

## 1.2 Insurance Claims for Loss of Stock and Loss of Profit

### CLAIM FOR LOSS OF STOCK

**F**ire insurance being a contract of indemnity, a claim can be lodged only for the actual amount of the loss, not exceeding the insured value. Following are some of the important points which must be considered.

- (1) Fire insurance is a contract of indemnity. Therefore, the claim will be limited to the actual loss suffered even though the insured value of the goods may be higher.
- (2) If the insured value of the stock is less than the total cost, then the average clause may apply, that is the loss be limited to that proportion of the loss as the insured value bears to the total cost. The actual amount would, therefore, be determined by the following formula:

$$\text{Claim} = \frac{\text{Insured Value}}{\text{Total Cost}} \times \text{Loss Suffered}$$

One should note that the average clause applies only where the insured value is less than the total cost.

The under mentioned points are relevant:

- (1) Where stock records are maintained and such records are not destroyed by fire, the value of the stock as at the date of the fire can be easily arrived at.
- (2) Where either stock records are not available or where they are destroyed by the fire the value of the stock at the date of the fire has to be estimated. The usual method of arriving at this value is to build up a Trading Account as from the date of last accounting year. After allowing for the usual gross profit, the figure of closing stock on the date of the fire can be ascertained as the balancing item.
- (3) Where books of account are destroyed the task of building up the Trading Account becomes difficult. In that case information is obtained from the customers and suppliers to ascertain the amount of sales and purchases.
- (4) In determining the amount of the claim, credit is given for damaged and salvaged stock.

### POOR SELLING GOODS

It is quite possible that there may be some poor-selling goods include in the stock. These goods are generally valued at below cost and, in effect, gross profit is reduced. To determine the normal rate of gross profit, the stock and sales proceeds of these goods are to be eliminated from the totals sales and stock. In this case, Trading Account is prepared in columnar form to show separately normal and abnormal items.

### CLAIM FOR LOSS OF PROFIT

When a fire occurs, the business is disorganized or has to be discontinued, and during that period, the standing expenses of the business like rent, salaries etc. continue. Moreover, there is loss of profits, which the business would have earned during the period. This loss can be insured against by a "Los of Profit" policy.

The Loss of Profit Policy normally covers the following items:

- (1) Loss of net profit
- (2) Standing charges
- (3) Any increased cost of working e.g., renting of temporary premises.

**The following items should be noted:**

**Gross Profit** The sum produced by adding to the Net Profit the amount of the insured standing Charges

If there is net loss, the amount of the insured Standing Charges less such a proportion of any net trading loss as the amount of the insured Standing Charges bears to all the standing charges of the business.

**Net Profit** The net trading profit resulting from the business of the insured at the premises after due provision has been made for all standing and other charges including depreciation but before deduction of any income tax.

**Insured Standing Charges** These charges are the charges specified in the policy which the insured desires to recover. It may include the following:

- Interest on Debentures, Mortgage Loans and Bank Overdrafts,
- Rent, rates and taxes
- Salaries of the permanent Staff
- Wages to Skilled Employees,
- Director’s Fees,
- Auditors fees
- Advertising
- Travelling

Unspecified Standing Charges [not exceeding 5% of the amount recoverable in respect of Specified Standing Charge].

**Rate of Gross Profit:** The rate of Gross Profit earned on turnover during the financial year immediately before the date of damage.

**Annual Turnover:** The turnover during the 12 months immediately before the damage.

**Standard Turnover:** The turnover during that period in the 12 months immediately before the date of damage which corresponds with the indemnity period. This is adjusted for the trend adjustments if any.

**Indemnity Period** the period beginning with the occurrence of the damage and ending not later than 12 months after during which the results of the business shall be affected in consequence of the damage.

**How to calculate the Amount of Claim under Loss of Profit Policy**

- (1) Find out the rate of Gross Profit (after considering trend of business if any)
- (2) Find out the short sales. (Standard turnover adjusted for trend if any – Actual turnover of the period of dislocation)
- (3) Find out G.P. on short sales.
- (4) Find out the amount admissible for additional Expenses. It should be the **minimum of :**
  - (a) Actual Expenses
  - (b) Gross Profit on additional sales generated by additional expenditure and
  - (c) **Additional Expenses**  $\times \frac{\text{GP on Annual Turnover}}{\text{GP on Annual Turnover} + \text{Uninsured Standing Charges}}$
- (5) Add (3) and (4) From the total deduct saving in any insured standing charge during the period of indemnity. The result is gross claim.
- (6) Apply Average clause:

$$\text{Net Claim} = \text{Gross claim} \times \frac{\text{Policy Value}}{\text{GP.on Annual Turnover}}$$

## ASSIGNMENTS FOR CLASS

### Loss of Stock

1).

