4. INSURANCE CLAIMS

PROBLEM NO: 1

In the books of M/S Kailash

Dr. Memorandum Trading Account from 1-4-2013 to 30-9-2013 Cr.

Particulars		Amount Rs.	Particulars		Amount Rs.
To Opening Stock		1,20,000	By sales A/c		3,10,000
To purchases A/c (WN 1)		2,17,500	By Goods sent on consignment A/c		18,000
To wages A/c	75,000				
(-) wages for Installation of a machine	(5000)		By closing stock (Bal.fig)		1,41,500
		70,000			
To gross profit (3,10,000 x 20%)		62,000			
		4,69,500			**4,69,500**

STATEMENT OF CLAIM:

Stock as on date of fire = 1,41,500

(-) Salvaged stock = (27,000)

Actual loss of stock = 1,14,500

$$\text{claim} = \frac{\text{Actual loss of stock}}{\text{stockon date of fire}} \text{x policy amount} = \frac{1{,}14{,}500}{1{,}41{,}500} \text{x } 75{,}000 = \text{Rs.}60{,}689$$

Note: The Stock on date of fire i.e. Rs.1,41,500 is more than policy amount i.e. Rs.75,000.so, it is a case of under-insurance. Hence Average Clause is applicable.

WORKING NOTES 1:

Particulars	Amount Rs.
Purchases	2,40,000
(-) Goods taken for personal use at cost [25000-20%]	(20,000)
(-) Free samples distributed at cost	(2,500)
Net amount of purchases	**2,17,500**

PROBLEM NO: 2

In the books of Mr.Black

Trading Account for the year ended 31-3-2014

Dr. Cr.

Particulars	Amount Rs.	Particulars	Amount Rs.
To opening stock A/c	1,35,000	By sales A/c	9,00,000
To purchases A/c	6,45,000	By closing Stock $\left[1{,}62{,}000 \text{x} \frac{100}{90}\right]$ A/c	1,80,000
To Gross profit (Bal.fig)	3,00,000		
	10,80,000		**10,80,000**

$$\% \text{ of GP } \left[\frac{GP}{sales} \text{x}100\right] = \frac{3{,}00{,}000}{9{,}00{,}000} \text{x}100 = 33.33333\%(\text{or})1/3$$

Memorandum Trading Account from 1-4-2014 to 2-6-2014

Dr. **Cr.**

Particulars		Amount Rs.	Particulars		Amount Rs.
To opening stock		1,80,000	By sales A/c	4,80,000	
To purchases A/c	2,25,000		(-) goods not dispatched	(75,000)	
(-) machinery purchases	(15,000)				4,05,000
(+) unrecorded purchases	30,000	2,40,000	By closing stock (Bal. fig)		1,50,000
To Gross Profit 4,05,000 X 1/3		1,35,000			
		5,55,000			**5,55,000**

STATEMENT OF CLAIM :

Stock on date of fire = 1,50,000

(-) Salvaged stock -

Actual Loss of stock = 1,50,000

$$\text{Claim} = \frac{\text{Actual loss of stock}}{\text{Stock on date of fire}} \text{x policy Amount} = \frac{1{,}50{,}000}{1{,}50{,}000} \text{x} 1{,}20{,}000$$

= Rs.1,20,000

Note: The stock on date of fire i,e, Rs.1,50,000 is more than policy amount i.e., Rs.1,20,000 so, it is a case of under - insurance, Hence average clause is applicable

PROBLEM NO: 3

In the books of Jay Associates

Memorandum Trading Account from 1-04-2011 to 30-06-2011

Dr. **Cr.**

Particulars	Normal item	Abnormal item	Total	Particulars	Normal item	Abnormal item	Total
To Opening stock	200000	20,000	2,20,000	By sales A/c less returns [30,20,000 – 3,00,000]	27,00,000	20,000	27,20,000
To purchases A/c	21,00,000	-	21,00,000	By closing stock (Bal . fig)	5,00,000	-	5,00,000
To Gross Profit [27,00,000 x 1/3]	900000	-	900000				
	32,00,000	**20,000**	**32,20,000**		**32,00,000**	**20,000**	**32,20,000**

