases that represent a stable debt owed by the entity to non-owners, which include end-of-service provisions, vacation provisions, and others like annual ticket provisions. These fall under employee benefits covered by International Accounting Standard 19 (IAS 19) - Employee Benefits- which includes the application of the standard to all employee benefits, including:

1. Short-term employee benefits, which are expected to be settled fully within twelve months from the end of the financial year, such as paid annual vacations.
2. Post-employment Benefits, are employee benefits that become accrued after the service has ended.

The standard requires proving the net liability for service benefits in the statement of financial position by applying an actuarial valuation method. This is because the liability arising from this depends on several hypothetical variables, such as salary increases, employee turnover rates, mortality rates, and others.

Zakat Treatment for Debts

From a Zakat perspective, provisions that represent a stable debt owed by the entity are treated as liabilities, considering them part of the actual outstanding commitments of the entity. This differs from other provisions, which are treated as equity. The implications of treating them as liabilities are as follows:

1. They are added to the liabilities items, not exceeding the deducted assets.
2. They are added at the end-of-period balance.
3. They are only added if classified as non-current liabilities, excluding cases addressed in paragraph 4.3 of this guide.

Accordingly, the end-of-service provision is considered a stable debt on the Zakat payer once the employee's service has ended. Therefore, this type of provision is treated as a liability, regardless of its name in the financial statements, as long as it is classified under non-current liabilities. However, if it is classified as a current liability, it will not be added to the Zakat base.

To clarify, if a company's statement of financial position includes several provisions represented by the following:

1. Employee benefits liabilities provision.
2. Employee vacation balance provision.
3. Legal claims provision.

The employee benefits liabilities provision has been classified under non-current liabilities, while the other provisions have been classified under current liabilities.

Based on this, the employee benefits liabilities provision is added to the Zakat base at the end-of-period balance, while the employee vacation balance provision is not added due to its classification as a current liability. Additionally, the legal claims provision is not added within liabilities items, as it is treated as equity.

Example (38):

The following provisions statement is extracted from the accounts of a company at the end of the year 2025:

Provision	Accounting Classification	Amount (SAR)
Employee benefits liabilities	Non- current Liability	25,909,190
Legal claims provision	Current Liability	12,423,203
Fines provision	Current Liability	9,567,338
Vacation balance provision	Non-current Liability	9,990,531
Travel tickets provision - Current		901,908
Zakat provision - Current		6,778,298

Which provisions are to be added within the liabilities required to be added to the Zakat base?

The Solution:

The provisions to be added within the liabilities required to be added in the Zakat base in this case are as follows:

Liability	Amount (SAR)
Employee benefits liabilities	25,909,190
Vacations provision	9,990,531
Total provisions to be added within the liabilities required to be added to the Zakat base	35,899,721

Example (39):

The following data is extracted from the Statement of financial position of a company at the end of the year 2024:

	2024 AD	2023 AD
Current Liabilities		
Loans	24,752,286	21,039,443
Creditors	16,400,605	13,940,514
Total Current Liabilities	**41,152,891**	**34,979,957**
Non-current Liabilities		
Long-term Loans	21,635,390	18,390,082
Employee benefits liabilities	4,085,516	3,472,689
Total Non-current Liabilities	**25,720,906**	**21,862,771**

Which provisions to be added within the liabilities required to be added to the Zakat base?

The Solution:

The provisions are to be added within liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Employee benefits liabilities	4,085,516
Total provisions to be added within the liabilities required to be added to the Zakat base	4,085,516

Example (40):

The following data is extracted from the Statement of financial position of a company at the end of the year 2024:

	2024 AD	2023 AD
Current Liabilities		
Zakat provision	12,982,391	11,035,032
Accrued Expenses and Other Credit Balances	14,315,879	12,168,497
Total Current Liabilities	**27,298,270**	**23,203,529**
Non-current Liabilities		
Employee benefits liabilities	10,539,730	8,958,771
Other provisions	22,449,826	19,082,352
Total Non-current Liabilities	**32,989,556**	**28,041,123**

The item of accrued expenses and other credit balances includes the following items:

- Employee ticket provision amounting to 5,000,000 SAR.
- Legal claims provision amounting to 3,000,000 SAR.

The item of other provisions includes the following items:

- Long-term employee vacation provision amounting to 14,449,826 SAR.
- Asset write-off provision amounting to 8,000,000 SAR.

What are the provisions are to be added within the liabilities required to be added to the Zakat base?

The Solution:

The provisions to be added within liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Employee benefits liabilities	10,539,730
Long-term employee vacation provision	14,449,826
Total provisions to be added within the liabilities required to be added to the Zakat base	24,989,556

4.2.3. Deferred Tax Liability

A deferred tax liability represents amounts of income tax payable in future periods related to temporary taxable differences. These amounts appear under the Zakat payer's liabilities as payable at a later date, such as differences arising from the disparity between tax depreciation and accounting depreciation.

This item may appear in companies subject to tax, mixed companies, or companies that include taxable subsidiaries in their consolidated financial statements. International Accounting Standard 12 (IAS 12) -income taxes- addresses accounting for income taxes and the resulting assets and liabilities. According to the standard's requirements, deferred tax assets and liabilities must be evaluated using the expected tax rates that will be applied when the assets are recovered or the liabilities settled. Additionally, these assets and liabilities must be re-evaluated at the end of each financial period to ensure that the evaluation reflects current and future circumstances.

According to the standard's requirements, the following must be disclosed:
Components of Deferred Taxes: Details of deferred tax assets and liabilities must be disclosed, including the linked temporary differences.
Applicable Tax Rates: The tax rates used to evaluate deferred tax assets and liabilities should be clarified.
Revaluation of Deferred Tax Assets and Liabilities: Any significant changes in the evaluation of deferred tax assets or liabilities must be disclosed, whether due to changes in tax rates or changes in economic conditions.

Zakat Treatment

From a Zakat perspective, deferred tax liabilities are added to the Zakat base under the liabilities items. For example, if a mixed company's statement of financial position includes a deferred tax liability, this deferred tax liability will be added to the company's Zakat base at the end-of-period balance, under the liabilities items.

Example (41):

The following data is extracted from the statement of financial position of a company at the end of 2025:

	2025 AD	2024 AD
Current Liabilities		
Loans	9,122,835	7,754,410
Zakat provision	4,688,274	3,985,033
Total Current Liabilities	**13,811,109**	**11,739,443**
Non-current Liabilities		
Deferred tax liability	5,144,454	4,372,786
Employee benefits liability	7,368,888	6,263,555
Total Non-current Liabilities	**12,513,342**	**10,636,341**

What liabilities are added to the Zakat base within the liabilities items?

The Solution:

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Deferred tax liability	5,144,454
Employee benefits liabilities	7,368,888
Total liabilities required to be added to the Zakat base	12,513,342

Example (42):

The following data is extracted from the accounts of a company at the end of 2024:

Item	Accounting Classification	Amount (SAR)
Investment Properties	Non-Current Asset	28,963,553
Property and Equipment	Non-Current Asset	23,853,570
Deferred Tax Liability	Non-Current Asset	8,143,729
Tax and Zakat Provision	Current Asset	7,673,449

What liabilities are added to the Zakat base within the liabilities items?

The Solution:

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Deferred Tax Liability (Non-Current Liability)	8,143,729
Total Liabilities required to be Added to the Zakat Base	8,143,729

4.2.4. Clause of contract liabilities established as per the approved accounting standards.

Contract liabilities are liabilities arise when a company receives advance payments from a customer for services or goods that have not yet been delivered or provided. They can be described as liabilities linked to unfulfilled commitments that the company must fulfill according to the contract with the customer.

These payments are proved under the contract liabilities item that appears within the Zakat payer's liabilities until the service or goods are delivered. They may appear under current liabilities or non-current liabilities, depending on the expected timing of settling these payments.

The International Financial Reporting Standard 15 (IFRS 15) specifies how to admit the contracts' revenues, obligations, and costs. The standard aims to establish principles that an entity should apply regarding the nature, amounts, and timing of revenue arising from customer contracts, as well as cash flows from customers' contracts.

From an accounting perspective, contract liabilities arise when advance payments are received from customers before delivering goods or services. The obligation is recorded on the liabilities side of the statement of financial position, and it is settled and reduced when the performance obligation is fulfilled by delivering the goods or services to the customer.

Zakat Treatment

From a Zakat perspective, contract liabilities are added to the Zakat base only if the item is classified as a non-current liability. However, if it is classified as a current liability, it is not added to the Zakat base.

For example, if a company's statement of financial position includes contract liabilities classified as follows:

- The non-current portion of contract liabilities is classified under non-current liabilities.
- The current portion of contract liabilities is classified under current liabilities.

In this case, the non-current portion of contract liabilities is added to the Zakat base at the end-of-period balance within the liabilities items.

Example (43):

The following data is extracted from the statement of financial position of a company at the end of 2024:

	2024 AD	2023 AD
Current Liabilities		
Lease contract liabilities	16,288,247	13,845,010
Zakat provision	20,843,588	17,717,050
Total Current Liabilities	**37,131,835**	**31,562,060**
Non-current Liabilities		
Lease contract liabilities	23,891,496	20,307,772
Contract liabilities	24,807,937	21,086,746
Employee benefits liability	7,974,473	6,778,302
Total Non-current Liabilities	**56,673,906**	**48,172,820**

What liabilities are added to the Zakat base within the liabilities items?

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Long-term Lease liabilities	23,891,496
Contract liabilities	24,807,937
Employee benefits liabilities	7,974,473
Total liabilities required to be added to the Zakat base	56,673,906

Example (44):

The following data is extracted from the statement of financial position of a company at the end of 2024:

	2024 AD	2023 AD
Current Liabilities		
Long term loans – current portion	16,463,815	13,994,243
Contract liabilities	1,304,594	1,108,905
Zakat provision	3,315,281	2,817,989
Total Current Liabilities	**21,083,690**	**17,921,137**
Non-current Liabilities		
Long term loans – non-current portion	31,903,940	27,118,349
Contract liabilities	4,269,914	3,629,427
Employee benefits liability	6,791,649	5,172,902
Total Non-current Liabilities	**42,965,503**	**35,920,678**

What liabilities are added to the Zakat base within the liabilities items?

The Solution:

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Long-term loans – Non-current portion	31,903,940
Contract liabilities	4,269,914
Employee benefits liabilities	6,791,649
Total liabilities required to be added to the Zakat base	42,965,503

4.2.5. Negative Derivative Financial Instruments

Financial derivatives are financial instruments whose value is derived from an actual asset (such as commodities like gold), a financial asset (like stocks or bonds), or a market index. These instruments are used for financial risk management and hedging.

The main types of derivative instruments include:

1. Forwards: Agreements to buy or sell an asset at an agreed-upon price on a future date.
2. Futures: Similar to contracts on credit, but these contracts are traded on financial markets.
3. Options: Provide the holder with the right, but not the obligation, to buy or sell a specific asset at a predetermined price on or before a specified date.
4. Swaps: Contracts in which two parties exchange cash flows based on certain criteria, such as interest rate financial swaps.

In general, financial derivatives are characterized by the following:

1. Their value changes when the constructive asset changes, meaning the agreed-upon item in the contract; for example, interest rates, exchange rates, or the price of a specific commodity like oil or gold.
2. They do not require a net initial investment when the contract is entered into, or a small amount may be paid as a premium when the contract is entered into.
3. They will be settled in the future.

Financial derivatives are admitted in the statement of financial position when a company enters into a dedicated contract or purchases a derivative instrument. Financial derivatives are typically measured at fair value, and negative financial derivatives may appear within liabilities based on the value of the asset or index linked to them, resulting in liability for the current entity.

International Financial Reporting Standard 9 (IFRS 9) —Financial Instruments —includes how to admit, measure, and disclose financial instruments, including derivative instruments. The standard requires entities to classify derivative financial instruments based on their usage, either as hedging instruments or trading instruments.

International Financial Reporting Standard 7 (IFRS 7) —Financial Instruments: Disclosures — includes the disclosures that entities must provide regarding financial derivatives. The standard stipulates that all relevant information related to financial instruments, including derivative instruments, must be disclosed. It also requires the disclosure of risks associated with these instruments, such as market, credit, and liquidity risks.

Zakat Treatment

From a Zakat perspective, negative derivative financial instruments are added to the Zakat base only if they are classified as non-current liabilities. If they are classified as current liabilities, they are not added to the Zakat base.

Example (45):

The following data is extracted from the statement of financial position of a company at the end of 2024:

	2024 AD	2023 AD
Current Liabilities		
Lease Contract Liabilities	5,207,242	4,426,156
Accrued Expenses and Credit Balances	4,781,169	4,063,994
Total Current Liabilities	**9,988,411**	**8,490,150**
Non-current Liabilities		
Lease Contract Liabilities	18,637,437	15,841,821
Derivative Financial Instruments	16,043,949	13,637,357
Deferred Tax Liabilities	14,688,517	12,485,239
Total Non-current Liabilities	**49,369,903**	**41,964,417**

What liabilities are added to the Zakat base within the liabilities items?

The Solution:

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Lease Contract Liabilities	18,637,437
Derivative Financial Instruments	16,043,949
Deferred Tax Liabilities	14,688,517
Total liabilities required to be added to the Zakat base	49,369,903

Example (46):

The following data is extracted from the accounts of a company at the end of 2024:

Provision	Amount (SAR)
Inventory (Current Asset)	19,857,424
Due from Related Parties (Current Asset)	32,785,760
Advances Payments (Current Liability)	11,317,881
Derivatives Related to Forward Contracts (Non-Current Liability)	45,610,923
Zakat Provision (Current Liability)	8,415,001
Derivatives Related to Swap Contracts (Non-Current Liability)	56,634,172

What liabilities are added to the Zakat base within the liabilities items?

