

Al-Saudia Virtual Academy
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FINANCE & BANKING

MODARBA FINANCING:

MODARBA

Modarba is business in which a person participates with his money while the order with his skill or efforts or both his skill and efforts. N.I.T. Units and Mutual Funds are the best example of Modarba in Pakistan.

Basically it is a contract of partnership in which one party is entitled to profit on account of its capital and the other on account of its work provided that his is to be borne only by the owner of capital. In Modarba the owner is not supposed to work nor is the affairs of the business.

The scope of Modarba is confined to Trade and exceptionally to manufacturing. The working partner may himself work or employ any other person to work on his he half. In principle, any loss of capital or Modarba goods borne by the owner. This curtails or takes away the profits of Modarba, which indirectly of the worker too. The worker is responsible for losses too in case he violates the contract, the owner has a right to impose only those conditions, which are not prejudicial to the interest of the interest of the business. The share of profits divisible between the owner and the worker should vary with the quantum of total profits. In case the worker also subscribes his capital or goods towards modarba business, the Modarba business may be considered Shairka/business for distribution of profit.

TYPES OF MODARBA.

At present the following two types of Modarba are quite common:

- (a) Multipurpose Modarba, which has more than one objectives or purpose.
- (b) Specific-purpose Modarba, which is established for a specific purpose.

MODARBA COMPANIES:

Banks and Financial Institutions are not authorized to float a Modarba. Only such companies, which are registered as a Modarba Company can do so. These companies are registered under the Modarba Companies (Flotation and Control) Ordinance, 1980, which prescribes the following conditions for registration.

- (1) Modarba Company can be in the public or private sector.
- (2) It should be registered with the Registrar, Joint Stock Companies under the relevant laws.
- (3) It should be engaged in flotation and managing Modarba only and no other business.

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- (4) Its paid- up capital should not be less than Rs.10.00 million (Rupees: One Crore).
- (5) The members of management and staff should not have been convicted of fraud, a breach of trust or offenses involving moral turpitude.
- (6) The directors, officers and other employees should not have been adjudged insolvent or suspended payment or compounded with their creditor.
- (7) The promoters should be person of means and integrity, possessing the required knowledge and skill of the business.
- (8) The directors and officers of the Modarba company, or their relatives shall not obtain loans, advances or credit from the Modarba fund or against as security.
- (9) Profit and Loss Account and the balance sheet along with auditor are within six months from the close of accounting period.