# Rastin Partnership Accounting

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**Abstract**

**Purpose:** This paper aims to define a new system of accounting for partnership financing that applies in Rastin Profit and Loss Sharing Banking. In this system interest rate is not used in calculations and accounting, and instead, the "time value" of capital based on the amount and duration of partnership is used.

**Design:** Rastin Partnership Accounting principles have been founded on off-balance-sheet items and on the basis of the institutions' obligations to the depositors and receivers of financial resources, and they are in compliance with the nature of the financial intermediary activity (partnership of depositor in the yields of the fund receiver via the bank).

**Findings:** The distribution of profit among stakeholders (including workforce and capital owners) is accomplished according to the share of each beneficiary in the created value added. In this regard, Euler's theorem, as the best mathematical-economic innovation for distribution of income is applied.

**Research limitations:** This system is novel and it is required to be more elaborated for further practical development and adjustment.

**Practical implications:** In this accounting system, the return of the partnership is distributed among sharers based on the amount and duration of their partnership. Penalty for delay in payment is calculated from the amount of the incurred loss due to negligence or blameworthy of the undertaker and not upon a penalty interest rate.

**Social implications:** Interest rate as an essential factor in conventional accounting is not usable in Islamic banking and other similar institutions that work based on partnership, such as mutual funds and saving and loan associations. The proposed system removes this shortage and is fairer than the conventional accounting.

**Originality/value:** Approach of this accounting system is totally different from the conventional accounting, because of intrinsic characteristics of the intermediary role of financial partnership institutions and Islamic banks.

**Article Type**: Technical paper

**Keywords:** Rastin Banking, Profit and Loss Sharing (PLS), Partnership, Profit distribution, Accounting, Islamic Banking, *Musharakah*.

JEL: M41, G24, G23

## Introduction

Accounting of the profit resulting from the partnership operation between depositor[4] and

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[4] **Depositor**: is a natural person or a legal entity with a certain amount of fund (cash), who asks the Rastin PLS bank to participate in Rastin PLS banking products through a direct contact with the bank, or via internet, and buys the Rastin Certificate.

**Rastin Bank**: It is a bank/financial institute which allocates financial resources of depositors to entrepreneurs on behalf of depositors. In compliance with drawn-up contracts, the profit or loss are distributed among the depositors, bank, and entrepreneur. Bank provides depositors with capital management services by remuneration for rending a service and invests entrepreneur[5] is one of the most important issues in Islamic banking and financial partnership. The procedures of Rastin Partnership[6] Accounting in this paper was designed based on Rastin Profit and Loss Sharing Banking[7] operations, thus we used the terms defined in Rastin Banking[8]. In Rastin Partnership Accounting the interest rate is not applied in booking and financial analyses. In addition, the time-value of capital is calculated based on the amount and duration of partnership, and without applying interest rate.[9] This method is explained in detailed documents[10] and specifically in the drafts of the bill and the executive bylaw of Rastin Banking[11].

There is no specific framework for partnership accounting in conventional accounting. In conventional banking, loans, credits and depositing and also financial instruments are based on interest rate, which is absolutely usury and problematic in Islamic banking. This procedure is also observed in Islamic banking contracts, and particularly in installment sales, hire-purchase, *murabahah*, and *istisna'a*. Moreover, in partnership contracts, present and future values are calculated by interest rate.

### Problematic Issues in Islamic Banking

In the Islamic jurisprudence, the concept of time is not applied for defining usury, but it is exposed in the partnership accounting operations. That is the definition of usury does not involve the variable of time, and this is a major problem in the juritic definitions of usury[12]. On the other words, if in a loan, the maturity were the time of transaction, the transaction will no longer has a duration and will be regarded as a cash transaction. Therefore, the loan does not make sence and it will be just giving loan and paying it back at the same time. On the other words, it is a futile deed. Thus, the emergence of usury is only realized when there is a time span between payment and collection of loan. Since this issue is not addressed by jurists in defining usury, contracts defined in the non-usury banking operation law (approved in 1983) and its executive bylaws, and also the consequent requirements for

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resources of depositors in one of participation forms of Rastin PLS banking according to their own request. In turn, it issues a Rastin Certificate to depositor for allocation of her/his financial resources. Bank as attorney of depositors is obliged to safeguard their rights, for which it should use all its professional resources.

5 - **Entrepreneur**: is a natural person or a legal entity, who proposes a project to the PLS bank for financing through the PLS Banking System and executes the project up to the end. In addition to encompassing the required legal, financial, technical and performance capabilities, the entrepreneur should have the other capabilities and facilities/possibility to carry out the job.

6 **Rastin partnership**: It is the depositors' participation in the profit and loss of investment projects and economic activities, based on the project true rate of return and for the sake of implementation of non-usury banking in accordance with the Islamic ethical principles.

7 **Rastin Profit and Loss Sharing (PLS):** is an activity in Rastin Banking based on participation of depositors in investment and economic activities of entrepreneur based on real yield of projects in order to land interest-free banking according to Islamic commandments and ethics.

**Rastin bank**: It is a department which allocates financial resources of depositors to entrepreneurs on behalf of depositors. In compliance with drawn-up contracts, the profit or loss are distributed among the depositors, bank, and entrepreneur. Bank provides depositors with capital management services by remuneration for rending a service and invests resources of depositors in one of participation forms of Rastin PLS banking according to their own request. In turn, it issues a Rastin Certificate to depositor for allocation of her/his financial resources. Bank as attorney of depositors is obliged to safeguard their rights, for which it should use all its professional resources.

8 **Rastin Banking**: is a true operational Islamic banking.

9 Bidabad, Bijan., Allahyarifard, Mahmoud. (2013). Profit and Loss Sharing (PLS) Banking Accouting, *Papers Presented in the Banking and Monetary Development Management Conference, Ansar Bank, 27-28 Jan 2013, Tehran.*

10 Rastin Banking documents are accessible through: http://www.bidabad.com

11 Bidabad, Bijan., Amirostovar, Azarang., Abdollahi, Saeid., Allahyarifard, Mahmoud., Pordel, Eskandar., Heydari, Maryam., Shafiei, Alireza., and Pourbehrouz, Mohammad-Ali. (2012). The Draft of Bill of Rastin Banking, *Bank Melli Iran.* http://www.bidabad.com/doc/rastin-banking-bill.pdf.

Bidabad, Bijan., Amirostovar, Azarang., Abdollahi, Saeid., Allahyarifard, Mahmoud., Pordel, Eskandar., Heydari, Maryam., Shafiei, Alireza., and Pourbehrouz, Mohammad-Ali. (2012). The Draft of the Executive Bylaw of Rastin Banking, *Bank Melli Iran.* http://www.bidabad.com/doc/rastin-banking-regulation.pdf.

12 Bidabad, Bijan., Harsini, Abdolreza. (2003). An economic-juridical analysis of usury in consumption loans and investments, and shortcomings of the common jurisprudence in discovering the Shari`ah laws, *presented in the bi-annual conference of Islamic economics, Economics Research Center, Tarbiat Modares University.* http://www.bidabad.com/doc/reba-fa.pdf

partnership accounting, are engaged with an essential ambiguity regarding discounting operations.[13]

The principle of *belonging of the return of (money) capital to its owner* is disregarded in conventional Islamic banking. Though, one of the important principles of Islamic banking is to devote the profit or loss of any partnership to the depositors of the same engaged capital in an investment project. On the other words, the result of every investment should be transferred to the owners of that capital. The current procedure, in which all the profits and losses of different activities are pooled in one place and average profit is devided and paid to the depositors. This type of distribution does not conform to the theoretical principles of *musharakah* (partnership) in Islamic banking. Even though this issue is included in the contract terms and coditions -as the agreed condition of the contract- and in this way, this principle is overlooked without juristic or legal objection. Consequently, conventional accounting has also neglects this issue and thus, it does not codify the classification structure of the accounts in a way to separate and link the accounts in the assets and the liabilities items to corresponding items separatly. In order to move toward Islamic banking, these problems should be solved.

