

TOPIC - 9

(CHAPTER 10 OF ICAI)

INSURANCE CLAIMS FOR LOSS OF STOCK & LOSS OF PROFIT

INTRODUCTION

- Insurance being a contract of indemnity, the claim for loss is restricted to the actual loss of assets.
- Business enterprises get insured against the loss of stock on the happening of certain events such as fire, flood, theft, earthquake etc.
- Sometimes an enterprise also gets itself insured against consequential loss of profit due to decreased turnover, increased expenses etc.
- If loss consequential to the loss of stock is also insured, the policy is known as loss of profit or consequential loss policy.
- Insurance claim can be studied under two parts as under:-
 - Claim for loss of stock
 - Claim for loss of profit

CLAIM FOR LOSS OF STOCK

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:** If the goods are totally destroyed, the amount of claim is equal to the actual loss, provided the goods are fully insured. However, in case of under insurance (i.e. insurable value of stock insured is more than the sum insured), the amount of claim is restricted to the policy amount.
- (b) **Partial Loss:** If the goods are partially destroyed, the amount of claim is equal to the actual loss provided the goods are fully insured. However in case of under insurance, the amount of claim will depend upon the nature of insurance policy as follows:
 - (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:

$$\text{Amount of claim} = \text{Loss of stock} \times \text{sum insured} / \text{Insurable amount (Total)}$$

One should note that the average clause applies only where the insured value is less than the total cost and not when goods are fully insured.

Relevant points

- (i) 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.
- (ii) Where either stock records are not available or where they are destroyed by the fire the value of 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.
- (iii) 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 have to be circularized to ascertain the amount of sales and purchases.
- (iv) After the insurance company makes payment for total loss, it has the same rights which the insured had over the damaged stock. These are subrogated ¹ to the insurance company. In practice, in determining the amount of the claim, credit is given for damaged and salvaged stock.
- (v) Frequently salvaged stock can be made saleable after it is reconditioned. In that case, the cost of such stock must be credited to the Trading Account and debited to a salvaged stock account. The expenses on reconditioning must be debited and the sales credited to this account, the final balance being transferred to the Profit & Loss Account.

Loss of Stock	
Amount of loss of stock is calculated as under:	
Value of stock on the date of fire	XXX
Less: Value of Salvaged stock	XXX
Amount of loss of stock	XXX

Particulars	Amount
Value of salvaged stock	xxx
<i>Add:</i> Expenses on re-conditioning	xxx
<i>Less:</i> Sales	xxx
Profit/ (loss)	xxx

CLAIM FOR LOSS OF PROFIT

When a fire occurs, apart from the direct loss on account of stock or other assets destroyed, there is also a consequential loss because, for some time, 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 "Loss of Profit" or "Consequential Loss" policy*; there must be a separate policy in respect of the consequential loss but claim will be admitted in respect of the policy only when the claim on account of fire is also admitted under other policies.

The Loss of Profit Policy normally covers the following items:

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

Terms Defined

The following terms should be noted:

Gross Profit is the sum produced by adding to the Net Profit the amount of the Insured Standing Charges, or, if there be no Net profit, 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 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].

Conditions included in a Loss of Profit Insurance Policy

Insurance policies covering loss of profit contain the following conditions usually:

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 to which such adjustment shall be made as may be necessary to provide for the trend of the business and for variations in or special circumstances affecting the business either before or after the damage or which would have affected the business had the damage not occurred, so that the figures thus adjusted shall represent, as nearly as may be reasonably practicable the results which but for the damage would have been obtained during the relative period after damage.

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.

Memo 1: If during the indemnity period goods shall be sold or services shall be rendered elsewhere than at the premises for the benefit of the business either by the insured or by others on the Insured's behalf, the money paid or payable in respect of such sales or service shall be brought into account in arriving at the turnover during the indemnity period.

