ZAKAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Manual of Transition to the International Financial Reporting Standards

and its impact on Calculating Zakat for Taxpayers Obligated to Maintain Statutory Accounts in the Kingdom of Saudi Arabia

IFRS 9 "Financial Instruments", IFRS 7

Version One November 1 2021

This Manual is indicative, and includes a summary of the most important considerations with respect to application of International Financial Reporting Standards (IFRSs) approved in the Kingdom of Saudi Arabia. It is not a statutory document. The provisions thereof are guiding, and it does not eliminate the need to peruse to the International Financial Reporting Standards approved in the Kingdom of Saudi Arabia and other standards and publications approved by the Saudi Organization for Chartered and Professional Accountants. All diagrams and drawings contained herein are for illustrative purposes and may not include all requirements and exceptions to the standards. The Authority expressly disclaims itself for any duties or obligations towards any person or entity that may result from its use of this attached Manual. Please note that this Guideline does not include any conclusion on appropriate accounting processing based on specific facts and does not recommend accounting policies or treatments that the user of this Guideline should choose or apply.

This Manual is indicative and constitutes the concept and interpretation of the Zakat, Tax and Customs Authority (ZATCA) with regard to the implementation of the Executive Regulations of Levying Zakat promulgated by the Ministerial Resolution No. (2216) dated 07 Rajab 1440 AH. It is not a statutory document, and its provisions are indicative, non- binding to ZATCA, and it does not eliminate the need to peruse the Executive Regulations for Levying Zakat and the relevant rules and resolutions.

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Introduction

Purpose of Manual:

This Manual aims to provide a summary of the most important effects that resulted from the transition to International Financial Reporting Standards (IFRSs) at the expense of Zakat. It should be noted here that the mentioned standards were adopted by the Saudi Organization for Chartered and Professional Accountants to become applicable by companies listed in the Saudi Financial Market effective from the Fiscal Year January 1st, 2017.

Further, this Manual is intended to contribute to raising awareness on changes in the accounting treatments contained in international standards, which may have changed the Zakat handling for some items. ZATCA aims that the Manual will also contribute to narrowing the gap between the understanding of taxpayers and the Authority's expectations concerning the mechanisms for estimating and calculating Zakat in light of the transition to these standards.

This Manual addresses the following international standards:

- IFRS 9 "Financial Instruments".
- IFRS 7 "Financial Instruments: Disclosures".
- International Accounting Standard (IAS) No. (32) Financial Instruments.: Presentation".

The Manual has been prepared based on the International Financial Reporting Standards approved in the Kingdom of Saudi Arabia (issued in 2020).

Overview of the transition to the approved International Financial Reporting Standards in the Kingdom of Saudi Arabia:

International Financial Reporting Standards have been endorsed by the Saudi Organization for Chartered Auditors and Accountants to become applicable by companies listed in the Saudi financial market effective from the fiscal year 1 January 2017.

In the interest of the Zakat, Tax and Customs Authority to keep pace with this fundamental transition, the Authority has listed and formulated the most prominent effects of the transition on the account of Zakat for private sector companies and institutions in the Kingdom of Saudi Arabia. and is registered for VAT purposes in the Kingdom or deemed obliged to register for VAT purposes[3].

Overview:

IFRS No. (9)

Standard objective:

The objective of this standard is to establish principles for financial reporting on financial assets and financial liabilities, which will present information that is relevant and useful to users of financial statements in their assessment of the entity's future cash flow amounts, timing and uncertainty.

A future contract between an acquiring entity and a seller's shareholder to buy or sell the acquired business, resulting in a business combination at a future acquisition date.	International Financial Reporting Standard (3)	International Financial Reporting Standard (3) "Business Combinations".
Financial instruments, contracts and obligations under share-based payment transactions.	International Financial Reporting Standard (2)	International Financial Reporting Standard (2) 'Share-Based Payment'.
The rights in payments to reimburse the entity for expenditures that are required to settle the obligation it recognizes as a provision.	International Accounting Standard (37)	International Accounting Standard (37) "Provisions, Contingent Liabilities and Contingent Assets".

Effective Date

January 1, 2018

The international standard that replaced

International Accounting Standard (IAS) No. (39) Financial Instruments: Proof and Measurement

The Saudi standard that replaced it

Accounting Standard for Investment in Securities No. (9)

IFRS No. (7)

Standard objective:

This standard aims to require entities to provide disclosures in their financial statements that enable users to evaluate:

A. The significance of the financial instruments to the entity's financial position and financial performance.

B. The nature and extent of the risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and the manner in which the entity manages those risks.

The principles contained in this standard complement the principles of recognition, measurement and presentation of financial assets and financial liabilities contained in International Accounting Standard (32) "Financial Instruments". IFRS 9 "Financial Instruments".

Scope Summary:

The Most Significant Exceptions to IFRS 7	Applicable Standard	Standard Name
Those shares in subsidiaries, associates, or joint ventures that fall within the scope of other standards.	IAS 27/IFRS 10/IAS 28	International Reporting Standard (10) "Consolidated Financial Statements" International Accounting Standard (27) "Independent Financial Statements" International Accounting Standard (28) "Investments in Associates and Joint Ventures".

Insurance contracts as defined in IFRS 4 "Insurance Contracts".	International Financial Reporting Standard (4)	International Financial Reporting Standard (4) "Insurance Contracts".
Financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 "Share-Based Payment" applies, save as this IFRS applies to contracts within the scope of IFRS 9.	International Financial Reporting Standard (2)	International Financial Reporting Standard (2) 'Share-Based Payment'.
Rights and obligations of employees arising from employee benefit plans.	International Accounting Standard (19)	International Accounting Standard (19) "Employee Benefits".

Effective Date

January 1, 2007 subsequent periods for all amendments to other standards (IFRS 169... etc.

The Saudi standard that replaced it

IAS 30 Disclosure in the financial statements of banks and similar financial institutions

International Accounting Standard (32)

Standard objective:

The objective of this standard is to establish principles for the presentation of financial instruments as liabilities or equity, as well as principles for the set-off between financial assets and financial liabilities. It applies to the classification of financial instruments, from the issuer's perspective, into financial assets, financial liabilities and equity instruments, to the classification of interest and dividends, losses and gains related thereto, and to the situations in which financial assets and financial liabilities should be offset.

The principles contained in this standard complement the principles of recognition and measurement of financial assets and financial liabilities contained in IFRS 9 "Financial Instruments", and the principles of disclosing information pertaining to them, contained in IFRS 7 "Financial Instruments: Disclosures".

Scope Summary:

This standard should be applied by all entities to all sorts of financial instruments excluding:

The Most Significant Exceptions to IFRS 32	Applicable Standard	Standard Name
Those shares in subsidiaries, associates, or joint ventures. However, in some cases, IFRS 10, IAS 27 or IAS 28 requires or enables an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9. In those cases, entities are required to apply the requirements of this standard. Entities shall also apply this standard to all derivatives associated with interests in subsidiaries, associates or joint ventures.	IAS 27/IFRS 10/IAS 28	International Reporting Standard (10) "Consolidated Financial Statements" International Accounting Standard (27) "Independent Financial Statements" International Accounting Standard (28) "Investments in Associates and Joint Ventures".

