



**ECONOMIC FACULTY
ANDALAS UNIVERSITY**

**THESIS
MEASURING FEASIBILITY OF INVESTMENT PROJECT
IN ISLAMIC BANK**

Submitted in partial fulfillment of the requirement for undergraduate
degree in Accounting Department

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ABSTRACT

Measuring Feasibility of Investment Project in Islamic Bank

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The aim of this research is to analyze methods of measuring feasibility of investment project in Islamic Bank. It describes the criteria and method that can be used to measure feasibility of project investment. Two methods generally used to measure project feasibility are NPV (Net Present Value) and IRR (Internal Rate of Return). These methods consider the use of discounting as method of appraisal , as the only way to choose between different investments. The research have found that in Islamic bank to measure feasibility of investment also use NPV and IRR as the method.

Keyword: *Islamic Bank, NPV, IRR, Investment*

CHAPTER 1

INTRODUCTION

1.1. Problem Background

The function of a financial system is to transfer funds from savings surplus units to savings-deficit units in the economy. It facilitates intermediation between savers and investors. The latter are supposed to use funds primarily for investment in productive assets and add to the wealth of the economy. All economic units can be classified into one of the following groups: (i) households; (ii) business firms; (iii) governments and (iv) cooperative. Savings of an economic unit is essentially the difference between its income and expenditure over a period of time.

Households typically receive income in the form of wages and salaries and make frequent expenditures on durable and non-durable consumer goods and services and for real estate in the form of home mortgage payments or rents. Businesses sell goods and services to households and businesses for revenues, and their expenditures are for wages, inventory purchases, and other production costs. Occasionally, businesses make capital expenditures in the form of new buildings and equipments. Governmental units obtain income by collecting taxes and fees and make expenditures for a host of public services. For a given time period, any unit within a group can have one of three possible budget positions: (i) a balanced position, where income and expenditures are equal; (ii) a surplus position, where

income for the period exceeds current expenditures; or (iii) a deficit position, where expenditures for the period exceed receipts.

The financial system seeks to ensure that funds flow from savings surplus units (SSUs) to savings-deficit units (SDUs). As a group, households are typically SSUs while business firms and governments fall in the category of SDUs (Obaidullah, 2005), although in fact household can be SDUs and firms and governments can be SSUs.

Investment is important activity in business. Islamic teaching actually supports Muslims to invest in real and productive sector (Mohamed, 1999; Choudory, n.d); or at least there is synchronization between the financial sector and the real sector (Siddiqi, 2002; Uthman, 2001, as quoted by Dodik and Hamidah in 2005). A Muslim can invest directly in any legitimate business, possibly earning some profits. It is generally believed that an increase in the range of financial assets and instruments would improve efficiency in mobilization of funds. Every saver or investor has unique risk-return expectations. The greater the variety of risk return combinations offered by financial assets, the better would be the match between what investors need and what is available in the system. The notion of allocation efficiency implies that funds flow into desirable projects. More funds should flow into projects with higher profitability and lower risk (hence, higher value) and vice versa. This implies that financial instruments issued by such projects should involve a lower cost of funds for the issuer. Prices and rates of financial instruments should reflect the intrinsic worth or value of an instrument. If the instrument or project is more valuable, it should command a

CHAPTER 5

CONCLUSION

5.1. Conclusion

This research has reviewed methodology of how to measure the feasibility of Islamic investment, and how Bank Syariah Mandiri (BSM) measure the feasibility of investment project. Islamic financial economics literature has not come to agreement on what is the best method to measure capital expenditure feasibility from Islamic concept. Most experts suggest to apply the concept of Net Present Value (NPV) and Internal Rate of Return (IRR). A more detailed findings of this thesis is presented below:

1. Criteria for measuring the feasibility of investment project from Islamic perspectives are:
 - a. IRR has been used in computing investment projects proposal. Technically, the basis of time value of money calculation uses spot price, not deferred price. The basis of decision is to undertake projects which have an IRR greater than the cost of capital.
 - b. Investment project will be undertaken as much as needed to reach full employment; that is, as long as there are unused factors of production in the economy.

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