3. INSURANCE CLAIMS FOR LOSS OF STOCK AND LOSS OF PROFIT

NO. OF PROBLEMS IN 42e OF CA INTER: CLASSROOM - 09, ASSIGNMENT - 12

NO. OF PROBLEMS IN 41.5e OF CA INTER: CLASSROOM - 7, ASSIGNMENT – 9

NO. OF PROBLEMS IN 42.5(2nd Version) OF CA INTER: CLASSROOM - 08, ASSIGNMENT - 10

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC AND CA INTER

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)	M-19(N)
Model - 1	-	-	-	05	-	-	08	-	-	-	-	-	-	-	10	-	10	-
Model - 2	-	-	08	-	-	-	-	-	-	-	-	-	-	8	-	-	-	-
Model - 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 5	10	-	-	-	-	-	-	-	-	-	08	-	10	-	-	-	-	-
Model - 6	-	-	-	-	16	-	-	-	08	08	-	-	-	-	-	-	-	-
Model - 7	-	16	-	-	-	-	-	-	-	-	-	-	-	-	-	10	-	10
Model - 8	-	08	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Model - 1 : Computation of closing stock and claim

Model - 2 : Computation of Average Clause

Model - 3 : Treatment of firefighting Expenses

Model - 4 : Change in Policy

Model - 5 : Change in % of GP

Model - 6 : Abnormal items

Model - 7 : Loss of Profit

Model - 8 : Loss of Stock and loss of profit

Model - 9 : Theory

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in new SM	Problem No. in old SM	Problem No. in old PM	RTP	MTP	Previous Exams	Remarks
CR 1	ILL-1	-	5	-	-	-	
CR 2	PQ-2	-	7	-	-	-	
CR 3	PQ-3	-	6	-	-	N-18(N)	
CR 4	ILL-3	-	3				
CR 5	-	-	-	-	-	N-18	
CR 6	ILL-9	ILL-4	-	-	-	N-08	
CR 7	PQ-6	-	14	-	-	N-13	
CR 8	-	-	-	-	-	M-16	
ASG 1	ILL-4	ILL-1	-				
ASG 2	ILL-1	-	8	-	N-18	-	
ASG 3	ILL-5	ILL-2	4	-	-	M-08	
ASG 4	-	-	-	N-18(N&O)	-	-	
ASG 5	-	-	-	M-18	M-18	-	
ASG 6	ILL-8	ILL-3	-	-	-	M-13	

ASG 7	ILL-11	ILL-7	-	-	-	-	
ASG 8	ILL-10	ILL-6	EX-1	-	-	-	
ASG 9	-	-	-	-	-	M-15	
ASG 10	-	-	-	M-19	-	-	

THEORY

Introduction:

a) Business enterprises get insured against the **loss of stock** on the happening of certain events such as fire, flood, theft, earthquake etc.

b) Sometimes an enterprise also gets itself insured against consequential **loss of profit** due to decrease in turnover, increase in expenses etc. such policy known as loss of profit or consequential loss policy.

Insurance claim can be studied under two parts as under:

1. Claim for loss of stock
2. Claim for loss of profit

Insurance: It means a contract of indemnity (guarantee) whereby one party, called the insurer, undertakes to indemnify(compensate) the loss suffered by other party, called the insured, on the happening of some unforeseen event in consideration of a fixed sum of money, called the premium.

Steps for calculation of Insurance claim under loss of stock policy:

Step 1: Take Gross profit ratio:

1. If the percentage of gross profit is mentioned, then it should be applied for the computation of G.P for the year of fire.
2. If the percentage of gross profit is not given, then last year gross profit percentage should be taken as base which should be computed by preparing last year trading a/c.
3. Where stock records are maintained and not destroyed by fire Gross Profit ratio is not necessary.
4. **Average GP Ratio:** Whenever more than one earlier year's data is given, the gross profit rate of each year should be calculated and average should be taken.(either simple or weighted average)

Step 2: Determination of value of stock on the date of fire:

1. **Where proper stock records are maintained and such records are not destroyed by fire:** In such a case no difficulty is faced in determining the value of stock as at date of fire and the amount of claim.
2. **Where proper stock records are not maintained or such records are destroyed by fire:** In such a case the value of the stock at the date of 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 (step1), the figure of closing stock on the date of the fire can be ascertained as the balancing item.

Example-1: On 15th December, 20X1, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. From the books of account, the following particulars were available:

i) Stock at the close of account on 31st March, 20X1 was valued at Rs. 9,40,000.

ii) Purchases from 01-04-20X1 to 15-12-20X1 amounted to Rs. 13,20,000 and the sales during that period amounted to Rs. 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. Find the Value of stock as on the date of fire.

Solution:

Memorandum Trading Account for the period from 01-04-2011 to 15-12-2011

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening stock	9,40,000	By Sales	20,25,000

To Purchases	13,20,000	By Closing Stock (Bal. figure)	6,40,000
To Gross Profit @20%	4,05,000		
	26,65,000		**26,65,000**

Example-2: Calculate the Closing Stock as on 30-06-2018 in the following situation

Stock as on 1-1-2018 Rs. 70,000 Purchases from 1-1-2018 to 30-6-2018 Rs. 6,00,000, Sales from 1-1-2018 to 30-6-2018 Rs. 8,80,000, G.P. Ratio for 2017 was 30%. In 2018, the cost of purchases and selling prices has increased by 20% and 10% respectively above the levels prevailing in 2017.

Solution:

Memorandum Trading Account for the period from 01-01-2018 to 30-06-2018.

Particulars	2017 basis Rs.	2018 Rs.	Particulars	2017 basis Rs.	2018 Rs.
To Opening Stock	70,000	70,000	By Sales	8,00,000	8,80,000
To Purchases	5,00,000	6,00,000	By Closing Stock (b.f)	10,000	12,000
To Gross Profit @30% on Normal Sales	2,4,000	2,22,000			
	8,10,000	**8,92,000**		**8,10,000**	**8,92,000**

3. **Where books of accounts are also destroyed:** Where books of accounts are destroyed, the task of building up the Trading Account becomes difficult. In that case information is obtained from the customers and suppliers have to be circularized to ascertain the amount of sales and purchases.