Rights and obligations of employers under employee benefit plans.	International Accounting Standard (19)	International Accounting Standard (19) "Employee Benefits".
Contracts within the scope of IFRS 17 "Insurance Contracts". However, this standard applies to the following: Derivatives that are included in contracts within the scope of IFRS 17, if IFRS 9 requires the entity to account for them separately. Components of an investment that are separated from contracts within the scope of IFRS 17, if, in accordance with IFRS 17, this separation was required. Furthermore, the issuer shall apply this standard to financial guarantee contracts if the issuer complies with IFRS 9 when recognizing and measuring contracts, but shall apply IFRS 17 if the issuer has elected in accordance with paragraph 7(e) of IFRS 17 to apply IFRS 17 when it is recognized and measured.	International Financial Reporting Standard (17)	International Financial Reporting Standard (17) "Insurance Contracts".
Financial instruments, contracts and obligations under share-based payment, in exception with: contracts that fall within the scope of the paragraphs: 8-10 of this standard, to which this standard applies. Paragraphs 33 and 34 of this Standard, which shall apply to treasury shares purchased, sold, issued or canceled in connection with employee stock option plans, employee stock purchase plans and all other share-based payment arrangements.	International Financial Reporting Standard (2)	International Financial Reporting Standard (2) 'Share-Based Payment'.