The Solution:

The liabilities required to be added to the Zakat base in this case are as follows:

Liability	Amount (SAR)
Derivatives Related to Forward Contracts (Non-Current Liability)	45,610,923
Derivatives Related to Swap Contracts (Non-Current Liability)	56,634,172
Total liabilities required to be added to the Zakat base	102,245,095

4.3. Current Liabilities

Current liabilities are added to the Zakat base in specific cases, as stated in Article 29 of the regulations. These cases are as follows:

a. If a current asset is deducted, then the addition of current liabilities is made as per Article 25 of the regulations.

b. If the value of current liabilities after reclassification exceeds the value of current assets, the difference is added to the Zakat base.

c. If it is proved to the authority that a current liability is equivalent to a non-current liability; for example, if the Zakat payer renews a debt classified as current with the same creditor for the same purpose, or if the debt is rescheduled with the same creditor for the same purpose.

4.3.1. When a Current Asset is Deducted According to the Placement Procedure

The cases of placement that will be discussed in detail in paragraph 4.4 of this guide are the situations when placement must be applied which include the following situation:

1. When a current asset is deducted, it is necessary to correct the addition of liabilities by adding a proportion of the current liabilities that were not added to the base.

   This indicates that deducting any current asset from the Zakat base results in adding a portion of the current liabilities, as stated in Article 25 of the regulations.

The reason for this procedure is based on the equality principle outlined in Article 20 of the regulations, which is one of the key principles related to the addition of liabilities to the Zakat base. This principle assumes that non-current liabilities shall be equal to non-current assets, and that current liabilities shall be equal to current assets. It is also linked with the assumption that the principle of non-current assets is deduction unless proven otherwise, and the principle of current assets is undeduction unless proven otherwise. Therefore, non-current liabilities are added to the Zakat base as they shall be equal to the deducted assets, whereas current liabilities are not added to the Zakat base as they shall be equal to undeducted assets.

As a result, in the case of deducting a current asset, it is necessary to add the equal amount of current liabilities that were not added to the Zakat base. Therefore, this situation is one of the specific cases for adding current liabilities to the Zakat base.

Example (47):

The following data is for a company at the end of 2025:

Item	Amount (SAR)
Total Current Liabilities	1,000,000
Total Current Assets	2,000,000
Current Asset Deducted from the Base	200,000
Proportion of the Deducted Current Asset to Total Current Assets	10%

How are current liabilities treated in the Zakat base for the company in this case?

The Solution:

Since a current asset has been deducted from the company's Zakat base, it is necessary to add its proportionate share of current liabilities. The addition will be as follows:

/	Item	Amount
(A)	Total Current Liabilities	1,000,000
(B)	Proportion of the Deducted Current Asset to Total Current Assets	10%
(C)	Current Liabilities required to be Added to the Zakat Base = (A) * (B) (1,000,000 * 10%)	100,000

Example (48):

The following data is for a company at the end of 2024:

Item	Amount (SAR)
Total Current Liabilities	5,000,000
Total Current Assets	10,000,000
Current Asset Deducted from the Base	None

How are current liabilities treated in the Zakat base for the company in this case?

The Solution:

In this case, there is no need to add current liabilities' proportion to the Zakat base since no current asset has been deducted from the company's Zakat base.

4.3.2. When the Value of Current Liabilities Not Added to the Base Exceeds the Value of Undeducted Assets from the Base

In forming the Zakat base, addition items are added, which includes the liabilities that required to be added to the Zakat base. Additionally, deduction items required to be deducted are also deducted from the Zakat base. It is important to note that the addition items do not include all liabilities of the Zakat payer shown on the statement of financial position; rather, only the liabilities required to be added according to the provisions of the regulation are added. Similarly, the deduction items do not include all assets of the Zakat payer, but only those that meet the deduction conditions according to the provisions of the regulation.

Therefore, when the Zakat payer forms the Zakat base by adding the liabilities required to be added and deducting the items that meet the deduction conditions, the following will result:

1. There will be current liabilities not added to the Zakat base (not required to be added).
2. There will be undeducted current assets (do not meet the deduction conditions).

Based on the above, when the value of liabilities not added to the Zakat base exceed the undeducted assets, the difference must be added to the Zakat base. This is due to the negative working capital and the association of this difference with the deducted assets, making it necessary to add it to the Zakat base, as per the provisions of paragraph (B) of paragraph two of Article 29 of the regulations.

This procedure requires consideration of the following accounting aspects:

1. The liabilities not added to the Zakat base are reached by identifying all the Zakat payer's liabilities and excluding what have been added to the Zakat base through current liabilities or equity. The remaining after this exclusion are the current liabilities not added to the Zakat base.

   For example, if the total liabilities of the Zakat payer (both current and non-current) amount to 800,000 SAR, and the Zakat payer has treated 100,000 SAR of them as equity and added 200,000 SAR within liabilities required to be added, the remaining amount represents the liabilities not added to the Zakat base. This is calculated by subtracting the total added liabilities of 300,000 SAR (100,000 + 200,000) from 800,000 SAR, resulting in a remaining amount of 500,000 SAR. This amount represents the liabilities not added to the Zakat base, which should be compared with the undeducted assets.

2. The undeducted assets in the Zakat base are reached by identifying all the Zakat payer's assets and excluding what have been deducted from the base. The remaining amount is the undeducted assets from the Zakat base.

   For example, if the total assets of the Zakat payer (both current and non-current) amount to 600,000 SAR, and the Zakat payer has deducted 200,000 SAR from the Zakat base, the remaining amount is the undeducted assets from Zakat base. This is calculated by subtracting the deducted amount of 200,000 SAR from the total of 600,000 SAR, resulting in a remaining amount of 400,000 SAR. This amount represents the undeducted assets from the Zakat base, which should be compared with the liabilities not added to the base.

If we apply this to the two previous examples, we find the following:

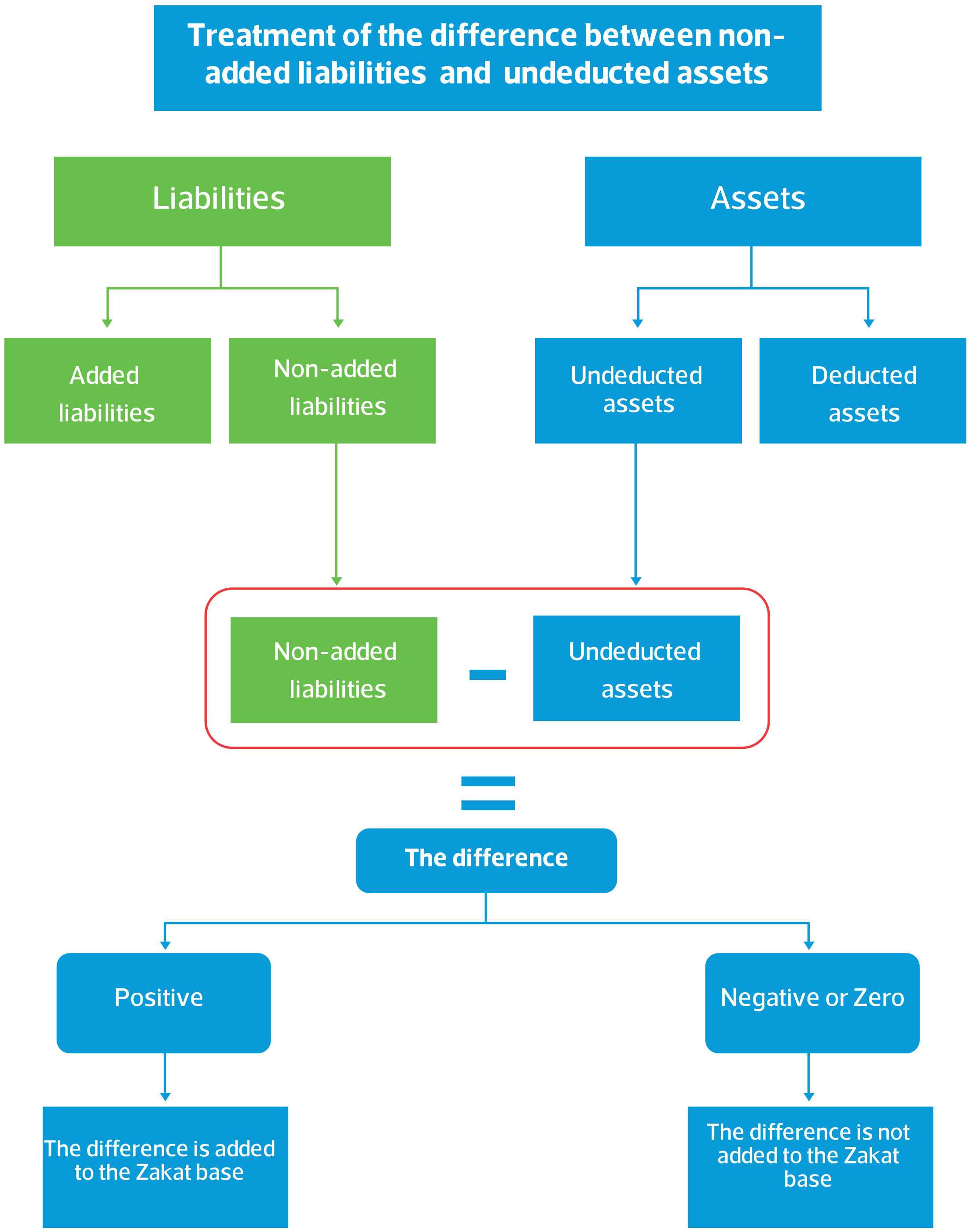
- The liabilities not added to the Zakat base amount to 500,000 SAR.
- The undeducted assets from the Zakat base amount to 400,000 SAR.

In comparison, it appears that the liabilities not added to the Zakat base exceed the undeducted assets by 100,000 SAR. Therefore, this difference must be added to the base within the liabilities required to be added, while considering that the total added liabilities, including this difference, do not exceed the assets from which it is deducted.

3. The importance of considering the exclusion of the effects of reclassified items on assets and liabilities is significant, as the value of assets and liabilities is affected when items classified within them as equity are reclassified. This has impact on the value of undeducted assets or liabilities not added to the Zakat base.

   For example, if a provision classified within current liabilities, such as a Zakat provision, is reclassified as equity, this will result in adding the provision within the equity items and its equivalents and also necessitates excluding it from current liabilities. This will lead to a reduction in the amount of non-added liabilities to the Zakat base.

The detailed provisions regarding the reclassification between items of liabilities and equity, as well as the resulting effects, will be presented in paragraph 6 of this guide.


Treatment of the difference between non-added liabilities and undeducted assets
Liabilities
Assets
Added liabilities
Non-added liabilities
Undeducted assets
Deducted assets
Non-added liabilities
–
Undeducted assets
=
The difference
Positive
Negative or Zero
The difference is added to the Zakat base
The difference is not added to the Zakat base

Example (49):

Statement of financial position of a Company as of the End of 2024:

Statement Of Financial Position		
Assets		
	2024 AD (SAR)	**2023 AD (SAR)**
Current Assets		
Cash at Banks	10,305,322	9,227,618
Prepaid Expenses and Other Debit Balances	5,650,215	5,978,805
Total Current Assets	**15,955,537**	**15,206,423**
Non-Current Assets		
Property, Machines, and Equipment	32,874,593	33,154,714
Intangible Assets	14,825,989	14,065,523
Total Non-Current Assets	**47,700,582**	**47,220,237**
Total Assets	**63,656,119**	**62,426,660**
Liabilities and Equity		
Current Liabilities		
Loans	15,027,500	14,520,000
Accrued Expenses and Other Credit Balances	3,920,895	2,851,560
Zakat Provision	2,000,000	1,500,000
Total Current Liabilities	**20,948,395**	**18,871,560**
Non-Current Liabilities		
Long-Term Loans	9,748,502	14,989,820
Employee Benefits Liabilities	2,130,244	1,422,976
Total Non-Current Liabilities	**11,878,746**	**16,412,796**
Equity		
Capital	10,000,000	10,000,000
Statutory Reserve	12,000,000	12,000,000
Retained Earnings	8,828,978	5,142,304
Total Equity	**30,828,978**	**27,142,304**
Total Liabilities and Equity	**63,656,119**	**62,426,660**

Is it necessary to add current liabilities to the company's Zakat base in this case?

The Solution:

First: The current liabilities not added to the Zakat base are as follows:

Liability	Amount (SAR)
Loans	15,027,500
Accrued Expenses and Other Credit Balances	3,920,895
Total	18,948,395

It is noted that the Zakat provision will be reclassified to equity and its equivalents, so it has been excluded from current liabilities.

Second: The current assets are as follows:

Liability	Amount (SAR)
Cash at Banks	10,305,322
Prepaid Expenses and Other Debit Balances	5,650,215
Total	15,955,537

It's noted that current assets doesn't include any deducted assets.

Third: The current liabilities not added to the Zakat base are compared with the current assets as follows:

/	Item	Amount (SAR)
(A)	Total current liabilities not added to the Zakat base	18,948,395
(B)	Total current assets	15,955,537
(C)	Current liabilities required to be added to the Zakat base = (A) - (B) (18,948,395 - 15,955,537)	2,992,858

Since the value of current liabilities not added to the Zakat base is (greater) than the value of current assets of the company, as shown above, the difference of 2,992,858 SAR must be added to the company's Zakat base based on what is stipulated in the second paragraph of Article 29 of the regulation, in paragraph (B).