On 1<sup>st</sup> April 2016 the stock of Shri Ramesh was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

	₹
Stock at cost 1 <sup>st</sup> January, 2015	73,500
Stock at cost 31 <sup>st</sup> December, 2015	79,600
Purchases year ended 31 <sup>st</sup> December, 2015	3,98,000
Sales year ended 31 <sup>st</sup> December, 2015	4,87,000
Purchases 1.1.2016 to 31.3.2016	1,62,000
Sales 1.1.2016 to 31.3. 2016	2,31,200

In valuing the stock for the Balance Sheet at 31<sup>st</sup> December, 2015 ₹2,300 had been written off on certain stock which was a poor selling line having the cost ₹6,900. a portion of these goods were sold in March, 2016 at loss of ₹250 on original cost of ₹3,450. The remainder of this stock was now estimated to be worth its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout the year.

The value of stock was salvaged was ₹5,800. The policy was for ₹50,000 and was subject to the average clause. Work out the amount of the claim of loss by fire.

2).

A fire occurred on 1<sup>st</sup> October 2016 in the premises of X co. Ltd. From the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock.

Particulars	₹
Stock at cost on 1.1.2015	90,000
Purchases from 1.1.2016 to 30.9.2016	6,20,000
Stock at cost on 1.1. 2016	70,000
Sales during 2015	6,00,000
Purchases during 2015	4,00,000
Sales from 1.1.2016 to 30.9. 2016	8,80,000

You are informed that:

- (a) In 2016 the cost of purchases has risen by 20% over the levels prevailing in 2015.
- (b) In 2016 the selling prices have gone up by 10% over the levels prevailing in 2015.
- (c) Salvaged value is ₹5,000.

**3).**

The factory premises of Toy Company were engulfed in fire on 31<sup>st</sup> March 2015 as a result of which a major part of stock was burnt to ashes. The stock was covered by policy for ₹1,00,000 subject to average clause.

The record at the office revealed following information:

(1)	(a)	The company sold goods to dealers on one month credit at dealers' price which is catalogue price less 15%. A cash discount is allowed @ 5% for immediate payment.
	(b)	The goods are also sold to Agents at catalogue price less 10% against cash payment.
	(c)	Goods are sent to branches at catalogue price.
	(d)	Catalogue price is cost + 100%.

(2)		The sales/dispatch during period up to date of fire is:
	(a)	Sale to dealer (without cash discount) ₹3,40,000.
	(b)	Sale to dealer (net of cash discount) ₹3,23,000.
	(c)	Sale to agents ₹90,000.
	(d)	Dispatch to branches ₹3,00,000.

(3) Stock on 1<sup>st</sup> January 2015 was ₹2,50,000 at catalogue price.

(4) Purchases at cost from 1<sup>st</sup> January 2015 to 31<sup>st</sup> March ₹6,25,000

(5) Salvages stock at ₹45,000.

Compute the amount of claim to be lodged.

**4).**

A fire occurred in the premises of M/s. Fireprone Co. on 30<sup>th</sup> May 2016. From the following particulars, relating to the period from 1<sup>st</sup> January 2016 to 30<sup>th</sup> May 2016, you are required to ascertain the amount of claim to be filed with the insurance company for the loss of stocks.

(1)	Stock as per Balance Sheet as 31 <sup>st</sup> December 2015	₹99,000
(2)	Purchases (including purchase of a machinery costing ₹30,000),	₹1,70,000
(3)	Wages (including wages for the installation of machinery ₹3,000),	₹50,000
(4)	Sales (including goods sold on approval basis amounting to ₹49,500)	₹2,75,000
	No confirmation had been received in respect of two-thirds of such goods sold on approval basis	
(5)	Sales value of goods drawn by partners,	₹15,000
(6)	Cost of goods sent to consignees on 15 <sup>th</sup> May 2016, lying unsold with them,	₹16,500
(7)	Sales value of goods distributed as free samples,	₹1,500

The average rate of gross profit was 20% in the past. The selling price was increased by 20% with effect from 1<sup>st</sup> January 2016.

