Murabaha Exercise & Calculation
Calculation of Cost & Profit
In Murabaha transactions.
**Bullet Payment at the end of tenure**

- **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)
**Murabaha Calculation - General**

**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 x 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.
Murabaha Calculation - General

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 : Rs 40mn (Jan 1)
Profit Rate (IRR) : 9% p.a.
Tenor : 6 months
Payment of : Bullet payment
Murabaha Price

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/-
Murabaha

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 x [10% /365] x 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/-
Murabaha

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 x [10% /365] x 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/-
Murabaha

**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
Murabaha

Murabaha Agreement

Agency Agreement

Order Form

Purchase

Payment of Purchase Price

Possession

Offer & Acceptance

Payment of Murabaha Price

Case 2
Plain Murabaha
Case 3: Advance Payment Murabaha

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
Murabaha

- **Murabaha Agreement**
  - **Agency Agreement**
    - **Order Form**
      - **Payment of Purchase Price**
        - **Purchase**
          - **Possession**
            - **Offer & Acceptance**
              - **Payment of Murabaha Price**
Case 4: Suppliers Credit Murabaha

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
**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/-
Murabaha

Steps involved

Murabaha Agreement

Agency Agreement

Order Form & LC Application Form

LC Established

Receipt of Import Documents

Offer & Acceptance

Payment of Purchase Price

Payment of Murabaha Price
Murabaha

**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 x [10% /365] x 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 transactions 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 Murabahahas are executed in the best manner and the income derived is Halal in true letter and spirit.