CHAPTER-13

INSURANCE CLAIM

UNIT-1 LOSS OF STOCK

Rate of Gross Profit is Given (Basic Problems-Without Adjustments)

Question-1

X Ltd. has taken out a fire policy of ₹1,60,000 covering its stock. A fire occurred on 31st March, 2023. The following particulars are available:

Particulars	Amount (₹)
Stock as on 31.12.2022	60,000
Purchases to the date of fire	2,60,000
Sales to the date of fire	1,80,000
Carriage Inwards	1,600
Commission on purchase to be paid	@2%
Gross Profit Ratio @ 50% on cost.	

You are asked to ascertain-

i. **total loss of stock;**
ii. **amount of claim to be made against the Insurance Company assuming that the policy was subject to average clause.**

Stock salvage amounted to ₹41,360

(2016 Syllabus Dec-23, 8 Marks)

Solution

In the books of M/s Om Exports

Memorandum Trading Account

For the period from 01-04-2020 to 15-12-2020

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	60,000	By Sales	1,80,000
To Purchases	2,60,000		
To Commission on Purchase [2,60,000 x 2%]	5,200		
To Carriage inward	1,600		

To Gross Profit (1,80,000 x 1/3)	60,000	By Closing Stock (bal.fig.)	2,06,800
	3,86,800		**3,86,800**

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	2,06,800
Less: Salvage	(41,360)
	1,65,440

Amount of Claim

Claim = Amount of Policy x Actual Loss/Value of stock on the date of fire

= 1,60,000 x 1,65,440/2,06,800

= ₹ 1,28,000

Question-2

On 15th December, 2020, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of Stock salvaged being ₹1,40,000. From the books of account, the following particulars were available:

i. **Stock at the close of account on 31st March, 2020 was valued at ₹9,40,000.**
ii. **Purchases from 01.04.2020 to 15-12-2020 amounted to ₹13,20,000 and the sales during that period amounted to ₹20,25,000.**
iii. **On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.**

Compute the amount of the claim, if the stock were insured for ₹4,00,000.

(June-18, 5 Marks)

Solution

In the books of M/s Om Exports

Memorandum Trading Account

For the period from 01-04-2020 to 15-12-2020

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	9,40,000	By Sales	20,25,000
To Purchases	13,20,000		
To Gross Profit (20,25,000 x 20%)	4,05,000	By Closing Stock (bal.fig.)	6,40,000
	26,65,000		**26,65,000**

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	6,40,000
Less: Salvage	(1,40,000)
	5,00,000

Amount of Claim

Claim = Amount of Policy x Actual Loss/Value of stock on the date of fire

= 4,00,000 x 5,00,000/6,40,000

= ₹ 3,12,500

Question-3

On 12th June, 2021, a fire occurred in the premises of Ramakrishna Rao, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹22,400. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹20,800. From the books of account, the following particulars were available:

i. **His stock at the close of account on December 31, 2020 was valued at ₹1,67,000.**
ii. **His purchases from 01.01.2021 to 12.06.2021 amounted to ₹2,24,000 and his sales during the period amounted to ₹3,08,000.**
iii. **On the basis of his accounts for the past three years, it appears that he earns on an average a gross profit of 25% on sales.**
iv. **Mr. Rao has insured his stock for ₹1,20,000.**

Compute the amount of the claim.

Solution

In the books of Ramakrishna Rao
Memorandum Trading Account
For the period from 01-01-2021 to 12-06-2021

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,67,000	By Sales	3,08,000
To Purchases	2,24,000		
To Gross Profit (3,08,000 x 25%)	77,000	By Closing Stock (bal.fig.)	1,60,000
	4,68,000		**4,68,000**

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	1,60,000
Less: Salvage (22,400 + 20,800)	(43,200)

	1,16,800

Amount of Claim

Claim = Amount of Policy x Actual Loss/Value of stock on the date of fire

= 1,20,000 x 1,16,800/1,60,000

= ₹ 87,600

Rate of Gross Profit Not Given

Question-4

The premises of X Ltd. caught fire on 22nd January, 2021 and the stock was damaged. The value of goods salvaged was negligible. The firm made up accounts to 31st March each year. On 31st March, 2020 the stock at cost was ₹13,27,200 as against ₹9,62,200 on 31st March, 2019. Purchases from 1st April, 2020 to the date of fire were ₹34,82,700 as against ₹45,25,000 for the full year 2019-2020 and the corresponding sales figures were ₹49,17,000 and ₹52,00,000 respectively.

You are given the following further information:

i. **In July, 2020, goods costing ₹1,00,000 were given away for advertising purposes, no entries being made in the books.**
ii. **The rate of gross profit is constant.**
iii. **X Ltd. had taken an insurance policy of ₹5,50,000 which was subject to the average clause.**

From the above information, you are required to make an estimate of the stock in hand on the date of fire and compute the amount of the claim to be lodged to the insurance company.