Step 3: Determination of value of salvaged stock:

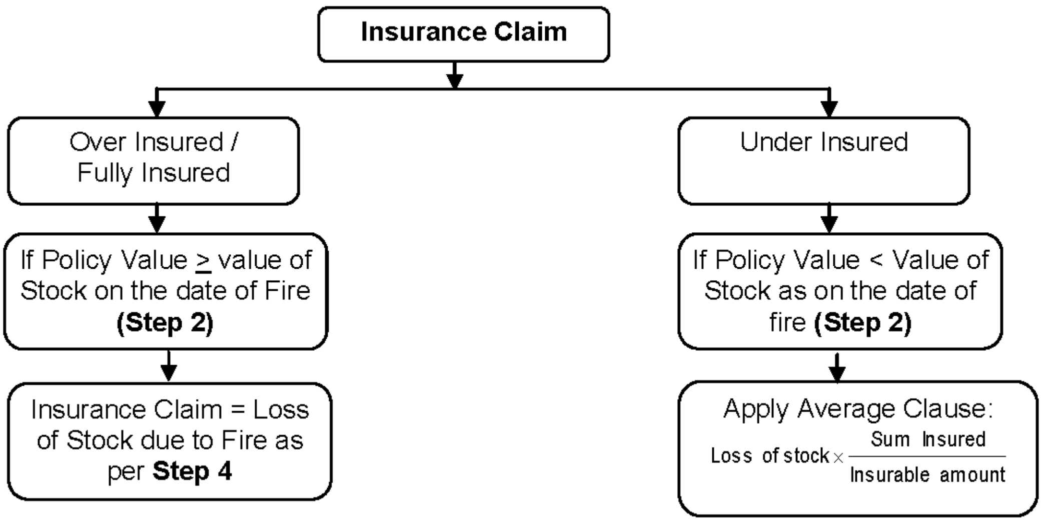
Salvage: Salvage refers to goods saved from fire. It is true that the insurer has the right to take away the goods salvaged. But, usually, is retained by the insured himself.

The treatment of salvage depends upon the facts of each case. If the salvage is retained by the insured, then the value of salvage should be deducted from the value of stock as on date of fire, and the resulting amount should be considered as the amount of stock lost by fire for the purpose of claim.

Step 4: Determination of value of loss of stock due to fire:

Value of stock on the date of fire as per stock register	XXXX
less: Salvage value	XXXX
Loss of stock:	**XXXX**

Step: 5 Determination of Insurance Claim:



Note:

1. **Average Clause:** This clause is applicable only when the goods/property was under insured i.e., where he has not taken sufficient insurance to cover the value of the property insured. In such a case the claim of the insured would be based on the following formula.

$$\text{Amount of Claim} = \text{Loss of stock} \times \frac{\text{Sum Insured}}{\text{Insurable amount}}$$

The objective of average clause is discouraging the insured to make under insurance.

2. Fire insurance being a contract of indemnity, a claim can be lodged only for the actual amount of the loss, not exceeding the insured value. In dealing with problems requiring determination of the claim the following point must be noted.

   a) **Total loss:** Amount of claim = actual loss (If goods are fully insured but the amount of claim is restricted to policy amount)

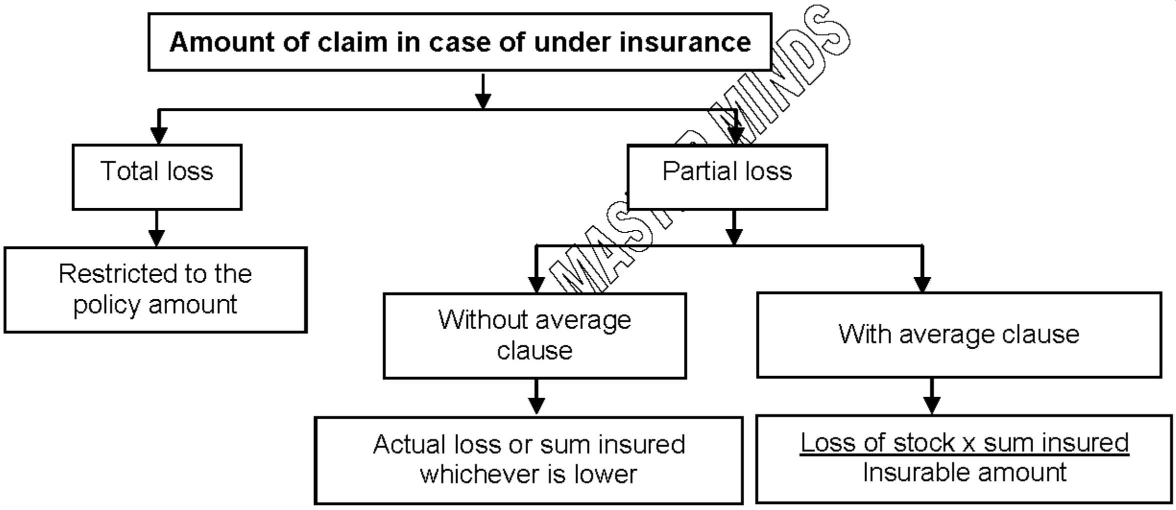
   b) **Partial loss:**

      i) **Without average clause:** Claim is equal to the lower of actual loss or the sum insured.

      ii) **With average clause:** Amount of claim for loss of stock is proportionately reduced, considering the ratio of policy amount (i.e. insured amount) to the value of stock as on the date of fire (i.e. insurable amount) as shown below.

   Amount of claim = Loss of stock x sum insured / Insurable amount (Total Cost)

(N05, M09)



3. **Abnormal Loss:**

   a) While calculating the GP ratio of earlier year, or the cost of stock of this year etc., the cost / sale value of abnormal item (i.e. items which are not valued, purchased, sold at normal prices) should be excluded / adjusted while preparing trading account.

   b) After calculating stock, such abnormal item it was lying in stock should be added at lower of cost or realizable value to get total cost on the date of fire.

II. Claim for Loss of Profits (Consequential Loss Policy):

1. When a fire occurs, apart from the direct loss on account of stock or other assets destroyed, there is also a consequential loss due to disorganization or discontinuation of business for some time.