For valuing the stock for the Balance Sheet, as at 31<sup>st</sup> December 2015 ₹1,000 was written-off in respect of a slow moving item, the cost of which was ₹5,000. A portion of these goods was sold at a loss of ₹500 on the original cost of ₹2,500. The remainder of stock is now estimated to be worth the original cost.

Subject to above exceptions, the gross profit remained at a uniform rate throughout. The value of goods salvaged was estimated at ₹25,000. The concern had taken an insurance policy for ₹60,000, which was subject to the average clause.

5).

A fire occurred in the godown of M/s. Krishna Traders on 31<sup>st</sup> March 2016. The stock as on 31<sup>st</sup> December 2015 was valued at ₹5,88,000. From the following particulars relating to the period from 1<sup>st</sup> January 2016 to 31<sup>st</sup> March 2016, you are required to ascertain the amount of claim to be lodged with the insurance company in respect of the value of goods destroyed by fire:

- (1) The purchases during the above period amounted to ₹2,13,000 of which goods costing ₹30,000 were received on 8<sup>th</sup> May 2016.
- (2) Goods costing ₹15,000 were found defective and were sold for ₹9,000. The goods in question had been included in the closing stock as at 31<sup>st</sup> December 2015, at cost.
- (3) The closing stock as at 31<sup>st</sup> December 2015 was undervalued by ₹12,000.
- (4) The sales during the above period amounted to ₹2,79,000 of which “sales on approval” basis amounted to ₹30,000. No intimation was received from the customers in respect of 60% of the goods sold on approval basis.
- (5) On 20<sup>th</sup> February 2016, goods costing ₹68,000 were sent to consignees and the same were lying unsold with them.
- (6) The amounting year of the firm ends on 31<sup>st</sup> December every year and the sales and gross profits of the preceding 5 years are as under:

Year	Sales (₹)	Gross Profit (₹)
2011	13,97,500	3,49,375
2012	11,53,750	3,46,125
2013	9,75,000	3,25,000
2014	8,93,750	3,03,875
2015	9,75,000	3,37,050

The gross profit during the period of fire should be taken on the basis of the weighted average of the last five years' profits, giving more weightage to the results of the later years.

- (7) The value of the goods salvaged was estimated at ₹1,20,000.
- (8) The insurance policy taken out by the company was for ₹3,00,000. The policy was subject to average clause.

**Loss of Profit****6).**

The premises of XY Ltd. were partially destroyed by fire on 1<sup>st</sup> March, 20X2 and as a result, the business was practically disorganized upto 31<sup>st</sup> August, 20X2. The company is insured under a loss of profit policy for ₹1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy:

		₹
(a)	Actual turnover during the period of dislocation (1.3.20X2 to 31.8.20X2)	80,000
(b)	Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire (1.3.20X1 to 31.8.20X1)	2,40,000
(c)	Turnover for the 12 months immediately preceding the fire (1.3.20X1 to 28.2.20X2)	6,00,000
(d)	Net profit for the last financial year	90,000
(e)	Insured standing charges for the last financial year	60,000
(f)	Uninsured standing charges	5,000
(g)	Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and upto the time of the fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to ₹9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only ₹55,000. There was also a saving during the indemnity period of ₹2,700 in insured standing charges as a result of the fire.

Sudarshan  
Agrawal  
Classes

**Combined sum of Loss of Stock and Loss of Profit**

7).

S & M Ltd. gives the following Trading and Profit & Loss Account for year ended 31<sup>st</sup> December, 2015:

Trading and Profit & Loss Account for the year ended 31 <sup>st</sup> December, 2015					
		₹			₹
To	Opening Stock	50,000	By	Sales	8,00,000
To	Purchases	3,00,000	By	Closing Stock	70,000
To	Wages (₹20,000 for skilled labor)	1,60,000			
To	Manufacturing Expenses	1,20,000			
To	Gross Profit	<u>2,40,000</u>			
		<u>8,70,000</u>			<u>8,70,000</u>
To	Office Administrative Exp.	60,000	By	Gross Profit	2,40,000
To	Advertising	20,000			
To	Selling Exp. (Fixed)	40,000			
To	Commission on Sales	48,000			
To	Carriage Outward	16,000			
To	Net profit	<u>56,000</u>			
		<u>2,40,000</u>			<u>2,40,000</u>

The company had taken out policies both against loss of stock and against loss of profit, the amounts being ₹80,000 and ₹1,72,000. A fire occurred on 1<sup>st</sup> May, 2016 and as a result of which sales were seriously affected for a period of 4 months. You are given the following further information:

