Some Thoughts About
Accounting Conceptual Framework and Standards
For Awqaf Institutions

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Abstract

The awqaf institutions are, perhaps the less developed Islamic financial institutions compared to banking, insurance and zakat. However, these institutions are numerous and widespread all over the world, particularly in the countries where Muslim population is in existence. The attention to awqaf institutional development just took place in the last three to five years back. It is perhaps, why the development of these institutions seemed to be left far behind than other Islamic institutions. It is undeniable that the hidden strengths of awqaf institutions in solving the problems of the ummah, such as education, health and poverty eradication are so promising. However, this power will not be possible to explore, unless a variety of efforts are done. Among the important aspects that are less considered are the accounting issues which are strongly related to transparency, accountability and good governance. Needless to say accounting is one of critical points must be linked in the muamalah and ibadah activities. Several verses of the Holy Qur'an [QS 2:282: 5:1; 17:35, to mention but few] clearly assert some values related to accounting. Despite of the urge raised by others (e.g. Shahul and Ihsan, 2007; Adnan, 2005) to develop a specific accounting standards for awqaf institutions, and accounting standards process being carried out by AAOfI (2006), the discussion about how the conceptual framework and accounting standards should be welcome. This paper offers some thoughts which are expected to contribute to the development of conceptual framework and accounting standards for awqaf institutions. The discussion will be based on some review on related existing accounting standards on charity organizations, integrated with Islamic values that cannot be released by awqaf institutions.

JEL Classification: M4; N45
Keywords: Awqaf Institutions, Accounting, Conceptual Framework, Standards.
Background
The last three decades have witnessed the re-birth of Islamic civilization, particularly in the area of economics. Along with the widening of Islamic economics discourses in many different places, there is also a remarkable growth of Islamic financial institutions and their instruments, such as banks, takaful, capital markets, sukuk, ar-rahnu, and so forth, which have a commercial or profit motive. The Islamic financial industry has recently become recognized as one of the booming global industries.

Along with the birth and growth of these commercial Islamic financial institutions, other public or non-profit Islamic financial organizations have also been existing just few years after. Most of them are in the form of zakat institutions, which also include the infaq and sadaqah (ZIS).

As a consequence of the establishment of the commercial Islamic financial organizations, some supporting and related sub-organizations have also been established. These include the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Islamic Financial Service Board (IFSB) and so forth. These two organizations, for example, have been actively preparing and promulgating the rules as well as other standards in accounting, auditing and governing the Islamic financial institutions.

In addition to the establishment of ZIS institutions, an awareness to revitalize or empower the waqf or awqaf institutions is also strengthening. Many authors and parties have urged attention to the issue, since it is believed that, first, awqaf institutions have been implemented successfully since the early age of Islam; second, awqaf institutions also exist more recently, although they are not intensively empowered as zakat institutions; and third, many recognize the economic power behind awqaf activities as one of the economic strengths belonging to Muslim ummah which is potentially able to eradiate poverty. The vicious circle of poverty is a problem faced by the ummah for decades [See for example Kahf (1998), Mannan (1999a, 1999b, 2005), Mahamood (2006), to mention but few].

As with many other financial Islamic institutions, waqf has developed rapidly, not only geographically but also conceptually. Mannan (1999a, 1999b, 2005), for example, introduced a cash waqf concept, which was not known widely and practiced before the 2000s, while Kahf [1998] discussed the extension of waqf implementation toward other concepts known and widely practiced by Islamic banks, such as murabaha, ijarah, istisna financing modes. He even introduced the concepts of output shares, bonds and so forth.

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1 In Indonesia, it is common to abbreviate the institution name as a "ZIS" which stands for Zakat, Infaq and Sadaqah. Recently, some of the ZIS institutions extend to also deal with the waqf activities, so that they are also known and abbreviated as ZISWAF.
As with many other financial institutions, both commercial and non-profit motive, there are some basic requirements that need to be fulfilled. These include accountability, responsibility, and transparency. A study which has just been completed by Ihsan (2007) clearly indicated that the growth of awqaf institutions, as well as any other form of financial organizations, is very largely dependent upon the accountability and transparency of the management\(^2\). Due to this, the improvement and empowerment of awqaf institutions would be meaningless, without putting into account appropriate fundamental tools such as standardized accounting concepts and standards.

