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

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO: 1

Computation of claim for loss of stock

Stock on the date of fire i.e. on 30th March, 20X2 (W.N.1)	62,600
Less: Value of salvaged stock	(12,300)
Loss of stock	50,300
Amount of claim = $\frac{\text{Insured Value}}{\text{Total cost of stock on the date of fire}}$ x Loss of stock $= \left[\frac{60,000}{62,600} \times 50,300\right]$	48,211 (approx.)

A claim of Rs.48,211 (approx.) should be lodged by M/s Suraj Brothers to the insurance company.

Working Notes:

1) Calculation of closing stock as on 30th March, 2012

Memorandum Trading Account for

(from 1st January, 20X2 to 30th March, 20X2)

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Opening stock	95,600	By Sales (W.N.3)	2,42,000
To Purchases (1,70,000-30,000)	1,40,000	By Goods with customers (for approval) (W.N.2)	26,400*
To Wages (50,000 – 3,000)	47,000	By Closing stock (Bal. fig.)	62,600
To Gross profit (20% on sales)	48,400		
	3,31,000		**3,31,000**

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.

2) Calculation of goods with customers

Since no approval for sale has been received for the goods of Rs.33,000 (i.e. 2/3 of Rs.49,500) hence, these should be valued at cost i.e. Rs.33,000 – 20% of Rs.33,000 = Rs.26,400.

3) Calculation of actual sales

Total sales – Sale of goods on approval (2/3rd)= Rs.2,75,000 – Rs.33,000 = Rs.2,42,000.

PROBLEM NO: 2

Computation of claim for loss of stock:(Cost of goods sold approach)

Particulars	Amount (Rs.)	Amount (Rs.)
Opening Stock on 1-1-20X2		83,500
Add: Purchases during the period		1,12,000
		1,95,500
Less: Sales during the period	1,54,000	
Gross Profit thereon	(46,200)	

		(1,07,800)
		87,700
Less: Stock Salvaged Agreed value of damage Stock	11,200 10,500	 (21,700)
Stock destroyed by fire		66,000
Amount of claim = $\frac{\text{Rs. }60{,}000}{\text{Rs. }87{,}700} \times \text{Rs. }66{,}000 = \text{Rs. }45{,}154$ (Approx.)		

PROBLEM NO.3

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: The stock on the date of fire i.e. , 8,82,600 is less than policy value i.e., 9,00,000, so it is not a case of under insurance and hence average clause is not applicable. In such a case the insurers liability is limited to the extent of actual loss or the policy value whichever is lower. Therefore claim to be lodged with the insurance company is 7,79,300.

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 (01-04-20X1 to 20-10-20X1)

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 20.10.20X1)	1,55,000
Less: Stock salvaged	(31,000)
Stock destroyed by fire	1,24,000

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

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

Working Note: Stock as on 1st April, 20X1 was valued at 10% lower than cost. Hence, original cost of the stock would be $= \frac{2,16,000}{90} \text{x} 100 = \text{Rs.}2,40,000$

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

PROBLEM NO: 5

In the books of Agni Ltd.

Dr. Trading Account for the year ended 31-03-10 Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To opening stock	9,62,200	By sales A/c	52,00,000
To purchases A/c	45,25,000	By closing stock	13,27,000
To gross profit (bal. fig)	10,39,800		
	65,27,000		**65,27,000**

$$GP\% = \frac{Gross\ profit}{sales} x100 = \frac{10,39,800}{52,00,000} x100 = 20\%(Approx.)$$

Memorandum Trading Account from 01-04-10 to 22-01-11

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To opening stock		13,27,000	By sales A/c	49,17,000	
To purchases A/c	34,82,700		**Add:** Unrecorded misappropriated cash sales	40,000	49,57,000
Less: Advertisement	(1,00,000)	33,82,700	By closing stock (b/f)		7,44,100
To Gross profit (49,57,000 x 20%)		9,91,400			
		57,01,100			**57,01,100**

Estimated stock in hand on the date of fire = Rs.7,44,100.

Working Note: Cash sales defalcated by the Accountant:

Defalcation period = 01.04.2010 to 18.08.2010 = 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × Rs.2,000 = Rs.40,000.