Effective Date

January 1, 2005

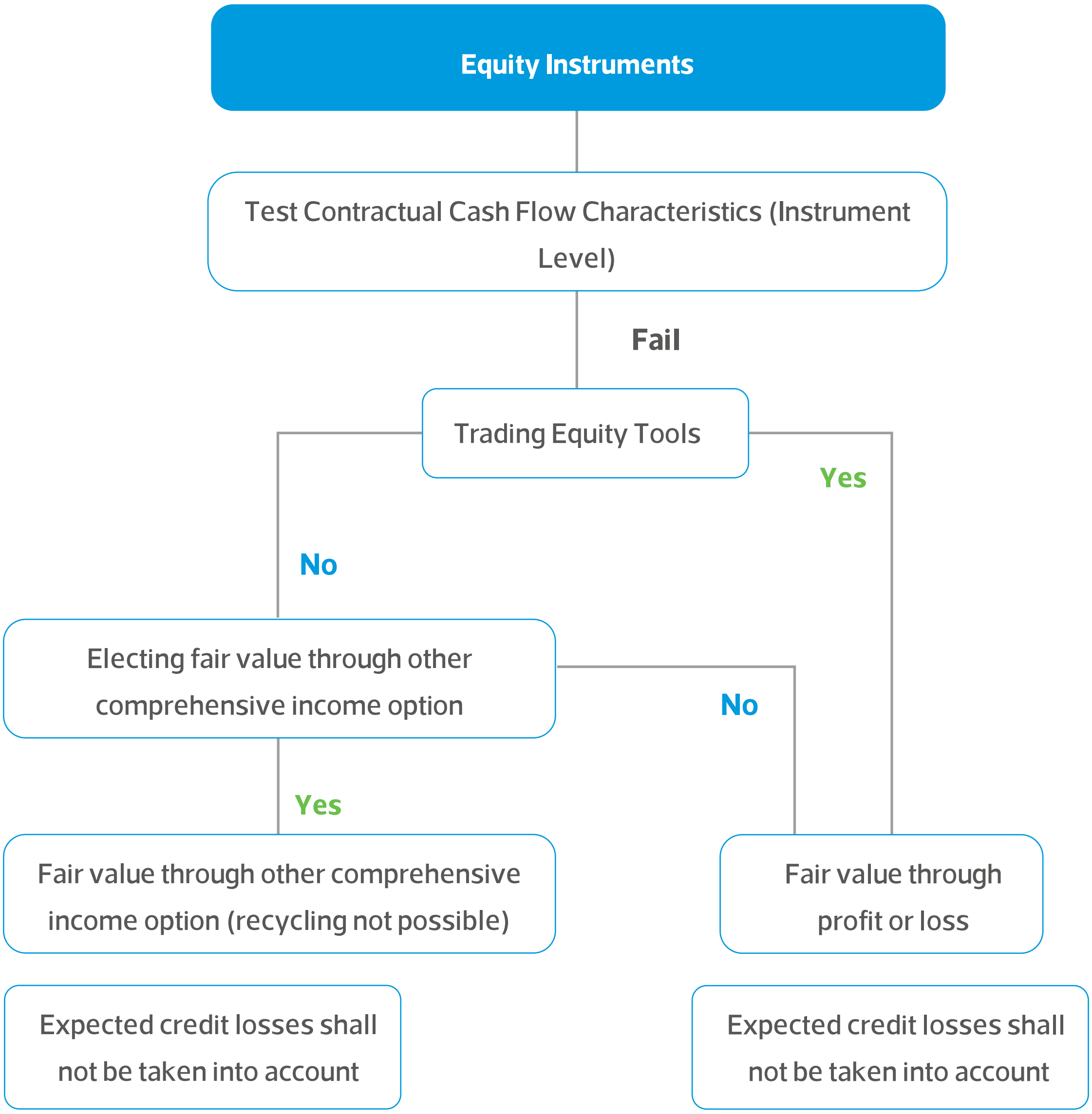
The Saudi standard that replaced it

IAS 32 Disclosure and Presentation amended in 2000

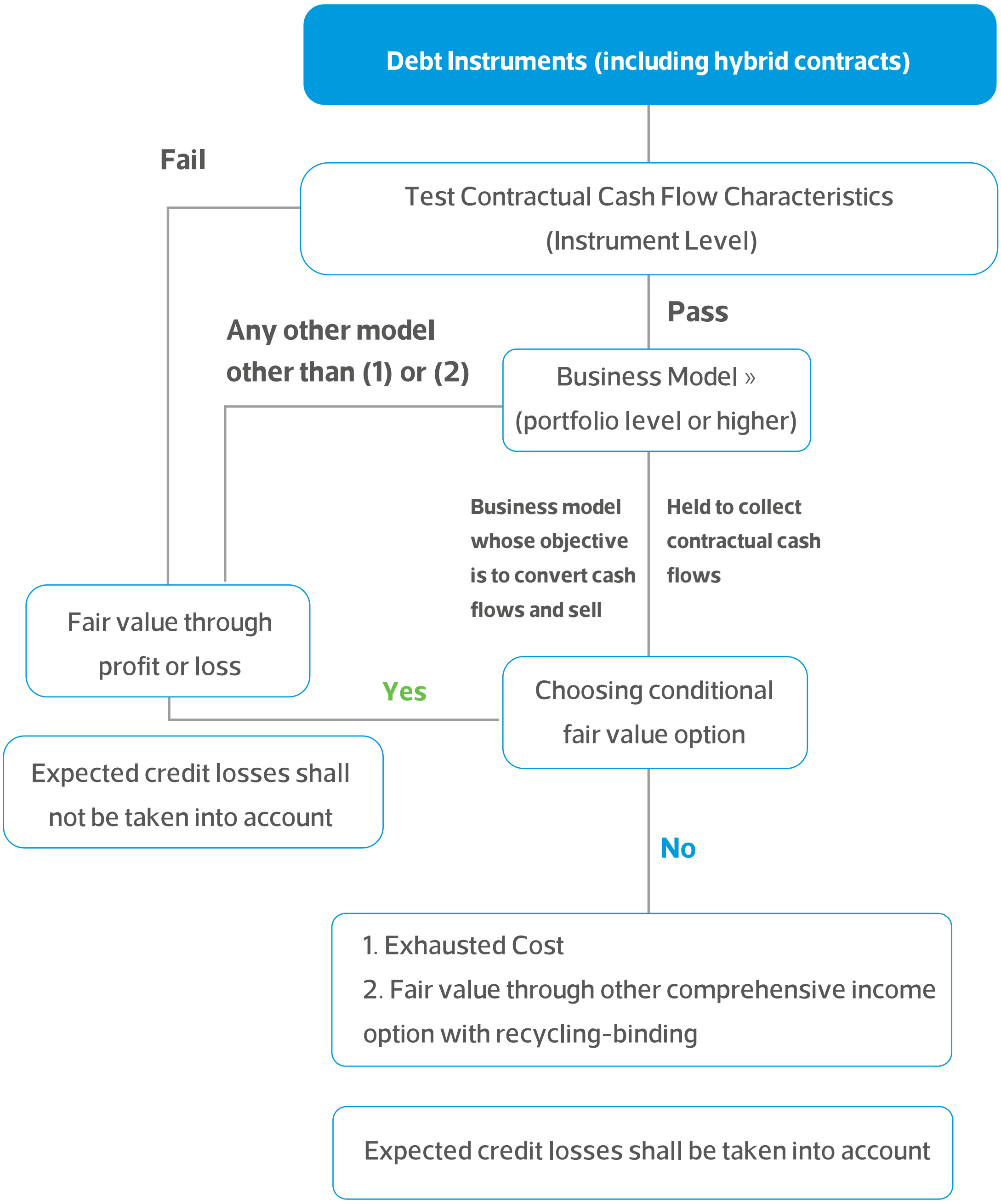
Recognition and Measurement Requirements

Requirements for Classification and Measurement of Financial Assets (Equity Instruments):

The following chart displays the possible classifications of financial assets whose nature is defined as an equity instrument in accordance with the requirements of IFRS 32.

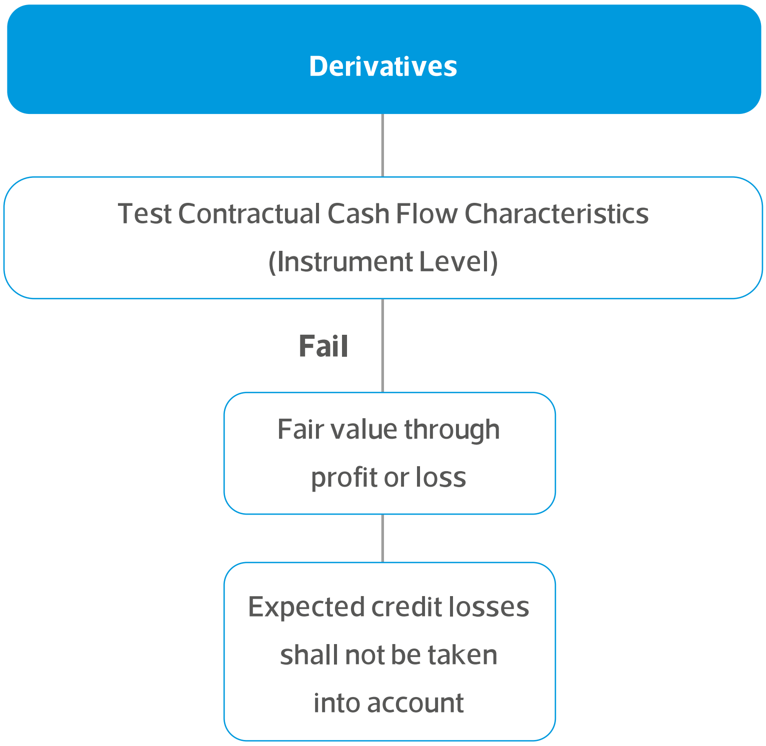

Equity Instruments
Test Contractual Cash Flow Characteristics (Instrument Level)
Fail
Trading Equity Tools
Yes
No
Electing fair value through other comprehensive income option
No
Yes
Fair value through other comprehensive income option (recycling not possible)
Fair value through profit or loss
Expected credit losses shall not be taken into account
Expected credit losses shall not be taken into account

Requirements for classification and measurement of financial assets (Debt Instruments)[1] - including hybrid contracts-):



(1) include for example: Accounts receivable, deposits, loans, Sukuk and bonds, and most investment units in funds

Requirements for Classification and Measurement of Financial Assets (derivatives):



Investments in Equity Instruments:

Equity investments represent a share in the investee entities, and may be in the form of common or preferred shares or other capital shares. Equity also includes the acquisition or disposal of property rights in an agreement or an identifiable price such as: warranties and rights. The cost of equity investments is measured at the purchase price, and broker commissions and other fees related to the purchase are recorded as an expense. The cases in which a company (investor) acquires the shares of another company (the investee company) determines the accounting treatment for the investment after the acquisition. The classification of these investments depends on the degree of influence on the operating and financing decisions of the investee company:

1. Investments that have little or no influence on the decisions of the investee company: are measured at fair value in accordance with the requirements of International Standard No. 9[(2)].

2. Investments in which the degree of influence on the decisions of the investee company is material: The equity method is applied in accordance with International Standard No. 28 [(3)] .

3. Investments in which the investor has a controlling interest in the investee company: (consolidated financial statements are prepared in accordance with International Standard No. 10 [(4)].

The following table shows the ownership levels mentioned earlier:

International Financial Reporting	International Accounting Standard (28)	International Financial Reporting

Ownership Percentage	%0 ⟷ %20	%20 ⟷ %50	%50 ⟷ %100
Influence Degree	Few or Nothing	Significant	Control
Evaluation method	Fair Value	Equity Method	Consolidation of the financial statements

(2) The degree of influence on the operating and financing decisions of the investee company is not usually considered when the percentage of the voting shares owned in the investee company is less than 20%, but other considerations must be taken into account, for example, the company may own 18% of the shares entitled to vote and the degree of influence is material.
(3) The degree of influence on the operating and financing decisions of the investee company is usually considered material if the percentage of contribution is between 20% and 50%, but other considerations must be taken into account, for example, the company may own a share of 45% and there may be control.
(4) The controlling share is considered if the percentage of the shareholding is more than 50%, but other considerations must be taken into account, for example, the company may own more or less than 50% of the shares entitled to vote, and it may first be that there is control.

