Rastin Partnership Accounting
Part I: General Procedure

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Abstract

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

Despite passing a long time for applying Islamic banking, lack of well-suited executive mechanisms in different aspects has caused the most of the non-usury banking models somehow enter into usury

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transactions realm. This comes from some problems. 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 juristic definitions of usury[4]. On the other words, if in a loan, the maturity were just the time of the transaction, the transaction will no longer have a duration and will be regarded as a cash transaction. Therefore, the loan does not make sense, and it will be just giving loan and paying it back at the same time. On the other words, it is a barter cash exchange and is a futile deed. Thus, the emergence of usury is only realised when there is a "time span" between payment and collection of the loan. Since this issue is not addressed in defining usury by jurists, contracts identified in the non-usury banking operation act (approved in 1983) and its executive bylaws, and also the consequent requirements for partnership accounting, are engaged with an essential ambiguity regarding discounting operations.[5]

Moreover, 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 divided and paid to the depositors, does not conform to the theoretical principles of *musharakah* (partnership) in Islamic banking. Even though this issue is included in the contract terms and conditions -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 neglected 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 separately. In order to move toward Islamic banking, these problems should be solved.

With a view to solve such problems and more, specific regulations, accounting and financial systems, risk management, information systems and also particular organisation infrastructures are needed, since profit and loss sharing operation is a basis of Islamic banking. In accounting and financial procedures some affairs namely the calculation method of profit and loss share of stakeholders and partners of investment return, accounts segmentation even in detailed accounts for different banking products, accounting documents, Islamic contracts, methods of calculation of bank's commission and cash or accrual accounting system are some of significant items that should be considered for fulfilment of real PLS banking operations.

The main specification of accounting and financial system in PLS banking can be introduced in some features of namely, connection of debt items to asset items, traceability of depositor's financial resources on investment projects, detailed accounts segmentation capability, reality and transparency of account flows, evaluating ability of partnership on the amount and investment duration, entrepreneur's initial capital including cash and non-cash contributed capital and in form of his innovation, entrepreneurship, technology, project management and control capabilities. Moreover, accounting of the profit resulting from the partnership operation between depositor[6] and entrepreneur[7] is one of the most critical issues in Islamic banking and financial sharing.

[4] 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

[5] 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.

[6] **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.

[7] **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.

In this paper, we are going to consider the accounting and financial system of PLS banking as a module of the suggested package for the real operational PLS banking under the title of Rastin Banking.[8] The procedures of Rastin Partnership[9] Accounting in this paper was designed based on Rastin Profit and Loss Sharing Banking[10] operations. Thus we used the terminologies defined in Rastin Banking.

PLS Accounting Experiences

There is no particular 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 instalment sales, hire-purchase, *murabahah*, and *istisna'a*. Moreover, in partnership contracts, present and future values are calculated by the interest rate. Thus they get far from the spirit of Islamic banking.

The international accounting standards and procedures of the "Institutions Offering Islamic Financial Services" (IIFS) indicate three main categories of transactions in the balance sheet as "Sales Financing", "Lease Financing" and "Equity Financing".

In "sales financing", the bank buys commodity of applicant as cash and books it in her own assets side then the transacted goods are resold to applicants by the bank. Based on IIFS, this kind of transactions is based on *Murabahah*, *Bay' Muajjal* (*Foroosh Aghsati*) and *Salam/Salaf*; and the price is determined on the basis of cost price plus markup. In "lease financing", the bank provides services derived from an asset to the customer and in addition to keep herself as the owner of the asset, makes income for both depositors and herself from asset returns. The primary product based on this kind of transactions that is prepared by Institutions Offering Islamic Financial Services (IIFS) is based upon floating profit rate and "*Ijareh be Sharti tamleek*" (*Ijarah Muntahia bi Tamleek*) is one of these contracts. In "equity financing", the bank as a financer prepares a part of required capital of the project on behalf of the depositors and finally at the time of exploitation, depositors will become shareholders of the project of the new established company, and subsequently it will provide their partnership in investment project return. The chief financial instruments on this kind of transactions are *Mudarabah* and *Musharakah*. Considering the accounting standards, it is inferred that the main compiled measures have been designed for the both sides of assets and liabilities for a dual usury and non-usury banking accounting methods with fixed and floating rates of returns.

