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B.Com Honours | Semester VI | Calicut University

ACCOUNTING FOR ISLAMIC FINANCIAL INSTITUTIONS

Course Code: COM6EJ311 • Module 3 Notes

Module III: Financial Reporting in Islamic Financial Institutions

Covers accounting for Islamic deposits & Investment Accounts (URIA), Mudarabah financing, Musharakah partnership capital, and Murabahah cost-plus profit sales under AAOIFI standards.

Unit 14: Accounting for Islamic Deposit & Investment Accounts (URIA)

URIA Accounting: Unrestricted Investment Accounts operated under Mudarabah contract. Profits distributed between bank (Mudarib) & depositors (Rab-ul-Mal) per agreed Profit Sharing Ratio (PSR e.g. 70:30).

Unit 15: Accounting for Mudarabah Financing (Trustee Capital)

Mudarabah Rules: Capital provider (Rab-ul-Mal) provides 100% capital; entrepreneur (Mudarib) provides management expertise. Financial losses borne solely by capital provider unless caused by Mudarib's negligence.

Unit 16: Accounting for Musharakah Financing (Partnership Equity)

Musharakah Rules: Joint venture partnership where both bank & client contribute capital & share profits according to agreed PSR; losses shared strictly in proportion to capital contribution ratio.

Unit 17: Accounting for Murabahah Financing (Cost-Plus Sale)

Murabahah Rules: Cost-plus profit sale contract where bank purchases asset requested by client & sells it to client at Cost + Agreed Profit Margin on deferred installment payments. Deferred profit recognized over installment tenure.

Practical Solved Murabahah Accounting Case (Deferred Profit Sales Accounting Entry): Islamic Bank buys equipment for cost $C = ₹10,00,000$ and sells it to client under Murabahah for cost + 20% profit margin ($\text{Profit} = ₹2,00,000$, Total Sales Price = $₹12,00,000$) payable in 24 monthly installments. Record initial sale journal entry in bank books per AAOIFI FAS 2.

Deferred Profit = Selling Price (₹12,00,000) - Asset Cost (₹10,00,000) = ₹2,00,000

AAOIFI Journal Entry Posting in Bank Books:

1. **Debit:** Murabahah Receivables A/c = $\mathbf{₹12,00,000}$.
2. **Credit:** Inventory / Asset Purchases A/c = $\mathbf{₹10,00,000}$.
3. **Credit:** Unearned Murabahah Deferred Profit (Liability) = $\mathbf{₹2,00,000}$.
   Monthly Deferred Profit Transfer: $\frac{₹2,00,000}{24} = \mathbf{₹8,333.33}$ per month credited to P&L.

Practical Case Framework 2 (Islamic Financing Contracts Comparison & Accounting Matrix): Compare Islamic financing model, capital contribution rule, profit distribution basis, and financial loss bearing rule.

Islamic Financing Models Accounting Comparison Table:

Islamic Contract Model	Capital Contribution Structure	Loss Sharing & Liability Rule
Mudarabah (Trustee)	Bank provides 100% capital; Client manages	100% financial loss borne by Bank (Rab-ul-Mal)
Musharakah (Partnership)	Both Bank & Client contribute capital	Losses shared strictly per capital ratio %
Murabahah (Cost-Plus)	Bank purchases asset; sells at mark-up	Client bears credit debt payment obligation