Example (50):

The statement of financial position of a Company as of the End of 2025:

Statement Of Financial Position		
Assets		
	2025 AD (SAR)	**2024 AD (SAR)**
Current Assets		
Cash and Cash Equivalents	50,610,644	48,455,236
Debtors	21,300,430	21,957,610
Total Current Assets	**71,911,074**	**70,412,846**
Non-Current Assets		
Investment Properties	25,749,186	26,309,428
Right-of use Assets	29,651,978	28,131,046
Total Non-Current Assets	**55,401,164**	**54,440,474**
Total Assets	**127,312,238**	**124,853,320**
Liabilities and Equity		
Current Liabilities		
Long-term Loans	34,055,000	32,040,000
Suppliers	7,841,790	5,703,120
Total Current Liabilities	**41,896,790**	**37,743,120**
Non-Current Liabilities		
Lease Contract Liabilities	19,497,004	29,979,640
Employee Benefits Liabilities	4,260,488	2,845,952
Total Non-Current Liabilities	**23,757,492**	**32,825,592**
Equity		
Capital	20,000,000	20,000,000
Statutory Reserve	24,000,000	24,000,000
Retained Earnings	17,657,956	10,284,608
Total Equity	**61,657,956**	**54,284,608**
Total Liabilities and Equity	**127,312,238**	**124,853,320**

Is it necessary to add current liabilities to the company's Zakat base in this case?

The Solution:

First: The current liabilities not added to the Zakat base are as follows:

Liability	Amount (SAR)
Short-term Loans	34,055,000
Suppliers	7,841,790
Total	41,896,790

Second: The current assets are as follows:

Liability	Amount (SAR)
Cash and Cash Equivalents	50,610,644
Debtors	21,300,430
Total	71,911,074

- It's noted that current assets don't include ane deducted assets.

Third: The current liabilities not added to the Zakat base are compared with the current assets as follows:

/	Item	Amount (SAR)
(A)	Total current liabilities not added to the Zakat base	41,896,790
(B)	Total current assets	71,911,074
(C)	The Result = (A) - (B) (41,896,790- 71,911,074)	(30,014,284)

In this case, it is not necessary to add current liabilities to the Zakat base, as the value of current liabilities not added to the Zakat base is (less) than the value of the undeducted assets from the Zakat base.

4.3.3. In the case where it is proven to the authority that a current liability is equivalent to a non-current liability

The current liability shall be added to the Zakat base in cases where it is proven to the authority that the current liability is equivalent to non-current liability. This includes what is mentioned in paragraph (C) of the second paragraph of Article 29, which states that if the Zakat payer renews a debt classified as current with the same creditor for the same purpose, or if the debt is rescheduled with the same creditor for the same purpose. Since the assessment of treating the current liability as equivalent to non-current liability is limited to the case where the short-term financing debt has no balance at the beginning inventory and is not actually paid at its maturity date but rather is paid nominaly at the specified payment time. "Nominal payment" refers to the book payment not accompanied by any cash flow other than the resulting from the payment operation at its maturity date.

When applying this paragraph, the following should be considered:

1. As a rule, current liabilities are not added to the zakat base.
2. The addition of current liabilities is limited to what is stated in paragraph (2) of Article 29.

Current liabilities are considered as non-current liabilities if the following conditions are met:

1. The debt must arise from a financing operation with the financier that resulted in actual cash inflow to the entity or for its benefit.
2. The debt must have a balance at the beginning inventory, as the ruling does not include debts arising during the year.
3. There must be payment of the debt during the year
4. The payment of the debt at its maturity date must be nominal and not real.

An example of a current liability that is treated as a non-current liability, as stipulated by the regulation, is "the Zakat payer renewing a debt classified as current with the same creditor for the same purpose, or rescheduling the debt with the same creditor for the same purpose." The intended meaning can be clarified through the following example:

A Zakat payer obtained a short-term loan in 2023, and renewed or rescheduled the loan during the year ending on December 31, 2024, classifying it as a current liability. The debt arising in 2023 was for the purpose of financing the construction of a factory. Upon reviewing the item, the following is noted:

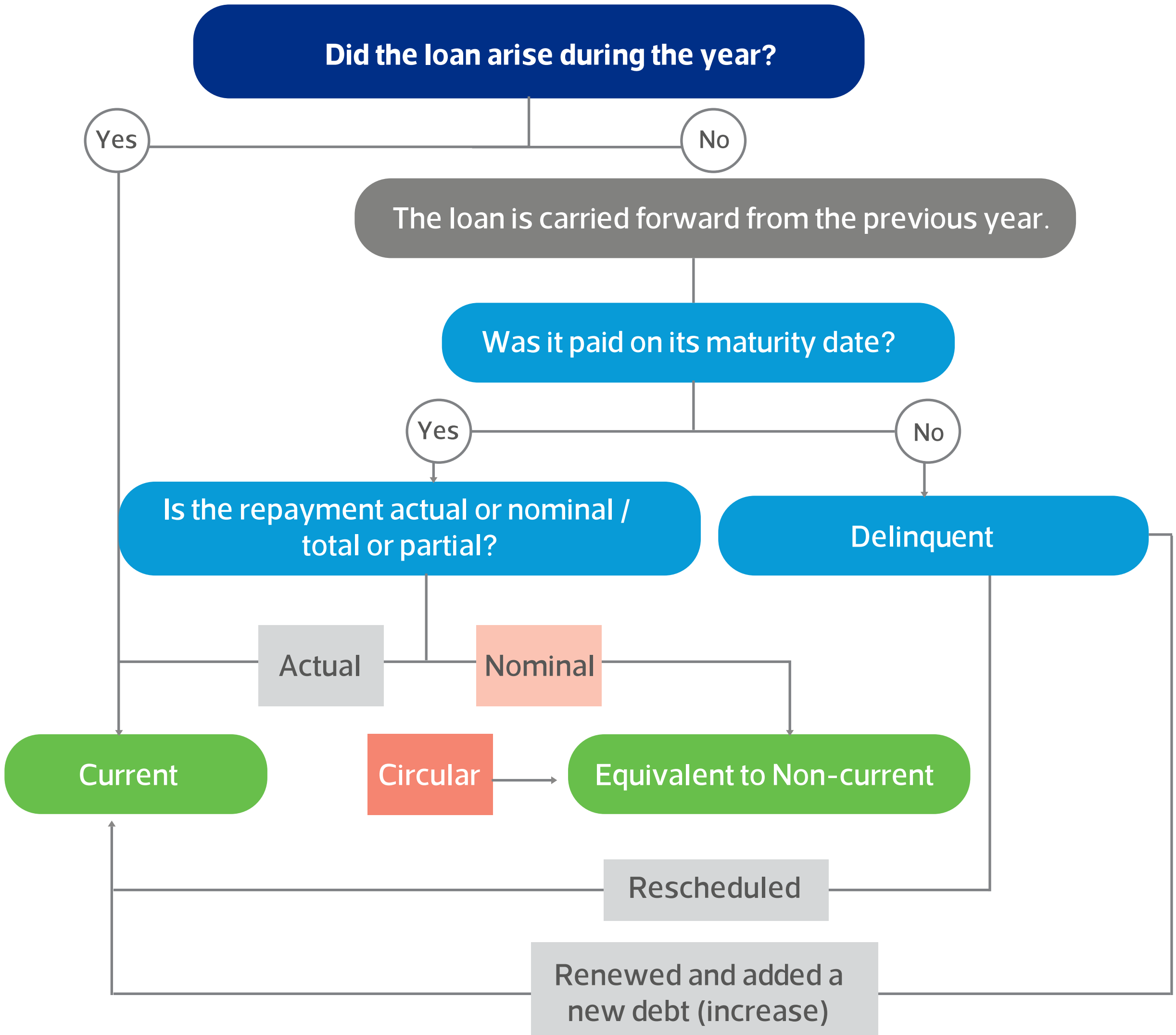
1. The loan had a balance at the beginning inventory in 2024.
2. The Zakat payer renewed the financing debt with the same financier.
3. The new debt was for the purpose of financing the same factory.
4. The Zakat payer made a nominal payment of the loan.

The result: Based on the above information, all conditions for treating the current liability as a non-current liability have been met, and therefore, it is added to the Zakat base, provided it does not exceed the deducted assets.

Thus, a short-term liability will not be treated as a long-term liability in the following cases:

1. Debts arising during the year that have no balance at the beginning inventory.
2. Debts arising from commercial transactions.
3. Debts that are paid at maturity date in an actual payment, either fully or partially.
4. Debts that have become delinquent on payment at their maturity date, including cases where the debt is rescheduled or renewed.

Case Of Treating The Current Debt As Equivalent To Non-Current Debt



Example (51):

The following data is extracted from the statement of financial position of a company at the end of the year 2024:

	2024 AD	2023 AD
Current Liabilities		
Short-term Loans	33,684,119	37,631,501
Lease Contract Liabilities– Current Portion	3,006,869	2,555,839
Advance Payments	7,559,525	6,425,596
Accrued Expenses and Creditors	11,110,941	9,444,300
Total Current Liabilities	**55,361,454**	

The following data is available for analyzing short-term loans:

Loan	Beginning Inventory	Added During the Period	Paid During the Period	End-of-period Balance	Notes
Bank (A) – Loan 1	23,710,460	3,000,000	23,710,460	3,000,000	Loan carried forward from a previous year, paid at maturity date, and new financing added based on the agreement with the lending bank.
Bank (B) – Loan 2	0	16,763,078	0	16,763,078	Loan added during the year.
Bank (C) – Loan 3	13,921,041	13,921,041	13,921,041	13,921,041	Loan carried forward from a previous year, and it was found that it is paid nominaly, not actually.
Total	**37,631,501**	**33,684,119**	**37,631,501**	**33,684,119**	

The financial statement disclosures for the loans item included the following:

- Bank (A) - Loan 1: The financing agreement was signed in the second quarter of 2023, and the loan maturity date was in the first quarter of 2024.
- Bank (B) - Loan 2: The financing agreement was signed in the first quarter of 2024, and the loan maturity date is in the first quarter of 2025.
- Bank (C) - Loan 3: The financing agreement was signed in the third quarter of 2023, and the loan maturity date is in the second quarter of 2024.

What is the Zakat treatment required for short-term loans for the year 2024?

The Solution:

The Zakat treatment required for short-term loans is as follows:

Loan	Zakat Treatment	Amount Added to Zakat Base (SAR)
Bank (A) – Loan 1	Since it is clear that this loan was paid actually, it will not be added to the Zakat base.	0
Bank (B) – Loan 2	Since this loan was added during the year and was paid actually, this loan will not be added to the Zakat base.	0
Bank (C) – Loan 3	Since it is clear that this loan was paid nominaly, this loan will be added at the end-of-period balance as it is equivalent to a non-current.	13,921,041

Example (52):

Upon reviewing the data from the statement of financial position of a listed company in the Capital Market, it was found that current liabilities include bank facilities amounting to 120,000,000 SAR. By examining the details of these facilities and the related analyses and documents, it was determined that they include the following:

- A loan carried forward from the previous year that was actually paid during the current year, along with a new loan obtained from the same bank before the end of the year.
- A loan added during the year.

What Zakat treatment is required for the credit facilities item shown in the company's current liabilities?

The Solution:

Since these credit facilities meet the necessary conditions, they will be treated as current liabilities and will not be added to the company's Zakat base.

4.4. Placement for Correcting Liabilities

The placement of liabilities is considered an important procedure related to adding liabilities to the Zakat base. The term "Placement of liabilities" refers to correcting the additions of liabilities to the Zakat base when a current asset is deducted or a non-current asset is not deducted. This is done in accordance with the equality principle outlined in Article 20 of the regulations, which states the necessity of applying the equality principle when calculating the Zakat base. The equality principle is one of the key principles associated with the addition of liabilities to the base, as it is considered one of the items of addition. This principle assumes that non-current liabilities shall be equal to non-current assets, while current liabilities shall be equal to current assets. It is also linked with the assumption that the principle of non-current assets is deduction unless proven otherwise, and the principle of current assets is undeduction unless proven otherwise.

Based on the foregoing, non-current liabilities are added to the base as they equal deducted assets, while current liabilities are not added to the base as they equal non-deducted assets.

Consequently, if a current asset is deducted, the equal current liabilities that were not added to the base must be added. Conversely, if a non-current asset is not deducted, the equal non-current liabilities that were added to the base must be excluded. This is as per Article 25 of the Regulation on " Placement of Liabilities added to the Zakat. This procedure aims to ensure the equality of current and non-current assets and liabilities. The related cases are as follows:

1. No need to correct the addition of liabilities: This occurs when all non-current assets are deducted and all current assets are not deducted.
2. Need to correct the added liabilities: This occurs when one or both of the following conditions are met:

- Deducting a current asset: The correction is made by adding the equal of current liabilities that have not been added to the base, in proportion to the deducted asset relative to the total current assets, attributed to the current liabilities, not exceeding the value of the deducted asset.
- Not deducting a non-current asset: The correction is made by excluding the equal of non-current liabilities that have been added to the base, in proportion to the non-deducted asset

relative to the total non-current assets, attributed to the non-current liabilities added to the base, not exceeding the value of the non-deducted asset.

The correction equations are as follows:

- When a current asset is deducted, the addition of liabilities must be corrected by adding a proportion of the current liabilities not added to the base as follows:

Current liabilities added to the Zakat base = (current asset deducted ÷ total current assets) × current liabilities.

Provided that the added current liabilities shall not exceed the value of the deducted current asset.

- When a non-current asset is not deducted, the addition of liabilities must be corrected by excluding a proportion of the non-current liabilities added to the base as follows:

Non-current liabilities excluded from being added to the Zakat base = (non-current asset excluded ÷ total non-current assets) × non-current liabilities.

Provided that the non-current liability excluded from the base shall not exceed the value of the undeducted non-current asset.

Based on the above, there is no need to correct the liabilities added to the base when all non-current assets are deducted and when all current assets are not deducted.

