

CHAPTER 7

SHIRKAH

COURSE OUTLINE

- ❑ To explain the concept of Syirkah
- ❑ To determine the formation of Syirkah
- ❑ To analyse the types of partnership

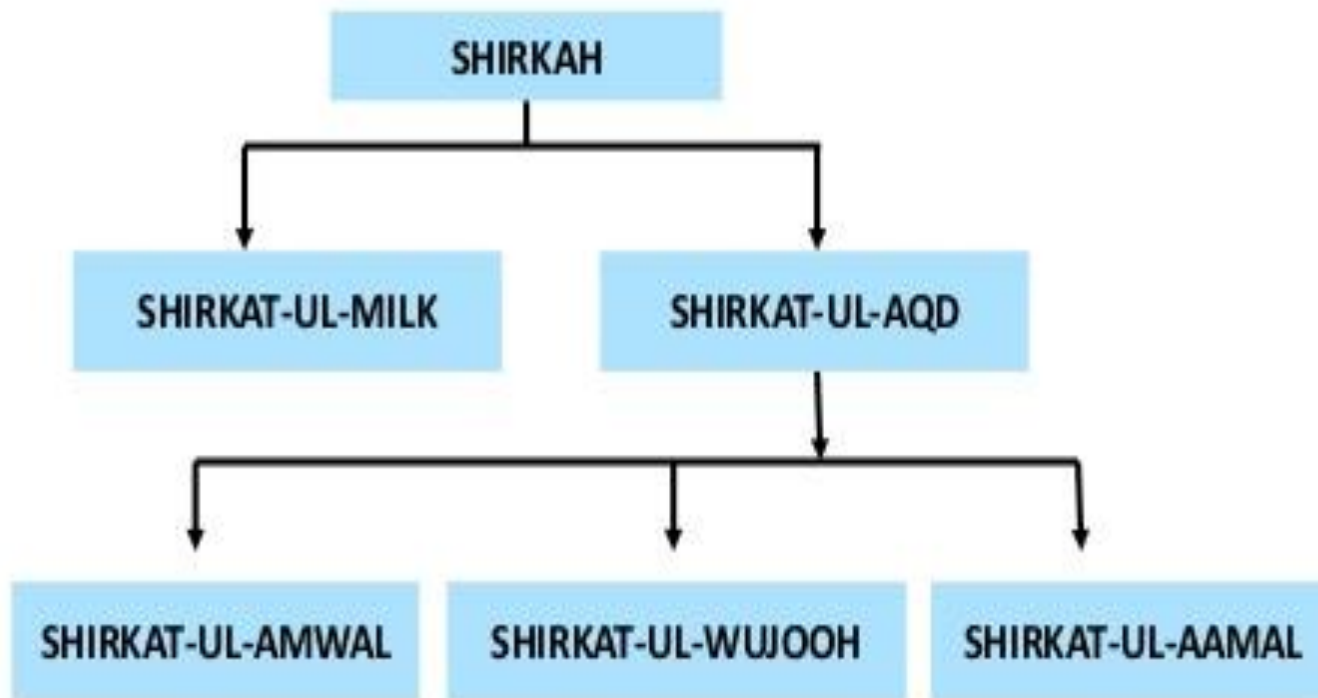
Introduction to Shirkah

* Meaning

- * Lexically it means sharing / merging.
- * Technically it is co-mingling of two or more persons either their **CAPITAL** or **WORKS** or **OBLIGATIONS** to earn a profit or a yield or appreciation in value and to share the loss if any according to their proportionate ownership.



Types of Shirkah



Types of Shirkah

Shirkat ul Milk (Partnership by Joint Ownership)

- * The basic element of Shirkat-ul-Milk is the mixing of the shares mandatory or by choice
- * Shirkat-ul-Milk is not for sharing of profit basically
- * The distribution of the revenue of Shirkat-ul-milk is always subject to ratio of shares
- * Co-owners are not agents of each other
- * Co-owner can sell his shares without other co-owner's consent
- * Co-owner can guarantee the shares of other co-owner