PROBLEM NO: 6

Statement showing valuation of stock on 31-03-12

Particulars	Amount (Rs.)	Amount (Rs.)
Stock on 01-04-11	28,500	
Less: Book Value of abnormal stock [10,000 - 3,500]	(6,500)	22,000
Add: Purchases		1,52,500
Add: Manufacturing expenses		30,000
		2,04,500
Less: Cost of sales:		
Sales as per books	2,49,000	
Less: Sale of abnormal item	(9,000)	
	2,40,000	
Less: Gross profit @ 20%	(48,000)	(1,92,000)
Value of stock as on 31-3-2012		**12,500**

ALTERNATIVELY:

Dr. Trading Account for the year ended 31-03-2012 Cr.

Particulars	Normal item	Abnormal item	Total	Particulars	Normal item	Abnormal item	Total
To opening stock [28,500 + 3,500]	22,000	10000	32,000	By sales A/c	2,40,000	9000	2,49,000
To Purchases A/c	1,52,500	-	1,52,500	By abnormal loss A/c	-	1,000	1,000
To Manufacturing Exp A/c	30,000	-	30,000	By closing stock (Bal. Fig)	12,500	-	12,500
To G.P (20% of 2,40,000)	48,000	-	48,000				
	2,52,500	**10,000**	**2,62,500**		**2,52,500**	**10,000**	**2,62,500**

∴ Value of stock on 31-03-12 = Rs.12,500

NOTE: Selling, Administration & Financial expenses should not be considered

PROBLEM NO: 7

Dr. Trading Account of Shri Ramesh for 2014 from 01-01-2014 to 31-12-2014 Cr.

(to determine the rate of gross profit)

Particulars	Amount	Particulars	Amount	Amount
To Opening Stock	73,500	By Sales A/c		4,87,000
To Purchases	3,98,000	By Closing Stock: As valued	79,600	
To Gross Profit (b.f.)	97,400	**Add:** Amount written off to restore stock to full cost	2,300	81,900
	5,68,900			5,68,900

The (normal) rate of gross profit to sales is $= \frac{97,400}{4,87,000} \times 100 = 20\%$

Memorandum Trading Account from 01-01-2015 to 31-03.2015

	Normal item	Abnormal item	Total		Normal item	Abnormal item	Total
To Opening Stock	75,000	6,900*	81,900	By Sales	2,28,000	3,200	2,31,200
To Purchases	1,62,000		1,62,000	By Loss	-	250	250
To Gross Profit (Rs. 2,28,000 x 20%)	45,600		45,600	By Closing Stock (bal. fig.)	54,600	3,450**	58,050
	2,82,600	**6,900**	**2,89,500**		**2,82,600**	**6,900**	**2,89,500**

* at cost, book value is Rs.4,600+2,300 = 6,900

** Book value will also be restored for remaining unsold abnormal stock since the remainder of this stock was now estimated to be worth its original cost.

Calculation of Insurance Claim:

Value of Stock on March 31, 20X2	58,050
Less: Salvage	(5,800)
Loss of stock	52,250

Claim subject to average clause: $\frac{\text{Amount of policy}}{\text{Value of stock}} \times \text{Actual loss of stock}$

$$= \frac{50{,}000}{58{,}050} \times 52{,}250 = 45{,}004 (\text{Approx.})$$

PROBLEM NO: 8

Dr. Memorandum Trading A/c for the Period 1st April 2017 to 27th July 2017 Cr.

Particulars	Normal item	Abnormal item	Total	Particulars	Normal item	Abnormal item	Total
To Opening stock (W.N.5)	60,000	4,000	64,000	By Sales(W.N. 3)	4,00,000	2,300	4,02,300
To Purchases (W.N. 1)	2,80,000	-	2,80,000	By Loss	-	700	700
To Wages (W.N. 4)	50,000	-	50,000	By Goods On Approval (W.N. 2)	8000	-	8000
To Gross profit @ 20%	80,000	-	80,000	By Closing stock (Bal. fig.)	62,000	1,000	63,000
	4,70,000	4,000	4,74,000		4,70,000	4,000	4,74,000

Statement of Claim for Loss of Stock

Particulars	Amount (Rs.)
Book value of stock as on 27th July, 2017 (Normal Return)	62,000
Add: Abnormal Stock	1,000
Less: Stock salvaged-	(5,000)
Loss of stock	58,000
Add: Fire fighting expenses	1,300
Total Loss	59,300

Amount of claim to be lodged with insurance company:

$= \text{Loss} \times \frac{\text{Policy Value}}{\text{Value of Stock on the date of fire}}$ = Rs. 59,300 x $\frac{55{,}000}{63{,}000}$ = Rs. 51,770

Working Notes:

1) Calculation of Adjusted Purchases:

Particulars	Amount (Rs.)
Purchases	2,92,000
Less: Purchase of Machinery	(10,000)
Less: Free samples	(2,000)
Adjusted purchases	2,80,000

2) Calculation of Goods with Customers

Approval for sale has not been received = Rs. 40,000 x ¼ = Rs. 10,000

Hence, these should be valued at cost i.e. (Rs. 10,000 - 20% of Rs. 10,000) = Rs. 8000

3) Calculation of Actual Sales:	**Amount (Rs.)**
Total Sales	4,12,300
Less: Approval for sale not received (40,000 x 1/4)	(10,000)
Actual Sales	4,02,300

4) Calculation of Wages	**Amount (Rs.)**
Total Wages	53,000
Less: Wages for installation of machinery	(3,000)
	50,000

5) Value of Opening Stock:

Original cost of stock as on 31st March, 2018 = 63,000 + 1,000 (Amount written off) = 64,000.

PROBLEM NO: 9

Memorandum trading A/c For Shop from 01-01-2017 to 28-04-2017

Particulars	Rs. In Lacs	Particulars	Rs. In Lacs
To Opening Stock	11.4	By Sales: @ 10% G.P 77.52 @ 12% G.P 114.00	191.52
To Transfer from godown 184.68 Less: Returns (6.84)	177.84	By Closing Stock (B/F)	19.152
To Gross Profit 77.52 x 10% = 7.752 114 x 12% = 13.68	21.432		
	210.672		**210.672**

Statement of claim:

	Rs. In Lakhs	
Value of stock in shop	19.152	
(–) Salvage	(0.912)	
Stock saved in damaged condition	18.24	
(–) Stock Recovered	(8.208)	18.24 x 45%
Loss of Stock	10.032	
(+) Firefighting Expenses	0.456	
Total Loss suffered	10.488	

Claim subject to overage clause

Claim Amount = $\frac{\text{Total loss suffered} \times \text{policy amount}}{\text{Value of Stock}}$ = 10.488 $\times \frac{11.4}{19.152}$ = Rs.6,24,285.71

PROBLEM NO: 10

Memorandum Trading Account for the Period from 1.1.2016 to 30.6.2016

	Rs.		Rs.
To Opening Stock (1.1.2016)	1,50,000	By Sales	11,10,000
To Purchases	9,37,500	By Closing Stock	2,80,000
To Cartage Inwards	17,500	(Bal. Fig.)	
To Wages	7,500		
To Gross Profit	2,77,500		
(25% of Rs. 11,10,000)			13,90,000
	13,90,000		

Stock Destroyed Account

	Rs.		Rs.
To Trading Account	2,80,000	By Stock Salvaged Account	20,000
		By Balance c/d (For Claim)	2,60,000
	2,80,000		2,80,000

Computation of Loss of Building and Equipment

Items	Cost	Depreciation	Salvage	Loss
(Rs.)	(Rs.)	(Rs.)	(Rs.)	
A	B	C	D	(E=B-C-D)
Buildings	3,75,000	1,25,000 + 9,375	4,000	2,36,625
Equipment	75,000	22,500 + 5,625	2,500	44,375
Note: Depreciation provided for 6 months i.e. from1-1-2016 to 30-06-2016				

<u>Computation of total loss:</u>

Loss of stock	2,60,000
Loss of Building	2,36,625
Loss of equipment	44,375
	5,41,000

PROBLEM NO: 11

COMPUTATION OF SUM INSURED UNDER VARIOUS CASES

Particulars	(i) Rs.	(ii) Rs.	(iii) Rs.	(iv) Rs.	(v) Rs.	(vi) Rs.
A. Turnover	44.00	44.00	44.00	44.00	44.00	44.00
B. Less: Variable Costs	36.08	36.08	36.08	39.688	32.472	32.472
C. Gross Profit (A-B)	7.92	7.92	7.92	4.312	11.528	11.528
D. Add: Increase in Insured Standing Charges	-	-	0.48	-	-	0.24
E. Less: Uninsured Standing Charges	-	(2.40)	-	-	-	(2.40)
F. Sum Insurable(C+D-E)	**7.92**	**5.52**	**8.40**	**4.312**	**11.528**	**9.368**