Placement Cases

Placement Cases			
Case	Action	Type of Correction	Value of Correction
Deduction of all non-current assets and undeduction of all current assets.	None	None	None
Undeduction of non-current asset.	Placement	Excluding a proportion of the non-current liabilities from being added to the base.	(excluded non-current asset ÷ total non-current assets) × non-current liabilities.
Deduction of current asset.	Placement	Adding a proportion of the current liabilities not added to the base.	(deducted current asset ÷ total current assets) × current liabilities.
The non-current liability excluded from the base shall not exceed the value of the undeducted non-current asset. Also, the added current liabilities shall not exceed the value of the deducted current asset.			

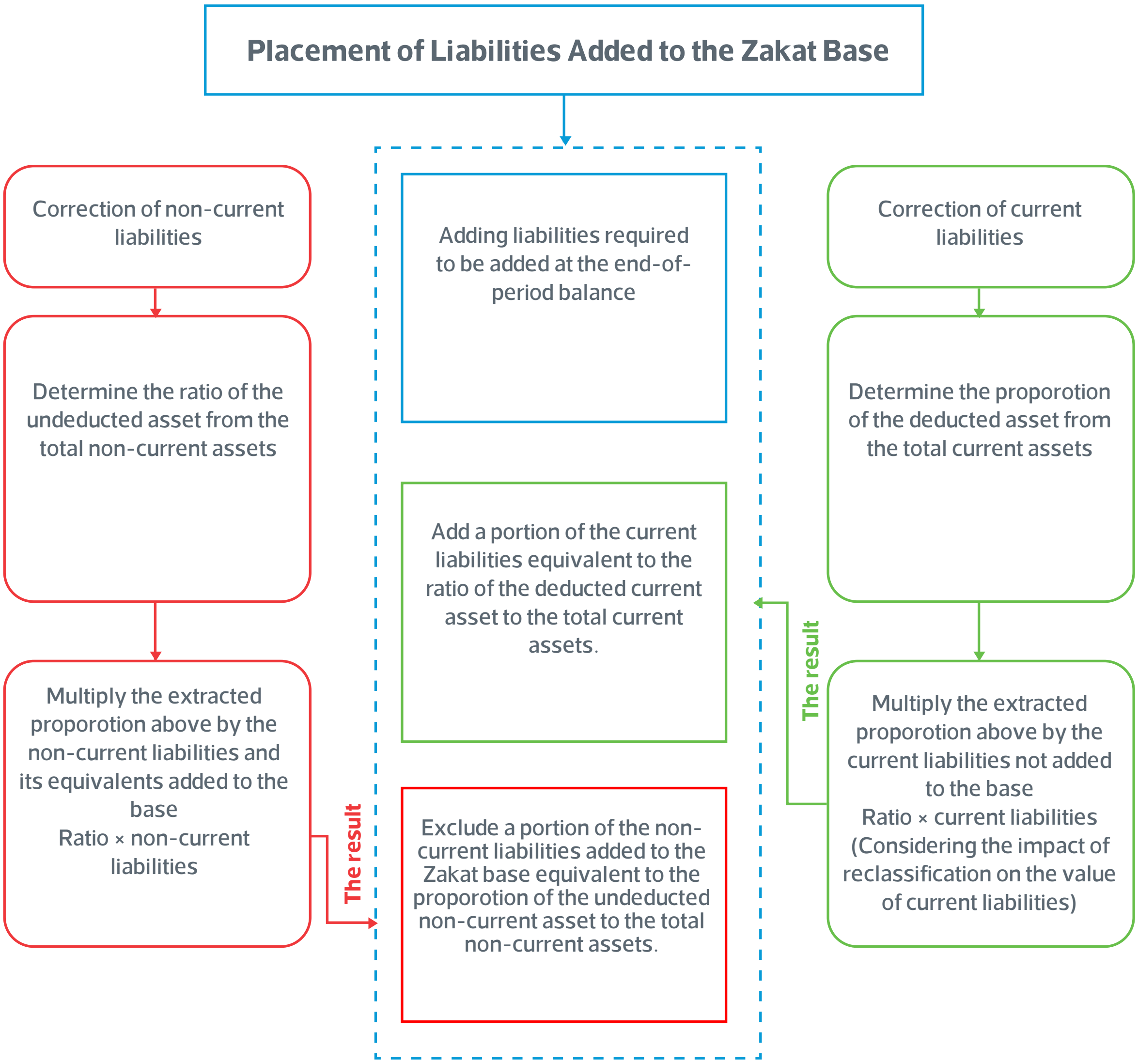
It is clear from the above that correcting the addition of liabilities for Zakat purposes is important, as well as its link to the principle of equality, which is one of the most important principles related to forming the Zakat base. The procedure for placement is linked to the procedures of adding liabilities required to be added to the Zakat base as follows:

When the Zakat payer adds the liabilities required to be added to the Zakat base at the end-of-period balance, he must subsequently ensure that he has corrected these liabilities added to the Zakat base. This can be done either by adding to them if a current asset is deducted or by excluding part of them if a non-current asset is undeducted.

It is also important to consider the effect of reclassification on the placement procedure in the following case:

- Considering the exclusion of the impact of provisions classified under current liabilities when calculating the equation of current liabilities added to the Zakat base due to the deduction of any current asset.

For example, if a provision classified under current liabilities, such as the Zakat provision, is reclassified to equity, this requires the exclusion of this provision from current liabilities. As a result, the amount of liabilities not added to the Zakat base will decrease by the amount of this liability reclassified to equity, which will affect the outcome of the equation for adding current liabilities due to the reduction in the value of current liabilities.
The detailed provisions for reclassification between liabilities and equity items, as well as the resulting effects, will be presented in paragraph 6 of this Guideline.



4.5. Comprehensive Applications on Liability Items

Example (53):

Statement of financial position of a Sole Corporation as of the End of 2025:

Statement of financial position		
Assets		
	2025 AD (SAR)	2024 AD (SAR)
Current Assets		
Cash in Banks	27,073,763	25,636,824
Prepaid Expenses and Other Debit Balances	16,866,954	15,971,741
Total Current Assets	**43,940,717**	**41,608,565**
Non-Current Assets		
Property, Machines, and Equipment	93,166,125	95,672,951
Investment Properties	50,434,652	52,087,365
Total Non-Current Assets	**143,600,777**	**147,760,316**
Total Assets	**187,541,494**	**189,368,881**
Liabilities and Equity		
Current Liabilities		
Suppliers	29,370,000	21,360,000
Zakat Provision	5,227,860	3,802,080
Total Current Liabilities	**34,597,860**	**25,162,080**
Non-Current Liabilities		
Long-term Loans	39,664,670	30,119,760
Deferred Tax Liability	10,000,000	6,000,000
Employee Benefits Liabilities	2,840,326	1,897,302
Total Non-Current Liabilities	**52,504,996**	**38,017,062**
Equity		
Capital	50,000,000	50,000,000
Statutory Reserve	16,000,000	16,000,000
Retained Earnings	34,438,638	60,189,739
Total Equity	**100,438,638**	**126,189,739**
Total Liabilities and Equity	**187,541,494**	**189,368,881**

Total Liabilities and Equity 187,541,494 189,368,881

The following data were provided for the purpose of calculation:

- Non-current assets are fully deductible.
- Current assets are not fully deductible.

What items of liabilities are required to be added to the Zakat base?

The Solution:

The items of liabilities required to be added to the company's Zakat base are calculated as follows:

Item	Amount (SAR)
Long-term Loans	39,664,670
Deferred Tax Liability	10,000,000
Employee Benefits Liabilities	2,840,326
Total Liabilities Required to be Added to Zakat Base	52,504,996

- It is noted that no placement procedure was made due to the deduction of all non-current assets and the undeduction of any current asset.

Example (54):

Statement of financial position of a Company listed in the Capital Market as of the End of 2025:

Statement of financial position		
Assets		
	2025 AD (SAR)	2024 AD (SAR)
Current Assets		
Cash in Banks	63,843,143	61,017,338
Debtors	28,505,153	26,992,243
Total Current Assets	92,348,296	88,009,581
Non-Current Assets		
Property, Machines, and Equipment	121,115,962	124,374,836
Intangible Assets	65,565,048	67,713,574
Total Non-Current Assets	186,681,010	192,088,410
Total Assets	279,029,306	280,097,991

Liabilities and Equity		
Current Liabilities		
Long-Term Loans – Non-Current Portion	11,235,480	19,989,440
Lease Contract Liabilities– Current Portion	30,181,000	20,768,000
Due to Related Parties	8,000,000	7,000,000
Accrued Expenses and Other Credit Balances	6,796,218	4,942,704
Total Current Liabilities	56,212,698	52,700,144
Non-Current Liabilities		
Long-term Loans – Current Portion	45,120,662	15,542,300
Lease Contract Liabilities– Non-Current Portion	23,933,292	31,042,394
Issued Instruments	19,500,000	14,300,000
Employee Benefits Liabilities	3,692,424	2,466,492
Total Non-Current Liabilities	92,246,378	63,351,186
Equity		
Capital	65,000,000	65,000,000
Statutory Reserve	20,800,000	20,800,000
Retained Earnings	44,770,230	78,246,661
Total Equity	130,570,230	164,046,661
Total Liabilities and Equity	279,029,306	280,097,991

The following data were provided for the purpose of calculation:

- The debtors' item consists of government dues that are deductible.
- Non-current assets are fully deductible.

What are the liabilities items required to be added to the Zakat base?

The Solution:

Liabilities items required to be added to the company's Zakat base are calculated as follows:

First: Calculation of the placement related to the deducted current assets:

Reason for placement	Percentage	Type of correction	Correction amount
Deducted current asset (Delayed government dues)	Delayed government ——— duesCurrent Assets 28,505,153/92,348,296= 30.8670%	Addition of a portion of current liabilities not added	56,212,698 *30.8670% = **17,351,173.49 SAR**

Second: Calculation of Liability Items:

Accordingly, the liabilities added to the base are as follows:

Item	Amount (SAR)
Long-term loans –Current portion	45,120,662
Lease Contract Liabilities–Non-current portion	23,933,292
Issued Instruments	19,500,000
Employee benefits liabilities	3,692,424
Total liabilities before placement	92,246,378
Correction for adding liabilities due to deduction of current asset (Delayed government dues)	17,351,173.49
Total liabilities added after adjustment	109,597,551.49

Example (55):

Statement of financial position of a limited liability company as of the end of 2024:

Statement of financial position		
Assets		
	2024 AD (SAR)	2023 AD (SAR)
Current Assets		
Cash in Banks	82,996,085	79,322,539
Debtors	37,056,698	35,089,915
Inventory	49,797,650	4,759,352
Due from Related Parties	19,919,060	19,037,409
Total Current Assets	189,769,493	138,209,215
Non-Current Assets		
Property, Machines, and Equipment	66,888,048	69,995,586
Right-of use Assets	75,234,562	88,027,646
Investment Properties	68,187,649	70,422,116
Contract Asset	37,275,059	28,168,845
Total Non-Current Assets	247,585,318	256,614,193
Total Assets	437,354,811	394,823,408

Liabilities and Equity		
Current Liabilities		
Short-Term Loans	57,080,595	41,513,160
Long-term Loans – Current Portion	14,606,124	15,986,272
Lease Contract Liabilities– Current Portion	19,635,300	26,098,400
Contract Liabilities	16,190,005	17,683,640
Short-term Advance Payments	1,767,016	1,285,103
Accrued Expenses and Other Credit Balances	883,508	642,551
Total Current Liabilities	110,162,548	103,209,126
Non-Current Liabilities		
Long-term Loans – Non-Current Portion	5,865,686	20,204,990
Lease Contract Liabilities– Non-Current Portion	33,111,327	24,035,511
Contract Liabilities	26,757,420	34,705,396
Issued Instruments	25,350,000	18,590,000

Derivative financial instruments	12,675,000	9,295,000
Deferred Tax Liability	24,890,624	32,284,089
Long-term Advance Payments	24,000,756	16,032,198
Employee Benefits Liabilities	4,800,151	3,206,439
Total Non-Current Liabilities	157,450,964	158,353,623
Equity		
Capital	84,500,000	84,500,000
Statutory Reserve	27,040,000	27,040,000
Retained Earnings	58,201,299	21,720,659
Total Equity	169,741,299	133,260,659
Total Liabilities and Equity	437,354,811	394,823,408

The following data were provided for the purpose of calculation:

- The inventory item includes spare parts that can be deducted amounting to 10,000,000 SAR.
- The investment properties item includes non-deductible properties amounting to 20,000,000 SAR.
- The short-term loans item is a loan deferred from the previous year that was paid nominaly during this year, and it has been proven to the authority as equivalent to non-current liabilities.

What are the liability items required to be added to the Zakat base?

The Solution:

Liabilities items required to be added to the company's Zakat base are calculated as follows:

First: Calculation of the placement related to the deducted current assets:

Reason for placement	Percentage	Type of correction	Correction amount
Deducted current asset (Spare parts)	$\frac{\text{Spare Parts}}{\text{Current Assets}}$ 10,000,000/189,769,493= 5.2696%	Addition of a portion of current liabilities not added	53,081,953 *5.2696% = 2,797,206.60 SAR

- It is noted that the amount of short-term loans has been excluded from the value of current liabilities in the above equation due to the reclassification of short-term loans to non-current liabilities.

Second: Calculation of the placement related to the undeducted non-current assets:

Reason for placement	Percentage	Type of correction	Correction amount
Undeducted non-current asset (Investment Properties)	Investment Properties / Non-Current Assets 20,000,000/247,585,318 = **8.0780%**	Addition of a portion of current liabilities not added	214,531,559 * 8.0780% = **(17,329,859.34) SAR**

- It is noted that the amount of short-term loans has been added to the value of non-current liabilities in the above equation due to the reclassification of short-term loans to non-current liabilities.

