

# 1 AAOIFI Standard (Enhanced)

## 1.1 Clause 1/1

Categories of Musharaka Partnerships are of two types: Holding Partnership and Contract Partnerships are of two types: Holding Partnership and Contract Partnership. Partnership. A holding partnership is created by means of inheritance or wills or A holding partnership is created by means of inheritance or wills or other circumstances resulting in the holding by two or more persons other circumstances resulting in the holding by two or more persons of an asset in common. In a holding partnership two or more of an asset in common. In a holding partnership two or more persons persons share in a real asset and in the returns arising therefrom. share in a real asset and in the returns arising therefrom. A contract partnership is created by means of an agreement whereby A contract partnership is created by means of an agreement whereby two or more persons agree that each of them contributes to the two or more persons agree that each of them contributes to the capital capital of the partnership and shares in its profit or loss. of the partnership and shares in its profit or loss.(2) (2) Contract partnerships are divided into: Al-Mufawada, Al-'Inan, Al- Contract partnerships are divided into: Al-Mufawada, Al-'Inan, Al- A'mal and Al-Wujuh. Fuqaha (jurists) have differed on whether A'mal and Al-Wujuh. Fuqaha (jurists) have differed on whether Mudaraba is a partnership in this sense or not. Some Fuqaha consider Mudaraba is a partnership in this sense or not. Some Fuqaha consider Mudaraba to be such a partnership because in general it fulfils the Mudaraba to be such a partnership because in general it fulfils the elements and terms of a partnership contract. Others, however, do elements and terms of a partnership contract. Others, however, do not consider Mudaraba to be one of the types of contract partnership. not consider Mudaraba to be one of the types of contract partnership. Following is a brief definition of each of the above types in light of Following is a brief definition of each of the above types in light of what is reported in Fiqh texts. what is reported in Fiqh texts. (2) (2) Sayyid Sabiq, Sayyid Sabiq, "Fiqh Al-Sunnah" "Fiqh Al-Sunnah", [3: 294], (Dar Al-Turath Printing House, Cairo 1977); , [3: 294], (Dar Al-Turath Printing House, Cairo 1977); Abdul-Aziz Al-Khayyat, Abdul-Aziz Al-Khayyat, "Companies in Islamic Shari'a" "Companies in Islamic Shari'a", 1390 A.H.-1970 A.D., first , 1390 A.H.-1970 A.D., first edition, [1: 23, 41 and after]. edition, [1: 23, 41 and after]. Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting Standard No. (4): Musharaka Financing

## 1.2 Clause 1/1/1

Al-'Inan partnership Inan partnership It is a contract between two or more persons. Each of the parties It is a contract between two or more persons. Each of the parties contributes a portion of the overall fund and participates in contributes a portion of the overall fund and participates in work. Both parties share in profit or loss as agreed between work. Both parties share in

profit or loss as agreed between them, but equality is not required either in the contribution to them, but equality is not required either in the contribution to the fund or in work or in sharing of profit (these being subject to agreement between the parties). This type of partnership is approved by all Fuqaha. approved by all Fuqaha. Hanafis and Hanbalis allow any of the followings: Profits of the Hanafis and Hanbalis allow any of the followings: Profits of the two parties to be divided in proportion to their contributed funds; profits may be divided equally but contributed funds may be different; profits may be divided equally but contributed funds may be different; and profits may be unequally divided, but may be different; and profits may be unequally divided, but contributed funds are equal. Ibn Qudamah said: "Preference contributed funds are equal. Ibn Qudamah said: "Preference in profit is permissible with the existence of work, as one of the two parties may be more informed as to trade transactions than the other party and/or physically capable of achieving greater deal of work, which allows him to make an increase in his profit share a condition of his work". Malikis and Shafis make share a condition of his work". Malikis and Shafis make the acceptance of this type of partnership conditional on profits acceptance to the size of contributions to and losses being proportionate to the size of contributions to the overall fund because (according to them) profit in this type of partnership is considered to be return on capital. of partnership is considered to be return on capital.(3) (3)

