

Murabaha Exercise & Calculation







Calculation of Cost & Profit In Murabaha transactions.



Bullet Payment at the end of tenure

Ex: 1

Financing Amount : Rs 100mn (Jan 1)

Profit Rate (IRR) : 16% p.a.

Tenor : 1 year

Payment of : Bullet payment

Murabaha Price

Cost : 100 mn

Profit : Rs 16mn (100 x 16%)

Contract Price : Cost + Profit

: 100 + 16

:Rs 116mn

(Murabaha Selling Price for declaration- Jan 10)

Payment of Price : Rs 116 mn (Dec 31)



Ex: 2

Payment in Installments

Financing Amount : Rs 100mn (Jan 1)

Profit Rate (IRR) : 16% p.a.

Tenor : 1 year

Murabaha Price : Four unequal installments

Cost : 100 mn

Profit : Rs 16mn $(100 \times 16\%)$

Contract Price : Cost + Profit = Rs 116mn (Jan 10)

Payment of Price : Rs 4mn (=0.16/4*100) March 31

Rs 4mn (=0.16/4*100) June 30

Rs 4mn (=0.16/4*100) Sept 30

Rs 104mn (=100+4) Dec 31.



Ex: 3

Payment in Four equal installments

Financing Amount : Rs 100mn (Jan 1)

Profit Rate : 16% p.a.

Tenor : 1 year Payment of

Murabaha Price :Four equal installments

Cost : 100 mn

Profit : Rs 10.2 (based on n=4, r=4%, PV=100)

Contract Price : Cost + Profit = Rs 100 + 10.2

: Rs 110.2mn (Jan 10)

Payment of Price :Rs 27.55mn - March 31

Rs 27.55mn - June 30

Rs 27.55mn - Sept 30

Rs 27.55mn - Dec 31.



Exercise

Financing Amount Profit Rate (IRR)	: Rs 40mn (Jan 1) : 9% p.a.
Tenor	: 6 months
Payment of Murabaha Price	: Bullet payment
Cost Profit	: :
Contract Price	: Cost + Profit
	:
	:
(Murabaha Selling	Price for declaration)
Payment of Price	: ()



Calculation, Steps & Documents sequence for Murabaha







Case 1-A: Local Purchase

Bank: First Islamic Bank

Clients Name: M/s ABC & Co

Purpose of Murabaha: Purchase of Raw Cotton & Yarn

Murabaha Financing Limit: Rs: 5,000,000/-

Profit Rate (IRR): 10% p.a.

Tenure: 120 days

Stage 1:

MMFA / Agency Date: January 01, 2006

Order Form Date: January 09, 2006

Order Form Amount: PKR: 1,000,000/-



Stage 2

Disbursement Date: January 10, 2006

Disbursement Amount: PKR 1,000,000/-

Purchase of Goods: Jan 11, 2006

Declaration submitted to bank: January 12, 2006 (with Purchase evidence – PE)

Stage 3

Cost of goods purchased: PRK 1,000,000/-

Profit Amount : PKR 32, 877/- $(1,000,000 \times [10\% /365] \times 120)$

Contract Price : Total Cost + Profit

PKR 1,032,877/-

Declaration accepted by the bank at Contract Price: January 12, 2006

Payment of Price: PKR 1,032,877/- (At Maturity on May 9, 2006)



Case 1-B: Local Purchase (with purchase expenses)

Bank: First Islamic Bank

Clients Name: M/s ABC & Co

Purpose of Murabaha: Purchase of Raw Cotton & Yarn

Murabaha Financing Limit: Rs: 5,000,000/-

Profit Rate (IRR): 10% p.a.