**Rastin Partnership Accounting Principles**

Accounting in the Rastin Profit and Loss Sharing operation is based on the following principles:

1. Interest rate is not applied in registering the accounting documents, operations, accounts, and financial analyses.
2. In Rastin Partnership Accounting, calculating the present or future values of assets through obtaining the present or future value methods, which are performed in conventional accounting by using the interest rates, are not the bases for calculating the "time value" of capital. In Rastin Partnership Accounting, the basis of calculating the "time value" of capital is the amount and duration of partnership.
3. "Term capital" is defined as the multiplication of the nominal value of capital by the partnership duration of that capital in the project[14].
4. The share of each capital owner in partnership is equal to, the ratio of the "term capital" of each person, divided by the total "term capitals" of all partners. This ratio is called "term share".
5. In Rastin Profit and Loss Sharing Banking, the profit or loss is distributed among capital owners in proportion to their "term share".
6. In Rastin Partnership Accounting, it is necessary for each project to have equal "term sources" and "term uses". "Term sources" is equal to the total "term deposits" of all depositors. The "term uses" is equal to the total "term uses" of the funds paid to the entrepreneur. The "term deposit" is obtained by multiplying the nominal amount of the deposit by the partnership duration of that deposit in the project. The "term use" is equal to the multiplication of the nominal amount paid to the entrepreneur, by the duration that the corresponding fund has been available to him.
7. The accounting documents of each project and the related financial operations are booked and kept under a separate heading.
8. The profit or loss of each project only belongs to the same project and is booked under its respective heading; and its financial effects will be given to the entrepreneur and the depositors of the same project.
9. In Rastin Partnership Accounting, the effects resulting from unjustifiable delays are not imposed on the committed person based on the conventional methods of receiving penalty for the delayed payment (which are based on the interest rate). In order to quantify the effects of the delays of the committed person, the effects of delay on the revenue items and the project costs of the project should be measured and then collected according to the net value of the effects.
10. Since in Rastin Profit and Loss Sharing Banking, bank is the "mediator of funds", this causes a difference between the booking processes of accounting documents in this type of banking and

[13] Bidabad, Bijan., Harsini, Abdolreza. (2003). Non-usury bank stock company and reviewing the usury and non-usury nature of the common banking operation, *papers presented in the third bi-annual conference of Islamic economy (the Islamic economy theory and performance of Iran's economy), Economics Research Center, Tarbiat Modares University, 23-24 Dec 2003, pp. 193-224.* http://www.bidabad.com/doc/sherkat-sahami-bank.pdf.

[14] **Project**: is a collection of economic activities with a specified and concrete plan, and also with pre-defined costs and terms, to make profit through Rastin PLS banking offered to the PLS bank.

the conventional banking. In this method, the heading of the accounts receivable subsidiary ledger can be recorded in the liabilities section as on-balance-sheet items, or in the form of the bank's obligations as off-balance-sheet items. The entrepreneur's obligations with regard to the issuance of the Rastin Certificates[15], disciplinary documents of contracts, collaterals and guarantees, also the obligations of the bank and other insurance companies for insuring a part of the depositors' original capital (deposit) are amongst the other off-balance-sheet items in the assets section of the balance sheet. At the time of settlement, the reverse documents of the above-mentioned cases will be recorded.

11. According to the registration of accounting documents (explained in clause 10), and due to the fact that funds received from the depositor and paid to the entrepreneur are the same as the trusted funds and commitments and are recorded as off-balance-sheet items, contingency and legal reserve items, based on this accounting record procedure will have a substantive difference with conventional banking.
12. With respect to the above clauses and the characteristics of Rastin Profit and Loss Sharing Banking, which make the bank a "mediator of funds", outstanding, matured, doubtful, and unpaid receivables will probably occur, only if the provisions of Rastin Banking regulations are not accurately implemented.
13. According to the capital adequacy bylaw (approved on February 14, 2004, by the Money and Credit Council), the capital adequacy ratio (CAR) is calculated by dividing the base capital (according to the bylaw related to the base capital of banks and credit institutions, approved on January 17, 2004) by the total risk-weighted assets of on- and off-balance-sheet items. The minimum value of this ratio for conventional banks has been determined 8%. Based on the above clauses, considering the change in the nature of financial and accounting operations in Rastin Profit and Loss Sharing Banking, determining a new capital adequacy ratio for this type of banking system is necessary.

**Rastin Partnership Accounting Operations**

The project required resources for different periods are specified in the project proposal[16]. Based on the project proposal information, the required investment amount and "term deposit" (consequently "term sources") of the project are determined. All these items will be based on the predictions of the project proposal. "Term uses" are the money resources equipped in several stages, which are resulted from the predictions of the approved project proposal. In this regard, money resources are paid to the entrepreneur by the bank in different periods, after receiving the necessary documents in each stage, and approval of the trustee unit[17] and confirmation of the bank PLS office[18]. Based on the necessity of the equality of "term sources" and "term uses" in Rastin Profit and Loss Sharing[19] banking products, in each stage, the bank proceeds to equip resources, issue Rastin Certificate for the depositors, and

[15] **Rastin Certificates**: are a collection of certificates, designed and issued in the Base System and Financial Subsystems of Rastin PLS Banking. The supervisory feature of the trustee unit of the PLS bank on these certificates, distinguishes them from the other financial papers. Being nameless, negotiable in secondary virtual Rastin Certificate Market, having market price based on the supply and demand of certificates, settlement by the last certificate holder are some of the characteristics of Rastin Certificates. Settlement of these certificates are carried out under the supervision of the trustee unit of the PLS office of the bank.

[16] **Project proposal**: is a written document covering a collection of necessary information about the entrepreneur's proposed project submitted to Rastin PLS bank that describes analytical justification of the project from economic, technical, financial and executive points of view, with enclosed necessary legal licenses and documents.

[17] **Trustee unit**: is a unit in the PLS office of the bank that exercises supervision over the processes of participation in Rastin Banking on behalf of the bank by using fundamental indicators and examining financial statements. It exercises supervision for the followings: good implementation of project, control of executive operations as expressed by planned projects, methods for allocation of resources, optimization of resources, etc.

[18] **PLS Office**: It is a bank department that along with subordinate units manages participation processes in Rastin Banking.

[19] **Rastin Profit and Loss Sharing (PLS)**: is an activity in Rastin Banking, which is based on the participation of depositors in the investment and economic activities of the entrepreneur based on the real yield of project in order to land the interest-free banking according to the Islamic commandments and ethics. In Rastin PLS Banking, bank is a unit, which allocates the resources of depositors to those who look for financing (i.e., entrepreneurs) and according to specific contracts; the obtained profit or loss will be divided between depositor and entrepreneur. By receiving commission (*Jol*), bank provides capital management services for depositors, and invests their resources according to their choices and in return, provides them by Rastin Certificate. Bank has to use all its specialized potentialities to protect depositors' rights.

allocate it to the entrepreneur.

