WELCOME TO ALL

UNIT II

INSURANCE CLAIMS

Introduction

Every business unit has to keep a sufficient quantity of stock in the business premises for meeting the requirements of sales or manufacturing the goods. The stock kept in the business premises is subject to risk of loss by fire. For protecting itself against such loss, a business unit takes a fire insurance policy covering the loss of stock by fire. A fire insurance policy which covers loss of stock by fire is known as loss of stock policy in which the insurance company undertakes to compensate the business unit for loss of stock by fire in consideration of a payment called premium.

How to calculate the amount of claim to be lodged for the loss of stock by fire ?

Various points which are considered for the estimated of stock in hand on date of fire are given below

1. The Percentage of gross profit on sales so that cost of goods sold during the year of fire may be ascertained.

(Gross Profit / Sales X 100)

2 . The next step is to prepare Memorandum Trading Account of the current year up to the date of fire.

3. The third step is to deduct the value of stock salvaged.

4 AVERAGE CLAUSE

$$\text{Value of stock destroyed} = \frac{\text{Value of Insurance policy}}{\text{Value of stock on date of fire}} \times 100$$

QUESTION NO 1

on 15th February, 2009 a fire occurred in premises of company. From following particulars ascertain the amount of claim to be lodged in case of loss of stock which insured

	Rs
Stock on 1st January, 2009	5,00,000
Purchase from 1st January, 2009 to date of fire	7,50,000
Wages	2,50,000
Manufacturing Expenses	1,50,000
Sales from 1st January, 2009 to date of fire	12,00,000

The Gross profit Ratio is 25%. The stock salvaged was valued at Rs. 49,500.

MEMORANDUM TRADING ACCOUNT

Particulars	Amt	Amt	Particulars	Amt	Amt
To opening stock		5,00,000	By sales		12,00,000
To purchase		7,50,000	By closing stock(Balance Figure)		7,50,000
To wages		2,50,000			
To Manufacturing expenses		1,50,000			
To Gross Profit(12,00,000 X25/100)		***3,00,000***			
		19,50,000			19,50,000

STATEMENT SHOWING THE INSURANCE CLAIM TO BE LODGED

Value of stock in hand on Date of Fire	= Rs 7,50,000
Deduct the Value of stock salvaged	= Rs 49,500
Amount claim to be lodged	= Rs 7,00,500

QUESTION NO 2

A fire occurred in premises of premises of merchant on 18th September, 2009 and a considerable part of stock was destroyed. The value of stock saved was
Rs. 8,200.

The books disclosed that on 1st April, 2009 the stock was valued at Rs. 66,850, the purchases to the date of fire amounted to Rs. 1,85,000 and the sales to Rs. 2,82,000. Goods costing Rs. 500 were taken for personal use and goods sold for Rs. 2500 were returned to merchant. On investigation it is found that during the past five years the average gross profit on cost was 25%.

You are required to prepare a statement showing the amount the merchant should claim from the insurance company in respect of stock destroyed by fire.

MEMORANDUM TRADING ACCOUNT

Particulars	Amt	Amt	Particulars	Amt	Amt
To Opening Stock		66,850	By Sales	2,82,500	
To Purchase		1,85,000	Deduct the value of sales return	2,500	
To Gross Profit (2,80,000X25/100)		56,000			2,80,000
			Goods Taken for Personal Use		500
			By Closing Stock(Balance Figure)		27,350
		3,07,850			3,07,850

STATEMENT SHOWING THE INSURANCE CLAIM TO BE LODGED

Value of Stock in Hand on Date of Fire	= Rs	27,350
Deduct the Value of Stock Salvage	= Rs	8,200
Claim to be Lodged		19,150

QUESTION NO 3

Fire occurred in premises of Popat Lal on 10th March, 2009. In order to make a claim on their fire policies in respect of stock, they ask your advice and you are able to obtain following information:

	2006	2007	2008	2009
	Rs	Rs	Rs	Rs
Opening stock as valued	76,000	1,14,000	1,52,000	76,000
Purchase less returns	3,60.000	4,30,000	4,60,000	1,50,000
Sales less returns	5,60,000	7,00,000	8,00,000	2,60,000
Wages and Manufacturing expenses	1,50,000	1,91,000	1,40,000	45,000
Closing stock	1,14,000	1,52,000	76,000	

The stock salvaged was Rs. 15,400.