2. In such period the standing expenses of business like rent, salaries etc. continue. There is a loss of profits which would have earned during that period

3. These losses can be insured by a policy known as Consequential Loss Policy or Loss 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

Steps for calculation of Insurance claim under loss of profit policy:

Step 1. Computation of short sales:

Standard turnover	XXXX
Add/Less: Increase or decrease in turn over (Trend)	XXXX
Adjusted standard turnover	XXXX
Less: Actual turnover or indemnity turnover	(XXXX)
Short sales	XXXX

Step 2. Computation of GP%:

NP of last year (before tax)	XXXX
Add: Insured standing charges	XXXX
Adjusted NP	XXXX
Turnover of last year	XXXX

$$GP\% = \frac{\text{Adjusted NP}}{\text{Last year turnover}} \times 100$$

Step 3. Computation of loss of profits:

Loss of profits = Short Sales X GP%

Step 4. Computation of adjusted annual Turnover:

Annual turnover	XXXX
Add/Less: Increase/decrease in turnover (Trend)	XXXX
Adjusted Annual Turnover	XXXX

Step 5. GP on adjusted annual turnover:

GP on adjusted annual turnover = Adjusted annual turnover X GP%

Step 6. Computation of claim for additional expenses: XXXX

1. Actual additional expenditure incurred XXXX

2. $\frac{\text{Additional expn. x GP on AAT}}{\text{GP on AAT} + \text{Uninsured standing charges}}$ XXXX

3. GP on sales generated by additional expenditure XXXX

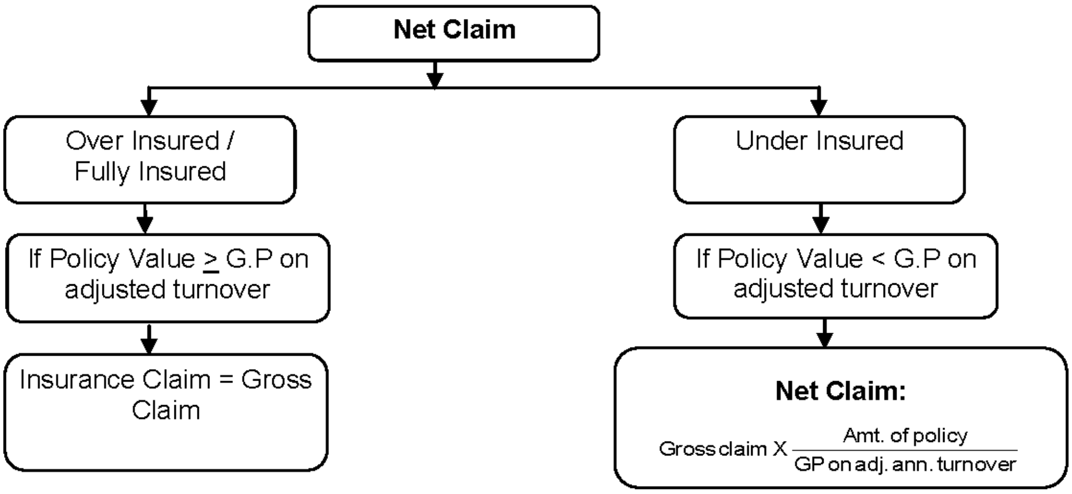
(Additional turnover)

The claim for add. Expen. Will be lower of above three.

Step 7. Computation of gross claim:

Loss of profits as per step-3	XXXX
Add: Additional expenses as per step-6	XXXX
Less: Saving in insured standing charges	(XXXX)
Gross claim	XXXX

Step 8. Computation of net claim:



<u>Terms used in a Loss of Profit Insurance Policy:</u>

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 twelve months immediately before the damage.

Standard Turnover: The turnover during that period in the twelve months immediately before the date of damage which corresponds with the Indemnity Period.

Indemnity Period: The period beginning with the occurrence of the damage and ending not later than twelve months thereafter during which the results of the business shall be affected in consequence of the damage.

Short sales: It is the difference between standard sales and actual sales during the period of indemnity.

Claim period: Claim is available for the indemnity period or actual period of interruption whichever is lower.

Increased Working Cost: The insured may incur some additional expenses for business stay during the post fire period to avoid reduction in sales. In loss of profit policy, average clause is inserted to cover the increase in working cost with the objective of avoiding the loss of sales.

<u>Gross Profit:</u>

Net Profit + Insured Standing charges **OR**

Insured Standing charges - Net Trading Loss (if any) x sum insured / Insurable amount

Net profit: It is the net trading profit (exclusive of all capital receipts and accretion and all outlay properly chargeable to capital) resulting from the business of the Insured at the premises after due provision has been made for all standing and other charges including depreciation.

Insured Standing Charges: Interest on Debentures, Mortgage Loans and Bank Overdrafts, Rent, Rates and Taxes (other than taxes which form part of net profit) Salaries of Permanent Staff and Wages to Skilled Employees, Boarding and Lodging of resident Directors and/or Manager, Directors' Fees, Unspecified Standing Charges [not exceeding 5% (five per cent) of the amount recoverable in respect of Specified Standing Charges]

<u>Trend in turnover:</u>

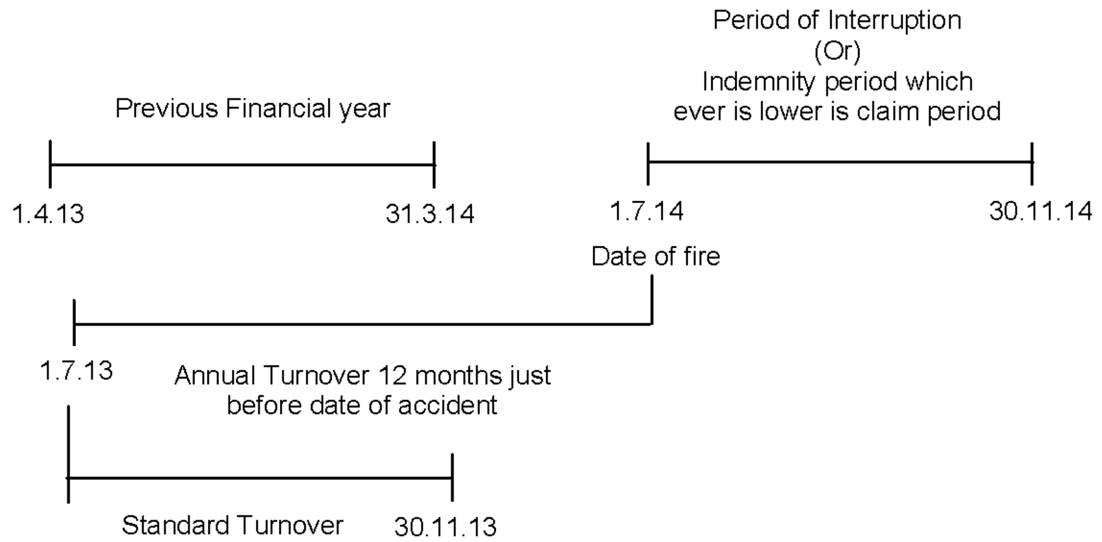
1. The annual turnover and standard turnover should be adjusted for any upward or downward trend in turnover. If agreed percentage of increase / decrease is given, then that is to be applied for calculating adjusting turnover.
2. Otherwise the trend (% of increase / decrease) can be calculated when more than one financial year sales are given. Calculation of trend by comparing annual turnover and previous year turnover although not very correct but can be calculated as follows and applied if required by the question.

$$= \frac{\text{Annual Turnover} - \text{Turnover of last financial year}}{\text{Turnover of last financial year}} \times 100$$

3. Trend indicates whether future turnover is expected to be more or less than past period turnover.

Tutorial Note: Insurance company will provide claim at fair value on damaged goods and at cost on normal goods.