- (a) Purchases, wages and other manufacturing expenses for the first 4 months of 2016 were ₹1,00,000, ₹50,000 and ₹36,000 respectively.
- (b) Sales for the same period were ₹2,40,000.
- (c) Other sales were as follows:

	₹
From 1 <sup>st</sup> January 2015 to 30 <sup>th</sup> April 2015	3,00,000
From 1 <sup>st</sup> May 2015 to 31 <sup>st</sup> August 2015	3,60,000
From 1 <sup>st</sup> May 2016 to 31 <sup>st</sup> August 2016	60,000

- (d) Gross profit during 2016 was expected to decline by 2% .
- (e) Additional expenses incurred during the period after the fire amounted to ₹1,40,000. The amount of the policy included ₹1,20,000 for expenses leaving ₹20,000 uncovered. Ascertain the claim for stock and for loss of profit.

8).

Sony Ltd.'s, Trading and Profit & Loss Account for the year ended 31<sup>st</sup> December 20X1 were as follows:

Trading and Profit & Loss Account for the year ended 31 <sup>st</sup> December 20X1			
	₹		₹
Opening Stock	20,000	Sales	10,00,000
Purchases	6,50,000	Closing Stock	90,000
Manufacturing Exp.	1,70,000		
Gross Profit	<u>2,50,000</u>		
	<u>10,90,000</u>		<u>10,90,000</u>
Administrative Expenses	80,000	Gross Profit	2,50,000
Selling Expenses	20,000		
Finance Charges	1,00,000		
Net Profit	<u>50,000</u>		
	<u>2,50,000</u>		<u>2,50,000</u>

The company had taken out a fire policy of ₹3,00,000 and a loss of profits policy for ₹1,00,000 having an indemnity period of 6 months. A fire occurred on 1.4.20X2 at the premises and the entire stocks were gutted with nil salvage value. The net quarter sales i.e., 1.4.20X2 to 30.6.20X2 was severely affected. The following are the other information:

Sales during the period	1.1.20X2 to 31.03.20X2	2,50,000
Purchases during the period	1.1.20X2 to 31.03.20X2	3,00,000
Manufacturing expenses	1.1.20X2 to 31.03.20X2	70,000
Sales during the period	1.4.20X2 to 30.06.20X2	87,500
Standing charges insured		50,000
Actual expense incurred after fire		60,000

The general trend of the industry shows an increase of sales by 15% and decrease in GP by 5% due to increased cost.

Ascertain the claim for stock and loss of profit.

### Computation of Policy Value

9).

A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000
Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.	
Increase in turnover expected 25%.	
To achieve additional sales, trader has to incur additional expenditure of 31,250	



## Loss of Profit

10).

Monalisa & Co. runs plastic goods shop. Following details are available from quarterly sales tax return filed.

Sales	20X1	20X2	20X3	20X4
	₹	₹	₹	₹
From 1 <sup>st</sup> January to 31 <sup>st</sup> March	1,80,000	1,70,000	2,05,950	1,62,000
From 1 <sup>st</sup> April to 30 <sup>th</sup> June	1,28,000	1,86,000	1,93,000	2,21,000
From 1 <sup>st</sup> July to 30 <sup>th</sup> September	1,53,000	2,10,000	2,31,000	1,75,000
From 1 <sup>st</sup> October to 31 <sup>st</sup> December	<u>1,59,000</u>	<u>1,47,000</u>	<u>1,90,000</u>	<u>1,48,000</u>
Total	<u>6,20,000</u>	<u>7,13,000</u>	<u>8,19,950</u>	<u>7,06,000</u>

Period	₹
Sales from 16-09-20X3 to 30-09-20X4	34,000
Sales from 16-09-20X4 to 30-09-20X4	Nil
Sales from 16-12-20X3 to 31-12-20X3	60,000
Sales from 16-12-2014 to 31-12-2014	20,000

A loss of profit policy was taken for ₹1,00,000. Fire occurred on 15<sup>th</sup> September, 2014. Indemnity period was for 3 months. Net Profit was ₹1,20,000 and standing charges (all insured) amounted to ₹43,990 for year ending 2013.

Determine the insurance Claim.

11).

M/s. Platinum Jewellers wants to take up a "Loss of Profit Policy" for the Year 2015. The Extract of the Profit and Loss Account of the previous year ended 31.12.2014 is provided below:

Variable Expenses:	
Cost of Materials	18,60,000
Fixed Expenses:	
Wages for Skilled Craftsmen	1,60,000
Salaries	2,80,000
Audit Fees	40,000
Rent	64,000
Bank Charges	18,000
Interest Income	44,000
Net Profit	6,72,000

Turnover is expected to grow by 25% next year.