PROBLEM NO: 12

Step 1: computation of GP%

Net profit for last year	= 70,000
Add: Insured standing charges of last year	= 56,000
Adjusted Net profit	= 1,26,000

$$GP\% = \frac{\text{Adjusted net profit}}{\text{Last year sales}} x100 = \frac{1,26,000}{4,20,000} x100 = 30\%$$

Step 2: Short Sales

Standard Turnover [01-2-13 To 30-06-13]	= 2,00,000
Add: 15% upward trend in turnover	= 30,000
Adjusted Standard Turnover	= 2,30,000
Add: Actual Turnover [01-02-14 to 30-06-14]	= (80,000)
Short sales	= 1,50,000

Step 3 : Loss of profit = Short sales x GP% = LOP

1,50,000 x 30% = 45,000

Step 4: Computation of Adjusted annual turnover

Annual Turnover [01-02-13 to 31-01-14]	= 4,50,000
Add: 15% Upward trend	= 67,500
AAT	= 5,17,500

Step 5: Gross profit on adjusted annual turnover = AAT x GP% = GP on AAT

5,17,500 x 30% = 1,55,250

Step 6: Admissible Additional Expenses:

a) Actual Additional Expresses = 6,700

b) Proportionate additional Expenses $= \frac{\text{Additional Exp x GP on AAT}}{\text{GP on AAT} + \text{uninsured sanding charges}} = \frac{6,700 x 1,55,250}{1,55,250 + 8,000} = 6,372$

c) GP on Sales Generated by additional expenses(i.e., on additional turnover)

(80,000 x 30% = 24,000)

Admissible Additional Expenses: **Lower of the above** = Rs. 6,372

Step 7: Gross Claim:

Loss of profit	= 45,000
Add: Admissible Additional Expenses	= 6,372
Less: Savings in standing charges	= 2,450
	= **48,922**

Step 8: Computation of Net claim:

$$Claim = \frac{\text{Gross claim}}{\text{GP on AAT}} x \text{Policy Amount} = \frac{48,922}{1,55,250} x 1,25,000 = \text{Rs. } 39,390$$

Note 1: GP on AAT i.e., 1,55,250 is more than Policy amount i.e., 1,25,000, so it is a case of under-insurance, hence average clause is applicable.

Note 2: Indemnity period is 6 months but disorganisation period is only 5 months therefore, insurer considers, disorganisation period as indemnity period.

PROBLEM NO: 13

1) Gross profit ratio

Net profit in year 2017	56,000
Add: Insured Standing charges	49,600
Gross profit in year 2017	1,05,600

Ratio of Gross profit = $\frac{1,05,600}{5,28,000}$ = 20%

2) Calculation of Short Sales

Indemnity period: 16.3.18 to 15.6.18

Standard Sales to be calculated on basis of corresponding period of year 2017

Sales for period 16.3.17 to 31.3.17	28,000
Sales for period 1.4.17 to 15.6.17(Note 1)	76,000
Sales for period 16.3.17 to 15.6.17	1,04,000
Add: Upward trend in Sales(10%) (Note 2)	10,400
Standard Sales(adjusted)	1,14,400

Actual Sales for disorganized period

Calculation of Sales from 16.3.18 to 15.6.18:

Sales for period 16.3.18 to 30.3.18	NIL
Sales for period 1.4.18 to 15.6.18(40,000 – 6,000)	34,000
Actual Sales	34,000

Short Sales (1,14,400 – 34,000) = 80,400

3) Loss of gross profit

Short sales x gross profit ratio = 80,400 x 20% 16,080

4) Adjusted annual turnover .:

Annual turnover (15.03.2017 to 15.03.2018)

from 16.03.2017 to 31.03.2017	= 28,000	4,14,000
from 01.04.17 to 30.06.17	= 1,00,000	
from 01.07.17 to 30.09.17	= 1,20,000	
from 01.10.17 to 31.12.17	= 1,66,000	
from to 01.01.18 to 15.03.18	= 1,30,000	(1,30,000 – Nil)
Total	= 5,44,000	
Add: 10% upward trend of 4,14,000	= 41,400	
	5,85,400	

5) G.P on AAT (AAT x G.P %)

5,85,400 x 20% = 1,17,080

6) Admissible additional expenses (Information not given)

7) Gross claim

Loss of profit (As per step 3)	= 16,080
Admissible additional expenses	= Nil
Savings in standing charges	= Nil
Total	**= 16,080**

8) Net claim:

$$\text{Net claim} = \text{Gross claim} \times \frac{\text{policy value}}{\text{gross profit on annual turnover}}$$

$$= 16{,}080 \times \frac{80{,}000}{1{,}17{,}080 \text{(Note 3)}}$$

Amount of claim = Rs.10,987.