Accounting and Auditing Organisation for Islamic Financial Institutions[11] compiled the international accounting standards and procedures for profit sharing transactions titled by Profit-Sharing Investment Account (PSIA) in balance sheet in which the allocation manner of profit among Investment Account Holders (IAH) is considered on PSIA basis by "The Separate Investment Account" and "Pooling" Methods.[12]

In the "separate investment account method", the yields of assets are separable into joint and non-joint. Based on this approach, direct costs and other related expenses namely non-performing loan

[8] **Rastin Banking**: is a true operational Islamic banking.
Bidabad, Bijan. (2014). New Operational Islamic Banking System, Volume One, Theoretical Foundations, LAP Lambert Academic Publishing, OmniScriptum GmbH & Co. KG, ISBN: 978-3-659-54463-7.
Bidabad, Bijan. (2014) New Operational Islamic Banking System, Volume Two, Applicational Issues, LAP Lambert Academic Publishing, OmniScriptum GmbH & Co. KG, ISBN: 978-3-659-55210-6.

[9] **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.

[10] **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.

[11] AAOIFI

[12] Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Financial Accounting Standards, FAS No. 5 and FAS No. 6.

(NPL) reserves and also other disclosed reserves are deducted from the gross income of bank then profit will be distributed between IAH and IIFS. In other words, the net profit is distributed to shareholders and financers. On the other side, proportion to the share of the partnership in profit, a part of distributable income between IIFS and IAH is deducted as Profit Equalization Reserve (PER).[13] In the "pooling method", the whole cost are paid through a joint account including direct or indirect costs related to either financing or operational costs in which they are deducted from gross income. In this method, a fraction of net income under title PER is also considered as well before the profit is distributed between IAH and IIFS according to the approved mutual agreement.[14]

Moreover, at this time the accounting standards for Islamic financing and banking are at the frontier of research and standardisation. Overall, the evidence reviewed by different authors resulted in the need for the Islamic accounting standards to fill the preserving gap. And it is concluded with various recommendations for future research and contributions to a better understanding of Islamic accounting standards.[15]

Rastin Partnership Accounting Principles

In Rastin Partnership Accounting, the interest rate is not applied to booking and financial analyses. In addition, the time-value of capital is calculated based on the amount and duration of the partnership, and without using interest rate.[16] This method is explained in detailed documents[17] and specifically in the drafts of the bill and the executive bylaw of Rastin Banking[18].

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

1. The 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 values methods, which are performed in conventional accounting by using the interest rates, are not the basis 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 the 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[19].
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

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[13] Profit Equalization Reserve (PER): is a fraction of income that is considered and is payable to IAH for equalization of profit that comes from investment in different stages of business cycles. The essential purpose of this reserve is to prevent the decrease of profit of this kind of accounts. On the other words it is considered for mitigating the risk that comes from falling down of investment return in different economic conditions. For more information see: IFSB Capital Adequacy Standard (CAS), December 2005. http//:www.ifsb.org/docs/compilation_guide.pdf

[14] For more information see the above references.

[15] Adel Mohammed Sarea, Hj Mustafa Mohd Hanefah (2013), The Need of Accounting Standards for Islamic Financial Institutions, International Management Review Vol. 9 No. 2 2013, pp.50 59.

[16] 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.*

[17] Rastin Banking documents are accessible through: http://www.bidabad.com

[18] 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.

[19] **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.

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 a penalty for the delayed payment (which are based on the interest rate). In order to quantify the delays effects 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, the bank is the "mediator of funds", this causes a difference between the booking processes of accounting documents in this type of banking and 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[20], disciplinary documents of contracts, collaterals and guarantees, 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[21]. 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 result from

[20] **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.

[21] **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.

the predictions of the approved project proposal. In this regard, money funds 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[22] and confirmation of the bank PLS office[23]. Based on the necessity of the equality of "term sources" and "term uses" in Rastin Profit and Loss Sharing banking products, in each stage, the bank proceeds to equip resources, issue Rastin Certificate for the depositors, and allocate it to the entrepreneur.