Tenure: 120 days

Stage 1:

MMFA / Agency Date: January 01, 2006

Order Form Date: January 09, 2006

Order Form Amount: PKR: 1,000,000/-



Stage 2

Disbursement Date: January 10, 2006

Disbursement Amount: PKR 1,000,000/-

Purchase of Goods: Jan 11, 2006

Declaration submitted to bank: January 12, 2006

Stage 3

Cost of goods purchased: PRK 1,000,000/-

Purchase expenses (freights etc): PKR 10,000/- (paid by Agent)

Total Cost : PRK 1,010,000/-

Profit Amount : PKR 32, 877/- $(1,000,000 \times [10\% /365] \times 120)$

Contract Price : Total Cost + Profit = PKR 1,042,877/-

Declaration accepted by the bank at Contract Price: January 12, 2006

Payment of Price: PKR 1,032,877/- (1,042,877/- less 10,000/-) - At Maturity on May 9, 2006)



Exercise 2: Local Purchase (step wise)

Bank: New Islamic Bank

Clients Name: M/s Faisalabad Steel

Purpose of Murabaha: Purchase of iron ore.

Murabaha Financing Limit: Rs: 3,000,000/-

Profit Rate (IRR): 12% p.a.

Tenure: 180 days

Stage 1:

MMFA / Agency Date:

Order Form Date:

Order Form Amount: PKR: 3,000,000/-



Stage 2

Disbursement Date: January 10, 2006

Disbursement Amount:

Purchase of Goods:

Declaration submitted to bank:

(with Purchase evidence – PE)

Stage 3

Cost of goods purchased:

Profit Amount : PKR /- (

Contract Price : Total Cost + Profit

PKR /-

Declaration accepted by the bank at Contract Price:

Payment of Price: PKR /- (At Maturity on



Case 2: Plain Murabaha

Bank: ABC Bank

Client: Pak Textile & Co

Cost: Rs. 10 Million Profit Rate: 10% P.A

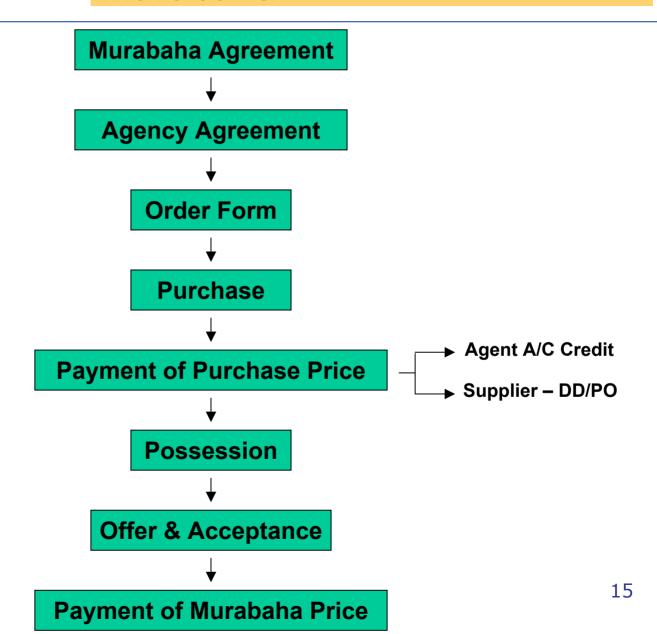
Tenure: 6 months

Other Expenses: Rs. 25,000

Local & Foreign Currency



Case 2 Plain Murabaha





Case 3: Advance Payment Murabaha

Local & Foreign Currency

Bank: ABC Bank

Client: Pak Textile & Co

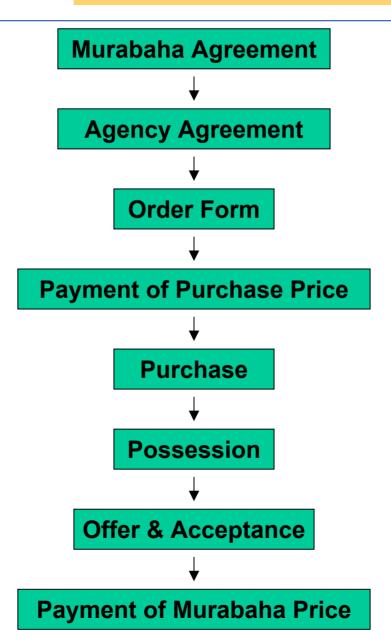
Cost: Rs. 10 Million Profit Rate: 10% P.A