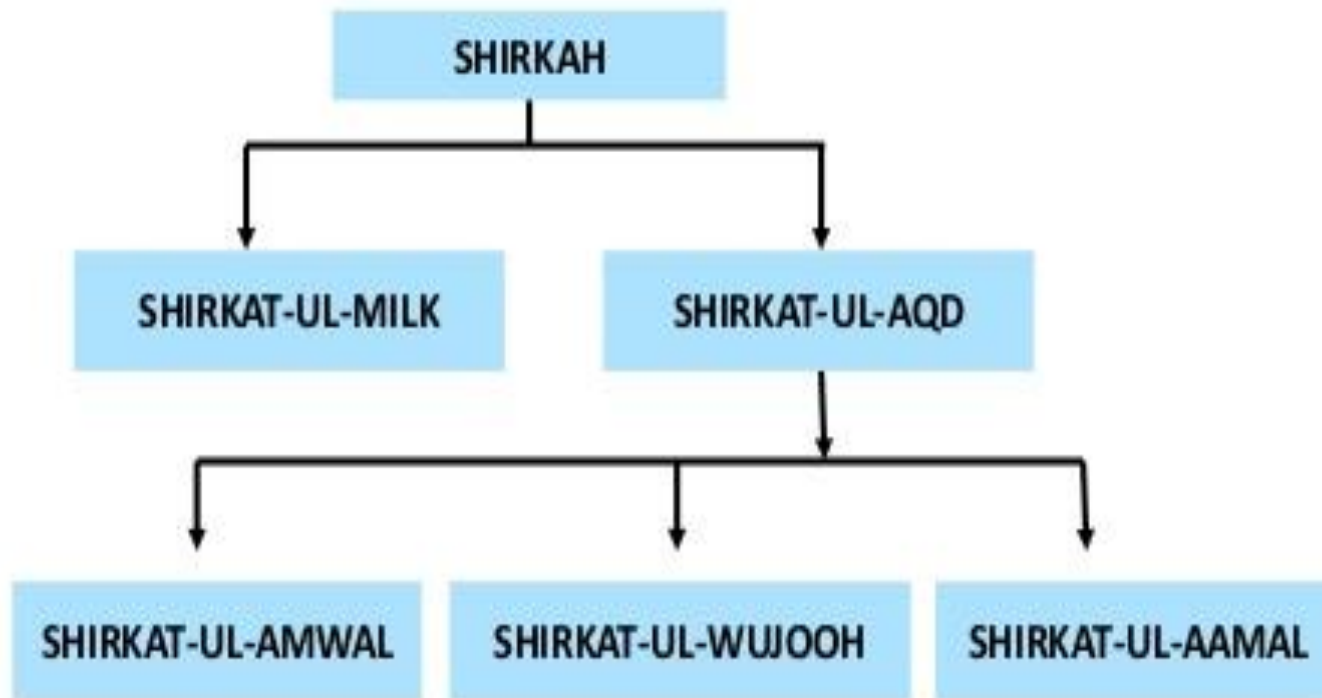


Types of Shirkah

Shirkat ul Aqd (Partnership by Contract)

- * The basic element of Shirkat-ul-Aqd is offer and acceptance
- * The basic purpose of Shirkat-ul-Aqd is seeking of profit
- * Profit sharing ratio is subject to agreement
- * Partners are agents of each other
- * A partner can't sell his shares without other partner's consent
- * Partner can't guarantee the shares of other partner





Types of Shirkah tul Aqd

Shirkat-ul-Amwal (Partnership in Capital)

Where all the partners invest some capital into a commercial enterprise



Types of Shirkah tul Aqd

Shirkat-ul-A'mal (Partnership in Services)

Where all the partners jointly undertake to render some services to their customers and share the fee charges by them according to agreed ratio.