The call for the need of accounting standards for awqaf institutions has been made by writers such as Adnan (2005), Ihsan and Shahul (2007). However, we have not yet heard, that a serious attempt to prepare and promulgate such standards has been initiated. According to Ihsan (2007), AAOIFI might have begun to consider how to develop such standards. Nevertheless, it is not much known till now so ever, the progress have been achieved. As a response to this, this paper attempts to contribute some humble views that might be useful in preparing and promulgating the accounting standard for awqaf institutions. In other words, the paper tries to offer some accounting concepts and principles that might be applied to develop the accounting standards for awqaf institutions.

To achieve the above purpose, the paper is structured as follows. In the following section, we will discuss the nature of awqaf institutions, which are understood widely as different to other commercial financial institutions as well as non-profit institutions. It is imperative to understand the uniqueness of awqaf institutions, since the substance, objective(s) and form of organization will logically influence the accounting concepts and standards needed.

The discussion is then continued with a brief examination of the approach applied in doing this study. Afterwards a review is conducted of both SORP 2005 and Statement of Financial Accounting No. 1 and 2, issued by the AAOIFI. From this, we will derive some accounting concepts and standards which are considered suitable for the awqaf institutions. Finally, the paper is concluded.

**The Nature of Awqaf and their organizations**

As alluded to earlier, the practice of waqf has been known since the era of Prophet Muhammad (pbuh). Omar ibn Khattab, Othman ibn Affan and Abdurrahman ibn Auf are the very well-known examples of the persons who donated their assets significantly in the form waqf in the early stage of Islam. Some verses of the Holy Qur'an accordingly can be associated with the waqf practices. For example, in the Chapter of Ali Imran, verse 92: "None of you shall attain righteousness until you give what you love", and Az-Zariayat, verse 19: "And in their wealth there is a due share for the beggar and the deprived".

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\(^2\) The case of Dompet Dhu'afa' of Indonesia is one of vivid example [See Ihsan 2007]
Some ahadith might also be referred to the waqf concept. Among others is the hadith narrated by Muslims, where Rasulullah (pbuh) says, when a person dies, all his acts come to an end but three: recurring charity, or knowledge (by which people benefit), or a pious son, who prays for him (for the deceased) [As-Asqalani, translated by Aladip, 1985, 465]³. Two more ahadith which are narrated by Bukhari and Muslim (together), and Bukhari (alone) have also explained the nature of waqf [As-Asqalani, translated by Aladip, 1985, 465-6].

In terms of understanding, some definitions are offered. According to Mahamood [2006], waqf in Islamic law covers various terms. Different terms are used in different countries. The term waqf is widely used in the East, although pronounced with slight phonetic modifications. In Malaysia it is pronounced as wakaf, while in Java (part of Indonesia) it is said as wakap. Vagf is used in Turkish, while in North and West Africa the terminology used is hubus (plural of habis). It is known also in French legal language as habous, while in Iran it is known as boniyad. [Mahamood, 2006, 1].

According to Mahamood [p.1], in Islamic terminology, waqf means: “a dedication of property either in express terms or by implication, for any charitable or religious object, or to secure any benefit to human beings”⁴. Furthermore, she states that: “[t]he term waqf refers to things which are intact in themselves and yet produce an income or benefit, the owner of which foregoes his right of ownership on condition that the product serves charitable purpose.”

Kahf [1998], on the other hand, offers a waqf definition, based on two different perspectives: fiqh and economics. A waqf from fiqh point of view is understood as: “holding a Maal (an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness/philanthropy. Hence, Waqf is a continuously usufruct-giving asset as long as its principal is preserved. Preservation of principal may result from its own nature as in land or from arrangements and conditions prescribed by the Waqf founder.” [p. 5]

Kahf defines waqf, as seen from the economic point of view, as: “diverting funds (and other resources) from consumption and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or groups of individuals.” [p. 6]

