INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

# FACULTY OF BUSINESS MANAGEMENT

## END OF SEMESTER EXAMINATIONS - DECEMBER 2025

**PROGRAMME: BBA**
**YEAR/SEM: YEAR 3/SEMESTER 1**
**COURSE CODE: FIN 3103**
**NAME: ISLAMIC BANKING**

**DATE:**
**TIME:**

**INSTRUCTIONS TO CANDIDATES:**

## SECTION A

*SECTION A IS COMPULSRORY*

**Question 1:**

CASE STUDY

Islamic banks provide financing using two basic methods. The first depends on profit-and-loss sharing and includes mudarabah and mushārakah. In this case the return is not fixed in advance and depends on the ultimate outcome of the business. The second involves the sale of goods and services on credit and leads to the indebtedness of the party purchasing those goods and services. It incorporates a number of modes including murābahah, ijārah, salam and istisnā. The return to the financier in these modes is a part of the price. These modes of finance are unique for two main reasons. First, the debt associated with financing by way of markup results from the sale/purchase of real goods and services rather than the lending and borrowing of money. According to the prevailing fiqh verdicts, such debt is not marketable except at its nominal value. Secondly, the introduction into banking of modes that depend on profit and loss sharing bring important advantages. It has almost the same economic effects as those of direct investment, which brings pronounced returns to economic development. Theoretically, there are a large number of Islamic modes of financing. We will limit ourselves here to a very brief review of the basic modes being used by Islamic banks, emphasizing at the same time, that the door is open to devise new forms, provided that they conform to the rules of the Sharīah This is a contract between two parties: a capital owner (rabb-al-māl) and an investment manager (mudārib).

Required

a) How do the principles of profit-and-loss sharing in mudarabah and mushārakah differ from conventional interest-based lending, and what implications do these differences have for risk distribution between the financier and the entrepreneur?**(10Marks)**

b) In what ways do credit-based Islamic financing modes such as murābahah, ijārah, salam, and istisnā ensure compliance with Sharīʿah principles, and how do they structurally prevent the commodification of debt. **(10Marks)**

c)Abdiah and Tadamon Islamic bank are business partners, they agreed to start a business of fuel station on a partnership basis. The partnership they agreed upon was musharaqah diminishing to ownership. The bank agreed that Faridah will be buying its shares at the end of each trading period at different rate for a period of five years.

Additional information

Tadamon Islamic bank capital contribution 60,000,000

Abdiah capital contribution 40,000,000

PSR 70:30

Profit earned annually 20,000,000

Loss incurred in the final year 10,000,000

Percentage rates agreed upon to be paid by Faridah

| Period (year) | one | two | three | four | five |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| percentage | 0.4 | 0.3 | 0.3 | 0.5 | 0.1 |

Required

Show how Abdiah became the sole owner of the business at the end under the musharaqah mode of Islamic financing.
(20Marks)

**Question 2:**

Case study

Islamic banks utilize two primary financing approaches. The first is based on profit-and-loss sharing, involving contracts such as mudarabah and musharakah. In these arrangements, the financier's return is not predetermined but instead depends on the actual performance of the business venture. The second method involves selling goods and services on credit, which creates a debt for the buyer. This category includes financing modes like murabahah, ijarah, salam, and istisna. The financier earns a return as part of the sale price.

These financing methods are distinct for two key reasons. First, the debt generated through markup-based financing stems from genuine trade transactions—buying and selling

tangible goods or services—rather than simple monetary loans. As per Islamic jurisprudence (fiqh), such debts can only be traded at their face value. Second, profit-and-loss sharing mechanisms offer significant economic benefits, resembling direct investment and contributing meaningfully to economic growth.

While Islamic finance encompasses a wide array of potential instruments, this overview focuses on the core methods currently in use. Importantly, new financing models can be developed as long as they align with Shariah principles. One such model is the mudarabah contract, which involves two parties: the capital provider (rabb-al-mal) and the entrepreneur or investment manager (mudarib).

Explain the two primary financing approaches used by Islamic banks, highlighting the key contracts involved in each. (10 Marks)

c. Analyze the economic advantages of profit-and-loss sharing mechanisms in Islamic finance. (5 Marks)

d. Describe the mudarabah contract, identifying the roles of the rabb-al-mal and the mudarib. (5 Marks)

e) c)salman and sharkan are students if IUEA BBA ,the agreed to start a business of a superment on a partnership basis .the partnership they agreed upon was Musharaqah diminishing to ownership. Sharkhan agreed that salman will be buying 20% of his shares every year at the end of trading period.