Memo 2: If any standing charges of the business be not insured by this policy then in computing the amount recoverable hereunder as increase in cost of workings only that proportion of the additional expenditure shall be brought into account which the sum of the Net Profit and the insured Standing Charges bear to the sum of the Net Profit and all standing charges.

Amount recoverable as increase in cost of workings = Additional expenditure x [(Net Profit + Insured Standing Charges)/ (Net Profit + All Standing Charges)]

Memo 3: This insurance does not cover loss occasioned by or happening through or in consequence of destruction of or damage to a dynamo motor, transformer, rectifier or any part of an electrical installation resulting from electric currents, however, arising.

The student should note the following:

- (i) The word 'turnover' used above may be replaced by any other term denoting the basis for arriving at the loss of profit e.g., output.
- (ii) Insured standing charges may include additional items, by agreement with the insurer.
- (iii) Net profit means profit before income tax based on profit.

(iv) Depending upon the nature of business, the indemnity period may extend beyond 12 months (it may be as long as 6 years). Indemnity period shall not be confused with the period of insurance which cannot be more than one year.

The insurance for Loss of Profit is limited to loss of gross profit due to :

- (i) reduction in turnover, and
- (ii) increase in the cost of working.

The amount payable as indemnity is the sum of (a) and (b) below :

- (a) In respect of reduction in turnover : The sum produced by applying the rate of gross profit to the amount by which the turnover during the indemnity period shall, in consequence of the damage, falls short of the standard turnover, i.e., gross profit on short sales.
- (b) In respect of increase in cost of working : The additional expenditure [subject to the provisions of Memo (2) given above] necessarily and reasonably incurred for the sole purpose of avoiding or diminishing the reduction in turnover which, but for that expenditure, would have taken place during the indemnity period in consequence of the damage. The amount allowable under this provision cannot exceed the sum produced by applying the rate of gross profit to the amount of reduction avoided by the additional expenditure, i.e., gross profit on (additional) sales generated by increased cost of workings.

The amount payable arrived at as above is reduced by any sum saved during the indemnity period in respect of such of the insured standard charges as may cease or be reduced in consequence of the damage.

Insurance policies provide that if the sum insured in respect of loss of profit is less than the sum produced by applying the rate of gross profit to the annual turnover (as adjusted by the trend of the business or variation in special circumstances affecting the business either before or after the damage or which would have affected the business had the damage not occurred), the amount payable by the insurer shall be proportionately reduced. This is nothing but application of the average clause.

The turnover of a business rarely remains constant and where there has been an upward or downward trend since the date of the last accounts and upto the date of the fire, the "standard turnover" should be appropriately adjusted, as per definition given above.

Similarly, where the earning capacity of the business has changed, the rate of gross profit may not represent a correct indication of the loss and mutually agreed rate may be used for the computation.

How to Calculate Claim on Loss of Profit Policy

Total Claim = Loss of Profit + Additional Expenses

Follow the steps as under to calculate the Total Claim:-

Step 1:

Identify 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.

Step 2:

Calculate the following different Sales/Turnovers

- (a) Turnover for the CY Indemnity Period (IP)
- (b) Turnover for the Corresponding IP in the Previous Year
(above two Turnovers are required to find out Short Sales)
- (c) Turnover for the Last FY - This is required to find out the GP% of last year
- (d) Annual Adjusted Turnover before Damage- The turnover during the twelve months immediately before the damage.
- (e) Additional Sales Generated during IP due to Increased cost of Working
(due to additional Expenses)

Step 3:

Calculate Adjusted GP% of last year as under:

$$\frac{\text{Last FY Net Profit} + \text{Last FY Insured Standing Charges}}{\text{Last FY Turnover (Point C of step 2)}} \times 100$$

Step 4:

Calculate the 1st Claim i.e. Loss of Profit as under –

Turnover for the Corresponding IP of Last FY (Point b of Step 2)	XXX
Add - Increase due to Growth (% of growth will be given)	XXX
Turnover that Should have been Earned in CY during IP	XXX
Less – Actual Turnover in CY during IP (Point a of Step 2)	XXX
Short Sales	XXX
X Gross Profit % (Step 3)	XXX