In the Base System[24] 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[25] for *Musharakah* (partnership) Certificates[26], the gain 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 "contributed capital value" (paid-in capital) is the entrepreneur's contributed capital amount, the "return value" of the entrepreneur's labour 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 contributed capital, which is obtained from selling the project(s). On the other words, the price of selling project(s) minus the total of capital and contributied capital 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:

Project markup price = Capital value + Contributed capital value

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

Capital value + Contributed capital value + Labour return value = Markup price + Value added
Project markup price + Value added = Project selling price
Capital value + Contributed capital value + Labour 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 contributed capital to the project selling price (or appraised value), plus the return ratio of the created value added to the project sale price (or appraised value):

Return ratio of the depositor's capital = Depositor's capital value ÷ Project appraised value
Return ratio of the entrepreneur's contributed capital = Entrepreneur's contributed capital value ÷

[22] **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.
[23] **PLS Office**: It is a bank department that along with subordinate units manages participation processes in Rastin Banking.
[24] - **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
[25] **Finitude projects**: are those projects that at the start of utilisation period are not productive in depositor's insight and after the end of construction period and start of utilisation period are finished from the bank's and depositor's points of view and are to be consumed.
[26] **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.

Project appraised value

Return ratio of the entrepreneur's labour = 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:

Depositor's share (amount) of the value added = Return ratio of the depositor's capital × Project value added
Share (amount) of the entrepreneur's contributed capital to the value added = Return ratio of the entrepreneur's contributed capital × Project value added
Share (amount) of the entrepreneur's labour of the value added = Return ratio of the entrepreneur's labour × 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 contributed capital to the value added = Return of the entrepreneur's contributed capital to the value added
Share (amount) of the entrepreneur's labour of the value added = Return of the entrepreneur's labour 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 sell price is obtained from the summation of the share (amount) of the entrepreneur's contributed capital to the value added, plus the share (amount) of the entrepreneur's labour of the value added, plus the entrepreneur's contributed capital. Thus:

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

Total share of the entrepreneur of the project selling price	=	*Share of the entrepreneur's contributed capital to the value added*	+	*Share of the entrepreneur's labour of the value added*	+	*Entrepreneur's contributed capital*

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 contributed capital

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

Capital return + Contributed capital return + Labour return = Value added

Economically, this type of distribution corresponds to the famous Euler's theorem[27] for distribution of the value added (income) to labour and capital, on the basis of the return for each of the owners of labour and capital. This is the basic procedure for distributing the profit of the projects in Rastin Profit and Loss Sharing Banking system.

After calculating the above distribution process, the fee for offering the capital management services by the bank, will be deducted from the depositor's and the entrepreneur's allocated amounts based on

[27] Henderson, R., Quandt, P. (1982), Microeconomic theory, a mathematical approach. Mc-Graw Hill.

their “term shares”, and the rest will be paid to them.

Off-Balance-Sheet Accounting Operations

After the project proposal assessment[28] and ensuring the entrepreneur eligibility and working capacity according to the provisions of Rastin Banking regulation and also receiving the related assessment fees, the bank issues Rastin Certificates and supplies them to the depositors through Rastin Certificate Market. The following accounting entries are booked in the Rastin General Ledger (RGL) automatically and simultaneously. The off-balance-sheet accounting operations are booked as follows:

Step 1: At the time of contract with entrepreneur and obtaining the collaterals and guarantees, the following entries are booked equivalent to collaterals guarantees value.