In the Base System[20] of Rastin Profit and Loss Sharing Banking, in the product type I (partnership in profit and loss of a project) and the product type II (partnership in profit and loss of a bundle of projects), in finitude projects[21] for *Musharakah* (partnership) Certificates[22], the profit is calculated according to the following relations. When the executive operation is terminated, the project (or the bundle of projects) will be sold. In the following terms, the "capital value" is the amount of the depositor's partnership capital (deposit), the "contribution value" (brought capital) is the entrepreneur's contribution amount, the "return value" of the entrepreneur's labor work is the value resulting from the entrepreneur's activity, and the "value added" is the surplus value (profit) created from the summation of capital and contribution, which is obtained from selling the project(s). On the other words, the price of selling project(s) minus the total of capital and contribution values is equal to the project (projects) value added. With this definition, the following relations are true, for the case of before deducting the fee for offering capital management services by the bank:

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| *Project mark-up price = Capital value + Contribution value* |

The above relation shows the balance between the sources and the uses of the project. The project mark-up price includes the cost of the evaluation and the supervision costs, according to the provisions of the regulations.

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|---|
| *Capital value + Contribution value + Labor return value = Mark-up price + Value added* |
| *Project mark-up price + Value added = Project selling price* |
| *Capital value + Contribution value + Labor return value = Project selling price* |

The depositor's return of the created value added will be equal to the ratio of the depositor's capital (deposit) value to the project selling price (or appraised value); also, the return share of the entrepreneur of the created value added will be equal to the sum of the return ratio of the entrepreneur's contribution to the project selling price (or appraised value), plus the return ratio of the created value added to the project selling price (or appraised value):

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|---|
| *Return ratio of the depositor's capital = Depositor's capital value ÷ Project appraised value* |
| *Return ratio of the entrepreneur's contribution = Entrepreneur's contribution value ÷ Project appraised value* |
| *Return ratio of the entrepreneur's labor = Project value added ÷ Project appraised value* |

The depositor's and the entrepreneur's shares of the value added are obtained by multiplying their return ratios by the project value added. On the other words:

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| *Depositor's share (amount) of the value added = Return ratio of the depositor's capital × Project value added* |

[20] - **Base System of Rastin Profit and Loss Sharing Banking**: Refers to the main process and general rules and disciplines of Rastin PLS Banking.
Bidabad, Bijan (2013) Rastin Profit and Loss Sharing (PLS) Base System. Journal of Islamic Economics, Banking and Finance, pp. 32-57, Vol. 9 No. 4, Oct - Dec 2013.
http://ibtra.com/pdf/journal/v9_n4_article2.pdf

[21] **Finitude projects**: are those projects that at the start of utilization period are not productive in depositor's insight and after the end of construction period and start of utilization period are finished from the bank's and depositor's points of view and are to be consumed.

[22] **Partnership (*Musharakah*) Certificate**: is an anonymous -or named- paper which expresses the participation of depositor in one of the PLS banking products with a defined value and is issued by bank for a defined period and its owner shares the profit and loss of the subject of participation proportional to its nominal value and duration of participation according to rules and regulations of Rastin PLS banking.

*Share (amount) of the entrepreneur's contribution of the value added = Return ratio of the entrepreneur's contribution × Project value added*

*Share (amount) of the entrepreneur's labor of the value added = Return ratio of the entrepreneur's labor × Project value added*

On the other words:

*Depositor's share (amount) of the value added = Return of the depositor's capital of the value added*

*Share (amount) of the entrepreneur's contribution of the value added = Return of the entrepreneur's contribution of the value added*

*Share (amount) of the entrepreneur's labor of the value added = Return of the entrepreneur's labor of the value added*

The depositor's share of the project selling price is obtained from the summation of the depositor's share (amount) of the value added, plus his/her deposit. Moreover, the entrepreneur's share (amount) of the project selling price is obtained from the summation of the share (amount) of the entrepreneur's contribution of the value added, plus the share (amount) of the entrepreneur's labor of the value added, plus the entrepreneur's contribution. Thus:

*Depositor's share of the project selling price = Depositor's share of the value added + Depositor's deposit*

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|---|---|---|---|---|---|---|
| *Total share of the entrepreneur of the project selling price* | = | *Share of the entrepreneur's contribution of the value added* | + | *Share of the entrepreneur's labor of the value added* | + | *Entrepreneur's contribution* |

Summation of the two latter relations shows that after distribution:

*Depositor's share of the project + Entrepreneur's share of the project = Value added + Depositor's capital + Entrepreneur's contribution*

If we sum up the above relations, the following relation will be achieved:

*Capital return + Contribution return + Labor return = Value added*

Economically, this type of distribution corresponds to the popular Euler's theorem[23] for distribution of the value added (income) to labor and capital, on the basis of the return for each of the owners of labor and capital. This is the foundation for profit distribution in Rastin Profit and Loss Sharing Banking.

The fee for offering the capital management services by the bank, after calculating the above distribution process, will be deducted from the depositor's and the entrepreneur's allocated amounts based on their "term shares" and the rest will be paid to them.

**Accounting for Funds with Variable Capital**

Joint Stock Company with Variable Capital (JSCVC)[24] is a joint stock company in which the capital and shares vary by new entrance or withdrawals of stockholders or by lapse of time through changing sharing proportions because of changes in shares' durations. Amount of nominal capital of the company at any point of time is calculated by summing up the nominal values of the shares of

[23] Henderson, R., Quandt, P. (1982), Microeconomic theory, a mathematical approach. Mc-Graw Hill.
[24] Bijan Bidabad, (2014) Joint stock company with variable capital (JSCVC), International Journal of Law and Management, Vol. 56 Iss: 4, pp.302 – 310. http://dx.doi.org/10.1108/IJLMA-09-2012-0031

shareholders at that time, but company's yields is distributed by time-duration weighted of the shares. The time points and periods for clearing accounts are predetermined according to the article of association of the company. Time points or financial periods can be orderly cyclic/periodical, or disordered but predetermined. Whenever a shareholder requests for withdrawal of his share/deposit, his share of the company's yield is calculated and paid. Thus, the share of each shareholder of the yield of the company is calculated according to the ratio of the days the shareholder has kept his capital in the company multiplied by the nominal value of the shareholder's capital, divided by sum of the similar multiplications for all shareholders. Each shareholder shares the profit/loss of the company proportional to his capital and the days he has been participating in the company.

Rastin Partnership Accounting for funds with variable capital is as follows. The nominal capital of the fund is equal to the total nominal amounts of the partnership shares of partners (including founders and others), at the beginning of each financial period. The time intervals in the financial period of the fund should be predetermined and explicitly expressed in the funds' statute. Each partner's partnership share of the fund's capital is equal to the ratio of the nominal amount of his/her contribution, divided by the nominal amount of the fund's capital, at the beginning of each financial period. Each partner's share of the profit or loss of the fund, at the end of each financial period, is equal to the partner's "term share", multiplied by the fund's profit or loss. If the partner does not receive his/her owned profit or loss resulting from the partnership in the fund at the end of the financial period, the profit or loss amount will be added to the nominal amount of his/her capital, at the beginning of the next financial period.

