

FAS 2

Murabaha and Murabaha to the Purchase Orderer

Revision of Standard

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PROPOSED REVISIONS

Section	Proposed revision	Committee's views
Para 1: Scope of the standard	Scope can be redefined more explicitly e.g. in bullet form to include relevant products and related transactions and exclude other products such as modarba and musharika .	
Para 1: Scope of the standard	Disclosure requirement in case of difference between applicable law and the standard can be transferred to disclosure section.	

PROPOSED REVISIONS (CONTINUED)

Section	Proposed revision	Committee's views
<p>Para 5 and 6: Potential discount obtained after acquisition of asset</p>	<p>Para 6 can be revised to further elaborate the case where discount can be recorded as revenue. Further, accounting treatment of discount in following cases could also be included:</p> <ul style="list-style-type: none"> ➤ Discount granted to purchase orderer as a result of above. ➤ Discount received after the derecognition of asset under murabaha sale e.g. sales volume discount. 	

PROPOSED REVISIONS (CONTINUED)

Section	Proposed revision	Committee's views
Para 7: Murabaha receivables	Definition of cash equivalent value / net realizable value can be redefined in Appendix E to cover receivables as well.	
Para 7: Murabaha receivables	Para will be reworded to elaborate the time of occurrence of murabaha receivable as “when the asset is (or risks and rewards associated with the asset are) transferred to the purchase orderer.	

PROPOSED REVISIONS (CONTINUED)

Section	Proposed revision	Committee's views
Para 8: Profits recognition	Recording of revenues and cost of sales can be specifically mentioned in separate paragraph. Further, time of recognition of revenues and cost of sales will be elaborated. Currently it mentions "at the time of concluding of the contract".	
Para 8: Profits recognition; Para 9: Deferred profits	It is proposed to record the differential of cash sale price and cost of goods sold immediately as revenues and recognize the remaining profit over the contract period.	

PROPOSED REVISIONS (CONTINUED)

Section	Proposed revision	Committee's views
Para 9: Deferred profits	It is proposed to elaborate whether deferred profits be specifically shown as deduction from murabaha receivable in notes or face of the statement of financial position.	
Para 10: Deduction of part of profit at the time of (early) settlement Para 11: Deduction of part of profit after (early) settlement	Both paragraphs can be merged together. However, clarification is required whether the deducted profit be excluded from deferred profits or profits recognized in the statement of financial performance.	

PROPOSED REVISIONS (CONTINUED)

Section	Proposed revision	Committee's views
Para 12: Insolvency	The para can further include guidelines for periodic measurement and recognition of impairment due to credit risk and the related disclosures.	
Para 13: Failure of purchase orderer to fulfill the promise	Recognition criteria for Urboun and Hamsih Jiddiyah can be further elaborated specifically in separate paragraphs.	
Para 15: Failure of purchase orderer to fulfill the promise	The para states that Islamic Bank should not incur any losses in case of binding promise. Guidelines for recording of impairment losses can be included.	

FURTHER RECOMMENDATIONS

- **Guidelines for reverse murabaha**

- **Disclosure requirements for collateralized murabaha along with accounting treatment in case of utilization of collateral to recover the receivable**

- **Treatment of other transactions costs associated with the murabaha transaction:**
 - a. if borne by financial institution, whether to include in commission expenses or administrative expenses**

 - b. If borne by client, should they be part of murabaha receivables**

Questions?

Thank You