Third: Calculation of Liability Items:

Accordingly, the liabilities added to the base are as follows:

Item	Amount (SAR)
Long-term Loans – Non-Current Portion	5,865,686
Lease Contract Liabilities– Non-Current Portion	33,111,327
Contract Liabilities	26,757,420
Issued Instruments	25,350,000
Derivative financial instruments	12,675,000
Deferred Tax Liability	24,890,624
Long-term Advance Payments	24,000,756
Employee Benefits Liabilities	4,800,151
Short Term Loans Equivalent to Non-current Liabilities	57,080,595
Total liabilities before placement	214,531,559
Correction for adding liabilities due to the deduction of a current asset (Spare Parts)	2,797,206.60
Correction for adding liabilities due to undeduction of non-current asset (Investment Properties Intended for Trade)	(17,329,859.34)
Total liabilities added after placement	199,998,906.26

5. Difference between Net Book Profit and Adjusted Net Profit

5.1. Introduction

The difference between net book profit (or loss) and adjusted net profit (or loss) is determined by adjusting the net book profit or loss to reach the adjusted net profit (or loss). At the end of the financial year, the entity prepares an income statement that shows the result of its activities, either profit or loss (net book profit or book net loss), which includes the revenues and expenses of the accounting period. Since the regulations set conditions and controls for accepting expense deductions from profit, and certain controls and considerations regarding undeclared revenues, the net book profit (loss) may not necessarily align with the net profit (loss) accepted for Zakat purposes. This requires an adjustment to the net book profit (loss) to reach the net profit (loss) in compliance with the regulations, known as the adjusted net profit.

The net book profit is adjusted according to the provisions outlined in the regulations, which include the general rules for adjusting the results of activities. Article 60 of the regulations includes the mechanism for dealing with undeclared revenues, while Article 61 outlines the mechanism for handling inflated expenses that violate the authority's information. Additionally, it addresses the recognition of unreal or inaccurately recorded expenses and revenues, as specified in Article 64 of the regulations.

Furthermore, Article 62 includes the general controls for accepting expense deductions charged on the income statement. The general controls for accepting expenses refer to the conditions and rules that must be applied to all expenses for them to be accepted for Zakat purposes. The article sets out three essential conditions for accepting expenses charged on the income statement for Zakat purposes, as follows:

1. The expenses must be actual, whether ordinary or necessary, even if related to previous years, while considering what is stated in paragraph (9) of Article (63) of the regulations.
2. The expenses must be related to the activity.
3. The expenses must be substantiated by documents that are acceptable to the authority.

The above-mentioned conditions are general conditions for accepting expenses charged on the income statement for Zakat purposes, and they do not conflict with the specific conditions for certain types of expenses outlined in Article 63 of the regulations, which are as follows:

1. Bad debts.
2. Annual depreciation.
3. Funding revenues borne by the Zakat payer holding statutory accounts for their employees in housing ownership contracts.
4. Owners' salaries and allowances.
5. Remuneration of Board Members.
6. Wage differences that exceed the General Organization for Social Insurance records.
7. Donations.
8. Tuition expenses for the children of the Zakat payer's holding statutory accounts employees.
9. Provisions created during the year.
10. Zakat or income tax.

The expenses mentioned above have specific conditions for their acceptance, and naturally, the general controls must also be met, in addition to their specific conditions. As for the other expenses of the entity, in order to accept their deduction, the general conditions and controls must be met.

In cases where the Zakat payer's activity result does not include any non-acceptable expenses or undeclared revenues, no adjustments are required to the activity result. In this case, the net book profit (or loss) is acceptable for Zakat purposes without any adjustments.

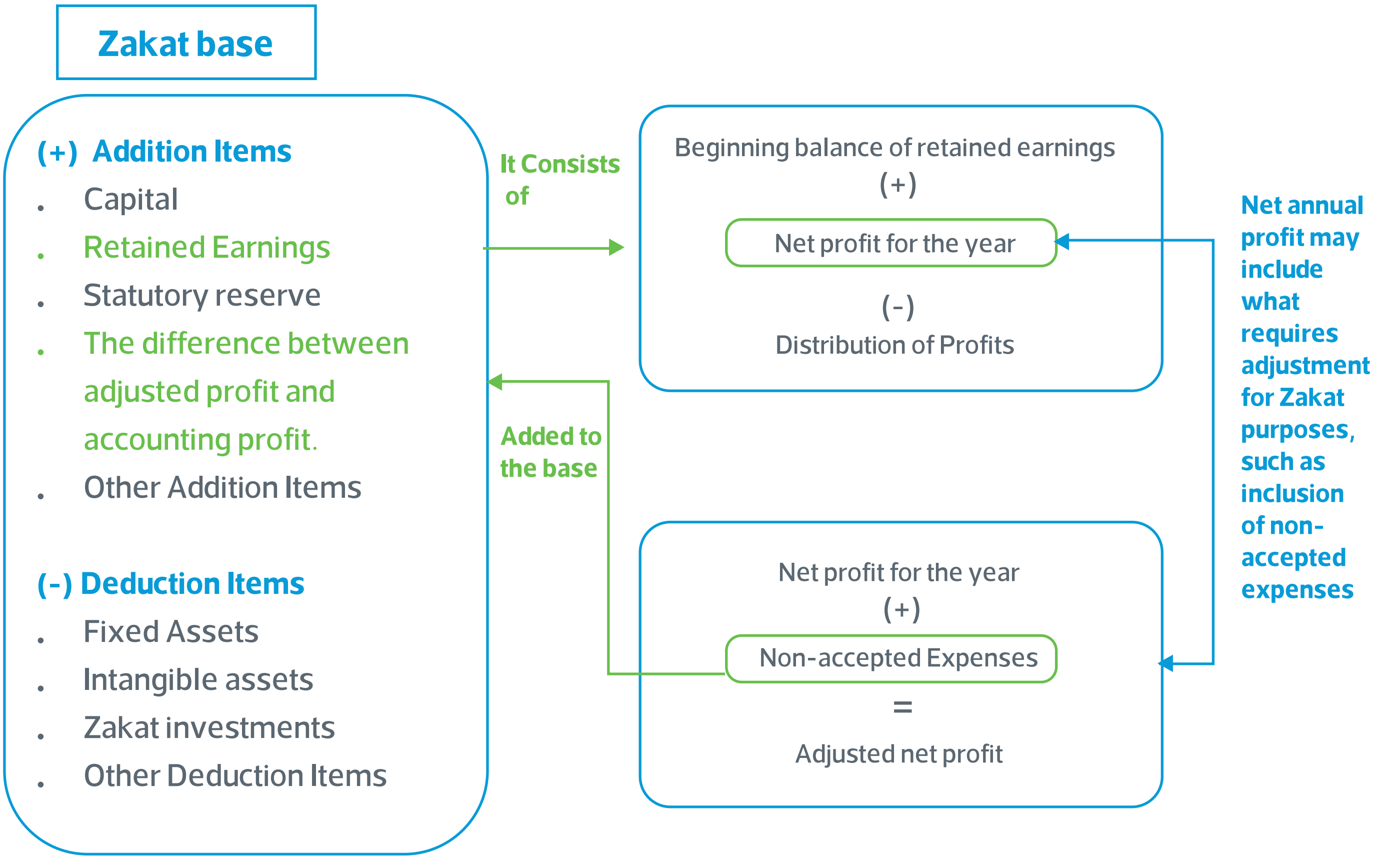
From this, it can be concluded that adjusting the activity result according to the requirements of the regulatory articles in the regulations is essential. This leads to reaching the adjusted net profit or adjusted net loss, which is the difference between the net book profit and the adjusted net profit, or the difference between the book net loss and the adjusted net loss, which is considered one of the addition items to the Zakat base within equity items.

5.2. The Connection Between Adjusting Net Profit and Addition Items to the Zakat Base

The difference between the net book profit (or loss) and adjusted net profit (or loss) is considered one of the addition items to the Zakat base. This item is directly linked to equity items, as the equity items added to the Zakat base include adding the retained earnings item at the end-of-period balance. It is known that the retained earnings item includes the net book profit for the year, which may contain some expenses that are not accepted to be deducted for Zakat purposes or some undeclared revenues. Therefore, the difference between net book profit and adjusted net profit is added to the Zakat base as a difference that should be added back to the net book profit, which was previously added to the Zakat base within the equity items.

When adjusting the net book profit, the adjustment is made to the net book profit after Zakat and tax. This is because the book profit included in the retained earnings item added to Zakat base is the net book profit after Zakat and tax.

The same applies to the net book loss, which, if realized, is part of the retained earnings added to the Zakat base at the end-of-period balance. Therefore, when losses are realized, the difference between the adjusted net loss and the net book loss is added to the Zakat base.



In addition, the adjusted net profit is the primary determinant for transitioning to the minimum Zakat base. The minimum Zakat base refers to the alternative Zakat base that is being transitioned to if the Zakat base is lower than the adjusted net profit, as stated in Article 27 of the regulations, which outlines the provisions for the minimum Zakat base. This article specifies that the adjusted net profit is necessary to determine whether the condition for transitioning to the minimum Zakat base has been met or not. The minimum base will be the adjusted net profit if it is less than the total of non-deducted assets plus the difference between the adjusted net profit and the net book profit. Therefore, the minimum Zakat base will be the lesser of the following:

1. The total of non-deducted assets plus the difference between the adjusted net profit and the net book profit.
2. The adjusted net profit.

Based on the above, the adjustment of net profit (loss) aims to achieve two objectives:

First: To reach the difference between net book profit and adjusted net profit, which is one of the additon items to the Zakat base.

Second: To reach the adjusted net profit, which is the primary criterion for determining the minimum Zakat base.

Uses of Adjusted Net Profit

It is used as a determinant for transitioning to the minimum Zakat base.

It is used to reach the difference between adjusted net profit and net book profit (one of the components of the Zakat base).

Example (56):

The following data is extracted from the final data of a company at the end of its Zakat year:

Item	Amount (SAR)
Net Book Profit	1,355,966
Adjusted Net Profit	1,699,238

How is the above data used when calculating the Zakat base?

The Solution:

The data is used in the following way when calculating the Zakat base:

(1)	(2)
Adjusted Net Profit is used as a determinant to reach the minimum Zakat base, if the adjusted net profit is higher than the Zakat base result.	Reach the difference between adjusted net profit and net book profit, which is one of the components of the Zakat base. = Adjusted Net Profit – Net Book Profit = 1,699,238 SAR – 1,355,966 SAR = 343,272 SAR Therefore, the amount of 343,272 SAR is added to the Zakat base.

Example (57):

The following data is extracted from the final data of a company at the end of its Zakat year:

Item	Amount (SAR)
Net Book Loss	(2,779,289)
Adjusted Net Profit	128,222

How is the above data used when calculating the Zakat base?

The Solution:

The data is used in the following way when calculating the Zakat base:

(1)	(2)
Adjusted Net Profit is used as a determinant to reach the minimum Zakat base if the adjusted net profit is higher than the Zakat base result.	Reach the difference between adjusted net profit and net book profit, which is one of the components of the Zakat base. = Adjusted Net Profit – Net Book Loss = 128,222 SAR – (2,779,289) SAR = 2,907,511 SAR Therefore, the amount of 2,907,511 SAR is added to the Zakat base.

5.3. Comprehensive Applications

Example (58):

The income statement of a company at the end of 2025 is as follows:

The income statement (SAR)	
Revenues	1,600,000
Cost of Revenues	(480,000)
Gross Profit	1,120,000
General and Administrative Expenses	(288,000)
Selling and Distribution Expenses	(64,000)
Profit Before Zakat	768,000
Zakat	(120,000)
Net Book Profit	648,000

Upon reviewing the general and administrative expenses, the following was found:

- Donations of 70,000 SAR paid to a charity outside the country, which do not meet the criteria for deductions.
- Tuition expenses of 20,000 SAR for an employee, which do not meet the criteria for deductions.

Required: Adjust the net book profit and show the effect on the Zakat base.

The Solution:

The adjustment to the net book profit in this case is as follows:

Net Book Profit	648,000 SAR
(+) Non-accepted Donations	70,000 SAR
(+) Non-accepted Tuitions	20,000 SAR
(=) Adjusted Net Profit	738,000 SAR

This is handled in the Zakat base as follows:

Calculating the difference between the adjusted net profit and the net book profit
= Adjusted Net Profit – Net Book Profit
738,000 SAR – 648,000 SAR = 90,000 SAR
Therefore, 90,000 SAR will be added to the Zakat base.

- The adjusted net profit serves as the determinant to reach the minimum limit of the Zakat base, provided that the adjusted net profit s higher than the Zakat base result.

Example (59):

The income statement of a company at the end of 2024 is as follows:

The income statement (SAR)	
Revenues	4,800,000
Cost of Revenues	(3,440,000)
Gross Profit	1,360,000
General and Administrative Expenses	(864,000)
Selling and Distribution Expenses	(292,000)
Profit Before Zakat	204,000
Zakat	(360,000)
Net Book Loss	(156,000)

Upon reviewing the selling and distribution expenses, the following was found:

- A marketing campaign expense of 100,000 SAR, which is not supported by valid documentation and does not meet the general criteria for accepted expenses.

  Required: Adjust the net book loss and show the effect on the Zakat base.

The Solution:

The adjustment of the net book loss in this case is as follows:

Net Book Loss:	(156,000) SAR
(+) A marketing campaign expense which is not supported by valid documentation	100,000 SAR
(=) Adjusted Net Loss	**(56,000) SAR**

This is treated in the Zakat base as follows:

Calculating the difference between the adjusted net loss and the net book loss
= Adjusted Net Loss – Net Book Loss
(156,000) SAR – (56,000) SAR = 100,000 SAR
Therefore, 100,000 SAR will be added to the Zakat base.

- Since the Zakat payer did not achieve an adjusted net profit, their Zakat calculation will be based on the Zakat base result.