### 1.3 Clause 1/1/2

Al-Mufawada partnership It is a contract between two or more persons. Each of the It is a contract between two or more persons. Each of the two parties contributes a portion of the overall fund and two parties contributes a portion of the overall fund and participates in work. Both parties equally divide profit or loss. participates in work. Both parties equally divide profit or loss. It is a condition of this type of partnership that contributed It is a condition of this type of partnership that contributed funds, work, mutual responsibility and liability for debts be funds, work, mutual responsibility and liability for debts be equally shared by the parties. Both Hanafis and Malikis have equally shared by the parties. Both Hanafis and Malikis have permitted this type of partnership but have stipulated many permitted this type of partnership but have stipulated many restrictions for it. restrictions for it.(4) (4) (3) (3) Sayyid Sabiq, Sayyid Sabiq, "Fiqh Al-Sunnah" "Fiqh Al-Sunnah", [3: 296]; Abdul-Aziz Al-Khayyat, op. cit., [2: 30-31]; , [3: 296]; Abdul-Aziz Al-Khayyat, op. cit.,

[2: 30-31]; Al-Kasani, Al-Kasani, “Bada‘i’ Al-Sana‘i’ Fi Tartib Al-Shara‘ie’” “Bada‘i’ Al-Sana‘i’ Fi Tartib Al-Shara‘ie’”, [6: 57]. , [6: 57]. (4) (4) Al-Kasani, op. cit., (P. 56); Ibn Qudamah, Al-Kasani, op. cit., (P. 56); Ibn Qudamah, “Al-Mughni” “Al-Mughni”, [6: 30]. , [6: 30]. Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting Standard No. (4): Musharaka Financing

#### 1.4 Clause 1/1/3

Al-A’mal partnership It is a contract between two persons who agree to accept work It is a contract between two persons who agree to accept work jointly and to share the profit from such work. For example, jointly and to share the profit from such work. For example, two persons of the same profession or craft may agree to work two persons of the same profession or craft may agree to work together and to divide the profit arising from such work on together and to divide the profit arising from such work on an agreed basis. It is sometimes called Al-Abdan or Al-Sana‘i’ an agreed basis. It is sometimes called Al-Abdan or Al-Sana‘i’ partnership. partnership. Al-A’mal partnership is considered permissible by Hanafis, Ma- Al-A’mal partnership is considered permissible by Hanafis, Malikis, Hanbalis. likis, Hanbalis.(5) (5) It is considered valid within the same profes- It is considered valid within the same profes- sion or otherwise. Its permissibility is based on much evidences, sion or otherwise. Its permissibility is based on much evidences, including explicit approval thereon by the Prophet (peace be including explicit approval thereon by the Prophet (peace be upon him). In addition, it is based on agency which is permissi- upon him). In addition, it is based on agency which is permissi- ble. This type of partnership has been used throughout without ble. This type of partnership has been used throughout without being disapproved of. being disapproved of.(6) (6)

#### 1.5 Clause 1/1/4

Al-Wujuh partnership It is a contract between two or more persons who have good It is a contract between two or more persons who have good reputation and prestige and who are expert in trading. Parties reputation and prestige and who are expert in trading. Parties to the contract purchase goods on credit from firms, depending to the contract purchase goods on credit from firms, depending on their reputation, and sell the goods for cash. They share on their reputation, and sell the goods for cash. They share profit or loss according to the guarantee to suppliers provided profit or loss according to the guarantee to suppliers provided by each partner. Accordingly, this type of partnership does not by each partner. Accordingly, this type of partnership does not require capital since it is based on credit backed by guarantee. require capital since it is based on credit backed by guarantee. Hence, it is sometimes called a “Receivables Partnership”. Hence, it is sometimes called a “Receivables Partnership”. Al-Wujuh partnership is considered permissible by Hanafis Al-Wujuh partnership is considered permissible by Hanafis and Hanbalis. Those who support