STATEMENT OF CLAIM:

Stock on date of fire = 5,00,000

(-) Salvaged stock = (30,000)

(+) Fire Fighting Exp = 30,000

Actual Loss = 5,00,000

$$\text{Claim} = \frac{\text{Actual Loss}}{\text{Stock on date of fire}} \text{x policy} = \frac{5{,}00{,}000}{5{,}00{,}000} \text{x} 3{,}50{,}000 = \text{Rs. } 3{,}50{,}000$$

Note: The Stock on date of fire i.e, 5,00,000 is more than policy amount, so it is a case of under insurance, hence average clause is applicable.

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**

$$\% \text{ of GP} = \frac{\text{Gross profit}}{\text{Sales}} \times 100; \frac{48,700}{2,43,500} \times 100 = 20\%$$

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**

STATEMENT OF CLAIM: **Rs.**

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

PROBLEM NO: 5

Solution to this problem as per "CA Board" approach

Statement showing valuation of stock on 31-03-12

Particulars	Amount Rs.	Amount Rs.
Stock on 01-04-11	28,500	
(-) Book Value of abnormal stock [10,000 - 3,500]	(6,500)	22,000
(+) Purchases		1,52,500
(+) Manufacturing expenses		30,000
		2,04,500
Less. Cost of sales :		
Sales as per books	2,49,000	
(-) Sale of abnormal item	(9,000)	
	2,40,000	
(-) 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+3500]	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 240000)	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: 6

In the books of Agni Ltd Trading Account for the year ended 31-03-10

Dr. **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

Dr. **Cr.**

Particulars		Amount Rs.	Particulars		Amount Rs.
To opening stock		13,27,200	By sales A/c	49,17,000	
To purchases A/c	34,82,700		(+) Unrecorded misappropriated cash sales	40,000	49,57,000
(-) advertisement	(1,00,000)	33,82,700	By closing stock (b/f)		7,44,300
To Gross profit (49,57,000 x 20%)		9,91,400			
		57,01,300			**57,01,300**

STATEMENT OF CLAIM:

Stock on date of fire = 7,44,300

(-) salvaged stock actual loss of stock = -

7,44,300

Claim to be lodged with insurance company = Rs.7,44,300.

PROBLEM NO: 7

Step 1 : computation of GP.%

Net profit for last year = 70,000

(+) 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
(+) 15% upward trend in turnover	= 30,000
Adjusted Standard Turnover	= 2,30,000
(-) 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
(+) 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

$$= \frac{\text{Additional Exp x GP on AAT}}{\text{GP on AAT} + \text{uninsured sanding charges}} = \frac{6700 \text{x} 155250}{155250 + 8000} = 6372$$

c) GP on Sales Generated by additional expenses – not available

Admissible Additional Expenses – Lower of the above = Rs. 6372

Step 7: Gross Claim:

loss of profit	= 45,000
(+) Admissible Additional Expenses	= 6,372
(-) Savings in standing charges	= 2,450
	= **48,922**

Step 8: computation of Net claim:

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

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

Standard turnover	= xxx
(+/-)% downward/Downward trend	= xxx
Adj.Standard turnover (AST)	= xxx
(-) Actual Turnover	= xxx
Short Sales	= xxx

Step 1 : Computation of GP%

Net profit for last year	= 90,000
(+) Insured standing charges	= 60,000
Adjusted net profit	= 1,50,000

$$GP\% = \frac{Adj NP}{last\ year\ T.O} x 100 = \frac{1,50,000}{5,00,000} x 100 = 30\%$$

Step 2: Computation of short sales

Standard Turnover [01-03-13 To 31-08-13]	= 2,40,000
(+) 10% upward trend	= 24,000
Adj. Standard Turnover (AST)	= 2,64,000
(-) Actual Turn Over [01-03-14 To 31-08-14]	= 80,000
Short sales	= 1,84,000