**Change in Timing**

According to the provisions of Rastin Banking regulations about supervision, bank is obliged to monitor all the executive and financial operations of the project, and calculate and apply the delays at the time of settlement. If the project is not completed at the time specified in the proposal, the trustee[25] will be obliged to obtain and record the necessary documents and inquire the market quotes for all the project cost-items, including goods, services, main and subsidiary raw and intermediary materials, machinery, equipment, facilities, land, wages, utilized services, and other cost items, at the due time mentioned in the proposal (i.e., the project completion time), in order to calculate the changes in the project costs as a result of the delay. Moreover, the trustee is obliged to inquire or estimate the project selling price (including the assets, products, goods, and services at the mentioned date), or in case needed, according to the costs of other similar completed projects, assets, or products, and record and maintain them along with the related documents, in order to calculate the financial effects of the change in the project revenue, as a result of the change in timing. The effects of the price change on the project costs, as a result of the delay in timing, are calculated via the following relation:

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|---|---|---|---|---|
| *Cost effects, as a result of the delay in timing* | = | *Project mark-up price* | - | *Project estimated mark-up price, at the time mentioned in the proposal according to the before citation* |

The effects of the price change on the project revenue, as a result of the delay in timing, are calculated through the following relation:

| | | | | |
|---|---|---|---|---|
| *Revenue effects, as a result of the delay in timing* | = | *Project mark-up price* | - | *Project estimated selling price, at the time mentioned in the proposal according to the before citation* |

If according to the evaluation of the trustee (and the trustee unit) and confirmation of the bank PLS office, the entrepreneur negligence in fulfilling the obligations leads to a change in the project costs and the project revenue, the net change in revenue minus costs, if negative, will be deducted from the

[25] **Trustee**: Experienced and competent professional of trustee unit of PLS office or natural and legal entity outside the bank who is sufficiently experienced with key personnel and adequate resources and fulfills duties of supervision on the projects in Rastin Banking.

entrepreneur's revenue share or his/her guarantees and collaterals and paid to the depositors.

If the entrepreneur's fault leads to a delay in fulfilling the obligations and in the schedule, and the trustee and PLS office of the bank confirm that the entrepreneur is blameworthy because s/he has not spent his/her received resources in accordance to the contract and obligations, and an amount will be set as the penalty for the entrepreneur and the bank will be obliged to subtract it from the entrepreneur's revenue share or his/her guarantees and collaterals, to be transferred to the depositors in the next step. This penalty will be exigible if the time return rate of deposits at the time of settlement is less than the same rate at the due completion time stated in the project proposal. At first, the bank calculates the receivables and then, applies the mentioned penalty so that a part of the levied penalty is covered under the receivables stated in Rastin Banking regulations. Therefore, the bank should first apply the penalty due to the entrepreneur's negligence and then, in case of the entrepreneur's blameworthy, it will apply the difference of the penalty mentioned here, and the net profit change (revenue minus cost) as a result of the delay mentioned before. The penalty rate for the delay in fulfilling the obligations is calculated as follows:

According to the proposal, the deposit return rate will be as below:

$$\textit{Deposit return rate according to the project proposal} = \frac{\textit{Project estimated selling price, at the due time mentioned in the project proposal} - \textit{Project estimated mark-up price, at the due time mentioned in the project proposal} - \textit{Entrepreneur's estimated profit share, at the due time mentioned in the project proposal} - \textit{Entrepreneur's contribution value}}{\textit{Project estimated mark-up price, at the due time mentioned in the project proposal} - \textit{Entrepreneur's estimated profit share, at the due time mentioned in the project proposal} - \textit{Entrepreneur's contribution value}}$$

According to the project proposal, the time return rate of the deposit will be as below:

$$\textit{Time rate of return of the deposit, according to the project proposal} = \frac{\textit{Deposit return rate, according to the project proposal}}{\textit{Project duration, as mentioned in the project proposal}}$$

The realized rate of return of the deposit will be as below:

$$\textit{The realized rate of return of the deposit} = \frac{\textit{Project selling price} - \textit{Project mark-up price} - \textit{Entrepreneur's profit share} - \textit{Entrepreneur's contribution value}}{\textit{Project mark-up price} - \textit{Entrepreneur's profit share} - \textit{Entrepreneur's contribution value}}$$

According to the proposal, the realized time return rate of the deposit will be as below:

$$\textit{The realized time rate of return of the deposit} = \frac{\textit{The realized rate of return of the deposit}}{\textit{Project duration}}$$

The penalty rate for the delay in fulfilling the obligations will be as below:

*Penalty for the delay in fulfilling the obligations = Time rate of return of the deposit, according to the project proposal – The realized time rate of return of the deposit*

If the penalty rate for the delay in fulfilling the obligations is positive, by multiplying this penalty rate by the total nominal amount of the project deposit resources (regardless of the time), the necessarily-receivable penalty from the entrepreneur, will be calculated.

As stated before, the trustee unit of the PLS office of the bank supervises all the financial, production operations and transportation of materials and goods; and in case the goods are not delivered at the due time, the entrepreneur (producer), according to the contract and under the trustee unit supervision, will be obliged, for any case of avoidance and delay, and based on the provisions of the contract and this chapter, to pay an amount as penalty through the bank to the purchaser or the depositor, after paying off the bank's fees and costs. After collecting the mentioned costs and in case the entrepreneur fails to fulfill the obligations, the bank PLS office will proceed to collect the receivables of the bank and the depositor (or the purchaser or owner of the related Rastin Certificate), from the entrepreneur's guarantees and collaterals. In addition to the penalty, explained here, no other penalty will be obtained from the entrepreneur as per any request of the purchaser.

If the entrepreneur's performance during the project indicates that the delivery of goods by the entrepreneur, with an acceptable delay after the predicted delivery date in the project proposal, will be impossible, the bank PLS office is obliged to collect and pay the receivables of the bank and the depositor (or the purchaser or owner of the related Rastin Certificate), from the entrepreneur's guarantees and collaterals on the delivery date of goods.

**Settlement**

The trustee unit will be the reference for investigation of the expenditures spent by the entrepreneur. Regarding the expenditures spent by the entrepreneur, the trustee unit is obliged to book, monitor, investigate, and comment on the project financial statements. The trustee unit's investigations are according to the type of the project and activities, and its other characteristics, and can be presented in the form of periodic reports (periodicity is determined by the trustee unit) and through investigating the entrepreneur provided statements. The investigations performed by the trustee unit will be acceptable for the entrepreneur. The wage for providing the trustee unit's services to each project will be considered among the project costs. The expenses unconfirmed by the trustee unit will not be considered as the project costs or the entrepreneur's cash contributions, and the entrepreneur will be totally responsible for these kinds of costs and they are not accepted as the investment costs of the project. The project legal expenses, such as tax and other legal deductions, accepted by the trustee unit, are a part of the acceptable costs. The entrepreneur is obliged to estimate and insert such kinds of expenses in the proposal in advance.

Since the Profit and Loss Sharing banking operation is known as a kind of contracting in capital management services, therefore, the entrepreneur is considered as a contractor, who utilizes the financial resources of the depositor through the bank in its own economic activities. Hence, according to Article 104 of Direct Tax Act, the contracting tax rate will be applied on its activities. The tax rate on Profit and Loss Sharing activities will not exceed maximum ten percent of the project value added.

The final settlement with the entrepreneur is conditional on observing the provisions of Rastin Banking regulations (Change in timing). The settlement with the entrepreneur will be performed after the final investigation by the trustee unit and the definite completion of the project, after the allowable duration mentioned in the contract.

The project definite completion will be determined, considering the type of the project, the type of the

Rastin Profit and Loss Sharing Banking product and its financial subsystems[26], the type of the issued Rastin Certificates, and when all the contract conditions with the entrepreneur are entirely met.

If the loss, due to the delay discussed before in change in timing, is resulted from lack of supplying the resources by the bank, if the trustee unit's confirms then its responsibility will not be on the entrepreneur, provided that this delay is not because of the entrepreneur's negligence. If the delay is due to the bank's negligence or fault, the bank will be obliged to compensate the loss according to the above-mentioned provisions.

In finitude[27] and endless[28] projects or in different types of productive[29], rental[30], and dead[31] assets, the settlement method of each type of these projects will be performed as follows and by considering the financing method and the type of the Rastin Certificate. If the owner of Rastin Certificate intends to terminate his/her partnership in the project before it ends, s/he can sell her/his certificate in Rastin Certificate Market[32] (on the internet virtual space or in the branch).