The following table displays the levels of impact that determine the methods of accounting for investments:

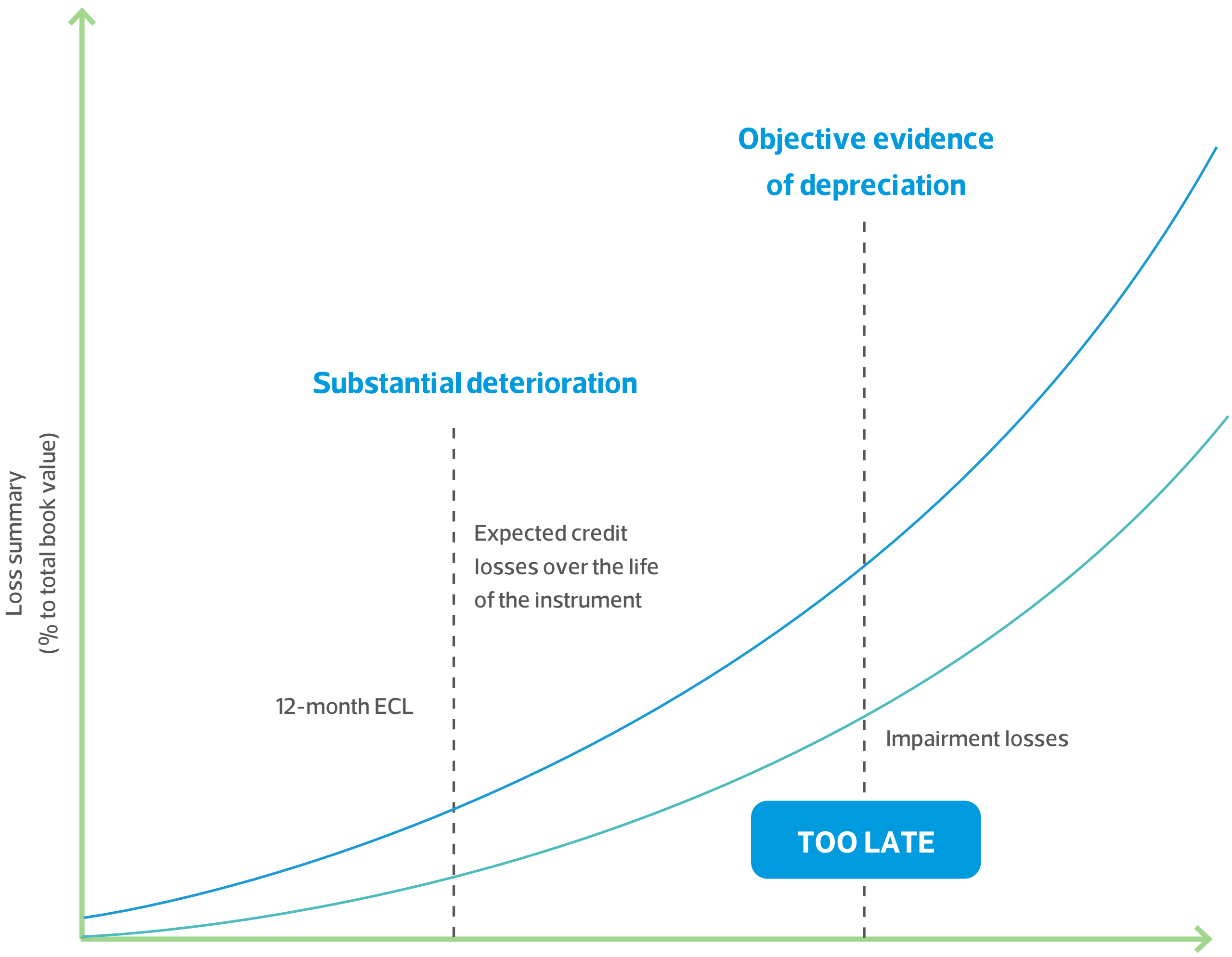
The accounting and financial reporting of equity investments depends on the level of impact and the type of investment, as shown in the table below:

Category	Evaluation	Realized Gains or Losses	Other Income Effect
Investments with ownership percentage less than 20%			
1. For Trading	Fair Value.	Recognized in net income.	Dividends declared gains and losses from the sale.
2. Non-trading rating (Automatic)	Fair Value.	Recognized in net income.	**Dividends declared gains and losses from the sale.**
3. For non-trading Option available upon initial recognition, and is irrevocable)	Fair Value.	Recognized in the statement of other comprehensive income, and as a separate component of equity	**Dividends declared gains and losses from the sale.**
Investments with ownership percentages between 20% and 50%	Equity Method.	Not recognized.	The proportionate share of the investee's net income, gains and losses on sale.
Investments over 50%	Consolidation of statements.	Not recognized.	Not applicable.

New Impairment Model: Expected Credit Loss (ECL)

The following chart shows the difference in the impairment process under the previous IAS and IAS 9 model. The chart also displays that expected credit losses are recognized over the life of the financial instrument, not necessarily until an actual loss occurs. Accordingly, it is recognized for the entire remaining time to actual maturity since the point at which a significant deterioration in the credit rating occurs, based on a future expected credit loss model.

New Depreciation Model: ECL (continued):



investments:

General Methodology of IFRS 9

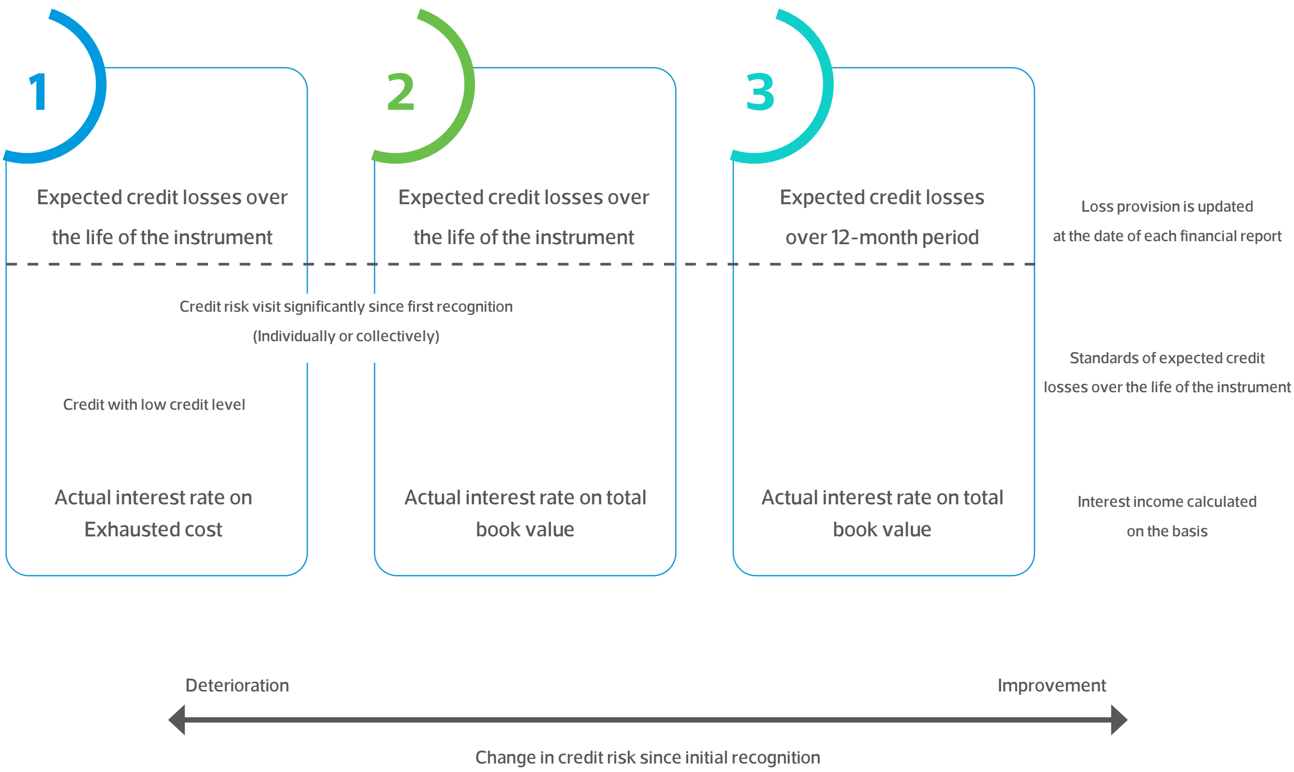
The general methodology of IFRS for recognizing impairment is premised on a three-stage process targeted at reflecting the deterioration in the credit rating of a financial instrument.

- * **Stage 1:** Covers instruments that have not experienced a significant deterioration in rating since initial confirmation
  For such instruments, ECL is recognized over a 12-month period.

  * **Stage 2:** Covers financial instruments that have undergone a significant deterioration in the credit rating since the initial recognition but for which there is no objective evidence of a credit loss event.

  * **Stage 3:** Covers financial assets for which there is objective evidence of a credit loss event.

  The expected credit losses are recognized over the course of the instrument in stages 2 and 3. The expected credit losses are recognized over the life of the instrument in stages 2 and 3.



Comparison of classifications according to the old standard and IFRS 9

Summary of theoretical classifications that may occur based on the assessment of the business model and contractual cash flow characteristics:

Debt instruments				
Previous Standard - Classification Category	Examples of financial assets classified in the category according to the previous standard	Possible classifications according to IFRS 9	Applicability of the classification, according to International Standard No. (9)	Financial Impact
Loans and receivables (Exhausted cost).	• Accounts Receivable. • Deposits. • Bonds and Sukuk that are not listed. • Loan Portfolios.	Exhausted Cost	• The contractual cash flow test has been passed. • Retained for collection	• Expected credit losses rather than incurred losses
		Fair value through other comprehensive income option	• **Business Model:** Retained for the purpose of collection and sale (selling activity is more than insignificant). • **The contractual cash flow test has been passed.**	• Fair value (statement of financial position). • Gain or loss from a change in fair value (other comprehensive income, with recycle to statement of profit or loss). • Expected credit losses rather than incurred losses
		Fair value through profit or loss	• **Business Model:** Not retained for collection. and not retained for the purpose of collection and sale. The contractual cash flow test fail.	• Fair value (statement of financi al position). • Gain or loss from a change in fair value (statement of profit or loss).

Debt instruments				
Previous Standard - Classification Category	Examples of financial assets classified in the category according to the previous standard	Possible classifications according to IFRS 9	Applicability of the classification, according to International Standard No. (9)	Financial Impact
Retained to maturity (exhausted cost)	Listed Bonds and Sukuk	Exhausted Cost	• The contractual cash flow test has been passed. • Retained for collection • No tainting rule	• Expected credit losses rather than incurred losses
		Fair value through other comprehensive income option	• **Not possible to Reclassification**	• Fair value (statement of financial position). • Gain or loss from a change in fair value (other comprehensive income, with recycle to statement of profit or loss). • Expected credit losses rather than incurred losses
		Fair value through profit or loss	• **The contractual cash flow test fail.**	• Fair value (statement of financial position). • Gain or loss from a change in fair value (statement of profit or loss).

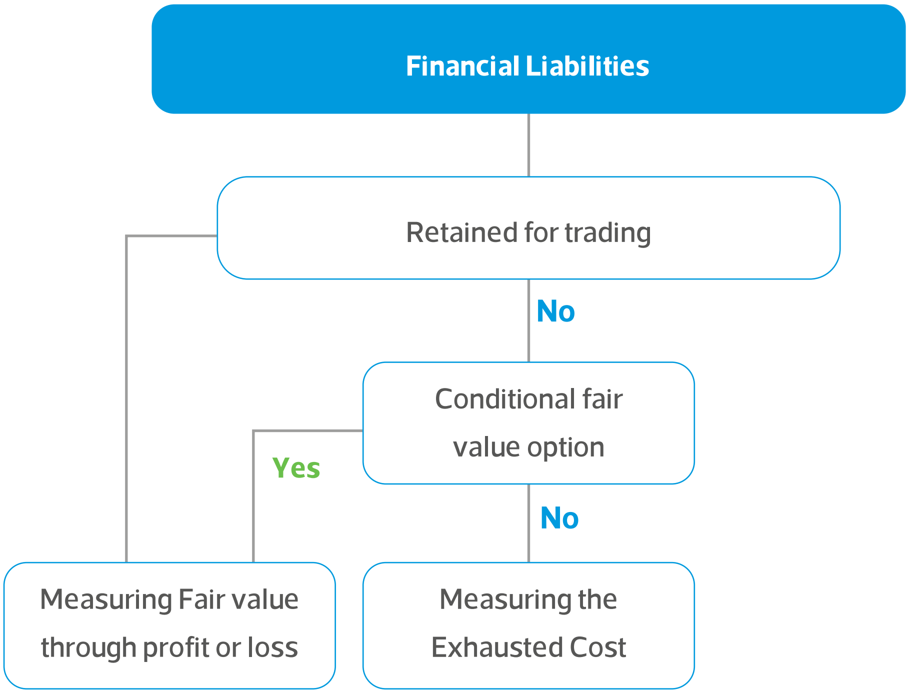
<table>
<tr>
<td rowspan="3">Available for sale (fair value through available for sale investment revaluation reserve)</td>
<td rowspan="3">Option available for any debt instrument that is not retained for trading.</td>
<td>Exhausted Cost</td>
<td>Business Model: Retained for collection (sales activity is important and not recurring).
The contractual cash flow test has been passed.</td>
<td>Exhausted Cost (statement of financial position)
Expected credit losses rather than incurred losses
No gain or loss from fair value change</td>
</tr>
<tr>
<td>Fair value through other comprehensive income option</td>
<td>Business Model: Retained for the purpose of collection and sale (selling activity is more than insignificant). With recycling to profit and loss statement.
The contractual cash flow test has been passed.</td>
<td>Expected credit losses rather than incurred losses</td>
</tr>
<tr>
<td>Fair value through profit or loss</td>
<td>Business Model: Others (not retained for the purpose of collection and sale).
The contractual cash flow test fail</td>
<td>Gain or loss from a change in fair value (statement of profit or loss).</td>
</tr>
</table>

