Course No: ACC 4322
Course Title: Accounting for Islamic Banks
Date: 21/09/2014
No. of Questions: (8)
Time: 2 hours
Using Calculator (Yes)

University of Palestine

Final Exam
Summer Semester
2013/2014
Total Grade:

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

This exam is composed of eight questions. The first 5 questions are mandatory while you can choose one to attempt from question six to eight.

Question One: *(10 Marks)*

This question is divided into three sections. Kindly attempt all three sections.

A. It had been long argued that Islamic banks are not purely Islamic and that they are only Islamic by brand name not in real practice. Discuss and propose your opinion.

B. Discuss the logic underlying the need for Islamic accounting and how they differ from conventional accounting practices.

C. Islamic economies proposed musharakah and mudarabah as modes of lawful financing. Discuss, according to your perception, how the Islamic bank could stand as (mudarib/agent) and (musharik/partner) simultaneously.

Question Two: (15 Marks)

The Islamic national bank signed a declining partnership contract with Mr. Nasser Heider with the following contract terms:

1- The bank pays $300000 to fund the building of Dairy factory.

2- Mr. Nasser Heider contributes to the capital by giving a $100000 worth land to build the factory on and after building the factory, he will run the business.

3- Profits distributed at 2:3 for the bank and Mr. Nasser Heider respectively, however, losses are directly deducted from the capital according to the outstanding equity shares of each party.

4- Mr. Nasser Heider pays 80% of his share in profits to buy the bank out.

5- Cash flows of the operations are as follows:

Initial outlay	CF1	CF2	CF3	CF4	CF5	CF6	CF7
400000	100000	(20000)	(10000)	(10000)	300000	300000	200000

Required:

1- Schedule the operations capital findings and buying-out operations.

2- Record yearly journal entries of the declining partnership in the banks' books.

Question Three: (15 Marks)

Islamic national bank has contracted with Mr. Nasser Heider to build an 80 square feet mall and deliver it in 5 years as istisna'a contract. The total revenue from building and delivering the building to tamer is 5m$ to be received in equal five yearly installments and the first payment is received now. The contract with Mr. Nasser included a penalty clause of 1m$ in case of three months delay of delivering the tower.

The bank is no contractor and this is why he signed a parallel istisna'a contract with a real estate contractor. The contractor estimated that the total costs need to paid by the bank for building the mall is 4m$. The bank mandated that the delivery is due in 4.5 years and agreed to pay the total amount by 4 equal annual payments with the first payment to be paid at once.

Required:

1- According to your own understanding of technical hedging, how do you expect the bank to manage against the penalty risk of Mr. Nasser contract?

2- Using the percentage of completion method, record journal entries from the bank standpoint with both parties and calculate total profits and receivables

Question Four: (15 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 for the following cases:

1- Mr. Nasser Heider deposits the total value of the deal along with the bank commission in his bank account with the Islamic national bank and allows the bank to manage it for the LC funding purposes.

2- 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.

Question Five: (15 Marks)

Islamic national bank signed a Mudarabah contract in 2014 with Al-Quds exports Co. to import a stationary deal worth of 37000$ from China. The contract terms as a follows:-

1. The bank is Rubb-El-Mall and Al-Quds is the Mudarib are both to receive 40% and60% of profits respectively.

2. The bank gave 37000$ as Mudarabah investment for Al-Quds Current Account in 31/12/2013.

3. Selling is only cash and any doubtful receivable Accounts of customers are to be afforded and guaranteed by Al-Quds. Any losses due to negligence & carelessness in management are afforded by Al-

Quds at the least selling price.

4. Al-Quds is to run the business for 2 year and any remaining ending inventory is to be bought by Al-Quds at cost (note: Al-Quds bought 100 boxes of stationary from China to be resold).

5. Al-Quds presented an operation Summary as follows:-

Date	Q. sold	AMT	Explanation
31/12/2013	60 boxes	24000	20000 Cash sales, 4000 receivables guaranteed by Al-Quds. Sales at 400$ per box.
30/6/2014	35 boxes	14000	14000 Cash sales at 400$ per box.
30/6/2014	5 boxes	1500	5 boxes sold at 300$ which is less than cost due to negligence in management. The difference between the selling prices of 400 – 300 = 100 is a loss afforded by the Mudarib (500$ loss)
Total	100 boxes	39500 cash	500 loss receivable from the Mudarib

Required:

1- Calculate the profits of each party.

2- Record the banks' journal entries.

Question Six: (10 Marks)

The Islamic national bank signed a Salam-sale contract with Mr. Nasser Heider with a $350000 worth deal. Mr. Nasser is expected to use the money in growing and delivering 35 ton of coffee beans to the bank in 18 months timeframe. Upon date of delivery of coffee beans, only 30 tons were collected and the 5 remaining tons were destroyed due to bad weather conditions (but Mr. Nasser is still held liable for them). The series of transactions occurred as follows:

1- The bank deposited the money $350000 in Mr. Nasser Heider current account.

2- 18 months later, Mr. Nasser Heider delivered 30 tons of coffee beans to the bank and held liable for the remaining quantity. (Freight FOB Destination with $1000 shipping expense afforded by the appropriate party).

3- The bank sold the 30 tons of coffee beans out to a wholesale dealer for $380000.

Course No: ACC 4322 **Course Title: Accounting for Islamic Banks** **Date: 21/09/2014** **No. of Questions: (8)** **Time: 2 hours** **Using Calculator (Yes)**	**University of Palestine** **Final Exam** **Summer Semester 2013/2014** **Total Grade:**	**Instructor Name: Miss Laila Aldaoor** **Student No.: ________________** **Student Name: _______________** **College Name: Business and Finance** **Dep. / Specialist: Accounting-English** **Using Dictionary (No)**

This exam is composed of eight questions. The first 5 questions are mandatory while you can choose one to attempt from question six to eight.

Required:

1- List up to three differences between Salam sale and Istisna'a.

2- Record journal entries and closing entries.

3- Show the balance of Salam-sale finance ledger and Mr. Nasser Heider ledger account.

Question Seven: (10 Marks)

Islamic national bank has contracted with Mr. Nasser Heider to rent him out a 10 floor tower in a declining finance lease contract for 30 years. The tower had a book value of $400000, useful life of 30 years and an expected salvage value of $40000. The lease is to be paid off in 30 due equal annual payments including 3% annual profit rate. At the end of the lease term, the tower ownership is transferred to Mr. Nasser Heider. All operating and property tax expenses are to be borne by Mr. Nasser Heider.

Required:

1- Differentiate between operating and capital lease in 4 main sides.

2- Calculate annual lease payment of principle and profit and,

3- Record journal entries for the first year of lease.

Question Eight: (10 Marks)

The Islamic national bank has received a markup order to buy a van. The bank bought the van for 80000$ in cash. Then, the bank resold it to the mark up buyer with a markup rate of 15%.

Required:

1. List up to 5 basic features of Murabaha financings that make it different, in sharia'a compliant way, from conventional modes of financings such as interest bearing loans.

2. Record the bank journal entries given that the agreed settlement method is as follows:

   a) All settlements for 24 payments,

   b) All receivable in a single payment 24 months later

End of Questions
Good Luck