Example:



How to record the short fall in claim settlement by Insurance Company (Insurer) in the books of the company (Insured)?

Journal Entry

Profit and Loss A/c Dr. (To the extent of shortfall amount)

To Insurance Company A/c

(Being the shortfall in insurance claim is the loss, transfer to Profit and Loss Account)

Determination of Policy Amount:

Example 1: 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: Rs. 4,50,000

Standing Charges in the last financial year: Rs. 90,000

Net profit earned in the last year was 10% of the turnover, on the same trend expected in subsequent year. Increase in turnover expected is 25%. To achieve additional sales, the trader has to incur additional expenditure of Rs. 31,250. ***(N10)***

Solution:

Dr. Profit and Loss Account for the previous year Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To variable expenses (balancing figure)	**3,15,000**	By Sales	4,50,000
To Standing Charges	90,000		
To Net Profit (10% on sales)	45,000		
	4,50,000		4,50,000

Computation of Insurance Policy to be taken:

Particulars	Amount (Rs.)
Gross Profit (Sales Rs. 4,50,000 - VE Rs. 3,15,000)	1,35,000
Add: Additional Gross Profit for 25% increase in turnover (1,35,000 x 25%)	33,750
Add: Additional Expenditure to achieve Additional Sales	31,250

Policy to be taken for the current Year	**2,00,000**

Example 2: CCL wants to take up a loss of profit policy. Turnover during the current year is expected to increase by 20%. The company will avail overdraft facility from its bank at 15% interest to boost up the sale. The average daily overdraft balance will be around Rs. 3,00,000. All other fixed expenses will remain same. The following details were available from the previous year.

Fixed Expenses:	Amount (Rs.)
Salaries	3,30,000
Rent	30,000
Travelling Expenses	50,000
Postage	60,000
Director's fees	10,000
Audit Fees	20,000
Total	**5,00,000**

Variable Expenses amounted to Rs. 24,00,000; Miscellaneous income: Rs. 70,000; Net Profit: Rs. 4,20,000. Determine the amount to be taken for the current year. *(N01)*

Solution:

Dr. **Profit and Loss Account for the previous year** **Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To variable expenses	24,00,000	By Sales (balancing figure)	**32,50,000**
To Fixed Expenses	5,00,000	By Miscellaneous income	70,000
To Net Profit	4,20,000		
	33,20,000		33,20,000

Computation of Insurance Policy to be taken:

Particulars	Amount (Rs.)
Gross Profit (Sales Rs. 32,50,000 - VE Rs. 24,00,000)	8,50,000
Add: Additional Gross Profit for 20% increase in turnover (8,50,000 x 20%)	1,70,000
Add: Increased Standing Charges (Interest on OD) (Rs. 3,00,000 x 15%)	45,000
Policy to be taken for the current Year	**10,65,000**

Note:

A claim for loss of profits can be established only if:

i) The insured's premises, or the property therein, are destroyed or damaged by the peril defined in the policy; and

ii) The insured's business carried on the premises is interrupted or interfered with as a result of such damage.

PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM 1: On 30th March, 20X2 fire occurred in the premises of M/s Suraj Brothers. The concern had taken an insurance policy of Rs. 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	Rs. 95,600.
2.	Purchases (including purchase of machinery costing Rs. 30,000)	Rs. 1,70,000
3.	Wages (including wages Rs. 3,000 for installation of machinery)	Rs. 50,000.

4.	Sales (including goods sold on approval basis amounting to Rs. 49,500)	Rs. 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.	Value of the salvaged goods	Rs. 12,300.

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

(NEW SM) (ANS.:AMOUNT OF CLAIM: RS. 48,211)

SOLVE PROBLEM NO. 1, OF ASSIGNMENT PROBLEMS AS REWORK

PROBLEM 2: (PRINTED SOLUTION AVAILABLE) On 29th August, 20X2, the godown of a trader caught fire and a large part of the stock of goods was destroyed. However, goods costing Rs. 1,08,000 could be salvaged incurring fire-fighting expenses amounting to Rs. 4,700.

The trader provides you the following additional information:

Particulars	Amount (Rs.)
Cost of stock on 1st April, 20X1	7,10,500
Cost of stock on 31st March, 20X2	7,90,100
Purchases during the year ended 31st March, 20X2	56,79,600
Purchases from 1st April, 20X2 to the date of fire	33,10,700
Cost of goods distributed as samples for advertising from 1st April, 20X2 to the date of fire	41,000
Cost of goods withdrawn by trader for personal use from 1st April, 20X2 to the date of fire	2,000
Sales for the year ended 31st March, 20X2	80,00,000
Sales from 1st 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 Rs. 9,00,000 with an average clause.

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

(NEW SM) (ANS.: AMOUNT OF CLAIM: RS. 7,79,300) (SOLVE PROBLEM NO. 2, 3 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 3: A fire occurred in the premises of M/s. Fireproof Co. on 31st August, 20X1. From the following particulars relating to the period from 1st April, 20X1 to 31st August, 20X1, you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for Rs. 60,000 which is subject to an average clause.

Particulars	Amount (Rs.)
i) Stock as per Balance Sheet at 31-03-20X1	99,000
ii) Purchases	1,70,000
iii) Wages (including wages for the installation of a machine Rs. 3,000)	50,000
iv) Sales	2,42,000
v) Sale value of goods drawn by partners	15,000
vi) Cost of goods sent to consignee on 16th August, 20X1, lying unsold with them	16,500
vii) Cost of goods distributed as free samples	1,500

While valuing the stock at 31st March, 20X1, Rs. 1,000 were written off in respect of a slow moving item. The cost of which was Rs. 5,000. A portion of these goods were sold at a loss of Rs. 500 on the original cost of Rs. 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at Rs. 20,000. The average rate of gross profit was 20% throughout.

(NEW SM, SIMILAR: N18 (N) - 10M) (ANS.: AMOUNT OF CLAIM: RS. 47,027)

(SOLVE PROBLEM NO. 4 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 4: (PRINTED SOLUTION AVAILABLE) On 20th October, 20X1, the godown and business premises of Aman Ltd. were affected by fire. From the salvaged accounting records, the following information is available:

Particulars	Amount (Rs.)
Stock of goods @ 10% lower than cost as on 31st 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 up to 20th October, 20X1 includes Rs. 80,000 for which goods had not been dispatched.
2. Purchases upto 20th October, 20X1 did not include Rs. 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 Rs. 31,000.
5. Aman Ltd. has insured their stock for Rs. 1,00,000.

