

Course No: ACC 4322
Course Title:
Accounting for
Islamic Banks
Date: 27/05/2015
No. of Questions: (6)
Time: 2 hours
Using Calculator (Yes)

University of Palestine



Final Exam
Second Semester
2014/2015
Total Grade:

Instructor Name: Miss Laila Aldoor
Student No.: _____
Student Name: _____
College Name: Business and Finance
Dep. / Specialist: Accounting-English
Using Dictionary (No)


Question One:

(10 Marks)

A. Explain the role of Shariah Supervisory Board in Auditing of IFIs

B. List the four main disclosure requirements for Mudharabah.

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Question Two:

(10 Marks)

Bank *Shari'ah* provides *Musharakah mutanaqisah* financing to Moonway Corporation for house developing project amounting to ₪10,000,000. This amount represents 60% of the total cost of the project. The term of financing is for 5 years and the partner is required to pay back the bank in 5 equal installments yearly. The profit sharing ratio is agreed at 30: 70 (Partner: Bank) and assumed to be constant for the first 2 years of the project. For the next three years, the profit sharing ratio is agreed to be 20: 80. The profits or losses from the project as disclosed by the partner are as follows:

Year	Profit / (Loss) ₪
1	(1, 500,000)
2	(1, 000,000)
3	2,500,000
4	1,500,000
5	1,000,000

You are required to determine the profits or losses to be recognized by both Bank *Shari'ah* and Moonway Corporation from Year 1 to Year 5.

Year	PRS (Bank : Partner)	Capital of the Bank (1st Jan.)	Capital of the Partner (1st Jan.)	Capital Repayment by the Partner (31st Dec.)	CCR (Bank: Partner)	Profit/ (Loss) (₪)	Profit/ (Loss) to Bank Shari'ah (₪)	Profit/ (Loss) to Partner (₪)
1								
2								
3								
4								
5								

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Question Three:

(10 Marks)

Mr. Nasser Heider has a clearing firm for international trade and he is exporting a \$3m worth of goods from china FOB shipping point. Mr. Nasser Heider filed for Letter of Credit LC covering at the Islamic national bank in Gaza. The Islamic bank (issuer bank) is expected to stand as the issuing bank on the export operation from china with a commission fee of 5% of total deal value. The Chinese vendor is Wookinoowah Corporation who banks with bank of china (advisory bank).

Required: Write the journal entries at the issuer bank as deemed appropriate if Mr. Nasser Heider deposits only one third of the total value of the deal along with the bank equivalent commission in his bank account with the Islamic national bank and allows the bank to manage it for the LC funding purposes. The remaining funding is contributed by the bank as musharakah/partnership finance.

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Question Four:

(10 Marks)

Bank *Ummah* entered into an *Ijarah* contract with Takaful Ltd to lease equipment for a period of 3 years. Bank *Ummah* purchased an equipment from a local trader on 1 of January 2010 for ₪60,000. The Bank also incurred legal fees of ₪500 relating to the *Ijarah* contract, which the bank considered to be material. Other details on the *Ijarah* are as follows:

Fair value of equipment: At the beginning of 2010 ₪ 60,000
At the end of the lease i.e. 31 Dec. 2012 ₪ 2,000

Number of installments on quarterly basis 12
Rentals at the end of each quarter ₪ 6,000
Estimated useful life 3 years
Estimated residual value at the end of useful life ₪ 4,000
Estimated expenditure incurred in the second year ₪ 1,200

Required:

Prepare journal entries to record the above *Ijarah* contract in the books of Bank *Ummah* assuming the lease was treated as *Ijarah Muntahia Bitamleek* through sale for a token consideration (agreed to be equivalent to 50% of the estimated residual value at the end of useful life) for the following periods:

- At the beginning of *Ijarah*;
- On receipt of first rental;
- At the end of first year; and,
- At the end of *Ijarah* term.

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Question Five:

(10 Marks)

Company A has entered into a *Mudharabah* contract with Bank *Shari'ah* in which the company provides monetary capital of ₪2,000,000 to be managed and invested by the Bank. The Bank provides *Mudharabah* Al-Muqayadah investment account facility whereby the Bank will invest in a specific project as agreed by the client. For this project there is another investor, Company B who had agreed to invest ₪ 1,000,000. The profit sharing between three of them is 2:1:1 for Company A, Company B and the Bank respectively.

Bank *Shari'ah* then entered into another *Mudharabah* contract (*Re-Mudharabah*) with Company C to undertake a housing development project and they had agreed on the profit sharing ratio of 80 : 20 (Bank: Company C). Bank *Shari'ah* had agreed to contribute the ₪ 3,000,000 as monetary capital based on a three-year *Mudharabah* financing contract (*Mudharabah* muqayaddah). Assume the following results of the venture:

Year	Profit / (Loss)
	₪
1	(750,000)
2	700,000
3	1,500,000

You are required to:

Determine the profit/loss of the above transactions. Show how profit/loss will be allocated for all parties involved based on End of Contract method of profit recognition.

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Question Six:

(10 Marks)

Bank *Shari'ah* provides a financing facility based on *Murabahah* to the Purchase Orderer principles to Ahmad Ali for the purpose of house purchase. The financing is amounting to ₪300,000 at a constant rate of return 8% for a period of 5 years. At the end of the contract, Ahmad owes the bank amounting to ₪ 32,000. As part of the normal requirements, the customers will be charged a penalty fee of 3% per annum for any outstanding amount due at the end of the contract and the amount collected is normally disbursed as charity.

You are required to:

- (i) Prepare an extract of the balance sheet and income statement of Bank *Shari'ah* from the beginning till the end of the contract to show the amount of net receivable and *Murabahah* income.
- (ii) Prepare journal entries to record all the above transactions in the book of Bank *Shari'ah* (including the treatment for penalty fee).

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End of Questions
Good Luck