Example (60):

The income statement for a company at the end of 2024 is as follows:

The income statement (SAR)	
Revenues	3,840,000
Cost of Revenues	(1,752,000)
Gross Profit	2,088,000
General and Administrative Expenses	(691,200)
Selling and Distribution Expenses	(233,600)
Profit Before Zakat	1,163,200
Zakat	(288,000)
Net Book Profit	875,200

Upon reviewing the cost of revenues, the following was found:

- Depreciation expense for the company's equipment amounting to 220,000 SAR, which is the Zakat-acceptable expense.

Required: Adjust the net book profit and show the impact on the Zakat base.

The Solution:

In this case, there is no adjustment to the net book profit since the depreciation expense is Zakat-acceptable. Therefore, the net book profit equals the adjusted net profit, and there is no difference to be added to the Zakat base. The net book profit (adjusted) in this case serves as the determinant to reach the minimum Zakat base, provided that the net book profit (adjusted) is higher than the Zakat base result.

6. Reclassification Treatments of Addition Items

6.1. Introduction

The importance of reclassification for Zakat purposes arises from the difference in Zakat classification of certain items compared to their accounting classification, as well as the Zakat impact of that difference. This includes the difference in addition provisions related to items classified within equity compared to those classified within liabilities in several aspects, as follows:

1. There is no limit on adding equity and its equivalents to the Zakat base, whereas liabilities that are subject to addition are added within the deductions limit of the base.
2. No settlement or corrections are made when adding equity and its equivalents to the base; however, corrections must be made for adding liabilities to the base in specific cases according to the placement provisions as per Article 25 of the regulation.
3. Equity and its equivalents along with the difference between the adjusted net profit (loss) of the year represent the maximum limit of the Zakat base, while this does not apply to liability items that are required to be added to the base.

Similarly, the rules regarding the addition of non-current liabilities differ from those related to current liabilities, as non-current liabilities are added to the Zakat base based on the end-of-period balance, while current liabilities are only added in specific cases, as detailed in paragraph 4.3 of this Guideline.

This necessitates distinguishing between equity and liabilities for Zakat purposes, as well as differentiating between current and non-current liabilities for Zakat purposes, due to the difference in addition provisions related to these items.

Regarding the classification of items, the principle is to rely on the classification shown in the financial statements of the Zakat payer, as per Article 9 of the regulation, which endorses the standards approved by the Saudi Organization for Chartered and professional Accountants concerning terminologies, accounting treatments and terms, and financial reports submitted to the authority for Zakat purposes, unless otherwise stated in the regulation. Based on this, the items that may be subject to reclassification are as follows:

- Items that may be reclassified to equity:

Liabilities are treated according to their accounting classification within liabilities items for Zakat purposes and are not reclassified to equity items, except for the items treated as equity and its equivalents including the following:

1. Provisions.
2. Profits under distribution
3. Partners' credit loans

This is as per the detailed provisions outlined in paragraph 3.7 of this Guideline.

- Items that may be reclassified to non-current liabilities:

Current liabilities are treated according to their accounting classification for Zakat purposes and are not reclassified to non-current liabilities, except for the following:

1. If the authority has proven that a current liability is equivalent to a non-current liability.
   This is in accordance with the detailed provisions outlined in paragraph 4.3.3 of this guide.

Reclassification requires an accurate analysis of the items in the statement of financial position to reach the items that need to be reclassified for Zakat purposes. Some of these items may appear directly on the statement of financial position, such as certain types of provisions like the Zakat provision.

After reaching the items that require reclassification and reclassifying them, it is necessary to exclude these items from their previous classification, which affects the procedures for calculating the other Zakat base. The groups of assets and liabilities shown in the statement of financial position are linked to the provisions for calculating the Zakat base, based on the provisions that include adding equity items to the Zakat base and treating liabilities according to their accounting classification. This also involves equality between assets and liabilities and the resulting of addition and placement provisions, in addition to the deduction items from the Zakat base that are directly linked to the liabilities added to the base in placement cases.
For example, when reclassifying the Zakat provision, which is classified under current liabilities, to equity, the following actions are taken:

- Adding the Zakat provision to equity items at the end-of-period balance.
- Excluding the Zakat provision from current liabilities, which impacts other base procedures, such as the liability placement process, which in some cases relies on adding a proportion of current liabilities to the tax base.

Based on this, for the purposes of calculating the Zakat base, it is essential to correct the values of the assets and liabilities affected by the reclassified items, as this has implications for the Zakat base calculation for the Zakat payer holding statutory accounts. Examples of such implications include, but are not limited to, the following:

1. A change in the value of current liabilities affects the value of the current liability added to the base when deducting current asset in placement cases.
2. A change in the value of non-current liabilities affects the value of liabilities added to the base when the deduction of a non-current asset is denied.

This creates the necessity to recalculate the values of these groups when reclassifying any related item. For example, if the Zakat provision is reclassified within equity items, it must be excluded from current liabilities, as this has implications for calculating the Zakat base.

For instance, when reclassifying profits under distribution classified within current liabilities to equity, the following actions should be taken:

- Add the profits under distribution within equity items based on the end-of-period balance.
- Exclude the profits under distribution from current liabilities, which affects other Zakat base procedures when making placement of liabilities, which relies in one of its cases on adding a proportion of current liabilities to the base when deducting current asset.

In the following paragraphs, cases of item reclassification will be reviewed along with the resulting implications and treatments.

6.2. Cases of Reclassification of Classified Items Within Liabilities

6.2.1. Reclassification of Current Liabilities to Equity

One case of reclassification is treating a current liability as equity.

3. **Image:** If one of the Zakat payer's items treated as equity appears within the current liabilities, such as when an item of under distribution profits or a Zakat provision appears within current liabilities, in this case, it should be reclassified to equity for Zakat purposes. Thus, it will be added to the base at the end-of-period balance within equity.

- **Treatment:** Reclassifying the current liability to equity results in the following:

1. The current liability is added within equity items and their equivalents, resulting in an increase in equity items and their equivalents by the amount of this item.
2. The reclassified item is excluded from current liabilities, resulting in a decrease in current liabilities by the same amount of this item.

The procedures for calculating the Zakat base are affected by This treatment, including:

- An increase in the amount of equity and its equivalents, resulting in an increase in the value of equity added to the Zakat base as per Article 23 of the regulations.
- An increase in the amount of equity and its equivalents, resulting in an increase in the maximum limit for the Zakat base as per Article 28 of the regulations, which states that the maximum Zakat base is the equity and its equivalents, plus the difference between the adjusted net profit (or loss) for the year and the book net profit (or loss) is the upper limit of the Zakat base.
- A decrease in the amount of current liabilities, resulting in a decrease in the value of current liabilities in the placement equation when deducting any current asset as per Article 25 of the regulations.
- A decrease in the amount of current liabilities, resulting in a decrease of non-added liabilities to the base when compared to non-deducted assets, as per paragraph (c) of paragraph 2 of Article 29 of the regulations.

Example (61):

The following statement of financial position of a limited liability company as of the end of 2024:

Statement of financial position		
Assets		
	2024 AD (SAR)	2023 AD (SAR)
Current Assets		
Cash and Cash Equivalents	7,848,080	4,762,901
Debtors	13,120,332	10,974,164
Total Current Assets	20,968,412	15,737,065
Non-Current Assets		
Property and Equipment	33,975,902	34,570,817
Intangible Assets	12,135,719	12,527,937
Total Non-Current Assets	46,111,621	47,098,754
Total Assets	67,080,033	62,835,819
Liabilities and Equity		
Current Liabilities		
Short-Term Loans	7,544,921	5,252,046
Creditors	3,161,332	3,402,102
Zakat Provision	1,498,760	1,350,339
Total Current Liabilities	12,205,013	10,004,487
Non-Current Liabilities		
Long-term Loans	11,861,874	13,034,333
Employee Benefits Liabilities	4,780,163	4,470,995
Total Non-Current Liabilities	16,642,037	17,505,328
Equity		
Capital	13,500,000	13,500,000
Statutory Reserve	3,750,000	3,750,000
Retained Earnings	20,982,983	18,076,004
Total Equity	38,232,983	35,326,004
Total Liabilities and Equity	67,080,033	62,835,819

What is the Zakat treatment for reclassifying current liabilities of the company?

The Solution:

By analyzing the current liabilities, there are items that require reclassification for Zakat purposes as follows:

Item	Current Classification	New Classification for Zakat Purposes	Amount (SAR)
Zakat Provision	Current Liability	Equity and its Equivalents	1,498,760

Reclassifying an item impacts the procedures for calculating the Zakat base as follows:

First: Equity and its Equivalents after reclassification will be as follows:

Equity	2024 AD
Capital	13,500,000
Statutory Reserve	3,750,000
Retained Earnings	20,982,983
Zakat Provision	1,498,760
Total Equity	39,731,743

Second: The current liabilities after reclassification will be as follows:

Current Liabilities	2024 AD
Short-term Loans	7,544,921
Creditors	3,161,332
Total Current Liabilities	10,706,253

When calculating the Zakat base, the values of equity items and current liabilities after reclassification should be considered, including the following:

- Equity items and its equivalents will be added to the Zakat base after reclassification.
- When making placement regarding current liabilities, the value of current liabilities after reclassification will be used.

Example (62):

Statement of financial position of a limited liability company as of the end of 2024:

Statement of financial position		
Assets		
	2024 AD (SAR)	2023 AD (SAR)
Current Assets		
Cash and Cash Equivalents	5,886,060	3,572,175
Debtors	7,380,187	6,172,967
Inventory	2,460,062	2,057,656
Total Current Assets	15,726,309	11,802,798
Non-Current Assets		
Property and Equipment	25,481,926	25,928,112
Investments	9,101,789	9,395,953
Total Non-Current Assets	34,583,715	35,324,065
Total Assets	50,310,024	47,126,863
Liabilities and Equity		
Current Liabilities		
Bank Facilities	5,658,690	3,939,034
Accrued Expenses and Other Credit Balances	2,370,999	2,551,577
Zakat Provision	1,124,070	1,012,754
Total Current Liabilities	9,153,759	7,503,365
Non-Current Liabilities		
Loans	8,896,406	9,775,749
Employee Benefits Liabilities	3,585,122	3,353,246
Total Non-Current Liabilities	12,481,528	13,128,995
Equity		
Capital	10,125,000	10,125,000
Statutory Reserve	2,812,500	2,812,500
Retained Earnings	15,737,237	13,557,003
Total Equity	28,674,737	26,494,503
Total Liabilities and Equity	50,310,024	47,126,863

Upon reviewing the company's account analyses, the details of the end-of-period balances for some items appear as follows:

1. Analysis of the accrued expenses and other credit balances.

Item	Amount (SAR)
Accrued Rent Expenses	1,170,999
Profits Under Distribution	1,200,000
Total	2,370,999

What is the Zakat treatment for reclassifying the company's current liabilities?

The Solution:

By analyzing the current liabilities, there are items that require reclassification for Zakat purposes as follows:

Item	Current Classification	New Classification for Zakat Purposes	Amount (SAR)
Zakat Provision	Current Liability	Equity and its Equivalents	1,124,070
Profits Under Distribution	Current Liability	Equity and its Equivalents	1,200,000

The reclassifying impacts the procedures for calculating the Zakat base as follows:

First: Equity and its Equivalents after reclassification will be as follows:

Equity	2024 AD
Capital	10,125,000
Statutory Reserve	2,812,500
Retained Earnings	15,737,237
Zakat Provision	1,124,070
Profits Under Distribution	1,200,000
Total Equity	30,998,807

Second: The current liabilities after reclassification will be as follows:

Current Liabilities	2024 AD
Bank Facilities	5,658,690
Accrued Expenses and Other Creit Balances	1,170,999
Total Current Liabilities	6,829,689

When calculating the Zakat base, the values of equity items and current liabilities after placement should be used, including the following:

- Equity items will be added to the Zakat base after reclassification.
- When making the placement regarding current liabilities, the value of current liabilities after reclassification will be used.

6.2.2. Reclassification of Current Liabilities to Equity

One case of reclassification is treating a non-current liability as equity.

4) Image: If one of the Zakat payer's items treated as equity appears within the non-current liabilities, such as when an item of non-current partners' credit loans that do not meet the conditions for being treated as a liability appears within non-current liabilities of a Zakat payer, in this case, the item should be reclassified to equity for Zakat purposes. Thus, it will be added to the base at the end-of-period balance within equity.

- **Treatment:** Reclassifying the non-current liability to equity results in the following:

1. The non-current liability is added within equity items and their equivalents, resulting in an increase in equity items and their equivalents by the amount of this item.
2. The reclassified item is excluded from non-current liabilities, resulting in a decrease in non-current liabilities by the same amount of this item.

The procedures for calculating the Zakat base are affected by This treatment, including:

- An increase in the amount of equity and its equivalents, resulting in an increase in the value of equity added to the Zakat base as per Article 23 of the regulations.
- An increase in the amount of equity and its equivalents, resulting in an increase in the maximum limit for the Zakat base as per Article 28 of the regulations.
- A decrease in the amount of non-current liabilities, resulting in a decrease of non-added liabilities to the base as per Article 29 of the regulations.

Example (63):

Statement of financial position of a limited liability company as of the end of 2025:

Statement of financial position		
Assets		
	2025 AD (SAR)	2024 AD (SAR)
Current Assets		
Cash and Cash Equivalents	3,642,653	2,619,716
Debtors	2,614,854	2,165,361
Total Current Assets	6,257,507	4,785,077
Non-Current Assets		
Property and Equipment	7,644,578	7,778,434
Intangible Assets	2,693,037	2,781,286
Total Non-Current Assets	10,337,615	10,559,720
Total Assets	16,595,122	15,344,797
Liabilities and Equity		
Current Liabilities		
Short-term Loans	1,697,607	1,181,710
Creditors	711,300	765,473
Total Current Liabilities	2,408,907	1,947,183
Non-Current Liabilities		
Long-term Loans	2,668,922	2,932,725
Employee Benefits Liabilities	1,075,537	1,005,974
Due to Related Parties	1,876,835	1,548,064
Total Non-Current Liabilities	5,621,294	5,486,763
Equity		
Capital	3,000,000	3,000,000
Statutory Reserve	843,750	843,750
Retained Earnings	4,721,171	4,067,101
Total Equity	8,564,921	7,910,851
Total Liabilities and Equity	16,595,122	15,344,797

Upon reviewing the company's account analyses, the details of the end-of-period balances for some items are as follows:

- Analysis of the item of due to related parties.