**Transforming the Subscripted Certificate into Shares**

In endless (continuous) projects, at the end of the executive operations of the project, the bank will definitively settle with the depositor by transforming the Subscripted Certificates[33] into shares and transferring the project ownership to the owner of the Subscripted Certificate, according to the "term share" (including the partnership nominal amount and duration). All the Subscripted Certificates will be transformed to the shares of the entrepreneur's firm or newly established firm, according to the primary text of the contract between the entrepreneur and the depositors.

The depositor, before transforming its Subscripted Certificate into shares, can transfer it to the entrepreneur at the agreed price or sell it to others. During the transformation of the Subscripted Certificate into shares, the entrepreneur and the owners of the Subscripted Certificate can transform their issued Subscripted Certificates into the shares of the newly established firm, with a mutual agreement and by observing the regulations, by considering the "term share" of the entrepreneur and the holders of the Subscripted Certificates, and also according to their partnership durations. This option should have been previously predicted in the project proposal and asserted in the contract, and at the time of contract conclusion with the entrepreneur, its legal requirements should have been provided. The transformation of the Subscripted Certificate into shares, through equating the entrepreneur's contribution and the depositors' deposits, as the entrepreneur's share of the project (according to the partnership duration of the entrepreneur's contribution) and the depositors' share of the project (according to the partnership duration of their deposits), is the basis for sharing the ownership of the newly established firm. If it is agreed in the contract that the act of transforming the Subscripted Certificate into shares is performed under the entrepreneur company ownership, the bank

[26] - **Financial subsystems of Rastin PLS banking system**: refer to different defined financing methods and services. These subsystems are governed by Rastin PLS Base System's regulations.
[27] **Finitude projects**: are those projects that at the start of utilization period are not productive in depositor's insight and after the end of construction period and start of utilization period are finished from the bank's and depositor's points of view and are to be consumed.
[28] **Endless projects:** are those projects that at the end of construction period and start of utilization period are productive and at the start of utilization period are productive from the entrepreneur's and depositor's points of view; and depositor is benefitted from the outcome of the project during the project economic life.
[29] **Productive assets**: refers to the assets of an operating firm.
[30] **Rental assets**: refers to those assets, which can be let.
[31] **Dead assets**: refers to non-operating (suspended) firms or uncultivated lands assets.
[32] **Rastin Certificate Market**: is a web-based settlement system for the transaction and transfer of Rastin Certificates and other valuable papers of Rastin Banking.
Bijan Bidabad, Rastin Certificate Market (RCM), Complementary System of Rastin Banking, 2013.
http://www.bidabad.com/doc/rastin-bank-rcm-en.pdf
[33] **Subscripted (*Pazireh*) Certificate**: is an anonymous -or named- paper which expresses the participation of depositors in one of the first or second kind of PLS banking products with a defined value which is issued by bank for construction period for infinitude projects and its owner shares the profit and loss of the subject of participation proportional to its nominal value and duration of participation by becoming the shareholder of the company according to rules and regulations of Rastin PLS banking.

should evaluate the value of the entrepreneur company's assets before the contract conclusion and consider the amount brought to the project as the entrepreneur's contribution. The entrepreneur is not permitted to sell the evaluated assets of the above note, during the project executive operations. The ratio of the shareholders' debt and equity to the entrepreneur's company assets, at the time of transforming the Subscripted Certificate into shares, should not be more than this ratio at the time of contract conclusion. If at the time of transforming the Subscripted Certificate into shares, this ratio increases compared to the time of contract conclusion, the nominal amount of the entrepreneur's contribution will be decreased as much as the net increase of the shareholders' debts and equity and also according to the quality of assets, and this will be the basis for the distribution of shares among the depositors and the entrepreneur.

When the project executive operations are completed, the Subscripted Certificate of depositors will be transformed into shares. Public and private joint stock companies, while presenting the project proposal, are obliged to present the extraordinary general assembly's resolution and the gazette notice to the bank, which shows the consent of the assembly with capital increase, through issuing new shares. In the assembly's resolution, the bank is given the full authority to transform the Subscripted Certificates into shares, after performing the project executive operations and starting the utilization stage of the project. The public joint stock company can request the Rastin Profit and Loss Sharing (PLS) bank to issue the Subscripted Certificates. In private joint stock companies, the Subscripted Certificate, whether named or otherwise, is considered as a claimable document and after completing the project executive stages, will be transformed into shares, under the company's name.

According to the "term share", expressed before, partnership of the Subscripted Certificate holder is in the ownership of the entrepreneur's company. The Subscripted Certificate holders, during the project execution stages, have no role in managing the company affaires and are considered as the company's creditors, and like the other shareholders, at the end of the construction period and after transforming the Subscripted Certificate into shares, will gain the accrued rights. It is not possible to agree to the request of issuance of the Subscripted Certificate by the bank, unless the whole registered capital of the entrepreneur's firm has been already remitted, 2 years has been passed since the firm's registration date and also, two of its balance sheets have been approved in the general assembly. Whenever the request of the entrepreneur's firm for issuing the Subscripted Certificate by the bank has not been predicted in the firm's statute, the extraordinary general assembly of shareholders can ratify the request of issuance of the Subscripted Certificate according to the recommendation of the board of directors. Either the statute or the general assembly can allow the board of directors to request the bank for the issuance of the Subscripted Certificate, for one or several times.

Transforming the Subscripted Certificate into shares is not based on the desire and satisfaction of the Subscripted Certificate holder. From the date of decision-making in the extraordinary general assembly, until the end of the operation of the Subscripted Certificates, the firm cannot depreciate its capital, or reduce it by the redemption of shares, or proceed to divide the reserve, or change the method of dividing the profit. Decrease in the firm's capital, as a result of the incurred losses (leading to a decrease in the nominal amount or the number of shares), will also affect the shares received by the Subscripted Certificate holders in return for transforming their Subscripted Certificates. Therefore, it will be considered that the Subscripted Certificate holders have been the firm's shareholders since the issuance date of the certificates. Any capital increase through the issuance of the new Subscripted Certificates will be possible as per the request of the entrepreneur's firm and only in the bank, which has issued the previous Subscripted Certificates, and the certificates have not been transformed into shares. The entrepreneur's firm can only present the request for the issuance of the new Subscripted Certificate to the previous agent bank. The decisions, related to the acceptance of the request for new issuance of the Subscripted Certificate will be made by the bank PLS office. Since the beginning until the end of the project, which requires the issuance of the Subscripted Certificate according to the specified project proposal, the entrepreneur's firm can only request for the issuance of the Subscripted Certificate through one bank. Any new request for the issuance of the next Subscripted Certificate must be made in the same bank branch. All the losses to the depositor and the bank, caused by nonobservance of this subject, will be on the entrepreneur, and the bank is obliged to receive the compensation.

From the date of decision-making in the extraordinary general assembly, until the end of the operation of the Subscripted Certificates, issuance of new shares as a result of transforming the reserve into capital and in general, giving shares, or allocating or paying a certain amount to the shareholders, in the form of awards or expected stock returns, will be prohibited, unless the entrepreneur's firm, with the bank's confirmation, adopts the necessary measures in order to enable the Subscripted Certificate holders, whom their certificates will be transformed into company's shares, to proportionally vindicate the mentioned financial rights, under the same circumstances.