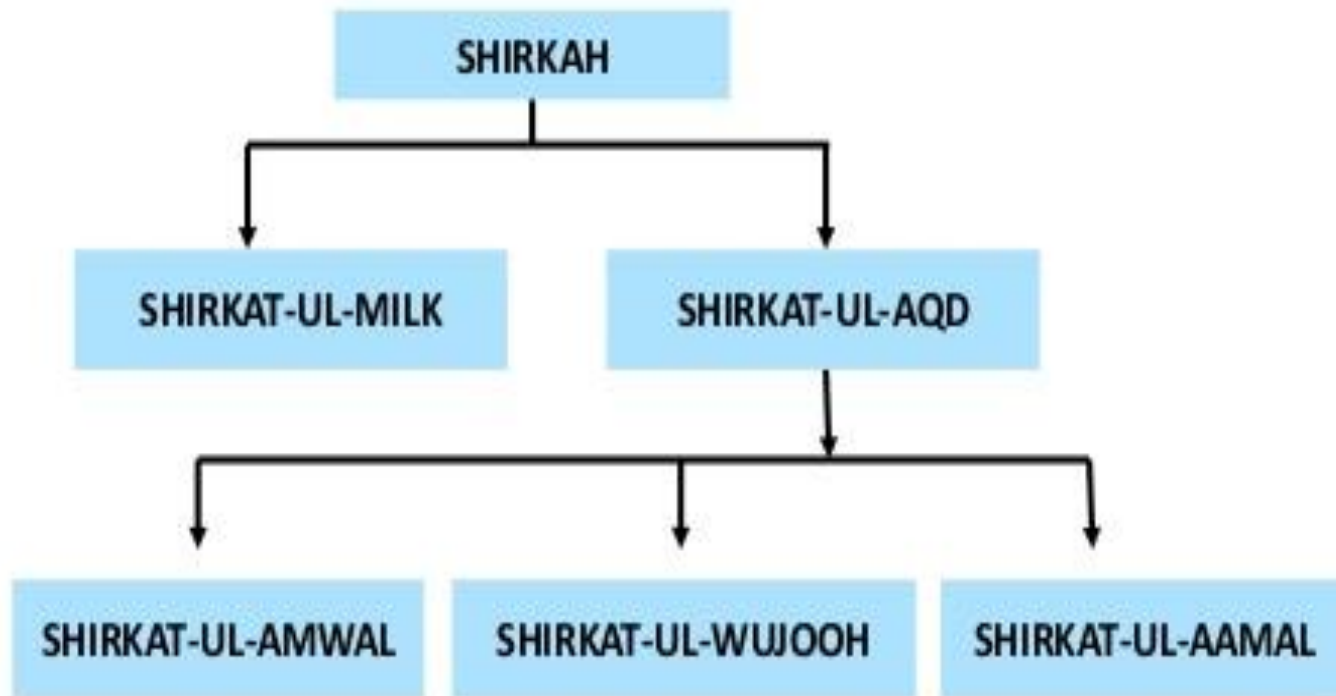


Types of Shirkah tul Aqd

Where all the partners will avail credit from market using their credibility and sell the commodity to share the profit so earned at an agreed ratio.

Figure 1





Basic Rules of Shirkah

Rules relating to capital

Form of capital

- Liquid
- In Kind
- To be quantified and specified
- Valuation of a running business
 - i. Cash /Receivables (face value and the conversion rate of the day of transaction in case of currencies)
 - ii. Fixed Assets (agreed upon value)



Basic Rules of Shirkah

Rules relating to capital

Merging of capital

- Actual merger
- Constructive merger



Basic Rules of Shirkah

Rules relating to Management

- Each partner has a right to take part in Musharaka management.
- The partners may appoint a managing partner by mutual consent
- One or more of the partners may decide not to work for the Musharaka and work as a sleeping partner



Basic Rules of Shirkah

Rules relating to Profit

- * A manner for sharing profit between the parties should be decided in the beginning of partnership.
- * Profit should be allocated in percentages and not in a sum of money or a percentage of the capital.
- * It is not necessary for the shares of profit to be in proportion to the percentage of the contributed capital.
- * A sleeping partner can't share the profit more than the percentage of his capital.



Basic Rules of Shirkah

Rules relating to Profit

- * The final allocation of profit is not allowed to be based on expected profit however it is permissible to distribute a provisional profit, which is subject to final settlement after actual or constructive liquidation.
- * It is permissible for partners to decide not to distribute a portion of profit.



Basic Rules of Shirkah

Rules relating to Loss

- In case the business incurs a loss, all partners will have to share the loss in exact proportion to their investment



INTRODUCTION TO MANAGEMENT

- * Mudaraba is a partnership agreement in which one party invests while the other manages the business.
- * The one who provides capital is called “Rabb-ul-maal”
- * The recipient of the funds which provides the know-how towards carrying out the venture is called “Mudarib



Types of Mudarabah

1. Restricted Mudaraba (Mudaraba-a;-muqayyada)
2. Unrestricted Mudaraba (Mudaraba-al-mutallaqa)



Distribution of Profit & Loss

- * It is necessary for the validity of Mudaraba that the parties agree, right at the beginning, on a definite proportion of the actual profit to which each one of them is entitled.
- * They can share the profit at any ratio they agree upon.
- * However, in case the parties have entered into Mudaraba without mentioning the exact proportions of the profit, it will be presumed that they will share the profit in equal ratios.
- * Some incentives may be given to the Mudarib as bonus.

Distribution of Profit & Loss

- ※ Apart from the agreed proportion of the profit, the Mudarib cannot claim any periodical salary or a fee or remuneration for the work done by him for the Mudarabah.
- ※ The Mudarib & Rabb-ul-Maal cannot allocate a lump sum amount of profit for any party nor can they determine the share of any party at a specific rate tied up with the capital.



Musharkah Vs Mudarbah

Musharakah

- * Investment comes from all partners
- * All partners participate in management
- * Liability of partners is unlimited
- * All partners can benefit from profit gained through appreciation in value of investment

Mudarabah

- * Investment is sole responsibility of Rab-ul-Maal
- * Rab-ul-Maal has no right to participate in management
- * Only Rab-ul-Maal incurs financial loss and mudarib loses his efforts
- * Rab-ul-Maal is liable to the extent of his investment.
- * Gain in appreciation in Investment goes to Rab-ul-Maal



**THANK YOU
FOR YOUR
ATTENTION**