Step 3: loss of profit

Short Sales x GP%	= Loss of profit
1,84,000 x 30%	= 55,200

Step 4 : Computation of AAT

Annual Turnover [01-03-13 To 28-02-14]	= 6,00,000
(+) 10% upward Trend	= 60,000
AAT	= 6,60000

Step 5: Computation of GP on AAT [AAT x GP%]

= 6,60,000 x 30%

= **Rs.1,98,000**

Step 6: Computation of Admissible Additional Exp

a) Actual additional Exp incurred = 9,300

b) Proportionate Exp $= \frac{Additiona Exp x GP on AAT}{GP on AAT + uninsured standing charges} = \frac{9,300 x 1,98,000}{1,98,000 + 5,000} = Rs. 9,071$

c) GP on sales generated by Additional Exp [On additional Turnover] 80,000 – 55,000 = 25,000 x 30% = 7,500

Admissible Additional Expenses = Lower of the above

= Rs. 7,500

Step 7: Computation of Gross Claim:

Loss of Profit	= 55,200
(+) Admissible Additional Exp	= 7,500
(-) Saving in Insured Standing charges	= (2,700)
	= **60,000**

Step 8: Computation of net claim:

$$= \frac{Gross\ Claim}{GP\ on\ AAT} x\ policy\ Amount = \frac{60,000}{1,98,000} x 1,65,000 = 50,000$$

Note: Since GP on AAT i.e., Rs.1,98,000 is more than policy amount i.e., Rs.1,65,000 it is a case of under – insurance, hence average clause is applicable.

PROBLEM NO: 9

LOSS OF STOCK

Note: Given that due to rise in wages the applicable rate of GP is 28% [30%-2%]

In the books of S & M ltd

Memorandum Trading account From 01-01-15 To 30-04-15

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening Stock	70,000	By Sales	2,40,000
To Purchases	1,00,000		
To Wages	50,000	By Closing Stock (Bal. Fig)	83,200
To Mfg. Exp	36,000		
To GP [240000 x 28%]	67,200		
	3,23,200		**3,23,200**

STATEMENT OF CLAIM:

Stock on date of fire = 83,200

(-) salvaged stock = -

Actual loss of stock = 83,200

$$\text{Claim} = \frac{\text{Actual loss of stock}}{\text{Stock on date of fire}} \text{ x Policy amount} = \frac{83,200}{83,200} = 80000 = 80,000$$

Note: The Stock on date of fire i.e 83,200 is more than policy amount i.e., 80,000 so it is a case of under – insurance hence average clause is applicable

Computation of GP% = $\frac{\text{Gross profit}}{\text{Sales}} \text{x}100 = \frac{2,40,000}{8,00,000} \text{x}100 = 30\%$

Loss of profit

Standard turnover [01-05-14 To 31-08-14] = xxx

(+/-)% downward/Downward trend = xxx

Adj. Standard turnover (AST) = xxx

(-) Actual Turnover [01-05-15 To 31-08-15] = xxx

Short Sales = xxx

Step 1: $\text{GP\%}\left[\frac{\text{AdjNP}}{\text{last year T.O}} \text{x}100\right]$

NP for last year = 56,000

(+) Insured Standing Charges = 1,20,000

Adj. NP = 1,76,000

$$\text{GP\%} = \frac{1,76,000}{8,00,000} \text{x}100 = 22\%$$

Note: Due to rise in wages, applicable rate of GP during 2015 is 20% [22% - 2%]

Step 2: Short Sales:

Standard turnover [01-05-14 To 31-08-14] = 3,60,000

(-) 20% downward trend in turnover (WN-1) = (72,000)

AST = 2,88,000

(-) Actual Turn over [01-05-15 To 31-08-15]	= (60,000)
Short Sales	= 2,28,000

Step 3: Loss of profit [short sales x GP%]

2,28,000 x 20% = 45,600

Step 4: Adjusted annual turnover:

Turn over from 01-01-14 To 31-12-14	= 8,00,000
(-) T.O from 01-01-14 To 30-04-14	= 3,00,000
T.O from 01-05-14 To 31-12-14 (8 months)	= 5,00,000
(+) T.O from 0-01-15 To 30-04-15 [4 months]	= 2,40,000
	= 7,40,000
(-) 20 % downward trend [5,00,000 x 20%]	= 1,00,000
AAT	= 6,40,000

Step 5: Gross profit on Adjusted annual turnover [GP on AAT]

AAT x GP%

6,40,000 x 20%	= 1,28,000

Step 6: Admissible Additional Expenses

a) Actual Additional Expenses incurred = 140,000

b) Proportionate Additional Exp

$$= \frac{\text{Additional exp x GP on AAT}}{\text{GP on AAT} + \text{uninsured standing charges}} = \frac{1{,}40{,}000 \times 1{,}28{,}000}{1{,}28{,}000 + 20{,}000} = 1{,}21{,}081$$

c) GP on Sales generated by additional Expenses [on additional turnover]

60,000 x 20% = 12,000

Step 7: Gross claim

Loss of profit	= 45,600
(+) Admissible Additional Exp	= 12,000
(-) Savings in standing charges	= -
	= **57,600**

Step 8: Since GP on AAT i.e., 1,28,000 is less than policy amount, it is not a case of under – insurance, hence average clause is not applicable

Net claim = **Rs.57,600**

Assumption: It is assumed that sales during dislocation period wholly are due to additional expenses.

WORKING NOTES:

Computation of upward/Downward Trend in turnover

Turn over from 01-01-14 to 30-04-14	= 3,00,000
Turn over from 01-01-15 To 30-04-15	= 2,40,000
Decrease	= 60,000

$$\text{\% of Decrease} = \frac{60{,}000}{3{,}00{,}000} \times 100 = 20\%$$

PROBLEM NO: 10

Calculation of loss of stock:

Sony Ltd.
Trading A/c
For the period 1.1.2014 to 31.03.2014

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To opening stock	90,000	By sales	2,50,000
To purchases	3,00,000	By closing Stock (balancing figure)	2,60,000
To manufacturing expenses	70,000		
To gross profit (20* of Rs. 2,50,000)	50,000		
	5,10,000		5,10,000
			Amount (Rs.)
Stock destroyed by fire			2,60,000
Amount of fire policy			3,00,000

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 1.04.2013 to 30.06.2013 (W.N.1) (Rs. 7,82,610/3)	2,60,870	
Add: increasing trend of sales (15%)	39,130	(Approx.)
	3,00,000	
Less: sales during the period 1.04.2014 to 30.06.2014	87,500	
Short sales	2,12,500	

Computation of G.P. Ratio:

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

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

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) $\text{Additional expenses x} \frac{\text{G.P. on annual turnover}}{\text{G.P. on annual Turnover} + \text{uninsuredstandingcharges}}$

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

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

G.P. on annual turnover:

Adjusted annual turnover:

Particulars	Amount (Rs.)
Average turnover for the period 1.4.2013 to 31.12.2013 (W.N.1)	7,82,610
Turnover for the period 1.1.2014 to 31.3.2014	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:

	Particulars	Amount (Rs.)
1.	Break up of sales for the year 2013:	
	Sales of the first quarter of 2013 (Rs. 2,50,000 x 100/115)	2,17,390* (approx.)
	Sales for the remaining three quarters of 2013 Rs. (10,00,000-2,17,390)	7,82,610

2. The increase in trend of sales has been applied to the sales of 2013 only, as the sales figure of the first quarter of 2014 was already trend adjusted.

Notes:

* G.P. of 2013 25%

Less: Decrease in trend 5% 20%

* Sales for the first quarter of 2013 is computed on the basis of sales of the first quarter of 2014.

PROBLEM NO: 11

Standard turnover [15-09-11 To 15-12-11] = xxx

(+/-)% downward/Downward trend = xxx

Adj. Standard turnover (AST) = xxx

(-) Actual Turnover [15-09-12 To 15-12-12] = xxx

Short Sales = xxx

Step 1: Computation of GP%

Net profit for last year = 1,20,000

(+) Insured standing charges = 43,990

Adjusted Net Profit = 1,63,990

$$GP\% = \frac{\text{AdjNP}}{\text{Last Year T.O}} x100 = \frac{1{,}63{,}990}{8{,}19{,}950} x100 = 20\%$$

Step 2: Short Sales.