The shares, issued as a result of transformation of the Subscripted Certificates, must be issued under the name of the last owner of the Subscripted Certificates at the time of transformation. The nominal value of the lot size of the Subscripted Certificate is determined by the bank. The bank is obliged to calculate the share of each Subscripted Certificate holder and the entrepreneur, according to the request of issuing the Subscripted Certificate of the entrepreneur's firm, through considering the nominal amount of the Subscripted Certificates, their partnership durations and the entrepreneur's contribution. Subsequently, the bank is obliged to transform their certificates into shares, in accordance with the firm's extraordinary general assembly approval and according to the provisions of this chapter. After transforming the Subscripted Certificate into shares, the financial transaction for the partnership of the bank with the depositor and the entrepreneur will be terminated from the bank's side. The priority right of the firm's shareholders in purchasing the Subscripted Certificates (which are transformable into shares) will be automatically revoked.

In the estimated valuation of projects, the whole capital of the partnership and the total value added can be calculated as the shadow value. In addition to the depositors' capital, the adjusting coefficients such as the price changes during different years of the project execution, bank's commission (for the initial evaluation, detailed evaluation, and supervision), cash and non-cash contributions of the entrepreneur (including management, entrepreneurship, and technology) can be applied in the calculations by considering the opportunity cost of capital during the project implementation.

The shares of the depositors (the holders of the Subscripted Certificates) and the entrepreneur will be determined via the following formulas and based on their "term shares". The "term share" of the Subscripted Certificate holder, according to the nominal amount of the Subscripted Certificate and the partnership duration, by considering the entrepreneur's contribution and the partnership duration, can be obtained from the below relation:

$$\textit{Each depositor's term share} = \frac{\textit{Partnership duration of the deposit of each depositor} \times \textit{Deposit amount}}{\textit{Partnership duration} \times \textit{Entrepreneur's contribution} + \textit{Total amount of} \left( \textit{Partnership duration of each deposit} \times \textit{Nominal value of each deposit} \right)}$$

The "term share" of the entrepreneur equals to:

$$\textit{Entrepreneur's term share} = \frac{\textit{Partnership duration} \times \textit{Entrepreneur's contribution}}{\textit{Partnership duration} \times \textit{Entrepreneur's contribution} + \textit{Total amount of} \left( \textit{Partnership duration of each deposit} \times \textit{Nominal value of each deposit} \right)}$$

The amount of new shares to be issued (for capital increase), according to the total nominal amount of the shares of each depositor and the entrepreneur will be calculated via the following formulas for all of the depositors and the entrepreneur:

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| *Nominal amount of each depositor's share = Depositor's term share * (Nominal amounts of deposits + Entrepreneur's contribution)* |
| *Nominal amount of the entrepreneur's share = Entrepreneur's term share * (Nominal amounts of deposits + Entrepreneur's contribution)* |

The commission of providing the bank's capital management services, prior to the above sharing calculations, will be deducted from the depositor and the entrepreneur, commensurate to their "term shares" from the project nominal amount.

**_Mudarabah_ Financial Sharing (MFS) Accounting**

In order to provide the financial facilities and allocate the resources, needed for commercial projects, the bank can employ the subsystem, of *Mudarabah* Financial Sharing (MFS)[34]. On behalf of the depositor, the bank will sign a *mudarabah* contract with the entrepreneur and as an intermediary, and will give the deposit of the depositor to the entrepreneur (i.e., the *mudarib*) in order to perform the *mudarabah*; moreover, the bank will monitor the entrepreneur's operation and on the other side, will surrender the *Mudarabah* Certificate or the Periodic *Mudarabah* Certificate to the depositor. After accomplishing the *mudarabah* financial operation, the bank will share the gained profit or loss between the depositor and the *mudarib* after deduction of the bank's commission (if any profit realized). The main subject of *mudarabah* in *Mudarabah* Financial Sharing (MFS) is to use the depositor's capital by the entrepreneur (*mudarib*) for the purpose of selling and buying (business), which can be carried out via domestic commerce, export, import), re-export, transit and swap.

The ratio of the profit share of each party (the entrepreneur and the depositor), of the value added of the *mudarabah* operation, will be determined according to the return ratio of capital and labor, via the following formulas; in the following relations, the capital value means the depositor's partnership capital, the return rate of the *mudarib*'s labor means the profit obtained from *mudarabah*, the value added means the profit yielded from sales, and the value of sold goods means the total sales of goods.

The depositors' profit share of the value added will be equal to the ratio of the depositors' capital value divided by the value of sold goods. Also, the entrepreneur's profit share of the value added will equal to the ratio of the value added divided by the amount of sold goods; thus:

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| *Depositors' profit share = Depositors' capital value ÷ Sold goods amount* |
| *Entrepreneur's profit share = Value added ÷ Sold goods amount* |

The depositors' and the entrepreneur's profit will be obtained by multiplying their profit shares by the created value added; hence:

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|---|
| *Depositors' profit = Depositors' profit share × Value added* |
| *Entrepreneur's profit = Entrepreneur's profit share × Value added* |

Accordingly, each party (the depositors and the entrepreneur) will take a share of the value added, based on its return ratio. After calculation of each party's profit, the settlement process with the depositors and the entrepreneur will be proceeded as below:

[34] ***Mudarabah* Financial Sharing (MFS):** is a kind of *mudarabah* under Rastin PLS banking in which bank introduces the entrepreneur project proposal in the field of trade or transaction of commodities (commerce) to depositors and by selling them *Mudarabah* Certificates, finances the entrepreneur (*modarib*). In MFS *Mudarabah* and Periodic *Mudarabah* Certificates are used.
Bijan Bidabad, Mudarebah Financial Sharing (MFS). Journal of Islamic Economics, Banking and Finance, JIEBF, Volume - 10, Number - 1, January - April 2014, pp. 56-68. http://ibtra.com/pdf/journal/v10_n1_article3.pdf

*Payment to depositors = Depositors' profit + Depositor's deposit*

*Payment to entrepreneur = Entrepreneur's profit*

After performing the calculations and the sharing process, the bank's commission will be deducted in favor of the bank from the value added resulting from the *mudarabah*, based on the depositor's and the entrepreneur's profit shares and the whole resources financed, and will be remitted to the bank's account. The bank's commission will be receivable, only if any value added has been realized in the partnership operation. If the bank PLS office and the entrepreneur agree upon the equal sharing of the *mudarabah* profit between the depositor and the entrepreneur, the entrepreneur will be obliged, at the time of contract signing, to buy the *Mudarabah* Certificate of his/her own project, equal to half of the nominal value of the deposit, minus the predicted value added in the proposal.

The original deposit and the value added of each depositor (in accordance with the *mudarabah* subject and terms and conditions), will be calculated, distributed, and paid to depositors, based on the "term share" (resulted from the nominal amount and the partnership duration) of the *Mudarabah* Certificates (issued for each project according to the provisions of Rastin Banking regulations (Rastin Partnership Accounting)). Hence:

$$\text{Share of the depositor (Mudarabah Certificate holder), of the value added} = \frac{\text{Duration of Mudarabah Certificate} \times \text{Nominal amount of Mudarabah Certificate}}{\text{Total amount of } \left(\text{Nominal amounts of Mudarabah Certificates issued for the project} \times \text{Durations of Mudarabah Certificates}\right)}$$

If for a project, all *Mudarabah* Certificates are issued once and on the same date, the above-mentioned formula will be simplified as below:

$$\text{Share of the depositor (Mudarabah Certificate holder), of the value added} = \frac{\text{Nominal amount of Mudarabah Certificate}}{\text{Total nominal amounts of Mudarabah Certificates, issued for the project}}$$

The selling price of goods in the proposal will be predicted based on the predicted price and market conditions. The entrepreneur will be obliged to confirm the real price of the day of selling goods with the trustee unit. The trustee unit will investigate the mentioned price and adjust it with the market price quote and then, will issue the permission for selling goods at the price declared by the entrepreneur.