Note: G.P on AAT i.e. 1,17,080 is more than policy value i.e. 80,000. So it is a case of under insurance. Hence Average clause is applicable.

Working Notes

1) Sales for period 1.4.17 to 15.6.17

Sales for 1.4.17 to 30.6.17(given)	1,00,000
Sales for 16.6.17 to 30.6.17(given)	(24,000)
Sales for period 1.4.17 to 15.6.17	76,000

2) Calculation of upward trend in sales

Total sales in year 2015 = Rs.4,36,000

Increase in sales in year 2016 as compared to 2015 (4,80,000 – 4,36,000) = Rs.44,000

$$\% \text{ increase} = \frac{44{,}000}{4{,}36{,}000} = 10\%$$

Increase in sales in year 2017 as compared to 2016 (5,28,000 – 4,80,000) = Rs.48,000

$$\% \text{ increase} = \frac{48{,}000}{4{,}80{,}000} = 10\%$$

The annual percentage increase trend is of 10%

PROBLEM NO: 14

Calculation of loss of stock:

$$\text{G.P \% (2009-10)} = \frac{2{,}50{,}000}{10{,}00{,}000} \times 100 = 25\%$$

Note: Due to Increased Cost, applicable % of G.P is 20% (25% - 5%)

Dr. **Trading A/c of Sony Ltd. For the period 1.1.2011 to 31.03.2011** **Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock	90,000	By sales	2,50,000
To Purchases	3,00,000	By closing Stock (bal. fig)	2,60,000
To Manufacturing Expenses	70,000		
To Gross Profit (20% of Rs. 2,50,000) (W.N.3)	50,000		
	5,10,000		5,10,000

Statement of claim:

Stock on date of fire	= 2,60,000
Less: Salvaged Stock	= Nil
Actual Loss	= **2,60,000**

Note: The Stock on Date of fire i.e. 2,60,000 is less than policy value i.e. 3,00,000. So it is not a case of under insurance and hence Average clause is not applicable. In such a case insurer liability is limited to the extent of actual Loss or policy value whichever is lower. Selling expenses of Rs.20,000 is not part of standing charges.

Calculation of loss of profit:

Calculation of short sales:

Particulars	Amount (Rs.)
Average sales for the period 01.04.2011 to 30.06.2011 (W.N.1) (Rs. 7,82,610/3)	2,60,870
Add: increasing trend of sales (15%) (Approx.)	39,130
	3,00,000
Less: sales during the period 01.04.2011 to 30.06.2011	87,500
Short sales	2,12,500

Computation of G.P. Ratio:

$$\text{Gross profit Ratio} = \frac{\text{Netprofit} + \text{Insured standing Charges}}{\text{Sales}} \text{X } 100$$

$$= \frac{\text{Rs.}50{,}000 + \text{Rs.}50{,}000}{\text{Rs.}10{,}00{,}000} \text{X}100 = 10\%$$

Less: Decreasing trend in G.P. = 5%

5%

Loss of profit =2,12,500 x 5% = Rs.10,625.

Adjusted annual turnover (AAT)

Particulars	Amount (Rs.)
Average turnover for the period 01.04.2010 to 31.12.2010 (W.N.1)	7,82,610
Turnover for the period 01.01.2011 to 31.03.2011	2,50,000
	10,32,610
Add: Increase in trend (15% of Rs.7,82,610) (W.N.2)	1,17,390
	11,50,000
G.P on AAT (AAT x G.P %)	
(11,50,000 x 5 %)	57,500

Admissible additional expenses:

i) Actual expenditure Rs.60,000

ii) $$\text{Additional expenses x} \frac{\text{G.P. on annual turnover}}{\text{G.P. on annual Turnover} + \text{uninsured standing charges}}$$

$$= \text{Rs.}60{,}000\text{x} \frac{57{,}500}{57{,}500 + 1{,}30{,}000} = \text{Rs.}18{,}400 \text{(approx)}$$

iii) G.P. on sales generated by additional expenses (5% of Rs. 87,500) Rs. 4,375

(assumed that entire sales during disturbed period is due to additional expenses)

Note: Least i.e. Rs.4,375 is admissible.