Debit: Entrepreneur commitments[29] for the project (contracts, collateral, and guarantees)
Credit: Counterpart entrepreneur commitments for the project (contracts, collateral, and guarantees)

Debit: Counterpart bank commitments for the project (contracts, collateral, and guarantees)
Credit: Bank commitments for the project (contracts, collateral, and guarantees)

Step 2: At the time of selling Rastin Certificates to the depositors, the following entries are booked equal to the finance value automatically:

Debit: Cash/CA[30] (sold Rastin Certificates)
Credit: Rastin Certificates fund (sold Rastin Certificates)

Debit: Counterpart bank commitments for the project (sold Rastin Certificates)
Credit: Bank commitments for the project (sold Rastin Certificates)

Step 3: At the time of allocating the funds to the entrepreneur (all at once or gradually), the following entries are booked:

Debit: Rastin Certificates fund (sold Rastin Certificates)
Credit: Cash / Entrepreneur account (sold Rastin Certificates)

Debit: Bank commitments for the project (sold Rastin Certificates fund)
Credit: Counterpart bank commitments for the project (sold Rastin Certificates)

Debit: Entrepreneur commitments for the project (sold Rastin Certificates)
Credit: Counterpart entrepreneur commitments for the project (sold Rastin Certificates)

Debit: Bank commitments for the project (assessment unit[31])
Credit: Counterpart bank commitments for the project (assessment unit)

Every payment to the entrepreneur for either physical progress of the project or as all at once payment will be the commitment of assessment unit of the Rastin bank[32] which is mandatory to be entered as it

[28] **Assessment** is an action which is 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.
[29] This entry can also be booked in disciplinary account; but due to internal control purposes in Rastin Banking it is necessary to be booked in as commitment.
[30] Customer Account (CA)
[31] - **Assessment unit** is a unit in PLS office of Rastin PLS bank which assesses the competence and capabilities of entrepreneur and his proposal.
[32] **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

was shown in the above third section. Sub-auxiliary accounts of the third section clarify what fraction of the total financing amount through the sold Rastin Certificates has been paid to the entrepreneur and to who belongs these Rastin Certificates. Receiving the documents (Performa, bill, letters of credit, warehouse receipt, custom sheet, commitment letter, and receiving any proof document by the assessment unit that indicates the value of the project) would represent the potential value of the project and must be confirmed by the bank's assessment unit according to the provisions of Rastin Banking regulations.

Step 4: At the time of selling the project and final settlement, the following accounting entries are booked:

Debit: Cash/ Entrepreneur/ Project buyer account
Credit: Rastin Certificates fund (for principal capital)
Credit: Rastin Certificates fund (for the project value added)

Debit: Counterpart entrepreneur commitments for Rastin Banking projects (sold Rastin Certificates)
Credit: Entrepreneur commitments for the project (sold Rastin Certificates)

Debit: Counterpart bank commitments for the project (assessment unit)
Credit: Bank commitments for the project (assessment unit)

Debit: Rastin Certificates fund (for principal capital)
Debit: Rastin Certificates fund (for the project value added)
Credit: Depositor's account (for profit share of depositing in the project)
Credit: Entrepreneur's account (for profit and share in the project)
Credit: Commission of the bank (for supervisions, profit, …)

Debit: Counterpart entrepreneur commitments for the project (contracts, collateral, and guarantees)
Credit: Entrepreneur commitments for the project (contracts, collateral, and guarantees)

Debit: Bank commitments for the project (contracts, collateral, and guarantees)
Credit: Counterpart bank commitments for the project (contracts, collateral, and guarantees)

The following table 1 shows a sample prototype Rastin Banking off-balance-sheet. The entries in this sheet as like as the core sheet entries of the balance sheet contain sub-auxiliary accounting headlines related to each entry and are distinguished and report the number and the Rastin Certificates owner for every project appointed to unique serial numbers. On the other words RGL and the Rastin Certificates Market are integrated, and by concluding the contract, the accounting entries are issued automatically and are booked in their relevant places. Any payment to the entrepreneur account will be booked as the entrepreneur commitments for owing the capital to the Rastin Certificates holders. On the other hand, the assessment unit of the Rastin Bank is responsible for supervising, monitoring[33] and receiving the related documents according to Rastin Banking regulations that are regarded as the bank commitments for assessment and monitoring of the project.

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.

[33] **Monitoring** is an action which is done by bank for protection of depositor's interests and good performance of executive operation in Rastin Banking. Bank is obliged to take measures for good operational performance. Standards for monitoring are based on Rastin Banking articles of the executive bylaw.