The waqf definitions given above have proven themselves to be different from zakat and sadaqah. The National Awqaf Fondation of South Africa has identified sixteen differences between zakat, lillah (sadaqah) and waqf. Being

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² See also from http://www.salafpublications.com/wp-content/
³ This understanding is inferred by Mahamood from various definitions of Muslim jurists.
⁴ To see a more detail differences between zakat, sadaqah and waqf, please see: http://www.awqafsa.org.za.bao & _a.htm, or see the appendix
different in substance, form, and many other aspects, in turn, the waqf institutions would also be different in their management and governance. As discussed earlier, it is very clear that the practice of waqf and its organizations are quite unique. They cannot be equalized with zakat institutions purely since waqf used to be donated in the form of land, building, or any other tangible assets, and more importantly, unlike zakat, the waqf asset should be distributed to certain asnaf as stated very clearly in the Holy Qur'an [QS At-Taubah 60].

Another important difference is in terms of spending. When zakat and sadaqah are generally spent in one year, waqf is used to be capitalized. In turn, it is then invested in social and economic assets (schools, hospitals, mosques, and so forth). Consequently, there is a need to have a mutawalle or nazhir, the person(s) or institution who will look after and manage the assets donated for waqf. The Mutawalle or nazhir needs to discharge their accountability to the related stakeholders at large.

In practice, the following can be possibly happening. First, the donated assets are operated socially, such as for a free hospital, school, mosque and so on. In the operation, the nazhir might try to have cash which may have resulted from sadaqah or any other contribution allowed by sharia. In this regard, the nazhir has to prepare a financial statement or report of (a) how the waqf assets are managed appropriately according to the purpose of waqif, or the waqf donor,(b) the operating activities in terms of cash inflow and cash outflow during certain period. Second, the donated assets are invested in a commercial operation with an expectation that it will generate more income to be spent in helping the poor, the needy, orphans, and other similar parties. Again, the entrusted nazhif should discharge his accountability in the form of preparing financial statements of the investment he manage. A more complicated scenario might be existing, particularly due to growth and involvement of institution with parties and business investments.

The above scenarios may be shown schematically as follows:

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1. This term is used in Indonesia to name the person(s) or institutions entrusted the management and or governance of donated assets in the form of waqf [Waqf Act No. 40, 2004].
2. Socially means not profit oriented.
The accounting principles of the above scenarios are obviously different, and cannot be simply equalized. This is because the purpose of each activity is also dissimilar. In the first scenario, there is no intention to generate income, so fixed assets might not be needed to depreciate, while in the second case, all fixed assets need to be depreciated as generally accepted in any commercial activities. This is only one of the examples that should be taken into account to develop accounting concepts and standards for awqaf institutions.

The Study Approach
Although the awqaf institutions are spread widely in every Muslim community in many countries worldwide, and they might control billions of United States Dollar (USD) assets in various forms, such as land, building, other facilities, cash and so forth, it is undeniable that none of them has standardized rules in governing their financial statements or reports. Ihsan's [2007] study has clearly proven it in the case of Indonesia, as well as in the case of Malaysia. (Abdul Rahim et al [1999], Rokyah [2004], Hisyam [2005], all in Ihsan, 2007) The case of other countries might reveal the same results.

It is not surprising when Ihsan [2007] proposed to learn and adopt the Statement of Recommended Practice (SORP) 2005 issued by The Charity Commission in United Kingdom, as one of the ways to prepare the accounting standards for awqaf institutions. This study is basically the following up of part of Ihsan's recommendation, since the argument he proposed is plausible. According to him, there is a need to see a relatively similar institutions of awqaf institutions, where he found the charitable organizations which apply the SORP 2005 in United Kingdom as one of them. Furthermore, the SORP 2005 is the revised version of previous SORPs since 1998. This indicates that SORP 2005 has been developing over many years and has been revised several times, indicating that it has been vigorously scrutinized by related experts in its industry and well accepted by their stakeholders. In addition, it is no harm in utilizing any good knowledge, even when it was developed by Western approach [Lewis, 2005 in Ihsan, 2007].