Item	Amount (SAR)	
Due to the Partner	1,876,835	Payments made on behalf of which the partner is not entitled to returns.
	1,876,835	

What is the Zakat treatment for reclassifying the company's non-current liabilities?

The Solution:

By analyzing the non-current liabilities, there are items that require reclassification for Zakat purposes as follows:

Item	Current Classification	New Classification for Zakat Purposes	Amount (SAR)
Due to Related Parties	Non-current Liability	Equity and its Equivalents	1,876,835

The reclassification will impact the statement of financial position, which in turn affects the procedures for calculating the Zakat base, as follows:

First: Equity and its Equivalents after reclassification will be as follows:

Equity	2025 AD
Capital	3,000,000
Statutory Reserve	843,750
Retained Earnings	4,721,171
Due to Related Parties	1,876,835
Total Equity	10,441,756

Second: The current liabilities after reclassification will be as follows:

Current Liabilities	2025 AD
Long-term Loans	2,668,922
Employee Benefits Liabilities	1,075,537
Total Current Liabilities	3,744,459

When calculating the Zakat base, the values of equity and non-current liabilities should be considered after placement, including the following:

- Equity items are added to the Zakat base after reclassification.
- Non-current liabilities are added to the Zakat base after reclassification.
- When making the placement regarding non-current liabilities, the value of non-current liabilities after reclassification is used.

6.2.3. Reclassifying a current liability to a non-current liability

One case of reclassification is treating a current liability as a non-current liability.

5) Image: If one of the Zakat payer's items treated as non-current liability appears within the current liabilities, such as when a current loan equivalent to a non-current liability appears within the current liabilities of a Zakat payer like when the Zakat payer renews the loan with the same creditor, as detailed in paragraph 4.3.3 of this Guideline.

- **Treatment:** Reclassifying the current liability to non-current results in the following:

1. The current liability is added within non-current liabilities, resulting in an increase in non-current liabilities by the amount of this item.
2. The reclassified item is excluded from current liabilities, resulting in a decrease in current liabilities by the same amount as this item.

The procedures for calculating the Zakat base are affected by This treatment, including:

- An increase in the amount of non-current liabilities, resulting in an increase in the value of non-current liabilities added to the Zakat base as per Article 23 of the regulations.
- A decrease in the amount of current liabilities, resulting in a decrease in the value of current liabilities in the placement equation when deducting any current asset as per Article 25 of the regulations.
- A decrease in the amount of current liabilities, resulting in a decrease of non-added liabilities to the base when comparing them to undeducted assets as per paragraph (c) of paragraph 2 of Article 29 of the regulations.

Example (64):

The statement of financial position of a limited liability company as of the end of 2024:

Statement of financial position		
Assets		
	2024 AD (SAR)	2023 AD (SAR)
Current Assets		
Cash and Cash Equivalents	14,570,612	10,478,866
Advance Payments and Other Debit Balances	6,132,558	5,669,884
Due from Related Parties	10,459,415	8,661,442
Total Current Assets	31,162,585	24,810,192
Non-Current Assets		
Property and Equipment	30,578,311	31,113,735
Right-of Use Assets	10,772,147	11,125,143
Total Non-Current Assets	41,350,458	42,238,878
Total Assets	72,513,043	67,049,070
Liabilities and Equity		
Current Liabilities		
Long-term Loans	6,790,428	4,726,841
Long-term Loans – Current Portion	3,225,669	2,965,889
Lease Contract Liabilities – Current Portion	2,845,199	3,061,892
Creditors	5,669,632	5,116,998
Total Current Liabilities	18,530,928	15,871,620
Non-Current Liabilities		
Long-term Loans – Non-current Portion	10,675,687	11,730,899
Lease Contract Liabilities– Non-current Portion	7,507,341	6,192,256
Employee Benefits Liabilities	4,302,146	4,023,895
Total Non-Current Liabilities	22,485,174	21,947,050
Equity		
Capital	12,000,000	12,000,000
Statutory Reserve	3,375,000	3,375,000
Retained Earnings	16,121,941	13,855,400
Total Equity	31,496,941	29,230,400
Total Liabilities and Equity	72,513,043	67,049,070

Based on the analysis of the company's accounts and the examination of its loan operations, the authority proved that short-term loans are equivalent to non-current loans. This is due to the fact that the payment of these loans during the year was merely nominal, despite meeting all other controls related to considering current debt as equivalent to non-current debt.

What is the Zakat treatment for reclassifying the company's current liabilities?

The Solution:

By analyzing the non-current liabilities, there are items that require reclassification for Zakat purposes as follows:

Item	Current Classification	New Classification for Zakat Purposes	Amount (SAR)
Long-term Loans	Current Liability	Non-current liability	6,790,428

The reclassification procedure affects the statement of financial position, which in turn impacts the procedures of calculating the Zakat base, as follows:

First: Non-current liabilities after reclassification will be as follows:

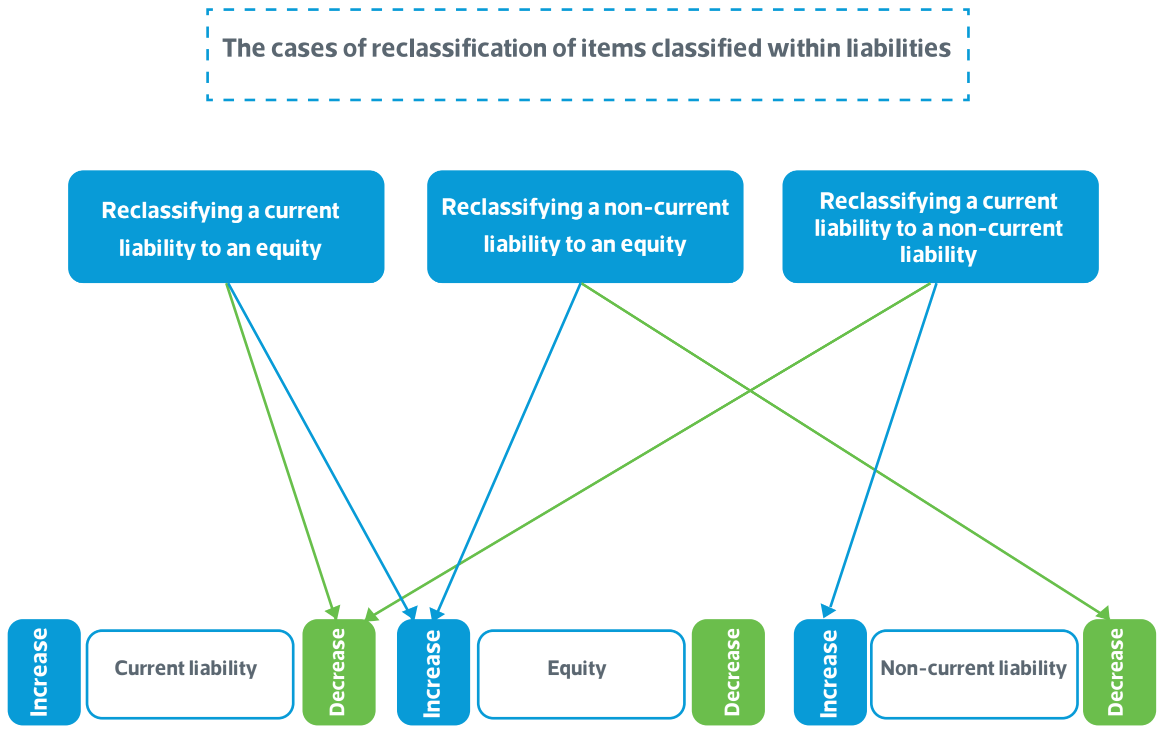
Non-Current Liabilities	2024 AD
Long-term Loans – Non-current Portion	10,675,687
Lease Contract Liabilities – Non-current Portion	7,507,341
Employee Benefits Liabilities	4,302,146
Scheduled Short-term Loans	6,790,428
Total Equity	29,275,602

Second: The current liabilities after reclassification will be as follows:

Current Liabilities	2024 AD
Long-term Loans – Current Portion	3,225,669
Lease Contract Liabilities– Current Portion	2,845,199
Creditors	5,669,632
Total Current Liabilities	11,740,500

When calculating the Zakat base, the values of current liabilities and non-current liabilities should be considered after placement, including the following:

- Non-current liabilities are added to the Zakat base after reclassification.
- When making the placement regarding current liabilities, the value of current liabilities after reclassification is used.
- When making the placement regarding non-current liabilities, the value of non-current liabilities after reclassification is used.



6.3. Comprehensive Applications

Example (65):

Statement of financial position of a limited liability company as of the end of 2024:

Statement of financial position		
Assets		
	2024 AD (SAR)	2023 AD (SAR)
Current Assets		
Cash in Banks	34,258,110	27,570,685
Due from Related Parties	7,362,136	6,806,696
Total Current Assets	41,620,246	34,377,381
Non-Current Assets		
Property, Machines, and Equipment	36,709,263	37,352,039
Right-of Use Assets	12,931,962	13,355,735
Total Non-Current Assets	49,641,225	50,707,774
Total Assets	91,261,471	85,085,155
Liabilities and Equity		
Current Liabilities		
Short-term Loans	8,151,909	5,674,573
Lease Contract Liabilities	6,899,556	6,125,584
Creditors	3,823,349	4,083,489
Total Current Liabilities	18,874,814	15,883,646
Non-Current Liabilities		
Long-term Loans	19,951,005	20,822,192
Lease Contract Liabilities	9,866,535	8,865,223
Employee Benefits Liabilities	5,164,727	4,830,686
Total Non-Current Liabilities	34,982,267	34,518,101
Equity		
Capital	14,000,000	14,000,000
Statutory Reserve	4,050,000	4,050,000
Retained Earnings	19,354,390	16,633,408
Total Equity	37,404,390	34,683,408
Total Liabilities and Equity	91,261,471	85,085,155

The following data is available for the purpose of calculating additions to the Zakat base:

- The net book profit at the end of the year is 5,300,000 SAR.
- The adjusted net profit at the end of the year for Zakat purposes is 5,300,000 SAR.

How are the addition items to the Zakat base calculated?

The Solution:

The addition items to the Zakat base are calculated as follows:

First: Equity and its Equivalents will be as follows:

Item	Amount (SAR)
Capital	14,000,000
Statutory Reserve	4,050,000
Retained Earnings	19,354,390
Total Equity and its Equivalents	37,404,390

- It is noted that there is no need to reclassify them as equity in this case.

Second: The liabilities items will be as follows:

Item	Amount (SAR)
Long-term Loans	19,951,005
Lease Contract Liabilities	9,866,535
Employee Benefits Liabilities	5,164,727
Total Liabilitie Items	34,982,267

- It is noted that there is no placement related to liabilities in this case.

Third: It is noted that there is no difference between the adjusted net profit and the net book profit in this case.

Thus, the items for additions to the company's Zakat base will be as follows:

Item	Amount (SAR)
Equity and its Equivalents	37,404,390
Liabilities Required to be Added	34,982,267
Difference between adjusted net profit and net book profit	0
Total additions of the Zakat base	72,386,657

Example (66):

Statement of financial position of a limited liability company as of the end of 2026:

Statement of financial position		
Assets		
	2026 AD (SAR)	2025 AD (SAR)
Current Assets		
Cash in Banks	23,936,696	10,323,826
Inventory	12,486,071	10,313,212
Prepaid Expenses and Other Debit Balances	17,736,660	17,634,237
Total Current Assets	54,159,427	38,271,275
Non-Current Assets		
Property and Equipment	27,722,042	28,557,650
Right-of Use Assets	16,811,551	17,362,455
Total Non-Current Assets	44,533,593	45,920,105
Total Assets	98,693,020	84,191,380

Liabilities and Equity		
Current Liabilities		
Long-term Loans	10,597,482	7,376,945
Lease Contract Liabilities	8,969,422	7,963,259
Suppliers	4,970,354	5,308,535
Zakat Provision	5,500,000	4,000,000
Total Current Liabilities	30,037,258	24,648,739
Non-Current Liabilities		
Long-term Loans – Non-current portion	20,436,306	23,068,849
Lease Contract Liabilities	10,374,523	10,827,540
Deferred Tax Liability	12,826,496	11,524,790
Employee Benefits Liabilities	6,714,145	6,279,892
Total Non-Current Liabilities	50,351,470	51,701,071
Equity		
Capital	38,200,000	38,200,000
Statutory Reserve	5,265,000	5,265,000
Carried Forward Losses	(25,160,708)	(35,623,430)
Total Equity	18,304,292	7,841,570
Total Liabilities and Equity	98,693,020	84,191,380

The following data is available for the calculation:

- The net book profit for the year is 10,600,000 SAR.
- The adjusted net profit for Zakat purposes is 10,900,000 SAR.
- The inventory consists of spare parts that are not intended for sale and are subject to the conditions of deduction from the Zakat base.

How are the addition items to the Zakat base calculated?

The Solution:

The addition items to the Zakat base are calculated as follows:

First: Equity and its Equivalents will be as follows:

Item	Amount (SAR)
Capital	38,200,000
Statutory Reserve	5,265,000
Carried Forward Losses	(25,160,708)
Zakat Provision	5,500,000
Total Equity and its Equivalents	23,804,292

- It is noted that the Zakat provision has been reclassified to equity, as it was classified as a current liability.