Step 5:

Calculate Claim of Additional Expenses (2nd Claim) which should be Lower of following:

- (a) Actual Additional Expenses incurred due to which loss of turnover reduces
- (b) Actual Additional Expenses X GP on Adjusted annual Turnover
GP as above + Uninsured Standing Charges
- (c) GP on Sales Generated by Additional Expenses –
Additional Sales Generated during IP due to Increased cost of Working X GP%

Total Claim = Step 4 (1st Claim) + Step 5 (2nd Claim)

CLASS WORK

QUESTIONS ON CLAIM FOR LOSS OF STOCK

Question 1 (ICAI Module)

From the following information, ascertain the value of stock as on 31st March, 20X2:

Particulars	Amount `
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 31st 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 for ` 9,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

Question 2 (ICAI Module)

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

Particulars	Amount `
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.

Question 3 (ICAI Module)

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	Amounts `
Stock of goods @ 10% lower than cost as on 31 st 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 20th October, 20X1 includes ` 80,000 for which goods had not been dispatched.
- (2) Purchases upto 20th 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.

Question 4 (ICAI Module)

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 ` 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.

Question 5 (ICAI Module)

On 1st April, 20X2 the stock of Shri Ramesh was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Particulars	Amount `
Stock at cost-1st January, 20X1	73,500
Stock at cost-31st December, 20X1	79,600
Purchases-year ended 31st December, 20X1	3,98,000
Sales-year ended 31st December, 20X1	4,87,000
Purchases-1-1-20X2 to 31-3-20X2	1,62,000
Sales-1-1-20X2 to 31-3-20X2	2,31,200

In valuing the stock for the Balance Sheet at 31st December, 20X1 ` 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, 20X2 at loss of ` 250 on original cost of ` 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 ` 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.

Question 6 (ICAI Module)

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

Particulars	Amount `
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 31st 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.

Question 7 (ICAI Module)

On 30th 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.

Question 8

On 15th 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 31st 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.

Question 9

On 29th August, 20X2, the go down 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 fire

fighting expenses amounting to ` 4,700.

The trader provides you the following additional information:

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 1 st 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 ` 9,00,000 with an average clause.

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

Question 10

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 ` 60,000 which is subject to an average clause.

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

Question 11 (ICAI Module)

A fire occurred in the premises of M/s. Kaliash & Co. on 30th September 20X1. From the following particulars relating to the period from 1st April 20X1 to

30 September, 20X1. You are required to ascertain the amount of claim to be filed with the Insurance Company for the loss of Stock. The company has taken an Insurance policy for ₹ 75,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 27,000. The average rate of Gross Profit was 20% throughout the period.

	Particulars	Amount
(i)	Opening Stock	1,20,000
(ii)	Purchase made	2,40,000
(iii)	Wages paid (including wages for the installation of a machine ₹ 5,000)	75,000
(iv)	Sales	3,10,000
(v)	Goods taken by the Proprietor (Sale Value)	25,000
(vi)	Cost of goods sent to Consignee on 20 th September 20X1, lying unsold with them	18,000
(vii)	Free Samples distributed – Cost	2,500

QUESTIONS ON CLAIM FOR LOSS OF PROFIT

Question 12 (ICAI Module)

A fire occurred on 1st February, 20X2, in the premises of Pioneer Ltd., a retail store and business was partially disorganized upto 30th 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 1st February to 30th June, 20X2	80,000
Turnover from 1st February to 30th June, 20X1	2,00,000
Turnover from 1st February, 20X1 to 31st January, 20X2	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 ₹ 6,700 which reduced the loss in turnover. There was 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.