its permissibility argue that and Hanbalis. Those who support its permissibility argue that it includes an agency guarantee which is also acceptable. It has it includes an agency guarantee which is also acceptable. It has been used throughout without being disapproved of. been used throughout without being disapproved of. (7) (7) (5) (5) Ahmad Ali Abdullah, Ahmad Ali Abdullah, “Legal Entity in Islamic Fiqh” “Legal Entity in Islamic Fiqh”, (Sudanese Printing Press House, , (Sudanese Printing Press House, Khartoum, undated), (pp. 217 and after). Khartoum, undated), (pp. 217 and after). (6) (6) Abdul-Aziz Al-Khayyat, op. cit., [2: 37]; Ibn Qudamah, Abdul-Aziz Al-Khayyat, op. cit., [2: 37]; Ibn Qudamah, “Al-Mughni” “Al-Mughni”, op. cit. [5: 6]; , op. cit. [5: 6]; Sayyid Sabiq, Sayyid Sabiq, “Fiqh Al-Sunnah” “Fiqh Al-Sunnah”, op. cit., (P. 297). , op. cit., (P. 297). (7) (7) Abdul-Aziz Al-Khayyat, op. cit., [2: 46-48]. Abdul-Aziz Al-Khayyat, op. cit., [2: 46-48]. Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting Standard No. (4): Musharaka Financing

## **1.6 Clause 1/2**

Musharaka elements and conditions

## **1.7 Clause 1/2/1**

Musharaka elements The elements of Musharaka are: Wording (offer and acceptance), The elements of Musharaka are: Wording (offer and acceptance), contract parties (the two contracting parties) and the subject contract parties (the two contracting parties) and the subject matter of the agreement (funding and work). matter of the agreement (funding and work).

## **1.8 Clause 1/2/2**

Terms of Musharaka

## **1.9 Clause 1/2/2/1**

Wording There is no specified form of Musharaka contract. It There is no specified form of Musharaka contract. It may be formed by any utterance expressing the purpose. may be formed by any utterance expressing the purpose. Contracting is considered to be valid if made verbally Contracting is considered to be valid if made verbally or in writing. The Musharaka contract is notarised in or in writing. The Musharaka contract is notarised in writing and witnessed. writing and witnessed.

## **1.10 Clause 1/2/2/2**

Contracting parties It is a requirement that the partner should be competent It is a requirement that the partner should be competent to give or be given power of attorney. to give or be given power of attorney.

### 1.11 Clause 1/2/2/3

Subject matter of the contract (funding and work) There are the following requirements: There are the following requirements: a) Funding a) Funding Capital contributed shall be in cash, gold, silver or Capital contributed shall be in cash, gold, silver or their equivalent in value. There is no difference their equivalent in value. There is no difference among Fuqaha in this respect. among Fuqaha in this respect. Capital may consist of trading assets such as goods, Capital may consist of trading assets such as goods, property and equipment, etc. It may also be in the property and equipment, etc. It may also be in the form of intangible rights, such as liens, patents and form of intangible rights, such as liens, patents and suchlike. It is considered permissible by some Fuqaha suchlike. It is considered permissible by some Fuqaha that the capital of a company can be contributed in that the capital of a company can be contributed in the form of these types of assets provided they are the form of these types of assets provided they are valued at their cash equivalent according to what the valued at their cash equivalent according to what the partners agree upon. partners agree upon. Shafis and Malikis argue that the funds provided Shafis and Malikis argue that the funds provided by partners should be commingled in order that by partners should be commingled in order that Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting Standard No. (4): Musharaka Financing