Debt instruments				
Previous Standard - Classification Category	Examples of financial assets classified in the category according to the previous standard	Possible classifications according to IFRS 9	Applicability of the classification, according to International Standard No. (9)	Financial Impact
Retained for trading purpose (fair value through profit or loss).	Loan portfolios retained for sale. Financial Derivatives.	Fair value through profit or loss	No change	No change
Fair value option (fair value through profit or loss).	Accounting mismatch managed on a fair value basis.	Fair value through profit or loss	**Only in the event of an accounting mismatch.**	No change
Available for sale (cost).	• Non-commercial private equity. • Cross-listed mutual fund units.	Fair value through profit or loss	**Automatic There is no exception to the cost anymore**	• The fair value on the statement of financial position (indicated by cost) and the expression of the fair value in the statement of profit or loss. • No impairment (expected credit loss percentage).
		Fair value through profit or loss	**Automatic There is no exception to the cost anymore**	• The fair value on the statement of financial position (indicated by cost) and the expression of the fair value in the statement of profit or loss. • No impairment (expected credit loss percentage).
		Fair value through other comprehensive income (without recycling)	• **Irrevocable option.** • **Available only in acquisition** • **Available on a per tool basis.** • **There is no exception to the cost anymore**	• Fair value in the statement of financial position (instead of cost) and changes in fair value in the statement of other comprehensive income without recycling to the statement of profit or loss. • No impairment (expected credit loss percentage).

<table>
<tr><td rowspan="2">Available for sale (fair value through available for sale investment revaluation reserve)</td><td rowspan="2">• Listed and private non-commercial shares
• Investment fund units</td><td>Fair value through profit or loss</td><td>Automatic</td><td>• The fair value in the statement of financial position and the fair value change in the statement of profit or loss (instead of the statement of other comprehensive income).
• No impairment (expected credit loss percentage).</td></tr>
<tr><td>Fair value through other comprehensive income (without recycling)</td><td>• Irrevocable option.
• Available only in acquisition
• Available on a per tool basis.</td><td>• Changes in the fair value in the statement of other comprehensive income without recycling to the statement of profit or loss.
• No impairment (expected credit loss percentage).</td></tr>
<tr><td>Retained for trading purposes (fair value through profit or loss).</td><td>Retained for trading (listed and private shares).</td><td>Fair value through profit or loss</td><td>No change</td><td>• No change</td></tr>
</table>

Classification of Financial Liabilities (5):

The classification of financial liabilities commonly follows the same classification as under the previous standard



(5)The chart displays the classifications and measurement basis for minor financial liabilities that do not contain embedded derivatives. If there are implicit derivatives, the implicit derivatives may have to be separated and treated separately.

Impact of Transition to IFRS 7 and 9, and IAS 32 on the Zakat Base (ZB)

Introduction:

In light of the aspects covered by the International Financial Reporting Standards, most of its aspects are premised on the mechanism of recognition and measurement of financial instruments, which can be directly correlated to the investment item referred to in Article 5 of the Executive Regulations for Levying Zakat (Regulations).

The fourth and fifth paragraphs of Article Five of the Regulations stipulate the following:

Deduction of the value of investments from ZB:

"The following items shall be deducted from the Zakat base for the taxpayer who keeps and maintains commercial books:

Fourth paragraph: Investments in a non-trading entity inside the Kingdom, if that entity is registered with ZATCA, and is subject to levy of Zakat in accordance with the Regulations. The financially leased assets in the books of the lessor are not deemed an investment that is deducted from ZB, irrespective of its classification in the financial statements. Likewise, debit loans, supportive or additional financing, and the like, granted to the invested entity are not deemed an investment deducted from ZB.

Fifth Paragraph: Investments in a non-trading entity outside the Kingdom, provided that the taxpayer pays Zakat on these investments to the Authority, according to a certificate prepared under the provisions of the Regulations and approved by a chartered accountant licensed in the Kingdom, as long as the minimum ZB for these investments is the taxpayer's share from the net accounting profit contained in the financial statements of these investments, whether the profit is distributed or not. In case the taxpayer does not commit to calculating and paying Zakat accordingly, these investments shall not be deducted from ZB".

Handling changes in the fair value of financial instruments measured at fair value:

Regarding handling of changes in fair value, the Regulations states the following:

"For Zakat purposes, the results of the revaluation shall be taken into account according to the fair value reflected in the financial statements."

With reference to the classification of financial instruments, and in accordance with the requirements of International Financial Reporting Standard No. (9), the financial instruments that fall under the eligible items to be the discount prize are as follows - taking into consideration the discount controls set forth in the fourth and fifth paragraphs of Article 5 in the Regulations:

Category	Only applies to:	Deductions Controls
Equity instruments at fair value through other comprehensive income.	Shares of listed and unlisted companies (equity instruments) and investments in investment fund units.	These investments are subject to the controls mentioned in the fourth and fifth paragraphs of Article 5 in the Executive Regulations for levying Zakat.
Equity instruments at fair value through profit or loss.		

With respect to the other financial instruments, which fall within the recognition and measurement requirements contained in IFRS 9, all of them are non-discountable due the non-existence of an explicit provision therefore in the Executive Regulations for levying Zakat, including, but not limited to: receivables, cash and cash equivalents, debt instruments, whether Sukuk, bonds, financial derivatives and others, which are non-discountable in nature, irrespective of their classification in the financial statements (current or non-current) and also regardless of their classification (at fair value through profit or loss, at fair value through other comprehensive income, or at amortized cost).

Note: The taxpayers subject to the rules of financing activities in accordance with the provisions of Ministerial Resolution No. 2215 issued on Rajab 7, 1440 AH shall be excluded from the above, where Zakat is estimated for this category of taxpayers based on the assignment method, taking into account the controls mentioned in the aforementioned Ministerial Resolution.