Tenure: 6 months (includes advance payment period of 2 months)

Other Expenses:none



Advance Payment Murabaha





Case 4: Suppliers Credit Murabaha

Local & Foreign Currency

Bank: ABC Bank

Client: Pak Textile & Co

Cost: Rs. 12 Million

Profit Rate: 13 % p.a

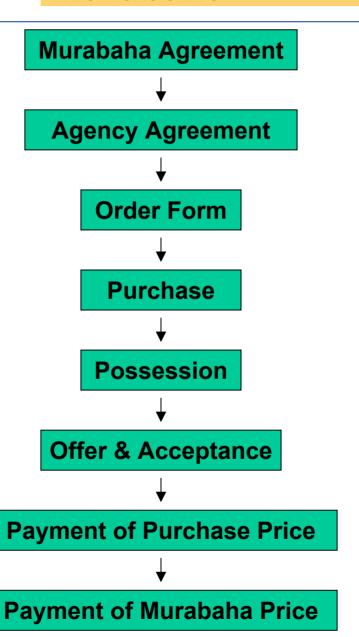
Suppliers Credit: 2 months

Tenure: 6 months

Other Expenses: None



Suppliers Credit Murabaha





Case 5: Import Sight LC (step wise)

Bank: First Islamic Bank

Clients Name: ICI Pakistan

Purpose of Murabaha: Purchase of PTA

Murabaha Financing Limit: Rs: 100,000,000/-

Profit Rate (IRR): 10% p.a.

Tenure: 90 days

Stage 1:

MMFA / Agency Date: January 01, 2006

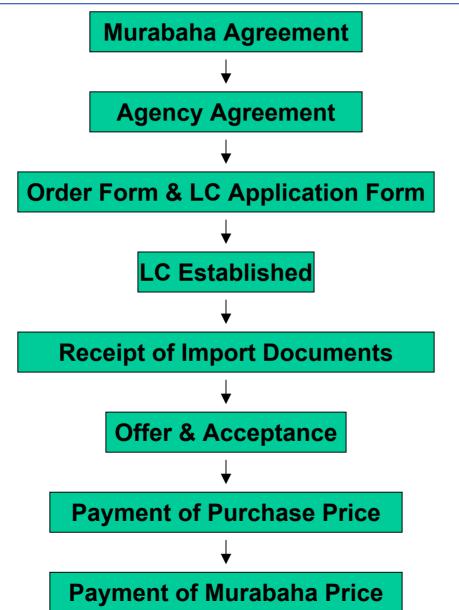
Order Form Date: January 09, 2006

LC opening Date: January 10, 2006

LC Amount: \$ 1,000,000/-



Steps involved





Stage 2

Receipt of Import Documents: January 30, 2006

Disbursement Date: January 30, 2006

Disbursement Amount: PKR 59,000,000/- (conversion rate 1\$=59PKR)

Declaration submitted to bank: January 30, 2006

Stage 3

Cost of goods purchased: PRK 59,000,000/-

Import charges: PKR 50,000/- (paid by the agent)

Total Cost : PRK 59,050,000/-

Profit Amount : PKR 1,454,794/- $(59,000,000 \times [10\% /365] \times 90)$

Contract Price : Total Cost + Profit

PKR 59,050,000/- + 1,454,794/- =60,504,794/-

Declaration accepted by the bank at Contract Price: January 30, 2006

Payment of Price: PKR 60,504,794/- (less 50,000/-) (At Maturity)



Conclusion



Conclusion

- Murabaha transaction are sensitive transactions and requires extreme care in execution.
- A small mistake at any stage may convert Murabaha into an interest based loan.
- It is the responsibility of each one of us to ensure that our Murabahas are executed in the best manner and the income derived is Halal in true letter and spirit.