### 1.12 Clause 1/3

Musharaka rules

### 1.13 Clause 1/3/1

Rules of capital Following are the most significant rules which control the Following are the most significant rules which control the operation of capital and its maintenance: operation of capital and its maintenance: a) Power of attorney and disposition of funds a) Power of attorney and disposition of funds Any partner has the right to dispose of the partnership's Any partner has the right to dispose of the partnership's assets in the normal course of business. A partnership assets in the normal course of business. A partnership with with a contributed capital (e.g., Al-'Inan) constitutes an entity a contributed capital (e.g., Al-'Inan) constitutes an entity and once the capital has been contributed, it comprises a and once the capital has been contributed, it comprises a single fund. Each partner empowers his other partner(s) single fund. Each partner empowers his other partner(s) to dispose of the assets and he is thus considered to be to dispose of the assets and he is thus considered to be authorised to employ them in the activity of the Musharaka authorised to employ them in the activity of the Musharaka provided he does so with due care to the interests of his provided he does so with due care to the interests of his partner(s) and without misconduct or negligence. A partner(s) and without misconduct

or negligence. A partner partner is not allowed to disburse or invest the funds for his is not allowed to disburse or invest the funds for his personal personal purposes. purposes. b) Non-guarantee of capital b) Non-guarantee of capital Neither partner can guarantee the other partner's capital, Neither partner can guarantee the other partner's capital, because Musharaka is based on the principle of Al-Ghurm because Musharaka is based on the principle of Al-Ghurm (8) (8) Ibn Qudamah, Ibn Qudamah, "Al-Mughni" "Al-Mughni", op. cit., [5: 17]. , op. cit., [5: 17]. Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting Standard No. (4): Musharaka Financing

### 1.14 Clause 1/3/2

Work rules In a partnership with a contributed capital, the partners In a partnership with a contributed capital, the partners shall shall provide both funds and work, and each partner shall provide both funds and work, and each partner shall undertake undertake work as an agent of the partnership subject to the partnership work as an agent of the partnership subject to the partnership contract. This is regulated by a number of juristic rules, the contract. This is regulated by a number of juristic rules, the most significant of which are: most significant of which are: a) Agency as to the work a) Agency as to the work Each partner carries out work in the partnership on behalf of Each partner carries out work in the partnership on behalf of himself and as an agent for his partner. This is governed by himself and as an agent for his partner. This is governed by the general rules of agency contract in Islamic jurisprudence. the general rules of agency contract in Islamic jurisprudence. Some of these rules are related to the principal and others are Some of these rules are related to the principal and others are related to the agent and some are related to the things which related to the agent and some are related to the things which are the subject of agency. All these matters should be made are the subject of agency. All these matters should be made clear in the Musharaka contract. clear in the Musharaka contract.(9) (9) b) Scope of the work b) Scope of the work This relates to the specification of the scope of each partner's This relates to the specification of the scope of each partner's work in the partnership in relation to the latter's objectives work in the partnership in relation to the latter's objectives and activities. The partner should perform the agreed and activities. The partner should perform the agreed work work without negligence or misconduct. Partnership work without negligence or misconduct. Partnership work includes management of the business (e.g., planning, policy cludes management of the business (e.g., planning, policy making, development of executive programs, following-up, making, development of executive programs, following-up, supervision, performance appraisal and decision-making). supervision, performance appraisal and decision-making). (9) (9) Ibn Qudamah, Ibn Qudamah, "Al-Mughni" "Al-Mughni", [5: 88 and after], Kitab Al-Wakalah; Sayyid Sabiq, , [5: 88 and after], Kitab Al-Wakalah; Sayyid Sabiq, "Fiqh "Fiqh Al-Sunnah" Al-Sunnah", [3: 226], (Agency Chapter). , [3: 226], (Agency Chapter). Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting

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### **1.15 Clause 1/3/3**

Rules of profit a) General rules of profit a) General rules of profit(12) (12)