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8 This principle is also supported by many hadith of Rasulullah (pbuh).
However, learning merely from the SORP 2005 would not have been adequate, since it was developed totally in the context and perspective of Western culture and practices. It fails to consider some important values of Islam, as it fails to take into account the uniqueness of waqf philosophy as well as its operation. There might be no such waqf institution in the Western context.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and its products might be interesting things to be considered. This organization started to promulgate the accounting concepts and standards and other related needs for Islamic financial institutions in 1991. It was imperative then to seriously consider the products of AAOIFI, in order to develop the accounting concept and standard for waqf institutions, at least to cope with some [Islamic] values neglected by the SORP 2005. However, the SFAs were not designed specifically for awqaf institutions, or non-profit oriented Islamic financial institutions generally. The AAOIFI has deliberately designed the concepts and standards specifically for commercial Islamic financial institutions.

For the above reasons, the approach taken in preparing this study looks at both the AAOIFI's accounting concepts and standards and the SORP 2005. The proposal prepared on this paper is more or less a synthesis of both AAOIFI's SFAs and the SORP 2005, after taking into account the nature of waqf activities and their organization.

A Brief Review on AAOIFI's and SORP 2005 Accounting Concepts and Standards
In terms of construction pattern, the AAOIFI tends to follow the mainstream notion. It has two Statements of Financial Accounting (i.e. SFA No. 1 and 2), as well as some Financial Accounting Standards (FAS). Until recently, AAOIFI has promulgated 21 FAS, in addition to several more related to auditing, governance and ethics. However, none of them is directly related to waqf or awqaf accounting.

Studying from the SFA No. 1 (Objectives of Financial Accounting for Islamic banks and Financial Institutions) and No. 2 (Concepts of Financial Accounting for Islamic Banks and Financial Institutions), one will notice that these SFAs are deliberately designed only for commercial Islamic Banks and Financial Institutions. It is logical that any related accounting needs for non commercial Islamic financial institutions (such waqf institutions) are not promulgated sufficiently.

However, since the AAOIFI has developed them very much by taking into account Islamic values, a large extent of the product is still worth being considered. There is a need to scrutinize the SFA to be adjusted to the uniqueness of waqf nature. Unlike the AAOIFI product, the SORP 2005, which was developed and applied in United Kingdom, has been promulgated without considering Islamic values at all, although some similarities in Islamic and Western values might be found. The
SORP 2005 is in fact a revised version of previous versions. Five revisions have been made prior to the existence of SORP 2005.

In terms of structure, the SORP 2005 is not really similar to generally accepted accounting principles in business. It does not separate clearly the so-called [accounting] conceptual framework from the standards. However, the contents used to be included in the conceptual framework are allocated in the first three chapters: Introduction, Content of the Trustee’s Annual Report and General Accounting Principles. In the following chapters, it prescribes the statement of financial activity, balance sheet and cash flow statements respectively. It then provides a special section which includes consolidation of subsidiary undertakings; Associate, Joint Ventures and Join arrangements; The SORP in relation to charitable companies in the UK; Accounting for retirement; and common investment fund and investment pooling schemes. The SORP 2005 seems to omit some issues like definitions of financial statements, the accounting assumptions, recognitions and measurements and qualitative characteristic of accounting information.

A Preliminary Proposal

It is undeniable that any accounting standards must be based on a certain platform which is known widely as a conceptual framework. It is fundamental as it functions as a 'constitution' on which the lower rules such as 'an act' are developed. The conceptual framework will be responsible for minimizing any possibility of inconsistency among the standards (or lower level of rules), as well as guaranteeing the cohesiveness and impartiality of the standard setting.

A close look at some examples in some countries and industries will demonstrate the same pattern. For example, the AAOIFI has the Statement of Financial Accounting (SFA) and Financial Accounting Standards (FAS). The first (i.e. SFA) stands as the conceptual framework for the FAS. Indonesia and Malaysia, utilizing the Conceptual Framework for Preparing and Presentation of Financial Statements issued by the International Accounting Standard Committee (IASC), beside the Pernyataan Standar Akuntansi Keuangan (PSAK; Statement of Financial Accounting Standards / SFAS) and Malaysian Accounting Standards. The US Generally Accepted Accounting Principles (GAAP) has the Statement of Financial Accounting Concepts (SFAC), which is analogized as the 'constitution' of, and Statement of Financial Accounting Standards (SFAS). It is undeniable, then, if such a framework is also needed for waqf accounting.