### Installment Financial Sharing (IFS) Accounting

The executive steps of Installment (*Muqasatah*) Financial Sharing (IFS)[35] are as follows. At first, the entrepreneur will present his/her proposal and contribution to the bank in order to utilize the depositors' resources for the partnership in the project. If the entrepreneur's technical capabilities and qualifications as well as the proposal are verified, the bank will receive the resources from the depositors and based on the type of the project, will issue one of the three types of Installment

[35] **Installment Financial Sharing (IFS)*:*** in IFS, installer (*moghsit* or depositor) will finance a portion of the needed fund of entrepreneur through the bank for a certain period of time (amortization period). The entrepreneur will pay back his share by installments and will own the total property of the project and IFS ends. IFS can be carried out through one of the contracts of Ordinary *Mughasatah* (Installment), Rental *Mughasatah* (installment) and *Musharakah* (sharing) *Mughasatah* (installment); and by application of three related kinds of certificates of Ordinary *Mughasatah* and Rental *Mughasatah* Certificates for finite projects and *Musharakah Mughasatah* Certificate for infinite projects.
Bijan Bidabad, Installment Financial Sharing (IFS). Journal of Islamic Economics, Banking and Finance, 2016.
http://www.bidabad.com/doc/ifs-paper-en.pdf

(*Muqasatah*) Certificates. At the end of the construction period, the bank will evaluate the project and appraise its monetary value according to the market price and regulations. At this time, the bank will determine the shares of the entrepreneur (*qasit*) and the depositor (*muqsit*), and will proceed to split the depositor's partnership share of the project real value (after appraisal) and its incomes (such as the project rent or return), without any interest rate.

In "conventional *muqasatah*", the installments are calculated based on the return rate resulting from the project construction. In "rental *muqasatah*", the installments for the original partnership share of the depositor of the project real value (after appraisal), added to the amount of periodic rents, will determine the amount of the periodic payments to the depositor. In "partnership *muqasatah*", the installments for the original partnership share of the depositor of the project real value (after appraisal), added to the periodic return of the project, proportionate to the depositor's partnership share of the project appraised value, will determine the periodic payments to the depositor. Installment of the depositors' shares is not for the entire life cycle of the project and must be terminated at the predefined date; i.e., "the depreciation time of the *muqsit*'s (depositor's) share". At that time, the *qasit* (entrepreneur) will become the owner of the whole project.

The bank will provide capital management services to depositors in the form of *muqasatah*, in return for receiving the bank's commission; with the depositors' requests, the bank will invest their resources in one of the first or the second types of the Rastin Profit and Loss Sharing (PLS) banking products, in relation to Installment Financial Sharing (IFS), and in return, will surrender the Conventional, Rental, or Partnership *Muqasatah* Certificates to depositors. The characteristics of installments in Installment Financial Sharing (IFS) are as follows:

1. In finitude projects, where the depositor receives the (conventional) *Muqasatah* Certificate, s/he will have a share of the project appraised value, at the end of the construction period and after project appraisal, and until the depreciation time of *muqsit*'s share, s/he will receive two main receivable flows from the *qasit*. One flow is the periodic installments, resulted from repayment of the depositor's original share of the project appraised value (at the end of the construction period). The other flow is resulted from the time value of his/her capital, which is available to the entrepreneur, with the time return rate, which is equal to the return rate resulted from the project appraisal, in comparison to the project nominal capital, proportionate to his/her partnership share.
2. In finitude projects, where the depositor receives the Rental *Muqasatah* Certificate, s/he will have a share of the project appraised value, at the end of the construction period and after project appraisal, and until the depreciation time of the *muqsit*'s share, s/he will have two receivable flows from the *muqsit*. One flow is the periodic installments, resulted from repayment of the depositor's original share of the project appraised value (appraised at the end of the construction period). The other flow is resulted from the rent of capital, which is available to the entrepreneur.
3. In endless projects, where the depositor receives the Partnership *Muqasatah* Certificate, s/he will have a share of the project appraised value, at the end of the construction period and after project appraisal, and until the depreciation time of the *muqsit*'s share, s/he will have two receivable flows from the *qasit*. One flow is the periodic installments, resulted from repayment of the depositor's original share of the project appraised value (appraised at the end of the construction period) and the other one is resulted from the project return, proportionate to his/her partnership share.
4. The installment repayment will be started after the end of the construction period and at the start of the project utilization.
5. The entrepreneur is obliged to specify the installment repayment dates with equal durations, and the assessment[36] unit[37] is obliged to verify the appropriateness of the periods and the amounts.
6. The periods of receiving the installments by the depositor will start at the end of the construction

[36] **Assessment:** is a set of actions which are done by bank for protection of depositor's interests, identification of the entrepreneur's skills, and economic, financial, executive, and technical justifiability of the concerned project in Rastin Banking.

[37] **Assessment unit**: is a unit in the PLS office of the bank that considers the possibility of project execution by assessing the project proposal and examining the capacity of the entrepreneur.

period and will continue until the depreciation time of the *muqsit*'s share.

The profit share of each party in the project, at the end of the construction period, will be calculated based on the return rate of the deposit, contribution, and labor, of the value added of the *muqasatah* operation, according to the provisions of Rastin Banking regulations (Rastin Partnership Accounting), Rastin Partnership Accounting, and the following formulas. The appraised (market) value of the project, at the end of the construction period, minus the total amount of the deposit and the contribution, is in fact the value added of the project, at the end of the construction period.

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| *Project total cost = Deposit value + Contribution value* |
| *Deposit value + Contribution value + Labor return value = Project total cost + Value added* |
| *Project total cost + Value added = Project appraised value* |
| *Capital value + Contribution value + Labor return value = Project appraised value* |

Therefore, the ratio of the depositor's share of the value added will be equal to the depositor's deposit, divided by the project appraised value, at the end of the construction period. Moreover, the ratio of the entrepreneur's share of the value added will be equal to sum of the entrepreneur's contribution divided by the project appraised value, and the return rate of the value added divided by the project appraised value:

| |
|---|
| *Ratio of the share of the depositor's deposit = Depositor's deposit amount ÷ Project appraised value* |
| *Ratio of the share of the entrepreneur's contribution = Entrepreneur's contribution ÷ Project appraised value* |
| *Return ratio of the entrepreneur's labor = Project value added ÷ Project appraised value* |

The depositor's and the entrepreneur's shares of the value added will be calculated via multiplying the above-mentioned ratios by the value added of the project, at the end of the construction period:

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|---|
| *Depositor's share of the value added = Ratio of the share of the depositor's deposit × Value added* |
| *Share of the entrepreneur's contribution of the value added = Ratio of the share of the entrepreneur's contribution × Value added* |
| *Share of the entrepreneur's labor of the value added = Return ratio of the entrepreneur's labor × Value added* |

The depositor's share of the project appraised value will be obtained as the sum of the depositor's share of the value added, plus his/her deposit. Moreover, the entrepreneur's share of the project appraised value will be obtained as the share of the entrepreneur's contribution of the value added, plus the share of the entrepreneur's labor work of the value added, added to the entrepreneur's contribution. On the other words:

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|---|
| *Depositor's share of the project appraised value = Depositor's share of the value added + Depositor's deposit* |
| *Entrepreneur's total share of the project appraised value = Share of the entrepreneur's contribution of the value added + Share of the entrepreneur's labor of the value added + Entrepreneur's contribution value* |

By adding the two later relations, after distribution, we have:

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|---|
| *Depositor's share of the project + Entrepreneur's share of the project = Value added + Depositor's deposit + Entrepreneur's contribution* |

The depreciation time of the *muqsit*'s share will be calculated, according to the project life cycle after the end of the construction period, the partnership shares of the *muqsit* (considering the partnership duration), the *qasit*'s contribution and the project value added after the end of the construction period (and in case required, prediction of the salvage value of the project, for the end of the project life cycle):

$$\textit{Depreciation time of the muqsit's share} = \frac{\textit{Depositor's share of the project appraised value}}{\textit{Project appraised value}} \times \textit{Project life cycle}$$

The depreciation time of the *muqsit*'s share in various *muqasatah* projects will be calculated similarly. The bank, on behalf of the depositors and at the time of signing contract with the entrepreneur, can specify the depreciation time of the *muqsit*'s share in accordance with the agreement with the entrepreneur. In this way, the assessment unit must evaluate and verify the prediction of the financial flow of the project and the entrepreneur, in order to make sure that all the installments will be re-payed during the repayment periods.

