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

ASSIGNMENT SOLUTIONS

PROBLEM NO:1

Computation of claim for loss of stock:

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)
		66,000
Amount of claim = $\frac{\text{Rs. } 60{,}000}{\text{Rs. } 87{,}700}$ x Rs. 66,000 = Rs. 45,154		

PROBLEM NO: 2

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

PROBLEM NO: 3

Dr. Trading Account of Shri Ramesh for 20X1 (to determine the rate of gross profit) Cr.

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 upto March 31, 20X2

	Normal loss	Abnormal loss	Total		Normal loss	Abnormal loss	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

** 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: $\frac{\text{Amount of policy}}{\text{Value of stock}} \times \text{Actual loss of stock} = \frac{5,00,000}{58,050} \times 52,250 = 45,004$

PROBLEM NO: 4

Dr. In the books of Shri Garib Das Trading A/c for the year ended 31-12-2010 Cr.

Particulars		Amount Rs.	Particulars		Amount Rs.
To opening stock		36,750	By Sales A/c		2,43,500
To purchases A/c		1,99,000	By Closing stock	39,800	
To Gross profit (bal. fig)		48,700	(+) Actual written off to restore stock to actual cost	1,150	40,950
		2,84,450			**2,84,450**

$\% \text{ of GP} = \frac{\text{Gross profit}}{\text{Sales}} x100; \frac{48,700}{2,43,500} x100 = 20\%$

Dr. Memorandum Trading A/c from 01-01-11 to 19-05-11 Cr.

Particulars	Normal item	Abnormal item	Total	Particulars	Normal item	Abnormal item	Total
To opening stock A/c	37,500	3,450*	40,950	By sales A/c	1,14,000	1,600	1,15,600
To purchases A/c	81,000	-	81,000	By Abnormal loss A/c	-	125	125
To Gross profit [Rs.1,14,000 x 20%]	22800	-	22800	By closing stock A/c (Bal. fig)	27,300	1,725**	29,025
	1,46,500	**3,450**	**1,49,950**		**1,46,500**	**3,450**	**1,49,950**

* At cost, book value is Rs. 2,300.

** 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

STATEMENT OF CLAIM:

		Rs.
Stock on date of fire [both normal & abnormal]	=	29,025
Less: Salvaged stock	=	(2,900)
Actual loss of stock	=	26,125
Claim to be lodged with the insurance co	=	26,125

Therefore, insurance claim will be for Rs.26,125 only.

PROBLEM NO: 5

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	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:

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

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: 6

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	13,27,200
To gross profit (bal. fig)	10,40,000		
	65,27,200		**65,27,200**

$$GP\% = \frac{\text{Gross profit}}{\text{sales}} x100 = \frac{10,40,000}{52,00,000} x100 = 20\%$$

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

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To opening stock		13,27,200	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: 7

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

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

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

c) GP on Sales Generated by additional expenses: Not Available

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:

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

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: 8

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. Calculation of claim for increased cost of working:

Least of the following:

i) Actual expense= Rs. 12,000

ii) $\text{Expenditure} \times \frac{\text{Gross profit on adjusted turnoer}}{\text{Gross profit as above} + \text{uninsured standing charges}}$

$12{,}000 \times \frac{(25/100) \times 7{,}00{,}000}{[(25/100) \times 7{,}00{,}000] + 50{,}000} = 9{,}333 \text{ approx}$

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

iii) Gross profit on sales generated due to additional expenditure = 25% x Rs. 70,000 =17,500. 9,333 being the least, shall be the increased cost of workings.

5. Calculation of total loss of profit

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

6. Calculation of insurable amount:

Adjusted turnover x G.P. rate = Rs. 7,00,000 x 25% = Rs. 1,75,000

7. Total claim for consequential loss of profit:

$= \frac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit} = \frac{140{,}000}{1{,}75{,}000} \times 64{,}833 = 51{,}866.40$

PROBLEM NO: 9

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**

WORKING NOTE: 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: 10

Calculation of loss of stock:

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
			Amount (Rs.)
Stock destroyed by fire			2,60,000
Amount of fire policy			3,00,000

*G.P. of 2011 25%

Less: decrease in trend 5% 20%

As the value of stock destroyed by fire is less than the policy value, the entire claim will be admitted.

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

Amount allowable in respect of additional expenses:

Least of the following:

i) Actual expenditure Rs.60,000

ii) 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)

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

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

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

G.P. on annual turnover: Adjusted annual turnover:

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
Gross profit on annual turnover (5% of Rs.11,50,000)	57,500

As the gross profit on annual turnover (Rs. 57,500) is less than policy value (Rs. 1,00,000), average clause is not applicable.

Insurance claim to be submitted:

Particulars	Amount (Rs.)
Loss of stock	2,60,000
Loss of profit	10,625
Additional expenses	4,375
	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.

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%.

THE END