Gross claim:

Loss of profit	= 10,625
Admissible additional expenses	= 4,375
Less: savings in standing charges	= Nil
Total	= 15,000

G.P on AAT i.e.(Rs. 57,500) is less than policy value (Rs. 1,00,000),hence average clause is not applicable. In such a case insurer liability is limited to the extent of gross claim or policy value whichever is lower.

Insurance claim to be submitted:

Particulars	Amount (Rs.)
Loss of stock	2,60,000
Loss of profit (Gross claim)	15,000
	2,75,000

Note: According to the given information standing charges include administrative expenses (Rs. 80,000) and finance charges (Rs. 1,00,000). Insured standing charges being Rs. 50,000, uninsured standing charges would be Rs. 1,30,000. Selling expenses of Rs. 20,000 is not part of standing charges.

Working note 1:

Particulars	Amount (Rs.)
Break up of sales for the year 2010:	
Sales of the first quarter of 2010 (Rs. 2,50,000 x 100/115)	2,17,390* (approx.)
Sales for the remaining three quarters of 2010 Rs. (10,00,000-2,17,390)	7,82,610

* Sales for the first quarter of 2010 is computed on the basis of sales of the first quarter of 2011.

Working note 2: The increase in trend of sales has been applied to the sales of 2010 only, as the sales figure of the first quarter of 2011 was already trend adjusted.

Working Note 3: G.P. of 2010= (2,50,000/10,00,000) x 100 = 25%

In 2011, gross profit had declined by 5% due to increased cost, hence, the rate of gross profit for Loss of stock is taken at 20%.

PROBLEM NO: 15

Step 1: Computation of short sales

Period	Adjusted Standard Turnover	Actual turnover	Shortage
Jan	1,68,000	-	1,68,000
Feb to Oct	16,12,800	13,44,000	2,68,800
Total	17,80,800	13,44,000	4,36,800

Step 2: Computation of Gross Profit Ratio

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit (Adjusted) - Un-Insured Standing Charge}}{\text{Turnover for preceeding financial year (Adjusted)}} \times 100$$

$$\frac{6{,}82{,}752 - 33{,}600}{21{,}33{,}600} \times 100 \quad = 30.425\%$$

Step 3: Loss of Profit = Short Sales x % GP

= 4,36,800 x 30.425%

= 1,32,896

Step 4: Adjusted Annual Turnover

Annual turnover = 20,16,000

(+) Upward Trend = 1,17,600

= 21,33,600

Step 5: Gross Profit on Adjusted Annual Turnover

Adjusted Annual turnover (AAT) x %GP

= 21,33,600 x 30.425%

= 6,49,148

Step 6: Admissible additional expenses

Least of the following:

a) Actual additional expenses = Rs. 3,02,400

b) Proportionate additional expenses

$$\frac{\text{Additional expenses x GP on AAT}}{\text{GP on AAT} + \text{un-insured standing charges}} = \frac{3{,}02{,}400 \times 6{,}49{,}148}{6{,}49{,}148 + 33{,}600}$$

= 2,87,518

c) Gross Profit on Sales generated by additional expenses

(i.e. on additional turnover) = (13,44,000 x 30.425%) = 4,08,912

Step 7: computation of Gross claim

Los of Profit	1,32,896
(+) Admissible addition expenses	2,87,518
(-) Saving in insured standing charges	(47,040)
	3,73,374

Step 8: Computation of Net Claim

GP on AAT (i.e. 6,49,148 is less than the sum insured i.e. 6,72,000, So it is not a case of under insurance and hence Average clause is not applicable. In such a case insurer liability is limited to the extent of gross claim or the policy value whichever is lower. Therefore claim to be lodged with the insurance company is Rs. 3,73,374.

