



Insurance claims

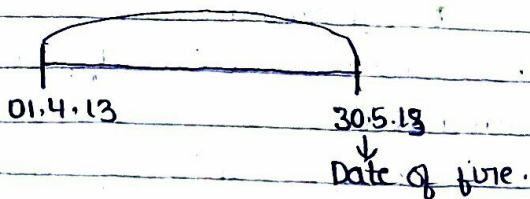
↳ Fire

↳ Loss of stock

↳ Loss of profit

Loss of stock due to fire

1. Prepare trading a/c from beginning of year to date of fire



2. Format: Trading a/c upto date of fire.

₹		₹	
To opening stock	xxx	By sales	xxx
To purchases	xxx	By stock on the date of fire (Balancing figure)	
To Direct expense	xxx		
To Gross profit	xxx		
(Sales x G.P. Ratio)	xxx		xxx

3. If G.P ratio is missing, then prepare trading account of last year as working note and find out G.P ratio of last year. & if two or more G.P. Ratios are given then find out average Gross profit ratio.

4. Insurance claim =

Stock on the date of fire	xxx
Add:- Fire fighting expenses	xxx
Less:- Stock salvage	(xxv)
(Stock saved after fire)	
Loss by \rightarrow sale from stock	xxx

$$\text{Claim} = \frac{\text{Loss by fire} \times \text{policy amount}}{\text{stock on the date of fire}} \rightarrow \text{Average claim.}$$

- * claim will never exceed stock lost by fire
- * claim will always be at cost price
- * If there are any exceptional items, such items will be excluded in trading account. But included in claim

- * If there is no average clause then claim is least of the following → (i) claim stock on date of fire.
(ii) Policy amount.
- * In computation of Gross profit ratio effect of Abnormal items shall be eliminated.
- * In considering the Gross profit ratio of current year effect of price level changes shall be considered.

Elimination of effect of Abnormal items (in G.P. ratio)

1. If there is undervaluation or overvaluation in the total opening stock / closing stock then it should be reversed by valuing the stock at original cost price.

Elimination of effect of Abnormal items.

↓
Restoration
Approach.

↓
complete
elimination
approach

* Damaged goods :- Goods that are valued at lower than the cost price.

Eg:- op stock 1,00,000 Sales 480,000
purchases 400,000 Closing stock 1,34,000.

* In valuation of closing stock certain damaged goods ₹ 30,000 was valued at ₹ 24,000. Compute G.P. Ratio.

* Restoration approach.

		Trading a/c.	
To op stock	1,00,000	By sales	4,80,000
To purchases	4,00,000	By closing stock	
To G.P	1,20,000		1,34,000
		(+) reduction	6,000
			1,40,000

complete Elimination approach (always prefer)

		Trading a/c.	
To op stock	600,000	By sales	480,000
To purchases	4,00,000	By cl. stock	134,000
L: Damaged goods	30,000	L: Damag	24,000
TO G.P.	1,20,000		5,90,000
	<u>5,90,000</u>		<u>5,90,000</u>

* Important case question

Op. stock	73,500
purchases	3,98,000
sales	4,90,200
cl. stock	77,300

} ₹ 2300 has been written off from stock (out of purchases) cost of it is 6900. Part of it is sold at 250 lots at cost being 3450 find G.P. rate

Trading a/c.

TO op. stock	73,500	By sales	4,90,200	4,87,000
To purchases	3,98,000	L: Ab	(3,200)	
Less (6,900)	3,91,100	By cl. stock	77,300	
TO G.P. ctd	97,400	Less	(2,300)	75,000

Note :-

	cost price		valued at
	6900		4600
Sold	<u>(3450)</u>	250	<u>3200</u>
	<u>3450</u>		<u>21300</u>

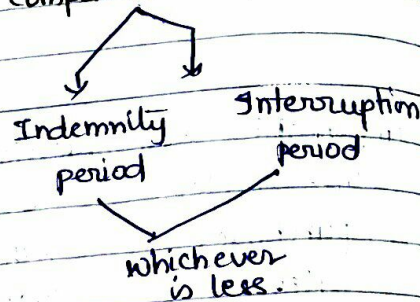
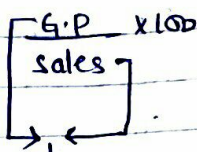
Loss on profit policy
Arising from fire accident

- * G.P = Net profit + Insured standing charges.
- * Compensation period shall be made for indemnity period or Interruption period whichever ever is less.

↳ after fire.

- * claim is on G.P on sales lost during compensation period.

Step-1 :- $\frac{G.P \text{ ratio}}{\text{Sales lost}} \times G.P \text{ ratio}$



- * Sales Lost :- $\frac{\text{Short sales}}{\text{Standard turnover}} \times \text{same period during last year}$

Step-2

(-) Actual turnover	xxx
Short sales	xxx

calculation of short sales

Step-3 Sales during corresponding compensation period

(+) or (-) Trend
Expected sales.

Less :- Actual sales

Short sales.

Step-3
⇒ G.P ratio ⇒ Short sales x G.P ratio

Step-4 claim for Increased working expenditure. (Least of following)

(a) ⇒ $\frac{\text{Act Increased working expenditure}}{\text{AAT}} \times G.P \text{ on AAT}$ xx

(or)

Increased working exp x	$\frac{G.P \text{ on AAT} + UISC}{NP + ISC}$	xx
	$\frac{NP + \text{Add standing charges}}{NP + ISC}$	xxx

(b) G.P on R I T A xxx

(c) Actual IWE xxx

* G.P on A.A.T \Rightarrow A.A.T \times G.P.R.
 A.A.T \Rightarrow Adjusted Annual Turnover.
 UISC \Rightarrow uninsured standing charges.

* ~~RIOR~~ \Rightarrow
 Adjusted annual Turnover
 $=$ Annual Turnover \pm Trend
 \downarrow
 Turnover during 12 months immediately preceding the date of fire.

* G.P on Reduction in Turnover avoided:
 Additional ^{or} sales due to additional expenditure.

* Gross claim

G.P on short sales	xxx
(+) claim for IWE.	xxx
(-) Savings in Insured standing charges	(xxx)

\rightarrow Given in question.
 Gross claim.

\downarrow
 Any insurance standard charges which is saved

\hookrightarrow Eg:- salaries

\hookrightarrow Employee leaving Job

\downarrow
 Savings in Insured standing charges.

* Net Claim = Gross claim \times $\frac{\text{Policy value}}{\text{Adjusted Gross profit on Annual turnover}}$

If Policy amount $<$ G.P on Annual turnover.

\downarrow
 Average clause.