ZB Financial Impact of the Transition

With reference to the differences between the old standard before the transition, and the IFRS for financial instruments, the most remarkable differences that affect the zakat treatment can be summarized as follows:

1. Upon disposal (sale) of investments in equity instruments at fair value through other comprehensive income, the realized profit or loss resulting from the disposal process will not be turned over to the profit or loss statement, (but rather) remain in the other comprehensive income statement. Accordingly, as per the current treatments for calculating ZB, the result of this process (profit / loss) will not be reflected within the activity result for the taxpayers, the income statement previously (profit or loss statement currently).
2. It is observed that the cost option is not available in IFRS. For example, before transition and in the case of investments available for sale (at cost), reclassification of these investments according to the new standard will be mandatory at fair value, irrespective of classification (at fair value through profit or loss, or at fair value through other comprehensive income). After such transition, and if the taxpayer deducts the value of these investments after verifying the deduction controls mentioned in the Regulations, this will affect ZB by an increase or decrease, thereby requiring taking into account changes in the fair value to address the impact.

ZB Financial Implications Handling

1. Concerning the profits or losses realized from the disposal of investments in equity instruments at fair value through other comprehensive income: As stated above, these profits remain in the other comprehensive income statement, where they are not recycled to the profits or losses statement, as in the previous Standard, these profits or losses were recognized within the mentioned statement (they are turned over) and are then subject to Zakat. Therefore, in the course of preparing and submitting the Zakat return, the taxpayer must verify the adjustment of the net profits or losses for Zakat purposes (Adjustment of the activity result) by the amount of profits or losses arising from the disposal of these investments.

2. The option to continue measuring at cost is not available, as is the case in the old standard before the transition. Therefore, in accordance with the recognition and measurement requirements in IFRS 9, the taxpayer must verify that changes in fair value have been addressed in accordance with the Regulations in order to avoid deducting the amount of investments with a value of more or less, after verifying the terms and conditions of the deduction mentioned in the Regulations.

3. Regarding investments measured at fair value through profits or losses, changes in fair value remain within the profits or losses statement (profits or losses before Zakat provision). Accordingly, the taxpayer must keep these changes without adjustment to the result of the activity in line with the provisions of the Sixth Paragraph of Article No. (6) of the Regulations. This handling is due to the fact that in the event of disposal of these investments, the recognition of the realized profits or losses shall remain in the profits or losses statement, which will be the difference between the proceeds received from the disposal of these investments and their book value, as at the end of the year prior to the sale.

Theoretical Examples on the Effect of Transition on ZB

On the 1st of January, 2018 AD, Company (A) applied IFRS 9 for the first time. Company (A) had the following financial instruments:

Unlisted Bonds - Bonds shall be deemed debt instruments that pay the principal amount, interest at %2+ SIBOR

1. On the Outstanding Principal. The Company expects capital expenditures within a few years. The Company invests its excess cash in short and long-term financial assets, so that it can finance its expenditures, when needed. Several financial assets have contractual lifetimes that exceed the expected investment period. The Company shall maintain the financial assets to collect contractual cash flows, and when it gets the chance, it shall sell the financial assets to reinvest the cash into financial assets with a higher return. The Managers responsible for the portfolio are compensated based on the total return realized by the portfolio.
2. Non-trading shares - listed (fair value through other comprehensive income (without turnover) - Shares pay a specified dividend of Z%.
3. Non-trading shares - listed (fair value through profits or losses).
4. Non-trading shares - unlisted (fair value through other comprehensive income) without recycling).

Impact of the Initial Application of IFRS (9):

A. Unlisted bonds (fair value through other comprehensive income)

Impact on Assets:

Financial Assets	Value per previous standard	Reclassification	Re-Measurement	Value per Standard No. (9)
Loans and receivables (Exhausted cost)	10,000	(10,000)		
Fair value through other comprehensive income option		10,000	1,000	11,000

It is noted from the above table that upon transition, the Company reclassified the bonds, which were classified under loans and receivables (Exhausted Cost) Item to bonds at fair value through other comprehensive income, after determining the contractual cash flow characteristics of this instrument. It is noted from the above table that upon transition, the entity re-measured the unlisted bonds (according to the fair value evaluation model and in accordance with International Standard No. (13).

Impact on Equity:

Financial Assets	Investment Fair Value Reserve	Retained Earnings	Total
Impact of IFRS 9 Application - as at 1 January.	1,000	-	1,000
Total	1,000	-	1,000

It is noted from the above table that upon transition, the entity re-measured the unlisted bonds (according to the fair value valuation model, and in accordance with International Standard No. (13).

On 31st of December, 2018, these bonds were revalued at a fair value of 13,000, resulting in a re-evaluation profit of SAR 2,000. The following tables summarizes the impact of the re-evaluation:

Details	Investment Fair Value Reserve	Retained Earnings
Statement of Financial Position Current /Non-Current (as defined in IFRS (1)	13,000	-
Comprehensive income statement (can be recycled)	-	2,000

In light of the above, the value of the bonds shall be adjusted to 13,000 after taking into account the re-evaluation(according to the valuation model, and in line with International Standard No. (13) as at the end of 2018.

Zakat Handling:

1. **Net Profit for Zakat Purposes:**

Item	Amount (SAR)	Notes on the Zakat Handling after Transition to the New Standard
Revaluation Profit	2,000	As a result of reclassification of bonds from Exhausted cost to fair value through other comprehensive income, this requires recognition of the results of re-evaluation in the other comprehensive income in equity statement. Accordingly, this does not require adjusting the net profit for Zakat purposes. Upon disposal of these investments, the sale profits or losses will be turned over to the profits or losses statement to constitute part of the outcome of the activity subject to Zakat without adjustment.

2. Other Components of ZB (Additions and Deductions)

Item	Amount (SAR)	Notes on the Zakat Handling after Transition to the New Standard
Unlisted bonds (fair value through other comprehensive)	13,000	It is noted that the re-measurement of this investment has changed, thereby the accounting treatment and the book value as at the end of the year have changed. However, Zakat handling remains unchanged, as these investments are not deductible according to Article No. 5 of the Executive Regulations for Zakat Collection, which did not address such type of investments. **Note:** The exception of Zakat handling applies to financing activities in accordance with Ministerial Resolution No. (2215) dated 7th of Rajab, 1440 AH.

B. Non-Trading Shares (listed)

Financial Assets	Value per previous standard	Reclassification	Re-Measurement	Value per Standard No. (9)
Available for sale (For sale investment revaluation reserve)	100,000	(100,000)	-	-
Fair value through other comprehensive income (without recycling)		100,000	-	100,000

It is noted from the above table that upon transition, the Company reclassified shares investments previously classified as available for sale to the new classification as investments at fair value through other comprehensive income. Changes in fair value remain within the other comprehensive income statement without turnover to the profits or losses statement. No impairment (Expected credit losses).