This paper is not intended to prepare the full draft of accounting conceptual framework for awqaf institutions, but rather to provide some thoughts that might be considered in developing it. Before going further, it is noteworthy to recall the uniqueness of awqaf institutions. As it has been noted above, the awqaf institutions may manage two different activities at the same time: a non-profit oriented as well as commercial activities. Some ideas proposed in this paper are basically referred to this unique situation.
Some notions on accounting conceptual framework

Among the most important aspects to be set in the accounting conceptual framework is the objective(s), which may divided into: Objective(s) of financial accounting, and Objectives(s) of financial reporting. In addition to this, the conceptual framework is used to set up some other aspects, including definitions, recognition, measurement, report presentation and disclosures.

As stated by the SFA No. 1 of AAOIFI, the general objective of financial accounting is “to provide information, through periodic reports, about the entity's financial position, its results of operations and cash flows, to assist users of such reports in making decisions.” (para 15). However, the more detailed objectives of financial accounting for Islamic banks are stated further in paragraphs 33–36 as follows: (a). To determine the rights and obligations of all interested parties, including those rights and obligations resulting from incomplete transactions and other events, in accordance with the principles of Islamic Shari'ah and its concepts of fairness, charity and compliance with Islamic business values. (para 33); (b). To contribute to the safeguarding of the Islamic bank's assets, its rights and the rights of others in an adequate manner. (para 34); (c). To contribute to the enhancement of the managerial and productive capabilities of the Islamic bank and encourage compliance with its established goals and policies, and above all, compliance with Islamic Shari'ah in all transactions and events. (para 35); (d). To provide, through financial reports, relevant information to users of those reports, to enable them to make legitimate decisions in their dealings with Islamic banks. [para 36].

These objectives seem to be very specific to [only commercial] banks with an addition of Islamic values. With regard to the objectives of financial reports, surprisingly, there is no specific item mentioned except the types of information that have to be included. They are cited as follows:

Financial reports, which are directed mainly at external users, should provide the following types of information:

a. Information about the Islamic bank's compliance with the Islamic Shari'ah and its objectives and to establish such compliance; and information establishing the separation of prohibited earning and expenditures, if any, which occurred, and of the manner in which these were disposed of. (para 37)

b. Information about the Islamic bank's economic resources and related obligations (the obligations of the entity to transfer economic resources to satisfy the rights of its owners or the rights of others), and the effect of transactions, other events and circumstances on the entity's economic resources and related obligations. This information should be directed principally at assisting the user in evaluating the adequacy of the Islamic bank's capital to absorb losses and business risks; assessing the risk inherent in its investment and; evaluating the degree of liquidity of its assets and the liquidity requirements of its other obligations. (para 38)

c. Information to assist the concerned party in the determination of Zakah on the
Islamic bank's funds and the purpose for which it will be disbursed. (para 39)

d. Information to assist in estimating cash flows that might be realized from
dealing with the Islamic bank, the timing of those flows and the risk associated
with their realization. This information should be directed principally at
assisting the user in evaluating the Islamic bank's ability to generate income
and to convert it into cash flows and the adequacy of those cash flows for
distributing profits to equity and investment account holders. (para 40)

e. Information to assist in evaluating the Islamic bank's discharge of its fiduciary
responsibility to safeguard funds and to invest them at reasonable rates of
return, and information about investment rates of return on the bank's
investment and the rate of return accruing to equity and investment account
holders. (para 41)

F. Information about the entity's discharge of its social responsibilities. (para 42).

On the other hand, the objectives set out in the SORP 2005 are as follows:

a. Improving the quality of financial reporting by charities.

b. Enhancing the relevance, comparability and understandability of information
   presented in accounts;

c. Providing clarification, explanation and interpretation of accounting standards
   and their application in the charities sector and sector specific transaction and
   thereby

d. Assisting those who are responsible for the preparation of the Trustees' Annual
   Report and Accounts.