To meet the growing Working Capital needs, the Partners have decided to avail Overdraft Facilities from their Bankers @ 12% p.a. interest.

The Average Daily Overdraft Balance will be around ₹2 Lakhs.

The Wages for the Skilled Craftsmen will increase by 20% and Salaries by 10% in the current year. All other expenses will remain the same.

Determine the amount of policy to be taken up for the current year by M/s. Platinum Jewellers.

**12).**

A fire engulfed the premises of a business of M/S Kite Ltd. in the morning, of 1<sup>st</sup> October, 2017. The entire stock was salvaged of ₹50,000. Insurance policy was for ₹5,00,000 with average clause.

The following information was obtained from the records saved for the period from 1<sup>st</sup> April to 30<sup>th</sup> September, 2017.

	₹
Sales	27,75,000
Purchases	18,75,000
Carriage inward	35,000
Carriage outward	20,000
Wages	40,000
Salaries	50,000
Stock in hand on 21 <sup>st</sup> March, 2017	3,50,000

**Additional Information:**

- (1) Sales upto 30<sup>th</sup> September, 2017, includes ₹75,000 for which goods had not been dispatched.
- (2) On 1<sup>st</sup> June, 2017, goods worth ₹1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of 2/3<sup>rd</sup> of the goods sold to him till 30<sup>th</sup> September, 2017.
- (3) Purchases upto 30<sup>th</sup> September, 2017 did not include ₹1,00,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.
- (4) Past records show the gross profit rate of 25% on sales.

You are required to prepare the statement of claim for loss of stock for submission to the Insurance Company.

## ASSIGNMENTS FOR HOME

1).

### **Loss of Stock**

On 11.11.2016 the premises of Rocky Ltd. was destroyed by fire. The following information is made available:

	₹
Stock as on 1.4.2015	3,75,000
Purchases from 1.4.2015 to 31.3.2016	5,20,000
Sales from 1.4. 2015 to 31.3.2016	8,55,000
Stock as on 31.3.2016	2,00,000
Purchases from 1.4.2016 to 11.11.2016	3,41,000
Sales from 1.4.2016 to 11.11.2016	4,35,500

In valuing the stock on 31.3.2016, due to damage 50% of the value of the stock which originally cost ₹22,000 was written off.

In June, 2016 about 50% of this stock was sold for ₹5,500 and the balance of obsolete stock is expected to realize the same price (i.e., 50% of the original cost).

The gross profit ratio is to be assumed as uniform in respect of other sales. Stock salvaged from fire amounts to ₹11,500.

Compute the value of stock lost in fire.

**[Last Year Gross Profit Percentage = 20%, Closing Stock = ₹1,97,000 [i.e. ₹1,86,000 + ₹11,000],**

**Loss of Stock = ₹1,80,000.]**

2).

Mr. A prepares accounts on 30th September each year, but on 31<sup>st</sup> December, 20X1 fire destroyed the greater part of his stock. Following information was collected from his book:

	₹
Stock as on 1.10.20X1	29,700
Purchases from 1.10.20X1 to 31.12.20X1	75,000
Wages from 1.10.20X1 to 31.12.20X1	33,000
Sales from 1.10.20X1 to 31.12.20X1	1,40,000

The rate of gross profit is 33.33% on cost. Stock to the value of ₹3,000 was salvaged. Insurance policy was for ₹25,000 and claim was subject to average clause.

Additional information:

- (i) Stock at the beginning was calculated at 10% less than cost.
- (ii) A plant was installed by firm's own worker. He was paid ₹500, which was included in wages.
- (iii) Purchases include the purchase of the plant for ₹5,000

You are required to calculate the claim for the loss of stock.

**3).**

A fire occurred in the workshop of Mr. Anup on 31<sup>st</sup> March, 2016, where a large part of the stock was destroyed. Scrap realised ₹7,500. Mr. Anup gives you the following information for the period of 1<sup>st</sup> January to 31<sup>st</sup> March, 2016:

Particulars	₹
Purchases	42,500
Sales	45,000
Goods taken by Mr. Anup for personal use. [Cost]	1,000
Cost price of stock on 1 <sup>st</sup> January, 2016	20,000

Over the past few years, Mr. Anup has been selling goods at a consistent gross profit margin of 30%. The Insurance policy was for ₹25,000. It included an Average Clause.