On 31st of December, 2018, these shares were revalued, resulting in a re-evaluation profit of SAR 40,000. The following summarizes the impact of the re-evaluation:

Details	Investments of fair value through other comprehensive income option	Revaluation profit (in the statement of other comprehensive income without recycling)
Statement of Financial Position Current /Non-Current (as defined in IFRS (1))	140,000	-
Comprehensive income statement (can be recycled)	-	40,000

In light of the above, the value of investment in shares shall be adjusted as at the end of 2018, to become SAR 140,000, after taking into account the re-evaluation impact.

Zakat Handling:

1. Net Profit for Zakat Purposes:

Item	Amount (SAR)	Notes on the Zakat Handling after Transition to the New Standard
Revaluation profit (in the statement of other comprehensive income without recycling)	40,000	The accounting handling whether prior to or after the transition of the re-evaluation profits or losses of equity investments at fair value through other comprehensive income has not changed. This item is recognized in other comprehensive income within the equity. Accordingly, this does not require adjusting the activity result.

2. Other Components of ZB (Additions and Deductions):

Item	Amount (SAR)	Notes on the Zakat Handling after Transition to the New Standard
Non-trading Shares (listed)	140,000	These investments, by their nature, are investments in equity instruments in companies inside or outside the Kingdom, qualifying itself to be deductible in accordance with Article No. 5 of the Executive Regulations of Levying Zakat. The reclassification as a result of transition to the new standard did not affect Zakat Handling. In both cases, this item is deemed to be deductible from ZB after verifying the controls contained in the Regulations. Note: The results of the re-evaluation appearing in the financial statements for the purposes of Zakat are taken into consideration when deducting the investment at fair value, in accordance with the Executive Regulations of Levying Zakat.

C. Non-Trading Shares (listed)

Impact on Assets

Financial Assets	Value per previous standard	Reclassification	Re-Measurement	Value per Standard No. (9)
Available for sale (For sale investment revaluation reserve)	100,000	(100,000)	-	-
Fair value through profits and losses		100,000	-	100,000

It is noted from the above table that upon transition, the Company reclassified the investments in shares previously classified as available for sale to investments at fair value through profits and losses. There were not any profits or losses as a result of the re-measurement, as the instruments are mainly measured at fair value.

Impact on Equity:

Financial Assets	Investment Fair Value of Investments at Fair Value	Reclassification	Re-Measurement
Impact of IFRS 9 Application - as at 1 January	(30,000)	30,000	-
Total	(30,000)	30,000	-

It is noted from the above table that when the standard was first applied, the value of the reserve was reversed in favor of retained profits as a result of the reclassification of investments from investments in shares available for sale to investments in shares through profits or losses.

On 31st of December, 2018, these investments were revalued, resulting in a re-evaluation profit of SAR 25,000.

Details	Investments of fair value through other comprehensive income option	Revaluation profit (in the statement of other comprehensive income without recycling)
Statement of Financial Position Current /Non-Current (as defined in IFRS (1))	125,000	-
Re-evaluation Profits (Income Statement)	-	25,000

In light of the above, the value of investment in shares shall be adjusted as at the end of 2018, to become SAR 125,000, after taking into account the re-evaluation impact.

Zakat Handling:

Net Profit for Zakat Purposes:

Item	Amount (SAR)	Notes on the Zakat Handling after Transition to the New Standard
Revaluation Profit	25,000	Re-evaluation profits are subject to Zakat as part of the net profits or losses in line with the provisions of Paragraph 6 of Article No. 6 of the Regulations. Before transition, re-evaluation profits and losses are recognized in the other comprehensive income statement within the fair value reserve for investments at fair value in equity. Accordingly, adjustment of net profit is not required for Zakat purposes. In this case and upon subsequent sale, the realized profits shall be subject to Zakat, as mentioned previously, by adjusting the net profits adjusted for Zakat purposes.

Other Components of ZB (Additions and Deductions)

Item	Amount (SAR)	Notes on the Zakat Handling after Transition to the New Standard
Non-Trading Shares (listed)	125,000	It is noted that the entity carried out the reclassification process according to the automatic option (from investments available for sale to fair value through profits or losses). Therefore, this item is deemed deductible from ZB after verifying the controls contained in the Executive Regulations for Zakat Collection, and after verifying the entity's registration with the Authority, or pay Zakat on these investments (in the case of investments in an establishment outside KSA).

D. Non-trading Shares (Unlisted) (Fair value through other comprehensive income)

Impact on Assets:

Financial Assets	Value per previous standard	Reclassification	Re-Measurement	Value per Standard No. (9)
Available for sale (cost)	100,000	(100,000)	-	-
Fair value through other comprehensive income (without recycling)		100,000	20,000	120,000

It is noted from the above table that upon transition, the Company reclassified investments in shares previously classified as available for sale to investments at fair value through other comprehensive income. Since there is no cost exception anymore, the Company is required to develop a valuation model, and the management hall have to ensure the accuracy of the model, inputs and assumptions based on this evaluation, the shares have been evaluated.

Impact on Equity

Financial Assets	Investment fair value reserve of Shares	Total
Impact of IFRS 9 Application - as at 1 January	20,000	20,000
Total	20,000	20,000

It is noted from the above table that upon transition, the entity re-measured the listed shares at the previous cost, according to the fair value valuation model, and in line with International Standard No. (13).

On 31st of December, 2018, these shares were revalued at the fair value of 160,000, resulting in a re-evaluation profit of SAR 40,000. The following summarizes the impact of the re-evaluation:

Details	Investments of fair value through other comprehensive income option	Revaluation profit (in the statement of other comprehensive income without recycling)
Statement of Financial Position Current /Non-Current (as defined in IFRS (1))	160,000	-
Comprehensive income statement (can be recycled)	-	40,000

In light of the above, the value of investment in shares shall be adjusted as at the end of 2018, to become SAR 160,000, after taking into account the re-evaluation (In accordance with the valuation model and the International Standard No. (13)) as of the end of 2018.

Zakat Handling: Net Profit for Zakat Purposes:

Item	Amount (SAR)	Notes on the Zakat Handling after Transition to the New Standard
Revaluation Shares	40,000	This item is recognized in other comprehensive income within equity. Accordingly, it does not require adjustment of the net profit for Zakat purposes. Before transition, this item was not recognized for the company chooses to recognize such Investments at cost.

Other Components of ZB (Additions and Deductions)

Item	Amount (SAR)	Notes on the Zakat Handling after Transition to the New Standard
Non-Trading Shares (non-listed)	160,000	It is noted that the entity carried out reclassification process from investments available for sale (at cost) to fair value through other comprehensive income. Accordingly, if the taxpayer includes the investment item within the deductions from ZB - after verifying the attached controls for deduction- an adjustment is required by adding the re-evaluation amount, or the change in the fair value as at the end of the year in the amount of SAR 60,000 (SAR 20,000 at the initial measurement and SAR 40,000 at the subsequent measurement), so that the net deducted investment is SAR 100,000.

External document

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