Standard Turnover [15-09-11 To 15-12-11]

T.O from 16-09-11 To 30-09-11	= 34,000 – (1/2 Months)	
(+) T.O from 01-10-11 To 31-12-11	= 1,90,000 – (3Months)	
(-) T.O form 16-12-11 To 31-12-11	= (60,000) – (½ months)	
	= 1,64,000	
(+) 15% upward trend	= 24,600	
Adjusted Standard Turnover	= 1,88,600	
(-) Actual Turnover [15-9-12 To 15-12-12]		
T.O from 16-09-12 To 30-06-12	= nil	
(+) T.O from 01-10-12 To 31-12-12	= 1,48,000	
(-) T.O from 16-12-12 To 31-12-12 –	= (20,000)	1,28,000
		60,600

Step 3: Loss of Profit [short sales x GP%]

60,600 x 20%

= 12,120

Step 4: Adjusted annual turnover

	Rs.
Sales from 16.09.11 to 30.09.11	39,100
(Adjusted) (34,000 x 1.15)	
1.10.11 to 31.12.11	2,18,500
(Adjusted) (1,90,000 x 1.15)	
1.1.12 to 31.03.12	1,62,000
1.04.12 to 30.06.12	2,21,000
01.07.12 to 15.09.12 (1,75,000 – Nil)	1,75,000
Adjusted Annual Turnover	8,15,600

Step 5: GP on AAT [AAT x GP%] = 8,15,600 x 20%

= 1,63,120

Step 6 : Gross claim:

Loss of profit	= 12,120
(+) Admissible Additional Exp	= -
(-) Savings in standing Charges	= -
	= 12,120

Step 7: $\text{Net Claim} = \frac{\text{Gross Claim}}{\text{GP on AAT}} \times \text{policy Amount} = \frac{12,120}{1,63,120} \times 1,00,000 = \text{Rs. } 7,430$

Note: Here GP on adjusted annual turnover i.e. 1,63,120 is more than the policy amount i.e, 1,00,000. Hence average clause is applicable

Calculation of upward trend in sales	Amount in Rs.
Total sales in year 2009	6,20,000
Increase in sales in year 2010 as compared to 2009 (7,13,000-6,20,000)	93,000
% increase = $\frac{93,000}{6,20,000}$ = 15%	
Increase in sales in year 2011 as compared to year 2010 (8,19,950 – 7,13,000)	1,06,950

% Increase = $\frac{1,06,950}{7,13,000}$ = 15%	
Thus annual percentage increase trend is of 15%	
Adjusted Annual Turnover	**Amount in Rs.**
Sales from 16.9.11to 30.9.11	39100
(adjusted) (34000 x 1.15)	
1.10.11 to 31.12.11	2,18,500
(adjusted) (190000 x 1.15)	
1.1.12 to 31.3.12	1,62,000
1.4.12 to 30.6.12	2,21,000
1.7.12 to 15.9.12 (175000-Nil)	1,75,000
Adjusted Annual Turnover	8,15,600

PROBLEM NO: 12

(i) Calculation of % of Gross Profit

$$\%\text{ of GrossProfit} = \frac{\text{Netprofit} + \text{StandingCharges}}{\text{LastYearTurnover}} x100 = [(67,500 + 1,14,750)/6,75,000]x100 = 27\%$$

(ii) Calculation of policy amount to cover loss of profit

Particulars	Amount Rs.
Turnover in the last financial year	6,75,000
Add: 30% increase in turnover	2,02,500
	8,77,500
Gross profit on increased turnover (8,77,500 x 27%)	2,36,925
Add: Additional standing charges	42,500
Policy Amount	**2,79,425**

∴ The trader should go in for a loss of profit policy of Rs.2,79,425

PROBLEM NO: 13

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**

THE END