### **1.16 Clause 1/3/4**

Rules applicable in case of loss Fuqaha agree that loss should be divided between the partners Fuqaha agree that loss should be divided between the partners in proportion to their respective shares in the capital. Fuqaha in proportion to their respective shares in the capital. Fuqaha call this “Wadhi’ah” (loss). They support this opinion by the call this “Wadhi’ah” (loss). They support this opinion by the following saying of Ali Ibn Abu Talib (may Allah be pleased following saying of Ali Ibn Abu Talib (may Allah be pleased with him): “Profit should be according to what they (partners) with him): “Profit should be according to what they (partners) (14) (14) Refer to: Ibn Rushd, Refer to: Ibn Rushd, “Bidayat Al-Mujtahid Wa Nihayat Al-Muqtasid” “Bidayat Al-Mujtahid Wa Nihayat Al-Muqtasid”, [2: 253]; , [2: 253]; Al-Khatib, Al-Khatib, “Mughni Al-Muhtaj Sharh Al-Minhaj” “Mughni Al-Muhtaj Sharh Al-Minhaj”, [2: 215], (Dar Ihya’ Al-Turath , [2: 215], (Dar Ihya’ Al-Turath Al-Arabi, Beirut); Ibn Qudamah, Al-Arabi, Beirut); Ibn Qudamah, “Al-Mughni” “Al-Mughni”, [5: 30 and 31]; Mahmud Ibn Ahmad , [5: 30 and 31]; Mahmud Ibn Ahmad Al-’Ayni Al-’Ayni “Al-Binayah Fi Sharh Al-Hidayah” “Al-Binayah Fi Sharh Al-Hidayah”, [6: 108]. , [6: 108]. Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting Standard No. (4): Musharaka Financing

### **1.17 Clause 1/3/5**

Rules of Musharaka termination In general, the partnership shall be terminated if one of the In general, the partnership shall be terminated if one of the partners terminates the contract, or dies, if his legal competency partners terminates the contract, or dies, if his legal competency ceases or if the partnership capital is lost. ceases or if the partnership capital is lost. The majority of Fuqaha, except for Malikis, are of the opinion The majority of Fuqaha, except for Malikis, are of the opinion that as partnership is one of the permissible forms of contract, that as partnership is one of the permissible forms of contract, each of the partners is entitled to terminate it whenever he each of the partners is entitled to terminate it whenever he wishes, as is the case with agency contracts. wishes, as is the case with agency contracts. The partnership is based on agency and probity. Each of the The partnership is based on agency and probity. Each of the partners is a proxy for the others and a principal at the same partners is a proxy for the others and a principal at the same time. He acts in respect of his share as a principal and in respect time. He acts in respect of his share as a principal and in respect of his partners’ shares as a proxy; i.e., as an agent. In principle, of his partners’ shares as a proxy; i.e., as an agent. In principle, agency is one

of the unanimously permissible contracts and agency is one of the unanimously permissible contracts and no party is forced to proceed with it against his will. The no party is forced to proceed with it against his will. The partnership, as well, should start with an agency relationship partnership, as well, should start with an agency relationship between the partners, and this relationship provides the basis between the partners, and this relationship provides the basis for its continuity. If the agency relationship is severed by for its continuity. If the agency relationship is severed by termination on the part of one of the partners, the legal basis termination on the part of one of the partners, the legal basis upon which they acted in respect of each other's funds will be upon which they acted in respect of each other's funds will be eliminated. eliminated.(16) (16) In the case of death, one of the heirs, if he is of sound mind, In the case of death, one of the heirs, if he is of sound mind, may replace the deceased provided that the other heirs and may replace the deceased provided that the other heirs and the other partners agree to that. This shall also be applicable the other partners agree to that. This shall also be applicable in in case one of the partners loses competency. case one of the partners loses competency. (15) (15) Al-'Ayni, Al-'Ayni, "Al-Binayah Fi Sharh Al-Hidayah" "Al-Binayah Fi Sharh Al-Hidayah", op. cit., [6: 108]; Ibn Qudamah, , op. cit., [6: 108]; Ibn Qudamah, "Al-Mughni" "Al-Mughni", , [5: 37], The Case of : Wadi'ah Should Be Proportionate to the Amount of Fund. [5: 37], The Case of : Wadi'ah Should Be Proportionate to the Amount of Fund. (16) (16) Ali Al-Khafif, Ali Al-Khafif, "Companies in Islamic Jurisprudence" "Companies in Islamic Jurisprudence", op. cit., (P. 548). , op. cit., (P. 548). Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting Standard No. (4): Musharaka Financing