In order to calculate the payments of the conventional *muqasatah* in finitude projects, the bank will appraise the project at the end of the construction period, and will specify the amount and number of needed installment payments for repayment of the depositor's share according to the depreciation time of the *muqsit*'s share. In this case, calculation of the installment payments comprises of two parts: the installments for the original deposit of the depositor and the installments for the time return of the depositor's deposit.

The time return rate of the depositor's deposit is obtained from the time return rate of the whole project (equal to the project value added at the end of the construction period), based on the capital resources used in the project (the total deposits of the depositors, plus the entrepreneur's contribution):

$$\textit{Time return rate of the depositor's deposit} = \frac{\textit{Project value added, at the end of the construction period}}{\textit{(Entrepreneur's contribution + Depositors' total deposits)} \times \textit{(Construction period)}}$$

The time return rate of capital, at the beginning of the construction period and also, at the time of contract signing, is unknown, and will be determined at the end of the construction period and after project appraisal and therefore, must not be determined and termed at the time of contract signing.
The amount of (equal) installments for the original part and the return of the depositor's deposit in each period, until the depreciation time of the *muqsit*'s share, will be calculated via the following formula and paid by the entrepreneur to the depositor:

$$\textit{Amount of each installment} = \frac{(\textit{Depositor's share of the project appraised value}) \times \{1+0.5\times(\textit{Depreciation time of the muqsit's share})\times(\textit{Time return rate of the depositor's deposit})\}}{\textit{Depreciation time of the muqsit's share}}$$

In order to calculate the rental *muqasatah* payments in finitude projects, the bank will appraise the project, at the end of the construction period. According to the contract, the project will be leased by the entrepreneur until the depreciation time of the depositor's share. The bank, based on the depreciation time of the depositor's share, will determine the way of required payments for repaying the depositor's share of the project appraised value, and the rent. In rental *muqasatah*, the payments will comprise of two parts: the installments for the original share of the depositor's deposit, of the project appraised value; and the periodic rent, which is paid to the depositor by the entrepreneur.

In rental *muqasatah*, the rent payment is determined and termed in the beginning. The rent amount can be unequal for different periods. In addition, it can be a portion of the depositor's share of the project appraised value, which has been determined and termed at the time of contract signing.

The amount of installments, in addition of the project rents in each period, will be obtained by the following relation:

$$\text{Each installment} = \text{Rent} + \frac{\text{Share of the depositor's deposit of the project appraised value}}{\text{Depreciation time of the muqsit's share}}$$

If the rent amount has been termed at the time of contract signing as a portion of the depositor's share of the project appraised value (rent ratio), the amount of installment and the project rent in each period will be calculated as follows:

$$\text{Each installment} = (1 + \text{Rent ratio}) \times \left( \frac{\text{Share of the depositor's deposit of the project appraised value}}{\text{Depreciation time of the muqsit's share}} \right)$$

The rent ratio can be different for each period. Thus, the rent ratio in each period must be agreed and termed at the time of contract signing.

In order to calculate the partnership *muqasatah* payments in endless projects, if according to the contract, the project is regarded as a production project (i.e., it creates the periodic value added) and it is agreed that the depositors must also take a share of the project return, the depositors will receive a share of the value added of each period in addition to the periodic installments. In this way, the depositor will have a share in the periodic profit and loss of the project. Therefore, the amount of installment in each period will be equal to the sum of the original deposit and the return (loss or profit) on the share of the depositor's deposit, of the project appraised value:

$$\text{Each installment} = \text{Depositor's share of the project periodic value added (profit or loss) in each period} + \frac{\text{Depositor's share of the project appraised value}}{\text{Depreciation time of the settlement seller's share}}$$

In *muqasatah*, considering the fact that the *qasit* (entrepreneur) invests on behalf of the *muqsit* (depositor) and in partnership with the *muqsit*'s capital, the *qasit*'s (entrepreneur's) rights are shared with the rights of the *muqsit* in the *muqsatah* (*muqasatah* subject); in order to compensate the potential losses to the project properties, the *qasit* is obliged to insure the properties of the *muqasatah*, equal to the partnership share of the *muqsit*, according to the provisions of Rastin Banking regulations (Insurance), in the name and in favor of the bank, and at the project cost. Moreover, on behalf of the *muqsit*, the bank is obliged to receive appropriate guarantees and collaterals, according to the provisions of Rastin Banking regulations (Guarantees, collaterals, and contributions), and the *qasit* is also required to insure the collateral in the name and in favor of the bank at his/her own expense.

In order to cover the potential losses, resulting from the decrease in the project appraised value at the end of the construction period, the insurance of construction limited loss will be used. The entrepreneur is obliged to insure the *muqsatah* by the insurance of construction limited loss, in the name and in favor of the bank and at the project cost. This type of insurance is necessary in Installment Financial Sharing (in the conventional, rental, and partnership *muqasatah*s).

If at the end of the construction period, the project appraised value is lower than its final cost, the loss and damage, resulted from the decrease in price (which led to the decrease in the project value), will be compensated by the insurance of construction limited loss. In these cases, the *muqsatah* (*muqasatah* subject) will be sold under the supervision of the bank and the settlement will be made with the parties, according to the previously agreed provisions in the contract. In this way, the mentioned commission for bank will not be paid to the bank. This procedure is only performed in conventional *muqasatah*, and not in rental and partnership *muqasatah*s. The bank and the entrepreneur can mention in the mutual contract that if the difference between the project appraised value and the final cost becomes lower than a certain threshold, the *muqsatah* will be sold under the supervision of the bank and the settlement will be accordingly made with the parties.

The steps required for the final settlement in the Installment Financial Sharing (IFS) are as follows. At the depreciation time of the *muqsit*'s share (i.e., at the end of the contract duration), the entrepreneur, after paying the last installment, will become the owner of the *muqasatah* subject (*muqsatah*) according to the contract, and the bank will finish the steps of complete ownership transfer. The ownership transfer costs are among the depositor's and the entrepreneur's costs, which have been predicted in the contract, considered in the *muqasatah* financial flow. They will be taken from the entrepreneur along with his/her installment payments, based on his/her ownership share. Also, they will be deducted from the installments of the depositor, equal to the depositor's share, and will be stored in a given account at the bank. The costs for the final ownership transfer will be paid from this source. If the transfer costs are increased unpredictably, the increased part for the entrepreneur will be obtained from himself/herself, and the bank will be responsible for managing the increased part for the depositor. The bank is obliged to calculate and consider its commission in the periodic installment payments for the *muqasatah* subject. The bank's commission in each stage will be deducted from the paid installments.

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