It was practice of firm to value the stock at 5% less cost. Determine the amount of claim to be recovered insurance company.

TRADING ACCOUNT Mr POPAT LAI FOR THE YEAR ENDED 31,3,2006

Particulars	Amt	Amt	Particulars	Amt	Amt
To Opening Stock (76,000X100\95)		80,000	By Sales Less Return		5,60,000
To Purchase Less Return		3,60,000	By Closing Stock (1,14,000X100/95)		1,20,000
To Wages and Manufacturing Expenses		1,50,400			
To Gross Profit(Balancing Figure)		89,600			
		6,80,000			6,80,000

Percentage of Gross Profit = Gross Profit/Sales X 100

= 89,600/5,60,000

Percentage of Gross Profit = 16 %

TRADING ACCOUNT Mr POPAT LAI FOR THE YEAR ENDED 31,3,2007

Particulars	Amt	Amt	Particulars	Amt	Amt
To Opening Stock (1,14,00X100/95)		1,20,000	By Sales Less Return		8,00,000
To Purchase Less Return		4,30,000	By Closing Stock (76,000X100/95)		1,60,000
To Wages and Manufacturing Expenses		1,91,000			
To Gross Profit (Balancing Figure)		1,19,000			
		8,60,000			8,60,000

Percentage of Gross Profit = Gross Profit /Sales X 100

= 1,19,000/7,00,000 X 100

Percentage of Gross Profit = 17 %

TRADING ACCOUNT Mr POPAT LAI FOR THE YEAR ENDED 31,3,2008

Particulars	Amt	Amt	Particulars	Amt	Amt
To Opening Stock (1,52,000 X 100/95)		1,60,000	By Sales Less Return		7,00,000
To Purchase Less Return		4,60,000	By Closing Stock (76,000 X 100/95)		80,000
To Wages and Manufacturing Expenses		1,40,000			
To Gross Profit (Balance Figure)		1,20,000			
		8,80,000			8,80,000

Percentage of Gross Profit = Gross Profit/Sales X 100

= 1,20,000/8,00,000 X 100

Percentage of Gross Profit = 15 %

Average Gross Profit = 16+17+15/3

Average Gross Profit= 16%

MEMORANDUM TRADING ACCOUNT ON DATE OF 10TH MARCH,2009

Particulars	Amt	Amt	Particulars	Amt	Amt
To Opening Stock (76,000 X 100/95)		80,000	By Sales Less Return		2,60,000
To Purchase Less Return		1,50,000	By Closing Stock(Balance Figure)		56,600
TO Wages and Manufacturing Expenses		45,000			
To Gross Profit(2,60,000X16/100)		41,600			
		3,16,600			3,16,600

STATEMENT SHOWING THE INSURANCE CLAIM TO BE LODGED

Value of stock in Hand	= 56,600
Deduct the value of Stock Salvaged	= 15,400
Claim to be Lodged	= 41,200

QUESTION NO 4

On December 31, 2008 a fire damaged the premises of Behl Bros. Ltd. And business of company was disorganised until March 31, 2009. The company was insured under a loss of profit policy for Rs.26,000 with six months period of indemnity.

The company accounts for year ended March 31, 2008 showed turnover Rs. 70,000 with net profit of Rs. 8,000. The amount of standing charges covered by the insurance and debited in year was Rs. 20,000. The turnover for 12 months ended December 31, 2008 was Rs. 78,000. The turnover during the year business was dislocated amounted to Rs. 8,000 while during corresponding period in preceding year it was Rs. 17,000. A sum of Rs. 2,000 was spent additional expenses to mitigate effect of loss, there being, however, no saving standing charges as result of fire.

prepare a claim to be submitted in respect of consequential loss policy.

Consequential Loss or Loss of Profit

Fire Occurred Date 31,12,2008
Previous Year1,1,2008 to 31,12,2008
Last Year Sales Rs70,000
Upto to Fire Occurred Date
1,1,2008 to 31,12,2008 Sales Rs78,000
Previous Year Sales Rs8,000
(1,1,2009 to 31,3,2009)
Previous Year (1,1,2008 to 31,3,2008) Rs17,000

Step-1

Calculation of Short Sales

Sales From (1,1,2008 to 31,12,2008)	= 17,000
Deduct the Value of Sales From	
(1,1,2009 to 31,3,2009)	= 8,000
	= 9,000