Prepare a statement of claim to be made on the insurance Company by Mr. Anup.

**[Closing Stock = ₹30,000, Claim = ₹18,750.]**

**4).**

On 20<sup>th</sup> October, 20X1, the godown and business premises of Aman Ltd. were affected by fire. From the salvaged accounting records, the following information is available:

	₹
Stock of goods @ 10% lower than cost as on 31 <sup>st</sup> March, 20X1	2,16,000
Purchases less returns (1.4.20X1 to 20.10.20X1)	2,80,000
Sales less returns (1.4.20X1 to 20.10.20X1)	6,20,000

**Additional information:**

- (1) Sales upto 20<sup>th</sup> October, 20X1 includes ₹80,000 for which goods had not been dispatched.
- (2) Purchases upto 20<sup>th</sup> October, 20X1 did not include ₹40,000 for which purchase invoices had not been received from suppliers, though goods have been received in Godown.
- (3) Past records show the gross profit rate of 25%.
- (4) The value of goods salvaged from fire ₹31,000.
- (5) Aman Ltd. has insured their stock for ₹1,00,000.

Compute the amount of claim to be lodged to the insurance company.

**5).**

A fire broke out in the godown of a business house on 8<sup>th</sup> July, 2009. Goods costing ₹2,03,000 in a small sub-godown remain unaffected by fire. The goods retrieved in a damaged condition from the main godown were valued at ₹1,97,000.

The following particulars were available from the books of accounts:

Stock on the last Balance Sheet date at 31<sup>st</sup> March, 2009 was ₹15,72,000. Purchases for the period from 1<sup>st</sup> April, 2009 to 8<sup>th</sup> July, 2009 were ₹37,10,000 and sales during the same period amounted to ₹52,60,000. The average gross profit margin was 30% on sales.

The business house has a fire insurance policy for ₹10,00,000 in respect of its entire stock. Assist the Accountant of the business house in computing the amount of claim of loss by fire.

**[Closing Stock = ₹16,00,000, Loss of Stock = ₹12,00,000, Claim = ₹7,50,000.]**

**6).**

On 29<sup>th</sup> August, 20x2, the godown of a trader caught fire and a large part of the stock of goods was destroyed. However, goods costing ₹1,08,000 could be salvaged incurring firefighting expenses amounting to ₹4,700.

The trader provides you the following additional information:

	₹
Cost of stock on 1 <sup>st</sup> April, 20X1	7,10,500
Cost of stock on 31 <sup>st</sup> March, 20X2	7,90,100
Purchases during the year ended 31 <sup>st</sup> March, 20X2	56,79,600
Purchases from 1 <sup>st</sup> April, 20X2 to the date of fire	33,10,700
Cost of goods distributed as samples for advertising from 1 <sup>st</sup> April, 20X2 to the date of fire	41,000
Cost of goods withdrawn by trader for personal use from 1 <sup>st</sup> April, 20X2 to the date of fire	2,000
Sales for the year ended 31 <sup>st</sup> March, 20X2	80,00,000
Sales from 1 <sup>st</sup> April, 20X2 to the date of fire	45,36,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for ₹9,00,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company.

**[Gross Profit = ₹24,00,000, Gross Profit Ratio = 30%, Insurance Claim = ₹7,79,300, Average Clause not applied, Closing Stock = ₹8,82,600.]**

**7).**

On 15<sup>th</sup> December, 20X1, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of stock salvaged being ₹1,40,000. From the books of account, the following particulars were available:

- (i) Stock at the close of account on 31<sup>st</sup> March, 20X1 was valued at ₹9,40,000.
- (ii) Purchases from 01-04-20X1 to 15-12-20X1 amounted to ₹13,20,000 and the sales during that period amounted to ₹20,25,000.

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim, if the stock were insured for ₹4,00,000.