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

(NEW SM) (ANS.: INSURANCE CLAIM: RS. 80,000)

(SOLVE PROBLEM NO. 5 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 5: Unfortunate ltd. has a godown, a shop and a manufacturing unit. Godown is used to store goods purchased for manufacture as well as to store finished goods. Goods are transferred from godown every day in the morning to manufacturing unit and shop. Inventory in godown is insured for Rs. 20 lakhs, that of manufacturing unit for Rs. 30 lakhs and of the shop for Rs. 5 lakhs

As on 31.03.2017 inventory in godown at cost was Rs. 26 lakhs, inventory in manufacturing unit at cost was Rs. 12 lakhs and inventory in shop at cost was Rs. 5 lakhs

Following transactions took place during the period mentioned: **(Rs. In Lakhs)**

Particulars	Jan 18	Feb 18	March 18	1st Apr-28th Apr
Purchases	20	15	16	8
Returns to suppliers	-	-	4	-
Stock transfer to shop	26	20	25	10
Returns from shop	1	-	1	1
Sales in shop @ Gross Profit:				
10%	10	12	8	4
12%	18	12	15	5

Fire occurred in shop in the midnight of 27th April - 28th April, 2018 and the entire stock was engulfed in fire. Good costing Rs. 40,000 could be salvaged intact and balance goods were recovered in damaged condition.

Expenses of firefighting/salvage operation amounted to Rs. 20,000. Goods recovered in damaged condition could be sold @ 40% of cost. The insurance policy had average clause.

Compute the claim to be lodged with Insurance Co. ***(N18 (O) - 8M)***

PROBLEM 6: (PRINTED SOLUTION AVAILABLE) The premises of XY Limited was partially destroyed by fire on 1st March, 2014 and as a result, the business was practically disorganised up to 31st August 2014. The company is insured under a loss of profits policy for Rs.1,65,000 having an indemnity period of 6 months. From the following information, ascertain the claim for loss of profit.

Actual turnover during the period of dislocating (1.3.14 to 31.8.14)	80,000
Turnover for the corresponding period in the (1.3.13 to 31.8.13)	2,40,000
Turnover for the 12 months immediately preceding the fire (1.3.13 to 28.2.14)	6,00,000
Net profit for the last financial year	90,000
Insured standing charge for the last financial year	60,000
Uninsured standing charges	5,000
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 Rs.9,300, immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only Rs.55,000. There was also a saving during the indemnity period of Rs.2,700 in insured standing charges as a result of the fire.

(A) (NEW SM, SIMILAR: N08) (ANS.: NET CLAIM RS.50,000) (SOLVE PROBLEM NO. 6 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 7: Monalisa & Co. runs plastic goods shop. Following details are available from quarterly sales tax return filed.

Sales	2009 (Rs.)	2010 (Rs.)	2011 (Rs.)	2012 (Rs.)
From 1st January to 31st March	1,80,000	1,70,000	2,05,950	1,62,000
From 1st April to 30th June	1,28,000	1,86,000	1,93,000	2,21,000
From 1st July to 30th September	1,53,000	2,10,000	2,31,000	1,75,000
From 1st October to 31st December	1,59,000	1,47,000	1,90,000	1,48,000
TOTAL	6,20,000	7,13,000	8,19,950	7,06,000

Period	**Rs.**
Sales from 16-09-2011 to 30-09-2011	34,000
Sales from 16-09-2012 to 30-09-2012	Nil
Sales from 16-12-2011 to 31-12-2011	60,000
Sales from 16-12-2012 to 31-12-2012	20,000

A loss of profit policy was taken for Rs.1,00,000. Fire occurred on 15th September, 2012. Indemnity period was for 3 months. Net Profit was Rs.1,20,000 and standing charges (all insured) amounted to Rs.43,990 for year ending 31st December, 2011.

Determine the Insurance Claim. ***(A) (NEW SM, N13-4M) (ANS.: NET CLAIM: RS. 7,430)***

(SOLVE PROBLEM NO. 7 &8 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 8: (PRINTED SOLUTION AVAILABLE) Determination of claim in loss of profit policy: A firm has decided to take out of loss of profit policy for the year 2016 and given the following information for the last accounting year 2015.

Variable manufacturing expenses Rs. 14,20,000, Standing charges Rs. 1,50,000, Net profit Rs. 80,000, Non-operating income Rs. 2,500, Sales Rs. 18,00,000.

Compute the sum to be insured in each of the following alternative cases showing the anticipation for the year 2016:

i) If sales will increase by 15%.

ii) If sales will increase by 15% and only 50% of the present standing charges are to be insured.

iii) If sales and variable expenses will increase by 15% and standing charges will increase by 10%.

iv) If sales will increase by 15% and variable expenses will decrease by 5%.

v) If sales will increase by 10% and standing changes will increase by 15%.

vi) If the turnover and standing charges will increase by 15% and variable expenses will decrease by 10% but only 50% of the present standing charges are to be insured.

(A) (M16)

(SOLVE PROBLEM NO. 9 OF ASSIGNMENT PROBLEMS AS REWORK)

PRINTED SOLUTIONS TO SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 2, 4,6,8

PROBLEM NO.2

Memorandum Trading Account for the period 1st April, 2012 to 29th August 2012

Particulars		Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock		7,90,100	By Sales	45,36,000
To Purchases	33,10,700		By Closing stock (Bal. fig.)	8,82,600
Less: Advertisement	(41,000)			
Drawings	(2,000)	32,67,700		
To Gross Profit [30% of Sales - Refer Working Note]		13,60,800		
		54,18,600		**54,18,600**

Statement of Insurance Claim

Particulars	Amount (Rs.)
Value of stock destroyed by fire	8,82,600
Less: Salvaged Stock	(1,08,000)
Add: Fire Fighting Expenses	4,700
Insurance Claim	**7,79,300**

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of Rs.7,79,300 will be admitted by the Insurance Company.