In addition to above, the SORP 2005 also mentions the following (para 10):
The purpose of preparing a Trustees' Annual Report and Accounts is to discharge
the charity trustees' duty of public accountability and stewardship. This SORP sets
out recommended accounting practice for this purpose but charity trustees should
consider providing such additional information as is needed to give donors,
beneficiaries and the general public a greater insight into the charity's activities and
Account prepared on the basis of this SORP are not a substitute for management
accounts required to run the charity on a daily basis, though both will draw on the
same primary financial records.

And (para 15):
The Trustees' Annual Report and Accounts should therefore:

a. Provide timely and regular information on the charity and its funds;

b. Enable the reader to understand the charity's objectives, structure, activities and
   achievements; and

c. Enable the reader to gain a full and proper appreciation of the charity's financial
   transactions during the year and of the position of its funds at the end of the year.

What can be revealed from the objectives set out by both AAOIFI and SORP 2005
seems to be unsuitable for awqaf institutions, since the SFA's AAOIFI are clearly
colored by banking and or commercial flavor, while the objectives set out the SORP
2005 seem to focus more on the standard setting body's interest, instead of users'
interests. However, the criteria set up for financial preparation by both bodies might be good to be considered with some adjustments [See SFA paras 37, 41 and 42; SORP2005 paras 10 and 15].

Since waqf may deal with both social and commercial activities, the need to redefine some terms for the two activities is obvious. Perhaps the definitions should be clearly related to either the social or the commercial. These include the definitions of assets, liabilities, equities, revenues, expenses, income, and so forth. The recognition concept in accounting is extremely important, since it deals with the time of acknowledgement of the transactions. As stated in SFA No. 1 of AAOIF1, "The concepts of accounting recognition define the basic principles that determine the timing of revenue, expense, gain and loss..." (para 81).

Since awqaf institutions may operate both social as well as commercial activities, the recognition concepts have to include two possible recognition principles. One possible interesting point is related to accrual and cash basis principles. It is generally accepted in commercial practices that the accrual basis should be strongly encouraged, because it will affect the matching, comparability, reliability as well as periodicity concepts. In the non-profit oriented organizations the cash basis may be acceptable, since there is no urgent need to force the applicability of the concepts mentioned above in commercial organizations. Due to above situation, both the accrual and the cash basis might be accepted for awqaf institutions, provided that the accrual basis is applied only to the commercial side. and cash basis. on the other hand, is applied to non-profit oriented activities.

Yet another important issue related to recognition is a depreciation. This issue, to some extent, may be extended to an issue of depletion and amortization (if they apply). Asset depreciation is acknowledged so far as the cost allocation of any fixed asset. Depreciation is the way to postpone the expense(s) recognition to a longer period, according to the economic life of the asset. In other words, the unexpired cost is capitalized in the form of asset(s).

The question as to whether the asset of awqaf institutions must be depreciated or not might be debatable. The donated assets which are used for non-commercial activities might not necessarily be depreciable, since there is no need to match the depreciation expense against the 'revenue' resulting from the operation. However, if the assets are used within the commercial domain, the application of depreciation principles must be fully accepted. Because of this, again, the need to separate the accounting concepts from commercial and social activities are undeniable.

The next important accounting concept is about measurement. It refers to the determination of the amount at which assets, liabilities, equities, revenue, expenses and so on are recognized. In other words, "[accounting measurements] define the broad principles that determine the amount or amounts at which those elements are recognized" (SFA No. 2, para 82). The concepts are important, because
they may affect directly the final calculation of every account in the financial statement. The problem of measurement is frequently related to materiality and historical cost concept, particularly when they are associated with the inflationary situation.

Two other points used to be set up in the accounting concept is that the issue of presentation and follow up by disclosures. These issues, however, are discussed in Financial Accounting Standard (FAS) No. 1 of AAOIFI, instead of SFA. In the SORP 2005, they are included and integrated with other concepts. In the US's SFAC, although they are also not included specifically in one of 7 SFACs ever issued, the SFAC No. 6 distinctively discusses the elements of Financial Statements which are relatively close with the presentation.

