MURABAHA
Recording & Monitoring

Product Development & Shariah Compliance
Outline

- Murabaha Recording
  - Account Heads & Their Treatment
  - Murabaha Checking & Monitoring
    - Murabaha Monitoring Sheet
Under IFAS 1 – Murabaha

**Basic Difference** in recording the transactions are

- At the time of payment to the client for the purchase of the goods on behalf of the bank, the payment will be booked in the account head named **Advance against Murabaha A/c**.

- At the **Culmination of Murabaha** i.e. at the time of sale of goods to the customers with signing of Declaration by the bank and the client the **Advance against Murabaha A/c** will be adjusted with the **Murabaha Financing A/c**.
✓ Booking of Accruals would ONLY be made when:
  
  • **Declaration** has been signed and the Murabaha Financing has been booked.
## EXAMPLE

<table>
<thead>
<tr>
<th></th>
<th>(Amount in Rs) / %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Purchase Price / Cost / Principal</td>
</tr>
<tr>
<td>2</td>
<td>Profit Rate</td>
</tr>
<tr>
<td>3</td>
<td>Tenure</td>
</tr>
<tr>
<td>4</td>
<td>Profit</td>
</tr>
<tr>
<td>5</td>
<td>Date of disbursement to supplier / customer</td>
</tr>
<tr>
<td>6</td>
<td>Date of Culmination of Murabaha</td>
</tr>
<tr>
<td>7</td>
<td>Date of Maturity of Murabaha</td>
</tr>
</tbody>
</table>

- At the time of payment to the client for purchases
  
  **Dr**  
  Advance against Murabaha  
  1,000

  **Cr**  
  Pay Order / Party Account  
  1,000
**Example continues…..**

- At the end of First month i.e. January 31, 2006
  
  **No Entry** would be passed for accruals of profit, as Declaration has not been received from the customer.

- On February 15, 2006, at the culmination of Murabaha i.e. at the time of sale of goods to the customers with signing of Declaration by the bank and the client.

  **Dr**  Murabaha Financing 1,000
  
  **Dr**  Murabaha Profit Receivable 100
  
  **Cr**  Advance against Murabaha 1,000
  
  **Cr**  Deferred Murabaha Income 100

- At the time of Booking of Accruals @ 10% profit rate each month the following entry would be passed, accruing **TWO** months profit on February 28, 2006:

  **Dr**  Deferred Murabaha Income 16.164
  
  **Cr**  Income on Murabaha Financing 16.164
Murabaha Checking & Monitoring

- Murabaha Monitoring Sheet
Murabaha Monitoring Sheet:

As per the guidelines of Shariah Advisor, Murabaha Monitoring Mechanism (MMM) has been implemented at MBL to ensure timely receipt of Declarations & Purchase Evidences.

<table>
<thead>
<tr>
<th>CBD NO.</th>
<th>Customer Name</th>
<th>Subject Matter</th>
<th>Payment Mode (Direct / Indirect)</th>
<th>Date of Disbursement (D)</th>
<th>Invoice Date (I)</th>
<th>Sub-Decaration Date (S)</th>
<th>Maturity Date (M)</th>
<th>Tenor / No of Days (M-D)</th>
<th>Purchase Gap (I-D)</th>
<th>Declaration Gap (S-D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD-650/05</td>
<td>A</td>
<td>Auto Spare parts</td>
<td>D</td>
<td>07-Feb-05</td>
<td>08-Feb-05</td>
<td>20-Feb-05</td>
<td>05-Sep-05</td>
<td>210</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>CBD-650/05</td>
<td>B</td>
<td>Sugar cane</td>
<td>D</td>
<td>08-Feb-05</td>
<td>09-Feb-05</td>
<td>10-Feb-05</td>
<td>07-Aug-05</td>
<td>180</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>CBD-650/05</td>
<td>C</td>
<td>Cotton</td>
<td>D</td>
<td>09-Feb-05</td>
<td>10-Feb-05</td>
<td>11-Feb-05</td>
<td>09-Jun-05</td>
<td>120</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>CBD-650/05</td>
<td>D</td>
<td>Rice</td>
<td>D</td>
<td>10-Feb-05</td>
<td>11-Feb-05</td>
<td>12-Feb-05</td>
<td>09-Aug-05</td>
<td>180</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

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Purpose:

The purpose of implementing Murabaha-Monitoring Mechanism (MMM) is:

• To improve the quality of Murabaha transactions,

• To reduce the gap between disbursement and purchase evidence,

• To avoid delays in declaration and to streamline Murabaha transactions in Commercial Banking, Corporate and at all branch level.
• Murabaha Monitoring Sheet (MMS) will be prepared by the Credit Administration Department (CAD) for each branch manually or through system (which ever is available), as per the format given.

• The MMS will *separately* be prepared for all Corporate & SME/Commercial dept Murabaha transactions.

• This will be a self-monitoring sheet and will be used by the Corporate / SME Incharge of the branch and Head Office to ensure proper execution of Murabaha transactions.

• The prime responsibility of implementing this mechanism lies with each Branch Manager / CAD Manager.