Working Note:

Dr. **Trading Account for the year ended 31st March, 2012** **Cr.**

Particulars	Amount	Particulars	Amount
To Opening Stock	7,10,500	By Sales	80,00,000
To Purchases	56,79,600	By Closing stock	7,90,100
To Gross Profit	24,00,000		
	87,90,100		**87,90,100**

Rate of Gross Profit in 2011-12: $\frac{\text{Gross profit}}{\text{Sales}} \times 100 = \frac{24,00,000}{80,00,000} \times 100 = 30\%$

PROBLEM NO.4

Memorandum Trading A/c (01-04-2009 to 20-10-2009)

Particulars	Amount	Particulars	Amount

To Opening stock (Refer W.N)	2,40,000	By Sales (Rs. 6,20,000 - Rs.80,000)	5,40,000
To Purchases (Rs.2,80,000 + Rs. 40,000)	3,20,000	By closing stock (bal. fig)	1,55,000
To Gross profit (Rs. 5,40,000 x 25%*)	1,35,000		
	6,95,000		6,95,000

Particulars	Amount
Stock on the date of fire (i.e. on 20.10.2009)	1,55,000
Less: Stock salvaged	(31,000)
Stock destroyed by fire	1,24,000

$$\text{Insurance claim} = \frac{\text{Loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy}$$

$$= \frac{1,24,000}{1,55,000} \times 1,00,000 = \text{Rs. } 80,000$$

Working Note: Stock as on 1st April, 2009 was valued at 10% lower than cost. Hence, original cost of the stock as on 1st April, 2009 would be $= \frac{2,16,000}{90} \times 100 = \text{Rs. } 2,40,000$

*It is assumed that gross profit is provided as a percentage of sales.

PROBLEM NO.6

.Computation of loss of profit Insurance claim

	Rs.
(1) **Rate of gross profit:**	
Net profit for the last financial year	90,000
Add: Insured standing charges	60,000
	1,50,000
Turnover for the last financial year	5,00,000
Rate of gross profit = $\frac{Rs.1,50,000}{Rs.5,00,00} \times 100$ = 30%	
(2) **Short sales:**	
Standard Turnover	2,40,000
Add: 10% increasing trend	24,000
	2,64,000
Less: Turnover during the dislocation period (which is at par	
with the indemnity period of 6 months)	(80,000)
	1,84,000
(3) **Annual (Adjusted) Turnover**:	
Annual Turnover (1-3-20X1 to 23-2-20X2)	6,00,000
Add: 10% increasing trend	60,000
	6,60,000

Note: Assumed that trend adjustment is required on total amount of annual turnover. However, part of the annual turnover represents trend adjusted figure. Alternatively, the students may ignore trend and take simply annual turnover. The claim would be Rs. 55,000 which is more than the claim computed in Para (5). So the Insurance Company would insist on trend adjusted on annual turnover.

(4) **Additional Expenses:** Rs.

(i) Actual Expenses 9,300

(ii) Gross profit on sales generated by additional expenses

30/100× (Rs. 80,000 – Rs. 55,000) 7,500

(iii) $\frac{\text{Gross Profit on Annual (Adjusted) Turnover}}{\text{Gross Profit shown in the numerator + Uninsured standing charges}} \times \text{Additional Expenses}$

$$\frac{30\% \text{ on Rs.6,60,00 0}}{30\% \text{ on Rs.6,60,00 0}} \times 9{,}300$$

$$\frac{\text{Rs.1,98,00 0}}{\text{Rs.2,03,00 0}} \times 9{,}300 =$$ 9,071

Least of the above three figures, *i.e.* Rs. 7,500 allowable.

(5) **Claim***:* **Rs.**

Loss of profit on short sales (30% on Rs. 1,84,000)	55,200
Add : Allowable additional expenses	7,500
	62,700
Less : Savings in insured standing charges (2,700)	60,000
Application of average clause	
$Rs\,60{,}000\ \frac{Rs.1{,}65{,}000}{Rs.1{,}98{,}000}$	50,000

PROBLEM NO.8

Note: Sales = current Sales 18 Lakhs + 15% Increase = 20.70; In case (5) = 18 Lakhs + 10% Increase = 19.80

Case	Sales (S)	Variable Expenses (VE)	Gross Profit = S – VE	Insured Standing Charge incr. (ISC)	Uninsured St. Charged (USC)	Sum Insurable GP+ISC+USC
1	20.70	14.20+15%=16.33	4.37	-	-	4.37
2	20.70	14.20+15%=16.33	4.37	-	50% = (0.75)	3.62
3	20.70	16.33+15%=18.78	1.92	10% = 0.15	-	2.07
4	20.70	16.33–5% = 15.51	5.19	-	-	5.19
5	19.80	14.20+10%=15.62	4.18	15% - 0.23	-	4.41
6	20.70	16.33+10%=14.70	6.00	50% of 15%=0.11	50% = (0.75)	5.37

Note:

1. It is assumed that increase in sale is due to increase in volume of sales. Alternatively, it may be assumed that this increase is because of rise in Selling Price. In such case, there will be no proportionate increase in Variable Expenses.

2. In case (6), it is given in that 50% of the present Standing Charges are to be insured. It is assumed that 50% of the increased Standing Charges are insured.

3. In case (3), 15% Increase in Variable Exp. is calculated after considering proportionate increase due to increase in turnover.

Alternative Approach: Trading & Profit and Loss A/c for previous year is prepared, to ascertain **Other Fixed Expenses** as Balancing Figure, as under.

Particulars	Rs.	Particulars	Rs.
To Variable Expenses	14,20,000	By Sales	18,00,000
To Standing Charges	1,50,000	By Non – Operating Income	2,500
To Other Fixed Expenses (bal.fig)	**1,52,500**		
To Net Profit	80,000		
Total	**18,02,500**		**18,02,500**

1. GP of last year for policy purposes = Net Profit + Standing Charges (–) Non – Operating Income
   = 80,000 + 1,50,000 (–) 2,500 = **Rs. 2,27,500**
2. Computation of Insurance Policy to be taken in various situations.