## 1.18 Clause 2/1

Recognition of the Islamic bank's share in Musharaka capital at the time of contracting time of contracting The Islamic bank's share in Musharaka capital (cash or kind) shall The Islamic bank's share in Musharaka capital (cash or kind) shall be recognized when it is paid to the partner or made available to him be recognized when it is paid to the partner or made available to him on the account of the Musharaka. This share shall be presented in on the account of the Musharaka. This share shall be presented in the Islamic bank's books under a Musharaka financing account with the Islamic bank's books under a Musharaka financing account with (name of client) and it shall be included in the financial statements (name of client) and it shall be included in the financial statements under the heading "Musharaka Financing". (para. 3) under the heading "Musharaka Financing". (para. 3) Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting Standard No. (4): Musharaka Financing



### **1.19 Clause 2/2**

Measurement of the Islamic bank's share in Musharaka capital at the time of contracting time of contracting

### **1.20 Clause 2/2/1**

The Islamic bank's share in the Musharaka capital provided in cash shall be measured by the amount paid or made available cash shall be measured by the amount paid or made available to the partner on the account of the Musharaka. (para. 4) to the partner on the account of the Musharaka. (para. 4)

### **1.21 Clause 2/2/2**

The Islamic bank's share in Musharaka capital provided in kind kind (trading assets or non-monetary assets for use in the venture) (trading assets or non-monetary assets for use in the venture) shall be measured at the fair value of the assets (the value shall be measured at the fair value of the assets (the value agreed between the partners), and if the valuation of the assets agreed between the partners), and if the valuation of the assets results in a difference between fair value and book value, such results in a difference between fair value and book value, such difference shall be recognized as profit or loss to the Islamic difference shall be recognized as profit or loss to the Islamic bank itself. (para. 5) bank itself. (para. 5)

### **1.22 Clause 2/2/3**

Expenses of the contracting procedures incurred by one or both parties (e.g., expenses of feasibility studies and other parties (e.g., expenses of feasibility studies and other similar similar expenses) shall not be considered as part of the Musharaka expenses) shall not be considered as part of the Musharaka capital unless otherwise agreed by both parties. (para. 6) capital unless otherwise agreed by both parties. (para. 6)

### **1.23 Clause 2/3**

Measurement of the Islamic bank's share in Musharaka capital after contracting at the end of a financial period contracting at the end of a financial period

### **1.24 Clause 2/3/1**

The Islamic bank's share in the constant Musharaka capital shall be measured at the end of the financial period at shall be measured at the end of the financial period at historical historical cost (the amount which was paid or at which the asset was cost (the amount which was paid or at which the asset was valued at the time of contracting). (para. 7) valued at the time of contracting). (para. 7)

### **1.25 Clause 2/3/2**

The Islamic bank's share in the diminishing Musharaka shall be measured at the end of a financial period at historical cost be measured at the end of a financial period at historical cost after deducting the historical cost of any share transferred after deducting the historical cost of any share transferred to the to the partner (such transfer being by means of a sale at fair value). partner (such transfer being by means of a sale at fair value). The difference between historical cost and fair value shall The difference between historical cost and fair value shall be recognized as profit or loss in the Islamic bank's income be recognized as profit or loss in the Islamic bank's income statement. (para. 8) statement. (para. 8)