Table 1. Rastin Banking off-balance-sheet

<table>
<tr><th>Debit</th><th>Credit</th></tr>
<tr>
<td>
1. Entrepreneur commitments for Rastin Banking projects (contracts, collateral, and guarantees)

1. Counterpart bank commitments for Rastin Banking projects (contracts, collateral, and guarantees
+ Project A
+ Project B
3. Entrepreneur commitments for Rastin Banking projects (sold Rastin Certificates)
+ Project A
+ Customer 1 (CIF) [34]
<table>
<tr><th>Certificate Type</th><th>Serial code</th></tr>
<tr><td>2,000$</td><td>********
****
****
********</td></tr>
<tr><td>5,000$</td><td>********
.
.
********</td></tr>
<tr><td>10,000$</td><td>********
.
.
********</td></tr>
</table>
+ Customer 2 (CIF)
+ Customer 3 (CIF)

3. Counterpart bank commitments for Rastin banking projects (assessment unit)
4. Rastin Certificates fund (for principal capital)
4. Rastin Certificates funds (for value added)
</td>
<td>
1. Counterpart entrepreneur commitments for Rastin Banking projects (contracts, collateral and guarantees)

Bank commitments for Rastin Banking projects (contracts, collateral, and guarantees)
+ Project A
+ Project B
2. Rastin Certificates fund (sold Rastin Certificates)
2. Bank commitments for Rastin Banking projects (sold Rastin Certificates fund)
+ Project A
+ Customer 1 (CIF)
<table>
<tr><th>Certificate Type</th><th>Serial code</th></tr>
<tr><td>2,000$</td><td>********
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*********</td></tr>
<tr><td>5,000$</td><td>********
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<tr><td>10,000$</td><td>********
.
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********</td></tr>
</table>
+ Customer 2 (CIF)
+ Customer 3 (CIF)
3. Counterpart bank commitments for Rastin Banking projects (sold Rastin Certificates)
3. Bank commitments for Rastin Banking projects (assessment unit)
+ Project A
</td>
</tr>
</table>

A Typical Example

In this section, a simple numerical example is explained. Suppose an entrepreneur needs 13,000$ financing for six months under Rastin Banking framework to buy and sell merchandise. His paid-in capital is 3,000$, the rest of required capital (10,000$) is financed by Rastin Bank through Mudarabah Financial Sharing (MFS)[35] subsystem. Suppose the commodity is sold by 25,000$. The accounting operations are booked at the off-balance-sheet items as follows:

[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

[35] A customer information file (CIF) is an (either electronic or physical) system that consolidates customer information and accounts and combines it with other basic demographic information to create a snapshot of a customer relationship.

The 1st step: Contracts	**$**
Debit: Entrepreneur commitments for the project (contracts, collateral, and guarantees)	16,000
Credit: Counterpart entrepreneur commitments for the project (contracts, collateral, and guarantees)	16,000
Debit: Counterpart bank commitments for the project (contracts, collateral, and guarantees)	16,000
Credit: Bank commitments for the project (contracts, collateral, and guarantees)	16,000
The 2nd step: Certificates Selling	
Debit: Cash/CA (sold Rastin Certificates)	13,000
Credit: Rastin Certificates fund (sold Rastin Certificates)	13,000
Debit: Counterpart bank commitments for the project (sold Rastin Certificates)	13,000
Credit: Bank commitments for the project (sold Rastin Certificates)	13,000
The 3rd Step: Allocation to the entrepreneur project	
Debit: Rastin Certificates fund (sold Rastin Certificates)	13,000
Credit: Cash / Entrepreneur account (sold Rastin Certificates)	13,000
Debit: Bank commitments for the project (sold Rastin Certificates fund)	13,000
Credit: Counterpart bank commitments for the project (sold Rastin Certificates)	13,000
Debit: Entrepreneur commitments for the project (sold Rastin Certificates)	13,000
Credit: Counterpart entrepreneur commitments for the project (sold Rastin Certificates)	13,000
Debit: Bank commitments for the project (assessment unit)	13,000
Credit: Counterpart bank commitments for the project (assessment unit)	13,000

The 4th step: Selling the project and settlement:

Project markup price = Capital value + Contributed capital value

Project markup price = 10,000 + 3,000 = 13,000

Capital value + Contributed capital value + Labour return value = Markup price + Value added

10,000 + 3,000 + 12,000 = 13,000 + 12,000

Project markup price + Value added = Project selling price

13,000 + 12,000 = 25,000

Capital value + Contributed capital value + Labour return value = Project selling price

10,000 + 3,000 + 12,000 = 25,000

Return ratio of the depositor's capital = Depositor's capital value ÷ Project appraised value

Return ratio of the depositor's capital = 10,000 ÷ 25,000 = 0.4

Return ratio of the entrepreneur's contributed capital = Entrepreneur's contributed capital value ÷ Project appraised value

Return ratio of the entrepreneur's contributed capital = 3,000 ÷ 25,000 = 0.12

Return ratio of the entrepreneur's labour = Project value added ÷ Project appraised value

Return ratio of the entrepreneur's = 12,000 ÷ 25,000 = 0.48

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:

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

Depositor's share (amount) of the value added = 0.4 × 12,000 = 4,800

Share (amount) of the entrepreneur's contributed capital to the value added = Return ratio of the entrepreneur's contributed capital × Project value added

Share (amount) of the entrepreneur's contributed capital to the value added = 0.12 × 12,000 = 1,440

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

Share (amount) of the entrepreneur's labour of the value added = 0.48 × 12000 = 5,760

Thus:

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

Depositor's share of the project selling price = 10,000 + 4800 = 14,800

Total share of the entrepreneur of the project sale price	=	*Share of the entrepreneur's contributed capital to the value added*	+	*Share of the entrepreneur's labour of the value added*	+	*Entrepreneur's contributed capital*

Total share of the entrepreneur of the project sale price = 1,440 + 5,760 + 3,000 = 10,200

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

14,800 + 10,200 = 12,000 + 10,000 + 3,000

Capital return + Contributed capital return + Labour return = Value added

14,800 + 1,440 + 5,760 = 12,000

Now we shall book settlement accounting entries as follows:

Booking	$
Debit: Cash/ Entrepreneur/ Project buyer account	25,000
Credit: Rastin Certificates fund (for principal capital)	13,000
Credit: Rastin Certificates fund (for the project value added)	12,000
Debit: Counterpart entrepreneur commitments for Rastin Banking projects (sold Rastin Certificates)	13,000
Credit: Entrepreneur commitments for the project (sold Rastin Certificates)	13,000
Debit: Counterpart bank commitments for the project (assessment unit)	13,000
Credit: Bank commitments for the project (assessment unit)	13,000
Debit: Rastin Certificates fund (for principal capital)	13,000
Debit: Rastin Certificates fund (for the project value added)	12,000
Credit: Depositor's account (for profit share of depositing in the project) 14,800-390	14,410
Credit: Entrepreneur's account (for profit and share in the project)	10,200
Credit: Commission of the bank (for supervisions, profit, ...)13,000×0.03	390
Debit: Counterpart entrepreneur commitments for the project (contracts, collateral, and guarantees)	13,000
Credit: Entrepreneur commitments for the project (contracts, collateral, and guarantees)	13,000
Debit: Bank commitments for the project (contracts, collateral, and guarantees)	13,000
Credit: Counterpart bank commitments for the project (contracts, collateral, and guarantees)	13,000

Booking the other entries for the other Rastin Banking products are as same as the above procedure.

Change in Timing

According to the provisions of Rastin Banking regulations about supervision, the 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[36] 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, utilised 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 changes in timing. The effects of the price change on the project costs, in a aftermath of the delay in timing, are calculated via the following relation:

Cost effects, as a result of the delay in timing	=	*Project markup price*	-	*Project estimated markup 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 markup 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 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 with 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 on the date 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 the case of 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:

[36] **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 fulfils duties of supervision on the projects in Rastin Banking.

$$\text{Deposit return rate according to the project proposal} = \frac{\text{Project estimated selling price, at the due time mentioned in the project proposal} - \text{Project estimated markup price, at the due time mentioned in the project proposal} - \text{Entrepreneur's estimated profit share, at the due time mentioned in the project proposal} - \text{Entrepreneur's contributed capital value}}{\text{Project estimated markup price, at the due time mentioned in the project proposal} - \text{Entrepreneur's estimated profit share, at the due time mentioned in the project proposal} - \text{Entrepreneur's contributed capital value}}$$