The following information was extracted from their books of accounts

| | |
|---|---|
| Capital contribution sharkhen | 30,000,000 |
| Capital contribution salman | 20,000,000 |
| Prift sharing ratio | 5.5 |
| Profit earned | 32,000,0000 |

Required

Show how salmon’s shares were increasing every year in relation to the decreasing shares of sharkhan and in which year did shaking’s shares diminish completely.(20Mark)

## SECTION B

*ANSWER ANY THREE QUESTIONS*

**Question 1:**

Islamic banking system in Uganda was legalized in 2016 they are reasons and goals; currently there are some Islamic banks operating in Uganda. However, there are a lot of challenges the systems is facing being a new field and industry.

a) Explain any FIVE objectives of Islamic Banks. (10 Marks)

b) Explain any FIVE challenges of Islamic Banking system in Uganda. (10 Marks)

**Question 2:**

In a murabah contract or cost plus margin, The Institution shall not sell any asset in a Murabah transaction before it acquires such an asset. Hence, it is not valid for the Institution before it acquires an asset to conclude a Murabah sale with the customer before the Institution concludes a purchase contract with the supplier of the asset of the Murabahah or the subject matter of the Murabahah and before it acquires actual or constructive possession of the asset, which can be achieved when the supplier gives the Institution control over the asset or the documents that represent possession there-of. Likewise, the Murabahah is considered void in case the contract with 'thé supplier is void. ñurabah contract is one of the most widely used financial instruments in the Islamic banking sector.

Required:

Explain why the bank cannot sell the item to the customer in a Murabah contract (Cost plus Margin) before acquiring such an item from the vendor? (20Marks)

**Question 3:**

*a)* a)*Musyarakah* is a relationship established by the parties through a

mutual contract. Therefore, all the necessary constituents of a valid contract must be present. Using examples, discuss the pillars of musyarakah contract. **(10 Marks)**

*b)* b)Explain the practical steps of *murabahah* financing as applied by the Islamic banking system. (10Marks)

**Question 4:**

a) a)Explain using examples the prohibited elements of in the wadiah contract. **(10 Marks)**

b) b) Discuss the major pillars of wadiah as applied in the Islamic banking system.**(10Marks)**

**Question 5:**

Islamic banking system refer to system of banking or banking activitises that are consistent with the principles of the sharia(Islamic law) tailored and protected by islaimic economics.

Required

a) As a student of Islamic banking, using discuss the Islamic financing modes applicable in the Islamic banking system. (15Marks)

b) Explain any FIVE factors which have hindered the above financing mode to take off in Uganda.
**(5Marks)**

**Question 6:**

Shariah is the fundamental set of principles of Islamic finance characterised by the fundamental set of principles and restrictions. As a student of Islamic banking, discuss the principles of Islamic finance applicable in the Islamic banking system. **(20 Marks)**

**Question 7:**

a) Explain the functions of Islamic banks.
(10Marks)

b) Explain the conditions of the murabah sale as applied by the Islamic banking system.(10Marks)

**Question 8:**

An Islamic financial institution provides a financing of SHS20,000,000 at a constant rate of return of 10% for a period of 5years and requires an annual installment payment of 3,000,000.

Required

Prepare an extract of the balance sheet and income statement at the beginning and end of year one.
**(20Marks)**

**Question 9:**

a) Using examples, discuss the principles of Ijarah as applied in Islamic financial system.

**(10MARKS)**

b) Discuss using examples the salient features of *Wadiah* Based on Custodianship. (10MARKS)

**Question 10:**

a)Discuss the circumstances under which mudarabah contract can be terminated. **(10Marks**

b)Explain using examples the rules regarding the distribution of profits and loss under the mudarabah

contract.
**(10Marks)**

**Question 11:**

a) Differences between Mudarabah and Musharakah in terms of capital contribution and profit sharing. (10Marks

b) Discuss with examples the conditions that make musyarak contract to be valid. (10Marks

**Question 12:**

a) Why have only a few commercial banks in Uganda embraced Islamic banking, despite the availability of competitive product offerings tailored to the country's diverse financial landscape?(10Marks)

1. b)What lessons can Uganda learn from other African countries like Nigeria, Senegal, and Kenya, where Islamic banking has expanded successfully, in order to promote the growth of Islamic banking services in Uganda?

   (10Marks)