**[Amount of Claim = ₹3,12,500, Closing Stock = ₹6,40,000]**

**8).**

From the following information ascertain the value of stock as on 31<sup>st</sup> March. 20X2:

	₹
Stock as on 01-04-20X1	28,500
Purchases	1,52,500
Manufacturing Expenses	30,000
Selling Expenses	12,100
Administration Expenses	6,000
Financial Expenses	4,300
Sales	2,49,000

At the time of valuing stock as on 31<sup>st</sup> March, 20X1 a sum of ₹3,500 was written off on a particular item, which was originally purchased for ₹10,000 and was sold during the year of ₹9,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

**9).**

On 19th May, 20X2, the premises of Shri Garib Das were destroyed by fire, but sufficient records were saved, where from the following particulars were ascertained:

	₹
Stock at cost on 1.1.20X1	36,750
Stock at cost on 31.12.20X1	39,800
Purchases less returns during 20X1	1,99,000
Sales less return during 20X1	2,43,500
Purchases less returns during 1.1.20X2 to 19.5.20X2	81,000
Sales less returns during 1.1.20X2 to 19.5.20X2	1,15,600

In valuing the stock for the balance Sheet as at 31<sup>st</sup> December, 20X1, ₹1,150 had been written off on certain stock which was a poor selling line having the cost ₹3,450. A portion of these goods were sold in March, 20X2 at a loss of ₹125 on original cost of ₹1,725. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was ₹2,900.

Show the amount of the claim of stock destroyed by fire. Memorandum Trading Account to be prepared for the period from 1-1-20X2 to 19-5-20X2 for normal and abnormal items.

**10).**

The premises of Anmol Ltd. caught fire on 22<sup>nd</sup> January 2015, and the stock was damaged. The firm makes account up to 31<sup>st</sup> March each year. On 31<sup>st</sup> March, 2014 the stock at cost was ₹6,63,600 as against ₹4,81,100 on 31<sup>st</sup> March, 2013.

Purchases from 1<sup>st</sup> April, 2014 to the date of fire were ₹17,41,350 as against ₹22,62,500 for the full year 2013-14 and the corresponding sales figures were ₹24,58,500 and ₹26,00,000 respectively. You are given the following further information:

- (i) In July, 2014, goods costing ₹50,000 were given away for advertising purposes, no entries being made in the books.
- (ii) During 2014-15, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹1,000 per week from 1<sup>st</sup> April, 2014 until the clerk was dismissed on 18<sup>th</sup> August, 2014.
- (iii) The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire.

**[GP Ratio = 20%; Cl. Stock = 3,72,150; Unrecorded cash Sales defalcation = 20,000]**

### Loss of Profit

11).

A fire occurred on 1<sup>st</sup> February, 20X2, in the premises of Pioneer Ltd., a retail store and business was partially disorganized upto 30<sup>th</sup> June, 20X2. The company was insured under a loss of profits for ₹1,25,000 with a six months period indemnity. From the following information, compute the amount of claim under the loss of profit policy assuming entire sales during interrupted period was due to additional expenses.

	₹
Actual turnover from 1 <sup>st</sup> February to 30 <sup>th</sup> June, 2016	80,000
Turnover from 1 <sup>st</sup> February, to 30 <sup>th</sup> June, 2015	2,00,000
Turnover from 1 <sup>st</sup> February, 2015 to 31 <sup>st</sup> January, 2016	4,50,000
Net profit for last financial year	70,000
Insured standing charger for last financial year	56,000
Total standing charges for last financial year	64,000
Turnover for the last financial year	4,20,000

The company incurred additional expenses amounting to ₹6,700, which reduced the loss in turnover. There is also a saving during the indemnity period of ₹2,450 in the insured standing charges as a result of the fire.

There had been a considerable increase in trade since the date of the last annual accounts and it has been agreed that an adjustment of 15% be made in respect of the upward trend in turnover.

**[Loss on Gross Profit = ₹45,000, Additional Expense = ₹6,372, Claim = ₹39,390.]**

12).

Cee Ltd., which operates a wholesale warehouse, had a fire on premises on 30<sup>th</sup> April, 2016, which destroyed most of the building, although stock to the value of ₹3,960 was salvaged. The company has an insurance policy (with suitable average clauses) covering stock, for ₹6,00,000, building for ₹8,00,000, and loss of profits including standing charges for ₹2,50,000 with a six month period of indemnity.

The company's last Profit & Loss Account, for the year ended 31<sup>st</sup> March 2016, showed the following position:

	₹		₹
To Opening Stock	4,12,500	By Sales	20,00,000
To Purchases	18,12,500	By Stock	5,25,000
To Insured Standing Charges	1,67,500	By Interest	5,000
To Other Expenses	80,000		
To Net Profit for the year	<u>57,500</u>		
	<u>25,30,000</u>		<u>25,30,000</u>

The company's records show that the sales for April, 2016 had been the same as for the corresponding month in the previous year at ₹1,00,000, payments made to trade creditors

in April were ₹1,06,680 and at the end of that month the balances owing to trade creditors had increased by ₹3,320. The company's business was disrupted until the end of July, during which period turnover fell by ₹1,80,000 compared with the same period in the previous year. It was agreed that three-quarters of the value of the building had been lost and that at the time of the fire, it had been worth ₹10,00,000.