(Dec-17, 10 Marks)

Solution

In the books of X Ltd.

Trading Account

For the year ended 31-03-2020

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	9,62,200	By Sales	52,00,000
To Purchases	45,25,000		
To Gross Profit	10,40,000	By Closing Stock	13,27,200
	65,27,200		**65,27,200**

Gross Profit Ratio = 10,40,000/52,00,000 = 20%

Memorandum Trading Account

For the period from 01-04-2020 to 22-01-2021

Particulars	Amount (₹)		Particulars	Amount (₹)
To Opening Stock		13,27,200	By Sales	49,17,000
To Purchases	34,82,700			
Less: Advertisement	(1,00,000)	33,82,700		
			By Closing Stock (bal.fig.)	7,76,300
To Gross Profit		9,83,400		
(49,17,000 x 20%)				
		56,93,300		**56,93,300**

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	7,76,300
Less: Salvage	-
	7,76,300

Amount of Claim

As there is no Salvage it is a case of full loss. Hence amount of Claim will be lower of Loss and Policy Amount i.e., 5,50,000.

Question-5

On 20th July, 2023 the godown and the business premises of a merchant were affected by fire. From the accounting records salvaged, the following information is made available to you:

Particulars	Amount (₹)
Stock of Goods on 1st April, 2022	**1,00,000**
Stock of Goods at 10% lower than cost on 31st March, 2023	**1,08,000**
Purchases of Goods from 1st April, 2022 to 31st March, 2023	**4,20,000**
Sales of Goods from 1st April, 2022 to 31st March, 2023	**6,00,000**
Purchases less returns from 1st April, 23 to 20th July, 2023	**1,40,000**
Sales Returns for the above period	**3,10,000**

Sales up to 20th July, 2023 included ₹40,000 for which goods had not been dispatched. Purchases up to 20th July, 2023 did not include ₹20,000 for which purchase invoices had not been received from suppliers, though goods had been received at the godown.

Goods salvaged from the accident were worth ₹12,000 and these were handed over to the

insured.

Ascertain the value of the claim for the loss of goods/stock which could be preferred to the insurer.

Solution

In the books of a Merchant

Trading Account

For the year ended 31-03-2023

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,00,000	By Sales	6,00,000
To Purchases	4,20,000		
To Gross Profit	2,00,000	By Closing Stock (1,08,000/90%)	1,20,000
	7,20,000		**7,20,000**

Gross Profit Ratio = 2,00,000/6,00,000 = 33.33%

Memorandum Trading Account

For the period from 01-04-2023 to 20-07-2023

Particulars	Amount (₹)		Particulars	Amount (₹)	
To Opening Stock		1,20,000	By Sales	3,10,000	
To Purchases	1,40,000		Less: Goods not dispatched	(40,000)	
Add: Invoice not received	(20,000)				2,70,000
		1,60,000	By Closing Stock (bal.fig.)		1,00,000
To Gross Profit		90,000			
(2,70,000 x 33.33%)					
		3,70,000			**3,70,000**

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	1,00,000
Less: Salvage	(12,000)
	88,000

Amount of Claim

As policy amount is not given in the question, we are assuming that total loss of stock i.e., ₹ 88,000 will be the amount of claim.

Question-6

Ram trader's godown caught fire on 29th August, 2020, and a large part of the stock of goods was destroyed. However, goods costing ₹54,000 could be salvaged incurring fire - fighting expenses amounting to ₹2,350. The trade provides you the following additional information:

Particulars	Amount (₹)
Cost of stock on 1st April, 2019	**3,55,250**
Cost of stock on 31st March, 2020	**3,95,050**
Purchases during the year ended 31st March, 2020	**28,39,800**
Purchases from 1st April, 2020 to the date of fire	**16,55,350**
Cost of goods distributed as samples for advertising from 1st April, 2020 to the date of fire	**20,500**
Cost of goods withdrawn by trader for personal use from 1st April, 2020 to the date of fire	**1,000**
Sales for the year ended 31st March, 2020	**40,00,000**
Sales from 1st April, 2020 to the date of fire	**22,68,000**

The insurance company also admitted fire-fighting expenses. The trader had taken the fire insurance policy for ₹4,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company.

(June-17, 7 Marks)

Solution

In the books of Ram

Trading Account

For the year ended 31-03-2020

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800		
To Gross Profit	12,00,000	By Closing Stock	3,95,050
	43,95,050		**43,95,050**

Gross Profit Ratio = 12,00,000/40,00,000 = 30%

Memorandum Trading Account

For the period from 01-04-2020 to 29-08-2020

Particulars	Amount (₹)		Particulars	Amount (₹)
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350			
Less: Advertisement	(20,500)			
: Drawing	(1,000)	16,33,850		
			By Closing Stock (bal.fig.)	4,41,300
To Gross Profit		6,80,400		
(22,68,000 x 30%)				
		27,09,300		**27,09,300**

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	4,41,300
Less: Salvage	(54,000)
Add: Fire-fighting expenses	2,350
	3,89,650

Amount of Claim

Since policy amount is more than the gross loss (stock on the date of fire) amount, average clause will not apply. Therefore, claim amount of ₹ 3,89,650 will be admitted by the Insurance Company.

