VU LEARNING HUB

FIN624 Assignment 1 Solution

Fall 2026

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FIN624: Islamic Modes of Financing

Assignment No. 1 — Fall 2026 | Total Marks: 10

Name: VU Learning Hub

Question

Mr. A and Mr. B are renowned businessmen in Pakistan. They want to establish a new venture for the cement sector on Musharakah basis. Partner A will invest Rs. 1,000,000 and will be the working partner. Partner B will invest Rs. 500,000 and will be the silent partner.

Scenario I: Each partner gets a percentage of profit based on the capital proportion.

Scenario II: Partner B gets a percentage of profit more than the capital proportion.

By applying the basic rules of distribution of profit in Musharakah, are the above scenarios valid? If yes, on which grounds? If no, why?

Capital of the Partners

Two businessmen plan a cement venture in Pakistan. They choose Musharakah for the new business. A invests Rs. 1,000,000 and manages the business. B invests Rs. 500,000 and plays no part in running it. Together they put Rs. 1,500,000 in the business. A holds two parts out of three and B holds one part out of three.

Partner	Capital (Rs.)	Capital Share
A (working partner)	1,000,000	66.67%
B (silent partner)	500,000	33.33%
Total	1,500,000	100%

Rules of Profit Sharing in Musharakah

Partners fix the profit ratio by mutual agreement before the business starts. The ratio is always a share of the actual profit. No partner may demand a fixed amount of money.

Loss falls on the partners in the ratio of their capital. This rule cannot be changed by agreement.

A partner who works may receive a profit share above his capital share. The extra share pays for his work. A partner who only gives capital may not receive a profit share above his capital share.

Scenario I

Scenario I passes the test. Profit is divided by capital. Under this split A receives 66.67 percent and B receives 33.33 percent. This matches the capital of each partner. The basic rule of Musharakah is followed here.

Scenario II

Scenario II fails the test. B would receive more than 33.33 percent. B only gives capital and does no work in the business. A higher profit share for B has no ground in the rules. The extra share can go only to A because A manages the business.

Conclusion

So Scenario I is accepted and Scenario II is rejected. In both cases any loss is shared by capital. A bears two parts of the loss and B bears one part.