Ascertain the amount of various claims to be lodged with insurers.

**[Loss of Stock = ₹5,46,040, Claim for Building = ₹6,00,000,**

**Loss of Profit = ₹19,800 (Gross Profit Ratio = 11%).]**

**13).**

X Ltd. has insured itself under a loss of profit policy for ₹3,63,000. The indemnity period under the policy is six months. On 1<sup>st</sup> September, 2007 a fire occurred in the factory of X Ltd. and the normal business was affected upto 1<sup>st</sup> March, 2008.

The following information is compiled for the year ended on 31<sup>st</sup> March, 2007:

Sales	20,00,000
Insured Standing Charges	2,40,000
Uninsured Standing Charges	20,000
Net Profit	1,20,000

Following further details of turnover are furnished.

- (a) Turnover during the period of 12 months ending on the date of the fire was ₹22,00,000.
- (b) Turnover during the period of interruption was ₹2,25,000.
- (c) Actual Turnover during the period from 01.09.2006 to 01.03.2007 during the preceding year corresponding to the indemnity period was ₹7,50,000.

X Ltd. spent an amount of ₹40,000 as Additional Cost of Working during the Indemnity Period.

On account of this Additional Expenditure -

- (a) There was a saving of ₹15,000 in Insured Standing Charges during the Period of Indemnity.
- (b) Reduced Turnover avoided was ₹1,00,000 i.e. but for his expenditure, the Turnover after the date of fire would have been only ₹1,25,000.

A Special Clause in the policy stipulates that owing to the reasons acceptable to the insurer under the special circumstances the following increases are to be made:

- Increase of turnover standard and annual by 10%.
- Increase in rate of gross profit by 2% from previous year's level.

X Ltd. asks you to compute the Claim for Loss of Profit All calculations should be to the nearest rupee.

**[Loss on Gross Profit = ₹1,20,000, Additional Expense = ₹20,000, Claim = ₹93,750.]**

**14).**

On 12<sup>th</sup> June, 20X2 fire occurred in the premises of N.R. Patel, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹11,200. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹10,500. From the books of account, the following particulars were available.

1. His stock at the close of account on December 31, 20X1 was valued at ₹83,500.
2. His purchases from 1-1-20X2 to 12-6-20X2 amounted to ₹1,12,000 and his sales during that period amounted to ₹1,54,000.

On the basis of his accounts for the past three years it appears that he earns on an average a gross profit of 30% of sales.

Patel has insured his stock for ₹60,000. Compute the amount of the claim.



**15).**

On 30<sup>th</sup> March, 20X2 fire occurred in the premises of M/s Suraj Brothers. The concern had taken an insurance policy of ₹60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March 20X2.

- (1) Stock as per Balance Sheet at 31st December, 20X1, ₹95,600.
- (2) Purchases (including purchase of machinery costing ₹30,000) ₹1,70,000
- (3) Wages (including wages ₹3,000 for installation of machinery) ₹50,000.
- (4) Sales (including goods sold on approval basis amounting to ₹49,500) ₹2,75,000. No approval has been received in respect of 2/3rd of the goods sold on approval.
- (5) The average rate of gross profit is 20% of sales.
- (6) The value of the salvaged goods was ₹12,300.

You are required to compute the amount of the claim to be lodged to the insurance company.

**16).**

On account of a fire on 15<sup>th</sup> June, 20X2 in the business house of a company, the working remained disturbed upto 15<sup>th</sup> December 20X2 as a result of which it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for ₹1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increase of 25% was marked in the current year's sales as compared to the last year. The company incurred an additional expenditure of ₹12,000 to make sales possible and made a saving of ₹2,000 in the insured standing charges.

	₹
Actual sales from 15th June, 20X2 to 15th Dec, 20X2	70,000
Sales from 15th June 20X1 to 15th Dec 20X1	2,40,000
Net profit for last financial year	80,000
Insured standing charges for the last financial year	70,000
Total standing charges for the last financial year	1,20,000
Turnover for the last financial year	6,00,000
Turnover for one year : 16 <sup>th</sup> June 20X1 to 15 <sup>th</sup> June 20X2	5,60,000