### **1.26 Clause 2/3/3**

If the diminishing Musharaka is liquidated before complete transfer is made to the partner, the amount recovered in respect transfer is made to the partner, the amount recovered in respect Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting Standard No. (4): Musharaka Financing

### **1.27 Clause 2/3/4**

If the Musharaka is terminated or liquidated and the Islamic bank's due share of the Musharaka capital (taking account of bank's due share of the Musharaka capital (taking account of any profits or losses) remains unpaid when a settlement of any profits or losses) remains unpaid when a settlement of account is made, the Islamic bank's share shall be recognized account is made, the Islamic bank's share shall be recognized as a receivable due from the partner. (para. 10) as a receivable due from the partner. (para. 10)

### **1.28 Clause 2/4**

Recognition of the Islamic bank's share in Musharaka profits or losses losses

### **1.29 Clause 2/4/1**

Profits or losses in respect of Musharaka transactions should be recognized immediately upon agreement, not just at liquidation. This enhances transparency and compliance with Shariah accountability.

### **1.30 Clause 2/4/2**

In the case of a constant Musharaka that continues for more than one financial period, the Islamic bank's share of profits than one financial period, the Islamic bank's share of profits for any period, resulting from partial or final settlement

be- for any period, resulting from partial or final settlement be- tween the Islamic bank and the partner, shall be recognized tween the Islamic bank and the partner, shall be recognized in its accounts for that period to the extent that the profits in its accounts for that period to the extent that the profits are being distributed; the Islamic bank's share of losses for are being distributed; the Islamic bank's share of losses for any period shall be recognized in its accounts for that period any period shall be recognized in its accounts for that period to the extent that such losses are being deducted from its to the extent that such losses are being deducted from its share share of the Musharaka capital. (para. 12) of the Musharaka capital. (para. 12)

### **1.31 Clause 2/4/3**

Item 2/4/2 shall apply to a diminishing Musharaka which continues for more than one financial period, after taking continues for more than one financial period, after taking into consideration the decline in the Islamic bank's share in into consideration the decline in the Islamic bank's share in Musharaka capital and its profits or losses. (para. 13) Musharaka capital and its profits or losses. (para. 13)

### **1.32 Clause 2/4/4**

As implied by item 2/3/4 above, if the partner does not pay the Islamic bank its due share of profits after liquidation or after Islamic bank its due share of profits after liquidation or after settlement of account is made, the due share of profits shall be settlement of account is made, the due share of profits shall be recognized as a receivable due from the partner. (para. 14) recognized as a receivable due from the partner. (para. 14) Financial Accounting Standard No. (4): Musharaka Financing Financial Accounting Standard No. (4): Musharaka Financing

### **1.33 Clause 2/4/5**

If losses are incurred in a Musharaka due to the partner's misconduct or negligence, the partner shall bear the Islamic misconduct or negligence, the partner shall bear the Islamic bank's share of such losses. Such losses shall be recognized as bank's share of such losses. Such losses shall be recognized as a receivable due from the partner. (para. 15) a receivable due from the partner. (para. 15)

### **1.34 Clause 2/4/6**

The Islamic bank's unpaid share of the proceeds as men- tioned tioned above in items 2/3/4 and 2/4/4 shall be recorded in above in items 2/3/4 and 2/4/4 shall be recorded in a Musharaka receivables account. A provision shall be made a Musharaka receivables account. A provision shall be made for these receivables

if they are doubtful. (para. 16) for these receivables if they are doubtful. (para. 16)

### **1.35 Clause 2/5**

Disclosure requirements

### **1.36 Clause 2/5/1**

Disclosure should be made in the notes to the financial statements for a financial reporting period if the Islamic bank has made during that period a provision for a loss of its capital in made during that period a provision for a loss of its capital in Musharaka financing transactions. (para. 17) Musharaka financing transactions. (para. 17)

### **1.37 Clause 2/5/2**

The disclosure requirements should explicitly include Shariah review board comments and compliance notes in the financial statements.