As discussed earlier, awqaf may have two distinct activities: social and commercial. To a large extend these two activities are assumed to be diametrical. However, the awqaf institutions can play their roles in both areas.

Because of above situation, the presentation issue is becoming one of the most interesting point in terms of accounting concept. It is commonly known that presentation of financial statements of commercial organization are different to that of the social, or public sector. The main differences can be referred to the existence of the profit and loss statement [in commercial activity] as against the financial activity statement [in social or public organizations].

Again, since awqaf can operate in both social and commercial activities, the presentation of Financial Statements of each activity should be prepared separately. For the social part, the financial statements refer mostly to what used to be practiced in fund accounting, or more specifically the SORP 2005, which consists of Statements of Financial Activities, Balance Sheet and Cash Flow Statement, while for a commercial part, the financial statements refer to the practices within the related industry in which the fund is invested. Generally, the financial statement also includes the balance sheet, profit and loss statement, retained earning or equity statement, and cash flow statement.

The issue of disclosure is strongly linked with presentation. It attracted more attention recently in the cases of many types of industry. It is generally expected that the organizations which prepare the financial statements should provide an adequate disclosure. This ensures how important it is in view of the stake holders.

According to the SFA No. 2:
Adequate disclosure means that the financial statements should contain all material information necessary to make them useful to their users. This requires the disclosure of information which is expected to be useful to users of financial statement in their decision making whether that information is included in the
financial statements, the notes accompanying them or in additional presentations. (para 130).

In addition to above understanding, the following paragraphs of SFA explain two aspects of adequate disclosures, namely: optimal aggregation of accounting data and appropriate description and clarifications (paras 131–3). Consequently, the accounting concept and/or standard for awqaf institutions cannot avoid this issue. As the awqaf institutions are unique, correspondingly unique disclosure requirements might be considered for the awqaf institutions.

Beside the common practices of disclosure in financial statements, such as basic information about the [awqaf] organization, significant of accounting policies, notes to the accounts of financial statements and so on. the special disclosures might be noted. These include analysis of awqaf assets donated, the nature of cost allocated to the governance category, the nature of material transfer between social and commercial funds, nakhif or mutawalles's remuneration or other benefits provided, analysis of movement of fixed assets, impairment of fixed assets for use by the institutions, analysis of movement of investments and so forth.

The issue of disclosure, even in conventional business industry, is continuously developing. Many research studies associated with the disclosure are now being conducted in many different places. Because of this, the disclosure concepts for awqaf Institutions can be starting from the minimum, where in turn, it can be extended or progressed to a better level.

**The Accounting Standard**
The accounting standard is generally understood as a more technical rules which govern the accounting practices. Because of this, it used to translate the accounting concepts in more technical level by which the accountants will be guided in maintaining the bookkeeping and preparing the financial statements of the organizations. Structurally, they might be very much similar to the accounting concepts which deal with definition, recognition, measurement, presentation and disclosures.

As it is noted earlier, there is a strong relationship between the accounting concepts and standards. The latter used to be developed on the basis of the agreed accounting concepts. One cannot develop an accounting standard before the concepts are prepared, agreed and finally promulgated publicly. Consequently, at this level, there will not much benefit in discussing the awqaf accounting standard, unless some basic concepts are understood and agreed by related parties.

In terms of formats of both accounting concepts and standards for awqaf institutions, learning from the case of Islamic bank accounting concept and standard in Indonesia and Malaysia, both concepts and standards can be made in the form of a package. It is simply because first, they are unique for awqaf institutions, and
second, they will not be much as in business commercial activities, which are so various, hence the need to have a special standard for each group of business is irrefutable.

**Concluding Remarks**
The paper has tried to discuss some accounting concepts and standards. Due to the uniqueness of awqaf institutions as compared to business (commercial) and pure non-profit oriented activities, it is argued that neither the AAOIFI's products (accounting concepts and standards) nor the SORP 2005 can be purely adopted or referred.