Question-7

Fire occurred in the premises of X & Co. on 1st September 2020 and stock of the value of ₹1,01,000 was salvaged and the business books and records were saved. The following information was obtained.

Particulars	Amount (₹)
Purchase for the year ended 31.03.2020	**7,00,000**
Sales for the year ended 31.03.2020	**11,00,000**
Purchase from 01.03.2020 to 01.09.2020	**2,40,000**
Sales from 01.03.2020 to 01.09.2020	**3,60,000**
Stock on 31.03.2019	**3,00,000**
Stock on 31.03.2020	**3,40,000**

Further Information is also given that the stock on 31.03.2020 was overvalued by ₹ 20,000.

Purchases and sales occur evenly over the months.

Calculate the amount of the claim to be presented to the insurance company in respect of losses. Rate of gross profit is to be based on the year ended 31.03.2020.

Solution

In the books of X & Co.
Trading Account
For the year ended 31-03-2020

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	3,00,000	By Sales	11,00,000
To Purchases	7,00,000		
To Gross Profit	4,20,000	By Closing Stock	3,20,000
		(3,40,000 – 20,000)	
	14,20,000		**14,20,000**

Gross Profit Ratio = 4,20,000/11,00,000 = 38.1818%

Memorandum Trading Account
For the period from 01-04-2020 to 01-09-2020

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	3,20,000	By Sales (3,60,000 x 5/6)	3,00,000
To Purchases (2,40,000 x 5/6)	2,00,000		
		By Closing Stock (bal.fig.)	3,34,545
To Gross Profit	1,14,545		
(3,00,000 x 38.1818%)			
	6,34,545		**6,34,545**

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	3,34,545
Less: Salvage	(1,01,000)
	2,33,545

Amount of Claim

As policy amount is not given, we are considering loss of stock i.e., ₹ 2,33,545 will be amount of claim.

Question-8

A fire occurred in the premises of Sri. G. Vekatesh on 01.04.2020 and a considerable part of the stock was destroyed. The stock salvaged was ₹ 28,000. Sri Venkatesh had taken a fire insurance policy for ₹ 1,71,000 to cover the loss of stock by fire.

You are required to ascertain the insurance claim which the company should claim from the insurance company for the loss of stock by fire. The following particulars are available:

Particulars	Amount (₹)
Purchases for the year 2019	**9,38,000**
Sales for the year 2019	**11,60,000**
Purchases from 01.01.2020 to 01.04.2020	**1,82,000**
Sales from 01.01.2020-01.04.2020	**2,40,000**
Stock on 01.01.2019	**1,44,000**
Stock on 31.12.2019	**2,42,000**
Wages paid during 2019	**1,00,000**
Wages paid 01.01.2020-01.04.2020	**18,000**

Sri Venkatesh had in June 2019 consigned goods worth ₹50,000, which unfortunately were lost in an accident. Since there was no insurance cover taken, the loss had to be borne by him full. Stocks at the end of each year for and till the end of calendar year 2018 had been valued at cost less 10%. From 2019, however there was a change in the valuation of closing stock which was ascertained by adding 10% to its costs.

Solution

In the books of Sri. G. Vekatesh
Trading Account
For the year ended 31st December 2019

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,60,000	By Sales	11,60,000
1,44,000 × (100/90)		By Stock lost by Accident	50,000
To Purchases	9,38,000	By Closing Stock	2,20,000
To Wages	1,00,000	(2,42,000 ×100/110)	
To Gross Profit	2,32,000		
	14,30,000		14,30,000

Rate of Gross Profit on Sales = (2,32,000/11,60,000) × 100 = 20%

Memorandum Trading Account
For the period from 01-01-2020 to 01-04-2020

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	2,20,000	By Sales	2,40,000
To Purchases	1,82,000	By Closing Stock (bal.fig)	2,28,000
To Wages	18,000		
To Gross Profit (2,40,000 x 20%)	48,000		
	4,68,000		4,68,000

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	2,28,000
Less: Salvage	(28,000)
	2,00,000

Amount of Claim

As the policy amount is less than the value of stock destroyed, average clause is applicable. Hence, the amount of claim will be:

= Loss of Stock × (Amount of Policy / Stock at the date of fire)

= 2,00,000 × (1,71,000 / 2,28,000)

= ₹ 1,50,000

Question-9

On 02.06.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the record saved:

Particulars	Amount (₹)
Stock at cost on 01.04.2018	**1,35,000**
Stock at 90% of cost on 31.03.2019	**1,62,000**
Purchases for the year ended 31.03.2019	**6,45,000**
Sales for the year ended 31.03.2019	**9,00,000**
Purchases from 01.04.2019 to 02.06.2019	**2,25,000**
Sales from 01.04.2019 to 02.06.2019	**4,80,000**

Sales up to 02.06.2019 includes ₹ 75,000 (invoice price) being the goods not dispatched to the customers.