Step-2

Calculate The Rate of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit + Standing Charges}}{\text{Sales for Last Accounting Year}} \times 100$$

$$= \frac{8,000 + 20,000}{70,000} \times 100$$

= 28,0000/70,000 X 100

Gross Profit = 40 %

Step – 3

Calculation of Profit on Sales = Short Sales X Rate of Gross Profit

= 9,000 X 40/100

Profit on Sales = Rs 3,600

Step – 4

Calculation of Gross Claim

Loss on Profit of Short Sales = Rs 3,600

(+) Additional Expenses = Rs 2,000

Gross Claim = Rs 5,600

Step – 5

$$\text{Average Clause} = \frac{\text{Amt of Policy}}{\text{Gross Profit on Preceeding 12 months Sale}} \times \text{Gross Claim}$$

= 26,000 / 40% on 78,000 X 5,600

= 26,000 / 31,200 X 5,600

= 4,666.66

Average Clause = Rs 4,667

QUESTION NO 5

Fire occurred on 1,2,2009 in premises of Unfortunate Ltd. And business was partially disorganised upto 30,6,2009.

From books of accounts, the following information was extracted:

		Rs
i.	Actual turnover from 1,2,2009 to 30,6,2009	75,000
ii.	Turnover from 1,2,2008 to 30,6,20008	2,10,000
iii.	Turnover from 1,2,20008 to 31,1,2009	4,50,000
iv.	Net profit for last financial year	70,000
v.	Insured standing charges for fin year	56,000
vi.	Total standing charges for	64,000
vii.	Turnover for last financial year	4,20,000

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

The company holds a "loss of profit" policy for Rs. 1,24,200 having an indemnity period 6 months.

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

Compute claim under policy assuming all sales during dislocation period are because additional expenses.

Consequential Loss or Loss on Profit Policy

Step – 1

Calculation of Short Sales

Sales from 1,2,2008 to 30,6,2008	=	Rs 2,10,000
(+) 15 % increased in Sales		
(2,10,000 X 15/100)	=	Rs 31,500
		2,41,500
(--) Sales from 1,2,2009 to 30,6,2009	=	75,000
Short Sales	=	Rs 1,66,500

Step – 2

Calculation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit + Insured Standing Charges}}{\text{Sales for Last Accounting Year}} \times 100$$

$$= \frac{70{,}000 + 56{,}000}{4{,}20{,}000} \times 100$$

$$\text{Gross Profit} = \frac{1{,}26{,}000}{4{,}20{,}000} \times 100 = 30\ \%$$

Step – 3

Calculation of Loss on Profit of Sales = Short Sales X Rate of Gross Profit

= 1,66,500 X 30 / 100

Loss on Profit of Sales = Rs 49,950

Step – 4

Calculation of Gross Claim

Loss on profit of Sales = Rs 49,950

(+) Additional Expenses

i. Actual Expenses = Rs 6,700

ii. Indemnity Sales X Gross Profit (75,000 X 30/100) = Rs 22,500

iii.

$$= \frac{\text{Gross Profit on Preceeding 12 Months Sale}}{\text{Gross Profit of Preceeding12 Months Sale}} \text{ X Additional Expenses}$$

$$= \frac{30\ \%\ \text{on}\ 15\ \%\ \text{Of}\ (4{,}50{,}000 + 67{,}500)}{30\ \%\ \text{On}\ 15\ \%\ \text{Of}\ (4{,}50{,}000 + 8{,}000) + 8{,}000} \times 6{,}700$$

$$= \frac{30\ \%\ \text{on}\ 3{,}17{,}50}{30\ \%\ \text{on}\ 3{,}17{,}500 + 8{,}000} \times 6{,}700$$

$$= \frac{1{,}55{,}250}{1{,}55{,}250 + 8{,}000} \times 6{,}700$$

$$= \frac{1{,}55{,}250}{1{,}63{,}250} \times 6{,}700$$

$$= 0.950 \times 6700$$

$$= 6371.6$$

= Rs 6,372

Rs 6,372

Rs 56,322

Step – 5

$$\text{Calculation of Average Clause} = \frac{\text{Amt of Insurance Policy}}{\text{Gross Profit on Preceeding 12 Months on Date of Fire}} \times \text{Gross Claim}$$

$$= \frac{1{,}24{,}200}{1{,}55{,}250} \times 53{,}872$$

Average Clause = 43.0976