

Tutorial on Mudharabah Transaction Accounting:

Exercies 1-

An Islamic bank provided Mudharabah financing to a company to purchase equipment and sell it in the local market. The financing amounted to 400,000 dinars, and the following amounts were paid to the bank on the following dates:

- On January 10, 130,000 dinars were paid,
- On February 15, 100,000 dinars were paid,
- On March 5, 120,000 dinars were paid,
- Finally, on March 15, 80,000 dinars were paid.

Assuming the bank has agreed with the mudarib to distribute the profit resulting from mudaraba financing at a rate of 40% for the mudarib and 60% for the bank.

Required:

1. Record the previous transactions according to Standard 3, "Mudharabah Financing."
2. Record each party's share of the profit.
3. If the amount is deposited in one lump sum, record the transaction.
4. Assuming the amounts collected are 380,000 dinars, not 420,000 dinars, how does Standard 3 address mudaraba losses

Solution 1

Journal entries

1-Recording Mudaraba financing operations

Date		Debit	Credit
	Mudharaba financing	400000	
	Cash		400000
Jan 10,	Cash	130000	
	Mudharaba financing		130000
February 15	Cash	100000	
	Mudharaba financing		100000
March 5	Cash	120000	
	Mudharaba financing		120000
March 15	Cash	80000	
	Mudharaba financing		80000

2-Profit Distribution Between the Mudharib and the Bank

It has been agreed that the profit from the Mudaraba will be distributed at a rate of 40% to the Mudarib and 60% to the bank.

Mudarabah Liquidation

Profit = Amounts Received - Mudaraba Financing

= 420,000 - 400,000

= **20,000 dinars**

Profit will be distributed between the Mudarib and the bank in the following two ratios:

40% x 20,000 = 8,000 dinars

60% x 20,000 = 12,000 dinars

Date		Debit	Credit
	Mudharaba financing	20000	
	Current Accounts (Mudarib)		8000
	Mudarib Revenues (Bank Share)		12000

3--If the amount is paid in one payment, we record

Date		Debit	Credit
	cash	420000	
	Mudharaba financing		400000
	Current Accounts (Mudarib)		8000
	Mudarib Revenues (Bank Share)		12000

4-The party responsible for the loss is determined,if there is no negligence or transgression, the bank shall bear the responsibility and record the following:

Loss = 380,000 – 420,000 = 40,000 dinars

Date		Debit	Credit
	Investment losses (Mudharaba) ¹	40000	
	Mudharaba financing		40000

Exercise 2-

An Islamic bank agreed to grant a customer a mudaraba financing agreement to purchase goods to be marketed locally. The mudaraba financing agreement amounted to 500,000 dinars, and the amount was paid by check drawn on one of the bank's branches.

- The mudaraba agreement period was 3 months, starting April 1, 2019.
- The bank agreed with the mudarib that the profit would be distributed at a ratio of 60% to the bank and 40% to the mudarib.
- Given that the mudarib did not provide any guarantees to the bank, The customer's expenses on this transaction amounted to 2,700 dinars (considered mudaraba expenses).
- On July 31, 2019, the proceeds from the mudaraba account opened amounted to 550,000 dinars (of which 200,000 dinars were paid, and the remainder was paid by checks drawn on the mudarib's current account).

Required: Record the previous transactions in accordance with Standard 3, "Mudaraba Financing," and indicate the share of each bank and mudarib in the profits.

Solution ex 2-

Profit = Funds Received – Financing via Mudaraba

$$=550,000 - (500,000 + 2,700) = 47,300 \text{ dinars}$$

The profit is distributed between the Mudarib (investor) and the bank in the following proportions:

$$40\% \times 47,300 = 18,920 \text{ dinars for the Mudarib}$$

$$60\% \times 47,300 = 28,380 \text{ dinars for the bank}$$

A 19 July 31, 2019	Mudaraba Financing Account	500000	
	Bank		500000
	<u>Financing Amount</u>		
	Dr. Mudaraba Financing Account	2700	
	Cr. Payment Method Account		2700
	<u>Mudaraba Expenses to Mudaraba</u>		
	Cash Account	350000	
	Current Account Account	250000	
	Mudaraba Financing Account		502700
	Current Accounts (Mudarib)		18920

	Mudaraba Revenues (Bank's Share)		28380
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