Situation (i): 15% Increase in Sales	**Rs.**
15% Increase in Sales (Rs. 2,27,500 + 15%)	2,61,625

Situation (ii): 15% Sale Increase + 50% reduction in Standing Charges	**Rs.**
GP with 15% Increase = 2,27,500 + 15%	2,61,625
Less: 50% of Standing Charges	(75,000)
Total	**1,86,625**

Situation (iii): 15% Increase in Sales & Variable Expenses, 10% increase in Standing Charges	**Rs.**
Sales (18,00,000 x 115%)	20,70,000
Less: Variable Expenses (14,20,000 x 115%)	(16,33,000)
Less: Fixed Expenses (as per last year)	(1,52,500)
Add: 10% Increase in Standing Charges	15,000
Total	**2,99,500**

Situation (iv): Sales Increase 15%, Variable Expenses Decrease 5%	**Rs.**
Sales (18,00,000 x 115%)	20,70,000
Less: Variable Expenses (14,20,000 x 95%)	(13,49,000)
Less: Fixed Expenses	(1,52,500)
Total	**5,68,500**

Situation (v): Sales Increase 10%, Standing Charges Increase 15%	**Rs.**
GP with 10% Increase = Rs. 2,27,500 + 10%	2,50,250
Add: 15% Increase in Standing Charges	22,500
Total	**2,72,750**

Situation (vi): Turnover & Standing Charges 15% Increase, Variable Expenses Decrease by 10%, 15% of Standing Charges to be insured:	**Rs.**
Sales (18,00,000 x 115%)	20,70,000
Less: Variable Expenses (14,20,000 x 90%)	(12,78,000)
Less: Fixed Expenses	(1,52,500)

Add: 15% Increase in of Standing Charges	22,500
Total of Above	**6,62,000**
Less: 50% of present Standing Charges	(75,000)
Total	**5,87,000**

ASSIGNMENT PROBLEMS

PROBLEM 1: On 12th 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 Rs. 11,200. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at Rs. 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 Rs. 83,500.
2. His purchases from 1-1-20X2 to 12-6-20X2 amounted to Rs. 1,12,000 and his sales during that period amounted to Rs. 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 Rs. 60,000. Compute the amount of the claim. *(NEW SM) (ANS.: RS. 45,154)*

PROBLEM 2: From the following information, ascertain the value of stock as on 31st March, 2012:

Particulars	Rs.
Stock as on 01-04-2011	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 31st March, 2011, a sum of Rs. 3,500 was written off on a particular item, which was originally purchased for Rs. 10,000 and was sold during the year for Rs. 9,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

(B) (NEW SM, SIMILAR: MTP1 N18 (N)) (ANS: VALUE OF STOCK RS.12,500)

PROBLEM 3: On 1st April, 2015 the stock of Shri Ramesh was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Particulars	Rs.
Stock at cost-1st January, 2014	73,500
Stock at cost-31st December, 2014	79,600
Purchases-year ended 31st December, 2014	3,98,000
Sales-year ended 31st December, 2014	4,87,000
Purchases 1.1.2015 to 31.3.2015	1,62,000
Sales 1.1.2015 to 31.3.2015	2,31,200

In valuing the stock for the Balance Sheet at 31st December, 2014 Rs.2,300 had been written off on certain stock which was a poor selling line having the cost Rs.6,900. A portion of these goods were sold in March, 2015 at loss of Rs.250 on original cost of Rs.3450. 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 salvaged was Rs.5,800. The policy was for Rs.50,000 and was subject to the average clause. Work out the amount of the claim of loss by fire.

(A) (NEW SM, SIMILAR: M08) (ANS.: AMOUNT OF CLAIM RS.45,004)

PROBLEM 4: On 27th July, 2017, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing Rs. 5,000 could be salvaged. Their fire-fighting expenses were amounting to Rs. 1,300.

From the salvaged accounting records, the following information is available relating to the period from 01.04.2017 to 27.07.2017:

1.	Stock as per balance sheet as on 31.03.2017	Rs. 63,000
2.	Purchases (including purchase of machinery costing Rs. 10,000	Rs. 2,92,000
3.	Wages (including wages paid for installation of machinery Rs. 3,000)	Rs. 53,000
4.	Sales (including goods sold on approval basis amounting to Rs. 40,000. No approval has been received in respect of 1/4th of the goods sold on approval)	Rs. 4,12,300
5.	Cost of goods distributed as free sample	Rs. 2,000

Other Information:

i) While valuing the stock on 31.03.2017, Rs. 1,000 had been written off in respect of certain slow moving items costing Rs. 4,000. A portion of these goods were sold in June, 2017 at a loss of Rs. 700 on original cost of Rs. 3,000. The remainder of these stocks is now estimated to be worth its original cost.

ii) Past record shows the normal gross profit rate is 20%.

iii) The insurance company also admitted fire-fighting expenses. The Company had taken the fire insurance policy of Rs. 55,000 with the average clause.

Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 01.04.2017 to 27.07.2017 for normal and abnormal items. ***(RTP N18 (N&O)) (ANS.: CLAIM LODGED BY THE INSURANCE COMPANY: RS. 51,770)***

PROBLEM 5: The premises of Agni Ltd. caught fire on 22nd January 2011, and the stock was damaged.

The firm makes account up to 31st March each year. On 31st March, 2010 the stock at cost was Rs. 13,27,200 as against Rs. 9,62,200 on 31st March, 2009.

Purchases from 1st April, 2010 to the date of fire were Rs. 34,82,700 as against Rs. 45,25,000 for the full year 2009 -10 and the corresponding sales figures were Rs. 49,17,000 and Rs. 52,00,000 respectively.

You are given the following further information:

In July, 2010, goods costing Rs. 1,00,000 were given away for advertising purposes, no entries being made in the books.

During 2010-11, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs. 2,000 per week from 1st April, 2010 until the clerk was dismissed on 18th August, 2010.

The rate of gross profit is constant.

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

(B) (RTP M12, MTP M17, SIMILAR: RTP M18 (N) & (O), MTP APR 18 (O)) (ANS.: STOCK ON DATE OF FIRE RS.7,44,100)

PROBLEM 6: A fire occurred on 1st February, 2014 in the premises of Pioneer Ltd., a retail store and business was partially disorganised upto 30th June, 2014. The company was insured under a loss of profits for Rs.1,25,000 with a six months period indemnity. From the following information, compute the amount of claim under the loss of profit policy.

Actual turnover from 1st February to 30th June, 2014	80,000
Turnover from 1st February to 30th June, 2013	2,00,000
Turnover from 1st February, 2013 to 31st January, 2014	4,50,000
Net Profit for last financial year	70,000

Insured standing charges 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 Rs.6,700 which reduced the loss in turnover. There was also a saving during the indemnity period of Rs.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.

(A) (NEW SM) (ANS.: NET CLAIM RS.39,390)

PROBLEM 7: From the following particulars, you are required to calculate the amount of claim for Build well Ltd., whose business premises was partly destroyed by fire:

Sum insured (from 31st December 2013) Rs.4,00,000

Period of indemnity 12 months, Date of damage 1st January, 2014

Date on which disruption of business ceased 31st October, 2014

The subject matter of the policy was gross profit but only net profit and insured standing charges are included.

The books of account revealed:

a) The gross profit for the financial year 2013 was Rs.3,60,000.
b) The actual turnover for financial year 2013 was Rs.12,00,000 which was also the turnover in this case.
c) The turnover for the period 1st January to 31st October, in the year preceding the loss, was Rs.10,00,000.