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

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

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

$$\text{The realised rate of return of the deposit} = \frac{\text{Project selling price} - \text{Project markup price} - \text{Entrepreneur's profit share} - \text{Entrepreneur's contributed capital value}}{\text{Project markup price} - \text{Entrepreneur's profit share} - \text{Entrepreneur's contributed capital value}}$$

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

$$\text{The realised time rate of return of the deposit} = \frac{\text{The realised rate of return of the deposit}}{\text{Project duration}}$$

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 realised 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, in 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 fulfil 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 contributed cash (capital), 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 utilises 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 to 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 definite project 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[37], 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 a lack of supplying the resources by the bank, if the trustee unit 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.

For finitude and infinitude[38] projects or in different types of productive[39], rental[40], and dead[41] assets,

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[37] **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.

[38] **Infinitude projects:** are those projects that at the end of construction period and start of utilisation period are productive and at the start of utilisation 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.

[39] **Productive assets**: refers to the assets of an operating firm.

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[42] (on the internet virtual space or in the branch).

Transforming the Subscripted Certificate into Shares

In infinitude (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[43] 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 company, according to the primary text of the contract between the entrepreneur and the depositors.

Before transforming its Subscripted Certificate into shares, the depositor 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 contributed capital and the depositors' deposits, as the entrepreneur's share of the project (according to the partnership duration of the entrepreneur's contributed capital) and the depositors' share of the project (according to the sharing length 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 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 contributed capital. The entrepreneur is not permitted to sell the evaluated assets of the above note, during the project executive operations. At the time of transforming the Subscripted Certificate into shares, the ratio of the shareholders' debt and equity to the entrepreneur's company assets, should not be more than this ratio at the time of contract conclusion. If at the date of transforming the Subscripted Certificate into shares, this ratio increases compared to the time of contract conclusion, the nominal amount of the entrepreneur's contributed capital will be decreased as much as the net increase in 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 submit the extraordinary general assembly's resolution and the gazette notice to the bank, which shows the consent of the assembly with the 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 utilisation

[40] **Rental assets**: refers to those assets, which can be let.
[41] **Dead assets**: refers to non-operating (suspended) firms or uncultivated lands assets.
[42] **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
[43] **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.

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, the 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 affairs 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 by 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. The decrease in the firm's capital, as a result of the incurred losses (leading to a reduction 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 former agent bank. The decisions, related to the acceptance of the application 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 detailed project proposal, the entrepreneur's firm can only request for the issuance of the Subscripted Certificate through one bank. Any new application 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 non-observance 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 the transformation of the Subscripted Certificates, must be given under the name of the last owner of the Subscripted Certificates at the time of conversion. 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 contributed capital. 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 converting 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 entire 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 (contributed capital) 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 contributed capital and the sharing duration, can be obtained from the below relation:

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

The "term share" of the entrepreneur equals to:

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

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:

*Nominal amount of each depositor's share = Depositor's term share * (Nominal amounts of deposits + Entrepreneur's contributed capital)*

*Nominal amount of the entrepreneur's share = Entrepreneur's term share * (Nominal amounts of deposits + Entrepreneur's contributed capital)*

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.

Accounting for Funds with Variable Capital

Financial sharing institutions, funds and banks necessitate that their capital and number of shareholders be instantaneously variable. Joint Stock Company with Variable Capital (JSCVC)[44] is a

[44] Bijan Bidabad, (2014) Joint stock company with variable capital (JSCVC), International Journal of Law and Management,

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. The amount of nominal capital of the company at any point of time is calculated by summing up the nominal values of the shares of shareholders at that time, but company's yields are 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 the 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 fund's profit or loss, 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.

Rastin Partnership Accounting can be fully tailored for Rastin PLS Banking as well as Pension Funds, Mutual Funds, Saving and Loan Associations, and Credit Unions. Because all these institution's 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.

**** To be continued in Part II ****

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