Consequently, there is a need to develop special accounting concepts and standards for awqaf institutions. With reference to the AAOIFI's Statements of Financial Accounting, the SORP 2005 and the exceptional nature of awqaf institutions, the paper proposes some particular accounting concepts that have to be considered. These include the definition, the recognition, the measurement, the presentation and disclosure. In addition, a special issue of accrual and or cash basis in regards to recognition is emphasized, as well as the depreciation, depletion and amortization, with regard to measurement.
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### Appendix 1:
Differences between Zakah, Lillah and Waqaf, according to National Awqaf Fondation of South Africa. [http://www.awqafsa.org.za/](http://www.awqafsa.org.za/)

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<tr>
<td>Description</td>
<td>Zakah is a compulsory due that has to be paid by every Muslim who has an excess over a certain minimum amount (nisab) of wealth calculated in terms of a formula</td>
<td>Lillah (for Allah) comprises any form of charity given in the cause of Allah on a pure voluntary basis. This charitable giving is over and above the Zakat that one is liable for. For example, many of our charitable organizations collect lillah for relief aid, and masjid and madressah running costs. These contributions are made through the goodwill of Muslims who give solely for the pleasure of Allah</td>
<td>Waqf is an offshoot of Lillah. In this regard it is a permanent transfer of a portion of one’s wealth or assets, no matter how small or large, for the sole pleasure of Allah on a pure voluntary basis. The asset or wealth is usually in the form money, a building, jewellery, or a bequest through ones will. Collectively, such funds are invested to purchase and own a social or economic asset. A social asset could be a school, madressah, clinic. An economic asset could be, for example, an income producing house, a block of flats. The income produced is then used for social development or any other purpose to serve the Muslim community, and humanity at large.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Compulsory/Voluntary</th>
<th>Compulsory</th>
<th>Voluntary</th>
<th>Voluntary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>Fixed rate</td>
<td>Any amount</td>
<td>Any amount</td>
</tr>
<tr>
<td>Formula</td>
<td>Fixed formula based on assets and liabilities at end of accounting year</td>
<td>No formula</td>
<td>No formula</td>
</tr>
<tr>
<td>Expense categories</td>
<td>8 Fixed expense categories</td>
<td>Flexible expense categories Donor can decide</td>
<td>Flexible expense categories. Donor can decide</td>
</tr>
<tr>
<td>Spend</td>
<td>Generally spent in one year</td>
<td>Generally spent in one year</td>
<td>Generally Capitalized</td>
</tr>
<tr>
<td>Investments</td>
<td>Generally not invested needs to be discharged as soon as possible</td>
<td>Generally not invested may be discharged according to need and mandate</td>
<td>Invested in social or economic assets</td>
</tr>
<tr>
<td>Shariah governance: Liability</td>
<td>Liability for payment is governed by Shariah</td>
<td>Any person can give</td>
<td>Donor must be sane, of age, male or female</td>
</tr>
<tr>
<td>Mutawallee</td>
<td>Mutawallee not necessary</td>
<td>Mutawallee not necessary</td>
<td>Must appoint Mutawallee (trustee)</td>
</tr>
<tr>
<td>Document</td>
<td>No document necessary</td>
<td>No document necessary</td>
<td>May be done through a Wasiyyah (Donation Deed)</td>
</tr>
<tr>
<td></td>
<td>Sadaqah Jariyyah</td>
<td>Generally not continuous</td>
<td>Generally not continuous</td>
</tr>
<tr>
<td>--------------------------</td>
<td>------------------</td>
<td>--------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Capital base</td>
<td>Not a capital base</td>
<td>Not a capital base</td>
<td></td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>Applied only to Muslims.</td>
<td>May be applied to all irrespective of creed.</td>
<td>May be applied to all irrespective of creed.</td>
</tr>
<tr>
<td>Time for payment</td>
<td>Generally paid in Ramadaan</td>
<td>Can be paid at any time</td>
<td>Can be paid at any time</td>
</tr>
<tr>
<td>How payment is effected</td>
<td>Generally paid in cash or stocks</td>
<td>Can take the form of any asset</td>
<td>Can take the form of any asset</td>
</tr>
<tr>
<td>Bequests</td>
<td>Cannot bequeath, but can provide for liability</td>
<td>May bequeath up to 1/3 of estate</td>
<td>May bequeath up to 1/3 of estate as Waqf</td>
</tr>
</tbody>
</table>