Question 13 (ICAI Module)

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

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

(i) Actual turnover during the period of dislocation (1-3-20X2 to 31-8-20X2)	` 80,000
(ii) Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire (1-3-20X1 to 31-8-20X1)	2,40,000
(iii) Turnover for the 12 months immediately preceding the fire (1-3-20X1 to 28-2-20X2)	6,00,000
(iv) Net profit for the last financial year	90,000
(v) Insured standing charges for the last financial year	60,000
(vi) Uninsured standing charges	5,000
(vii) Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and up to 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.

Question 14 (ICAI Module)

Sony Ltd.'s Trading & profit & loss account for the year ended 31st December, 20X1 were as follows:

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

The company had taken out a fire policy for ` 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 stock 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.X2 to 31.3.X2	2,50,000
Purchases during the period	1.1.X2 to 31.3.X2	3,00,000
Manufacturing expenses	1.1.X2 to 31.3.X2	70,000
Sales during the period	1.4.X2 to 30.6.X2	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.

Question 15 (ICAI Module)

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

Sum insured (from 31 st December 20X1)	4,00,000
Period of indemnity	12 months
Date of damage	1 st January, 20X2
Date on which disruption of business ceased	31 st October, 20X2

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

The books of account revealed:

- The gross profit for the financial year 20X1 was ` 3,60,000.
- The actual turnover for financial year 20X1 was ` 12,00,000 which was also the turnover in this case.
- The turnover for the period 1st January to 31st October, in the year preceding the loss, was ` 10,00,000.

During dislocation of the position, it was learnt that in November-December 20X1, 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 20X2 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 20X2.

The pre-damaged figures together with agreed adjustments were:

Period	Pre-damaged figures	Adjustment to be added	Adjusted standard turnover
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
	12,00,000	70,000	12,70,000
Gross Profit	3,60,000	46,400	4,06,400

Rate of Gross Profit 30% (actual for 20X1), 32% (adjusted for 20X2). Increased cost of working amounted to ` 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 ` 28,000.

Standing Charges not covered by insurance amounted to ` 20,000 p.a. The annual turnover for January was nil and for the period February to October 20X2 ` 8,00,000.

Question 16 (ICAI Module)

On account of a fire on 15th June, 20X2 in the business house of a company, the working remained disturbed upto 15th 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 15 th June, 20X2 to 15 th Dec, 20X2	70,000
Sales from 15 th June 20X1 to 15 th Dec 20X1	2,40,000
Net profit for last financial year last financial year	80,000
Insured standing charges for the	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 th June 20X1 to 15 th June 20X2	5,60,000

Question 17 (ICAI Module)

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

Sales	20X1	20X2	20X3	20X4
From 1 st January to 31 st March	1,80,000	1,70,000	2,05,950	1,62,000
From 1 st April to 30 th June	1,28,000	1,86,000	1,93,000	2,21,000

<i>From 1st July to 30th September</i>	<i>1,53,000</i>	<i>2,10,000</i>	<i>2,31,000</i>	<i>1,75,000</i>
<i>From 1st October to 31st December</i>	<i>1,59,000</i>	<i>1,47,000</i>	<i>1,90,000</i>	<i>1,48,000</i>
<i>Total</i>	<i>6,20,000</i>	<i>7,13,000</i>	<i>8,19,950</i>	<i>7,06,000</i>

<i>Period</i>	
<i>Sales from 16-09-20X3 to 30-09-20X3</i>	<i>34,000</i>
<i>Sales from 16-09-20X4 to 30-09-20X4</i>	<i>-</i>
<i>Sales from 16-12-20X3 to 31-12-20X3</i>	<i>60,000</i>
<i>Sales from 16-12-20X4 to 31-12-20X4</i>	<i>20,000</i>

A loss of profit policy was taken for ` 1,00,000. Fire occurred on 15th September, 20X4. Indemnity period was for 3 months. Net Profit was ` 1,20,000 and standing charges (all insured) amounted to ` 43,990 for year ending 31st December, 20X3.

Determine the Insurance Claim.



Student Notes:-

COVID-19



Student Notes:-

COVID-19