SOLUTIONS FOR SELF PRACTICE

PROBLEM NO: 1

Memorandum Trading Account

for period from 1.10.20X1 to 31.12.20X1

	Rs.	Rs.		Rs.
To Opening stock (Rs. 29,700 x 100/90)		33,000	By Sales	1,40,000
			By Closing stock (bal. fig.)	30,500
To Purchases	75,000			
Less: Cost of plant	(5,000)	70,000		
To Wages	33,000			
Less: Wages paid for plant	(500)	32,500		
To Gross profit (33.33% on cost or 25% on sales)		35,000		
		1,70,500		**1,70,500**

Computation of claim for loss of stock:

	Rs.
Stock on the date of fire i.e. 31.12.20X1	30,500
Less: Salvaged stock	(3,000)
Loss of stock	27,500

Amount of claim

$$= \frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times \text{loss of stock}$$

$$\frac{Rs.25{,}000}{Rs.30{,}500} \times \text{Rs. } 27{,}500 = \text{Rs. } 22{,}541$$

PROBLEM NO: 2

In the books of M/s. Platinum Jewellers

Insurance policy to be taken

Particulars	Amount (Rs.)	Amount (Rs.)
Turnover of previous year		30,50,000
Add: Increase in sales by 25%		7,62,500
Sales for Current Year		38,12,500
Less: Cost of materials (18,60,000 + 25% increase)		(23,25,000)
		14,87,500
Less: Wages of Skilled Craftsmen(1,60,000 + 20% increase)		(1,92,000)
Gross Profit for Current Year		12,95,500
Add: Increased standing charges:		
Interest on overdraft (2,00,000 x 12%)	24,000	
Salaries (2,80,000 x 10%)	28,000	52,000
Policy to be taken for current year 2015		**13,47,500**

<u>WORKING NOTE</u>: Calculation of Sales

Dr. Trading and Profit and Loss account for the year ended 31.12.2014 Cr.

Particulars	Amount Rs.	Particulars	Amount Rs.
To Cost of material A/c	18,60,000	By Sales (Balancing figure) A/c	30,50,000
To Wages of skilled craftsman A/c	1,60,000	By Interest Income A/c	44,000
To Salaries A/c	2,80,000		
To Audit Fees A/c	40,000		
To Rent A/c	64,000		
To Bank Charges A/c	18,000		
To Net Profit	6,72,000		
	30,94,000		**30,94,000**

PROBLEM NO: 3

1. Calculation of short sales:

Particulars	Amount (Rs.)
Sales for the period 15.06.2010 to 15.12.2010	2,40,000
Add: 25% increase in sales	60,000
Estimated sales in current year	3,00,000
Less: Actual sales from 15.06.2011 to 15.12.2011	(70,000)
Short sales	2,30,000

2. Calculation of gross profit:

$$\text{Gross profit} = \frac{\text{Net profit} + \text{Insured standing charges}}{\text{Turnover}} \times 100$$

$$\frac{80{,}000+70{,}000}{6{,}00{,}000}\times 100=\frac{1{,}50{,}000}{6{,}00{,}000}\times 100=25\%$$

3. **Calculation of loss of profit:** Rs. 2,30,000 x 25% = Rs.57,500

4. **Adjusted Annual turnover**

	Rs.
Turnover from 16.06.2010 to15.06.2011	5,60,000
Add: 25% increase	1,40,000
	7,00,000

5. **G.P on AAT (AAT x G .P %)**

7,00,000 x 25% = 1,75,000

6. **Admissible Additional expenses:**

Least of the following:

i) Actual expense= Rs. 12,000

ii) Proportionate additional expenses

$$\frac{\text{Additional expenses x GP on AAT}}{\text{GP on AAT }+\text{un - insured standing charges}}$$

$$12{,}000\times\frac{1{,}75{,}000}{[1{,}75{,}000]+50{,}000}=9{,}333\text{approx}$$

iii) Gross profit on sales generated due to additional expenditure = 25% x Rs. 70,000 =17,500.

Note: From the above admissible additional expenses Rs.9,333 Since it is the lowest amount.

7. **Calculation of total loss of profit**

Particulars	Amount (Rs.)
Loss of profit	57,500
Add: Increased cost of working(Admissible additional expenses)	9,333
	66,833
Less: Saving in insured standing charges	2,000
	64,833

8. **Total claim for consequential loss of profit:**

$$=\frac{\text{Gross claim}}{\text{G.P on AAT}}\times\text{Policy value }=\frac{64{,}833}{1{,}75{,}000}\times 1{,}40{,}000=51{,}866.40$$

NOTE: G.P on AAT i.e.(Rs. 1,75,000) is more than policy value (Rs.1,40,000),So it a case of under insurance and hence average clause is applicable.

THE END