Second: The liabilities items will be as follows

Item	Amount (SAR)
Long-term Loans – Non-current portion	20,436,306
Lease Contract Liabilities	10,374,523
Deferred Tax Liability	12,826,496
Employee Benefits Liabilities	6,714,145
Total Liabilities Before Placement	50,351,470
Correction of Liabilities Addition Due to Current Asset Deduction (Spare Parts)	5,656,893.07
Total Liabilities Items	56,008,363.07

- The correction amount related to the deducted current asset (spare parts) has been calculated as follows:

Reason for placement	Percentage	Type of correction	Correction amount
Deducted current asset (Spare Parts)	Spare Parts / Current Assets 12,486,071/54,159,427 = 23.0543%	Addition of a portion of current liabilities not added	Current liabilities after reclassification * percentage 24,537,258 * 23.0543% = 5,656,893.07 SAR

- It is also noted that the correction amount was calculated by multiplying the percentage by the current liabilities (after reclassification), as the Zakat provision was classified as equity.

Third: The difference between adjusted net profit and net book profit will be as follows:

Item	Amount (SAR)
Difference between adjusted net profit and net book profit	300,000
Total	300,000

The addition items to the company's Zakat base will be as follows:

Item	Amount (SAR)
Equity and its Equivalents	23,804,292
Liabilities Required to be Added	56,008,363.07
Difference between adjusted net profit and net book profit	300,000
Total additions of the Zakat base	**80,112,655.07**

Example (67):

Statement of financial position of a limited liability company as of the end of 2026:

Statement of financial position		
Assets		
	2024AD (SAR)	2023 AD (SAR)
Current Assets		
Cash in Banks	105,548,667	65,424,120
Inventory	74,916,427	61,879,270
Prepaid Expenses and Other Debit Balances	30,419,958	28,805,420
Due from related Parties	21,293,971	20,163,794
Total Current Assets	232,179,023	176,272,604
Non-Current Assets		
Property, machines, and Equipment	186,332,250	191,345,902
Right-of Use Assets	100,869,304	104,174,729
Contract Costs	111,799,350	114,807,541
Investments	212,280,078	244,750,113
Total Non-Current Assets	611,280,982	655,078,285
Total Assets	843,460,005	831,350,889
Liabilities and Equity		
Current Liabilities		
Short-term Loans	63,584,893	72,261,670
Long-term Loans – Current portion	12,816,529	17,779,555
Lease Contract Liabilities– Current portion	29,822,124	31,851,211
Accrued Expenses and Other Credit Balances	33,000,000	24,000,000
Zakat Provision	6,600,000	4,800,000
Total Current Liabilities	145,823,546	150,692,436
Non-Current Liabilities		
Long-term Loans – Non-current portion	122,617,839	138,413,095
Lease Contract Liabilities– Non-current portion	72,247,135	74,965,238

Contract Liabilities	125,958,973	129,148,739
Deferred Tax Liability	15,956,888	10,658,999
Due to Related Parties	62,700,000	45,600,000
Employee Benefits Liabilities	3,191,378	2,131,800
Total Non-Current Liabilities	402,672,213	400,917,871
Equity		
Capital	110,000,000	110,000,000
Statutory Reserve	32,000,000	32,000,000
Other Reserves	12,000,000	12,000,000
Treasury Shares	(10,000,000)	(10,000,000)
Retained Earnings	150,964,246	135,740,582
Total Equity	294,964,246	279,740,582
Total Liabilities and Equity	843,460,005	831,350,889

The company's income statement appears as follows:

Income Statement (SAR)	
Revenues	65,000,000
(-) Cost of Revenues	(29,900,000)
Gross Profit	35,100,000
(-) General and Administrative Expenses	(7,800,000)
(-) Selling and Distribution Expenses	(2,600,000)
Profit from Basic Operations	24,700,000
Unrealized Gains from the Valuation of Investment Properties	3,900,000
Profit Before Zakat	28,600,000
Zakat	(5,200,000)
Net Profit	23,400,000

The company's statement of changes in equity appears as follows:

/	Capital (SAR)	Statutory Reserve (SAR)	Other Reserves (SAR)	Treasury Shares (SAR)	Retained Earnings (SAR)	Total (SAR)
Balance as of 31/12/2023	110,000,000	32,000,000	12,000,000	(10,000,000)	135,740,581	279,740,581
Profit for the Year	0	0	0	0	23,400,000	23,400,000
Transferred to Reserves	0	0	0	0	0	0
Distributed During the Year	0	0	0	0	(8,000,000)	(8,000,000)
Other Compre-hensive Income	0	0	0	0	(176,335)	(176,335)
Balance as of 31/12/2024	110,000,000	32,000,000	12,000,000	(10,000,000)	150,964,246	294,964,246

The following data is available for the purpose of calculating additions to the Zakat base:

- The general and administrative expenses include school tuitions for employees paid to schools outside the Kingdom amounting to (1,000,000) SAR.
- The prepaid expenses and other debit balances include delayed government dues amounting to (10,000,000) SAR, and it has been confirmed that the delay is from the government entity.
- The investments item includes investments outside the Kingdom amounting to (100,000,000) SAR, and the company does not intend to Zakat them.
- The item due to related parties is an amount entitled to the parent company and the conditions outlined in the regulations for it to be considered as part of liabilities do not apply.
- The accrued expenses and other credit balances include profits under distribution amounting to (2,000,000) SAR.
- The accrued expenses and other credit balances include a provision for legal claims amounting to (17,000,000) SAR.
- It has been proven to the authority that short-term loans are treated as non-current liabilities.

How are the items for additions to the Zakat base calculated?

The Solution:

Before calculating the addition items, it is necessary to reclassify the items that should be reclassified and exclude their impact from their previous classification, as follows:

- The current liabilities after reclassification will be as follows:

Current Liabilities	2024 AD
Short-term loans	63,584,893
Long-term loans - current portion	12,816,529
Lease contract liabilities - current portion	29,822,124
Accrued expenses and other credit balances	33,000,000
Zakat provision	6,600,000
Total current liabilities according to the financial statements	145,823,546
(-) Exclude profits under distribution classified as equity	(2,000,000)
(-) Exclude provision for legal claims classified as equity	(17,000,000)
(-) Exclude zakat provision classified as equity	(6,600,000)
(-) Exclude short-term loans classified as non-current liabilities	(63,584,893)
Total current liabilities after reclassification	56,638,653

- The non-current liabilities after reclassification will be as follows:

Non-current Liabilities	2024 AD
Long-term loans - non-current portion	122,617,839
Lease contract liabilities - non-current portion	72,247,135
Contract liabilities	125,958,973
Deferred tax liability	15,956,888
Due to related parties	62,700,000
Employee benefit obligations	3,191,378
Total non-current liabilities according to the financial statements	402,672,213
(-) Exclude amounts due to related parties classified as equity	(62,700,000)
(+) Add revolving short-term loans classified as non-current liabilities	63,584,893
Total non-current liabilities after reclassification	403,557,106

The items for additions to the company's Zakat base are calculated as follows:

First: The equity items and their equivalents will be as follows:

Item	Amount (SAR)
Capital	110,000,000
Statutory Reserve	32,000,000
Other Reserves	12,000,000
Treasury Shares	(10,000,000)
Retained Earnings	150,964,246
Profits Under Distribution	2,000,000
Provision for Legal Claims	17,000,000
Zakat Provision	6,600,000
Due to Related Parties	62,700,000
Total Equity and its Equivalents	383,264,246

Second: The liabilities items will be as follows:

Item	Amount (SAR)
Long-term Loans – Non-current portion	122,617,839
Lease Contract Liabilities– Non-current portion	72,247,135
Contract Liabilities	125,958,973
Deferred Tax Liability	15,956,888
Employee Benefits Liabilities	3,191,378
Short-term loans treated as non-current liabilities	63,584,893
Total Liabilities Before Placement	403,557,106
Correction of Liabilities Addition Due to Current Asset Deduction (Delayed Government Dues)	2,439,426.78
Correction of Liabilities Addition Due to Undeduction of Non-current Asset (Investments Outside the Kingdom)	(66,018,310.53)
Total Liabilities Items	339,978,222.25

- The correction amount related to the deducted current asset (Delayed Government Dues) has been calculated as follows:

Reason for placement	Percentage	Type of correction	Correction amount
Deducted current asset (Delayed Government Dues)	Delayed Government Dues / Current Assets 10,000,000/ 232,179,023 = 4.3070%	Addition of a portion of current liabilities not added	Current liabilities after reclassification * percentage 56,638,653 = 4.3070% * 2,439,426.78 SAR

- The correction amount related to the undeducted non-current asset (Investments outside the Kingdom) has been calculated as follows:

Reason for placement	Percentage	Type of correction	Correction amount
Uneducted non-current asset (Investments outside the Kingdom)	Investments outside the Kingdom / Non-current Assets 100,000,000/611,280,982 = 16.3591%	Exclude a portion of added non-current liabilities	Non-current liabilities added after reclassification * percentage 403,557,106 = 16.3591% * 66,018,310.53 SAR

Third: The difference between adjusted net profit and net book profit will be as follows:

Item	Amount (SAR)
Unaccepted School Tuitions	1,000,000
Total	1,000,000

The addition items to the company's Zakat base will be as follows:

Item	Amount (SAR)
Equity and its Equivalents	383,264,246
Liabilities Required to be Added	339,978,222.25
Difference between adjusted net profit and net book profit	1,000,000
Total additions of the Zakat base	724,242,468.25

7. Conclusion of the Guideline

7.1 Conclusion

Based on what has been presented in this guide, the addition items are considered the most important component of the Zakat base for Zakat payers holding statutory accounts. The Zakat due on the Zakat payers holding statutory accounts is calculated based on the result of calculating the Zakat base, which includes the addition items outlined in the regulations. Article 21 of the regulations specifies the mechanism for calculating the Zakat base for the Zakat payer, which involves adding the addition items, represented by sources of Zakat funds, in accordance with the provisions of the regulations (equity and its equivalents, and liabilities required to be added within the limits of deductions), minus the deduction items in accordance with the procedures and concepts outlined in the regulations.

The addition items of the Zakat base are summarized in three main components, as per Article 23 of the regulations, which include the following elements:

1. Equity and its equivalents:
2. Liabilities within the limits of deducted assets:
3. The difference between the adjusted net profit/loss and the net book profit/loss (after Zakat and tax):

When adding the items of equity and their equivalents to the Zakat base, the provisions for reclassification of certain liability items to equity and their effect on the calculation of the Zakat base should be considered. Additionally, when adding liabilities, the provisions for correcting liabilities according to the placement rules should be observed, and ensuring that liabilities do not exceed the deduction items of the Zakat base. The equity and liabilities are added based on the end-of-period balances as shown in the Zakat payer's statement of financial position.

The addition items are related to the limits of the Zakat base. The term "limits of the Zakat base" refers to the maximum limit of the base, which should not be exceeded when calculating the Zakat base, as well as the minimum limit of the base, which serves as an alternative base when related conditions are met. Article 27 of the regulations specifies the provisions for the minimum limit of the base, while Article 28 outlines the provisions for the maximum limit of the base, which is a new provision in the regulations. The limits of the base are as follows:

Minimum Limit of the Zakat Base: The minimum limit of the Zakat base is applied when the Zakat base for the Zakat payer is less than the adjusted net profit. The minimum limit is the lesser of the following:

1. The total of non-deducted assets plus the difference between the adjusted net profit and the net book profit.
2. The adjusted net profit.

Maximum Limit of the Zakat Base: The maximum limit of the Zakat base is considered absolute. It is the equity and its equivalents, based on their value as shown in the statement of financial position at the end of the Zakat year, plus the difference between the adjusted net profit or loss for the year and the net book profit or loss.

Equity includes any item that has been reclassified to fall under equity.

7.2 Frequently Asked Questions

1. Is the addition to the capital added to the Zakat base in its full value?

According to Article 17 of the regulation, the Zakat payer holding statutory accounts relies on the financial statement items for both additions and deductions based on the value shown in the statement of financial position at the end of the Zakat payer's Zakat year, which means that it is added at the end-of-year balance, including all transactions that occurred during the year.

2. If partners' credit loans are classified in the financial statements within equity, can they be classified as liabilities if other conditions mentioned in Article 30 are met?

If partners' loans are classified under equity in the statement of financial position, they cannot be treated as liabilities, according to Article 30 of the regulation.

3. If profits from the current year are distributed, can these distributed profits be decreased from the base if the base is at the minimum limit?

No, profit distributions are not decreased from the minimum base, including the adjusted net profit, as stated in Article 27 of the regulation.

4. How are the cases of partners covering the accumulated losses of the company, which result in reducing the accumulated losses in exchange for reducing the creditors' balances of the partners, handled?

Accumulated losses are handled based on the balance shown at the end of the year after being reduced by the partners. The creditors' balances of the partners are handled according to the remaining balance at the end of the year, in accordance with the provisions outlined in paragraph 2.5 of this guide.

5. Is the vacation provision classified as current added to the liabilities which is added to the base?

No, current liabilities, including provisions treated as liabilities, are not added to the base except in the specific cases outlined in Article 29 of the regulation.

6. Is the current portion of long-term loans considered a non-current liability?

The current portion of long-term loans is treated based on its accounting classification and is not considered a non-current liability if it is classified as a current liability.

7. Do short-term loans actualy paid during the year qualify as non-current liabilities?

Short-term loans actualy vpaid during the year do not qualify as non-current liabilities, provided that actual payment is evidenced. This is not affected if the entity secures subsequent financing from the same funding source to pay the loan, as detailed in paragraph 4.3.3 of this guide.

8. Is a short-term loan added to the Zakat base if the loan is used to finance a deducted asset?

Short-term loans are not added to the Zakat base except in the cases specified in paragraph 2 of Article 29, and its provisions are clarified in paragraph 4.3 of this guide.

Scan this code to view the last
version and all published documents
Or visit the website zatca.gov.sa