During dislocation of the position, it was learnt that in November-December 2013, there has been an upward trend in business done (compared with the figure of the previous years) and it was stated that had the loss not occurred, the trading results for 2014 would have been better than those of the previous years.

The Insurance company official appointed to assess the loss accepted this view and adjustments were made to the pre-damaged figures to bring them up to the estimated amounts which would have resulted in 2014.

The pre-damaged figures together with agreed adjustments were:

Period	Pre-damaged figures (Rs.)	Adjustment to be added (Rs.)	Adjusted standard turnover (Rs.)
January	90,000	10,000	1,00,000
Feb. to October	9,10,000	50,000	9,60,000
November to December	2,00,000	10,000	2,10,000
Gross Profit	12,00,000	70,000	12,70,000
	3,60,000	46,400	4,06,400

Rate of Gross Profit 30% (actual for 2013), 32% (adjusted for 2014).

Increased cost of working amounted to Rs.1,80,000.

There was a clause in the policy relating to savings in insured standard charges during the indemnity period and this amounted to Rs.28,000.

Standing Charges not covered by insurance amounted to Rs.20,000 p.a. The actual turnover for January was nil and for the period February to October 2014 Rs.8,00,000.

(C) (NEW SM, M13-4M) (ANS: INSURANCE CLAIM WILL BE RS.2,22,247)

Note:____

PROBLEM 8: Sony Ltd.'s. Trading and profit and loss account for the year ended 31st December, 2010 were as follows:

Dr. Trading and Profit and Loss Account for the year ended 31.12.2010 Cr.

Particulars	Rs.	Particulars	Rs.
Opening stock Purchases Manufacturing expenses Gross profit	20,000 6,50,000 1,70,000 2,50,000	Sales Closing stock	10,00,000 90,000
	2,50,000		2,50,000
Administrative expenses Selling expenses Finance charges Net profit	80,000 20,000 1,00,000 50,000	Gross profit	2,50,000
	2,50,000		2,50,000

The company had taken out a fire policy for Rs. 3,00,000 and a loss of profits policy for Rs. 1,00,000 having an indemnity period of 6 months. A fire occurred on 01.04.2011 at the premises and the entire stock was gutted with nil salvage value. The net quarter sales i.e. 01.04.2011 to 30.06.2011 were severely affected. The following are the other information:

Sales during the period	01.01.2011 to 31.03.2011	2,50,000
Purchases during the period	01.01.2011 to 31.03.2011	3,00,000
Manufacturing expenses	01.01.2011 to 31.03.2011	70,000
Sales during the period	01.04.2011 to 30.06.2011	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.

(A) (NEW SM) (ANS.: STOCK DESTROYED BY FIRE RS. 2,60,000; AND LOSS OF PROFIT RS. 15,000)

PROBLEM 9: 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 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 Rs. 2 lakhs.

The wages for the skilled craftsmen will increase by 20% and salaries by l0% 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. *(A) (M15) (ANS: POLICY AMOUNT RS.13,47,500)*

PROBLEM 10: A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2018.The building, equipment and stock were destroyed and the salvage recorded the following: Building – Rs.4,000; Equipment – Rs.2,500; Stock – Rs.20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2018:

	Rs.
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31st December, 2017	1,50,000
Building (value on 31st December, 2017)	3,75,000
Equipment (value on 31st December, 2017)	75,000
Depreciation provision till 31st December, 2017 on:	
- Building	1,25,000
- Equipment	22,500

No depreciation has been provided since December 31st 2017. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company. *(RTP M19) (ANS: INSURANCE CLAIM WILL BE RS. 5,41,000)*

ADDITIONAL QUESTIONS FOR SELF PRACTICE

PROBLEM 1: S & M Ltd gives the following Trading and P & L A/c for the year ended 31-12-2014.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening stock	50,000	By Sales	8,00,000
To Purchases	3,00,000	By Closing stock	70,000
To Wages (Rs.20,000 for skilled labour)	1,60,000		
To Manufacturing expenses	1,20,000		
To Gross Profit (b/f)	2,40,000		
	8,70,000		**8,70,000**
To Office & Admn. Expenses	60,000	By Gross Profit b/d	2,40,000
To Advertising	20,000		
To Fixed selling expenses	40,000		
To Commission on sales	48,000		
To Carriage outwards	16,000		
To Net Profit	56,000		
	2,40,000		**2,40,000**

The company had taken out policies both against loss of stock and against loss of profits, the amounts being Rs.80,000 and Rs.1,72,000 Fire occurred on 1-5-2015 and as a result of which sales were seriously affected for the period of 4 months. You are given the following further information.

a) Purchases, wages and other manufacturing expenses for the first 4 months of 2015 were Rs.1,00,000; Rs.50,000 and Rs.36,000 respectively.

b) Sales for the same period were Rs.2,40,000

c) Other sales figures were as follows:

From 01-01-2014 to 30-04-2014	3,00,000
From 01-05-2014 to 31-08-2014	3,60,000
From 01-05-2015 to 31-08-2015	60,000

d) Due to rise in wages, net profit during 2015 was expected to decline by 2% on sales.

e) Additional expenses incurred during the period after fire amounted to Rs.1,40,000. The amount of the policy included Rs.1,20,000 for expenses leaving Rs.20,000 uncovered. Ascertain the claim for stock and for loss of profit. All working should from part of your answer.

(B) (NEW SM) (ANS.: LOSS OF STOCK CLAIM RS.80,000, LOSS OF PROFIT RS.57,600)

PROBLEM 2: X Ltd. has insured itself under a loss of profit policy for Rs.3,63,000. The indemnity period under the policy is six months. On 1st September, 2010 a fire occurred in the factory of X Ltd. and the normal business was affected up to 1st March, 2011.

The following information is compiled for the year ended on 31st March, 2010.

Particulars	Amount (Rs.)
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 fire was 22,00,000.

b) Turnover during the period of interruption was Rs.2,25,000.

c) Actual turnover during the period from 01.09.2009 to 01.03.2010 during the preceding year corresponding to the indemnity period was Rs.7,50,000.

X Ltd. spent an amount of Rs.40,000 as additional cost of working during the indemnity period. On account of this additional expenditure:

a) There was a saving of Rs.15,000 in insured standing charges during the period of indemnity.

b) Reduced turnover avoided was Rs.1,00,000. i.e. but for this expenditure, the turnover after the date of fire would have been only Rs.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:

a) Increase of turnover standard and actual by 10%

b) 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.

(B) (OLD PM, M99) (ANS.: AMOUNT OF CLAIM RS.93,750)

THE END