Purchases up to 02.06.2019 includes a machinery acquired for ₹ 15,000.

Purchases up to 02.06.2019 does not include goods worth ₹ 30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ₹ 1,20,000 and it is subject to average clause.

Ascertain the amount of claim for loss of stock.

(Dec-19, 7 Marks)

Solution

In the books of Mr. Black
Trading Account
For the year ended 31st March 2019

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock	1,80,000
		(1,62,000 ×100/90)	
To Gross Profit	3,00,000		
	10,80,000		10,80,000

Rate of Gross Profit on Sales = (3,00,000/9,00,000) × 100 = 33.33%

Memorandum Trading Account
For the period from 01-04-2029 to 02-06-2019

Particulars	Amount (₹)		Particulars	Amount (₹)	
To Opening Stock		1,80,000	By Sales	4,80,000	
To Purchases	2,25,000		Less: Goods not dispatched	(75,000)	4,05,000
Add: Goods received without Invoice	30,000				
Less: Machinery	(15,000)	2,40,000			
To Gross Profit (4,05,000 x 33.33%)		1,35,000	By Closing Stock (bal.fig)		1,50,000
		5,55,000			5,55,000

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	1,50,000
Less: Salvage	-
	1,50,000

Amount of Claim

As there is no Salvage it is a case of full loss. Hence amount of Claim will be lower of Loss and Policy Amount i.e., 1,20,000.

Poor Selling Line

Question-10

On 1st April 2023 the stock of Mr. Hariprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Particulars	Amount (₹)
Stock at cost on 1st Jan 2022	**1,47,000**
Stock at cost on 31st Dec, 2022	**1,59,200**
Purchases for the year ended 31st Dec, 2022	**7,96,000**
Sales for the year ended 31st Dec, 2022	**9,74,000**
Purchases from 01-01-2023 to 31-03-2023	**3,24,000**
Sales from 01-01-2023 to 31-03-2023	**4,62,400**

In valuing the stock for the balance sheet at 31st December 2022 ₹4,600 had been written off for certain stock which was a poor selling line, having cost of ₹13,800. A portion of these goods were sold in March, 2023 at a loss of ₹550 on the original cost of ₹6,900. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout the year.

The value of stock salvaged was ₹11,600. The Policy was for 1,00,000 and was subject to average clause.

Work out the amount of claim of loss by fire.

(2022 Syllabus Dec-23, 7 Marks)

Solution

In the books of Hariprasad

Trading Account

For the Year ended 31-12-2022

Particulars		Amount (₹)	Particulars	(₹)	Amount (₹)
To Opening Stock		1,47,000	By Sales		9,74,000
To Purchases	7,96,000				
Less: PSL	(13,800)		By Closing Stock	1,59,200	
		7,82,200	Less: PSL (13,800 – 4,600)	(9,200)	
					1,50,000

To Gross Profit		1,94,800			
		11,24,000			11,24,000

Gross Profit Ratio = 1,94,800/9,74,000 = 20%

Memorandum Trading Account

For the period from 01-01-2023 to 31-03-2023

Particulars	Amount (₹)	Particulars		Amount (₹)
To Opening Stock	1,50,000	By Sales	4,62,400	
		Less: PSL (6,900 – 500)	6,400	
				4,56,000
To Purchases	3,24,000			
		By Closing Stock (bal.fig.)		1,09,200
To Gross Profit	91,200			
(4,56,000 x 20%)				
	5,65,200			5,65,200

Calculation of Loss of Stock

Particulars	Amount (₹)
Goods destroyed by fire	
Normal	1,09,200
Poor Selling Line (13,800 – 6,900) x 100%	6,900
	1,16,100
Less: Salvaged	(11,600)
	1,04,500

Amount of Claim

Claim = Amount of Policy x Actual Loss/Value of stock on the date of fire

= 1,00,000 x 1,04,500/1,16,100

= ₹ 90,009 (Approx)

Question-11

On 31st January, 2019 the premises of Toli Textiles Limited were destroyed by fire. The records of the company revealed the following particulars:

Particulars	Amount (₹)
Stock on 01.04.2017	**11,35,000**
Stock on 31.03.2018	**12,64,100**

Purchase Less returns, during the year ended 31st March, 2018	**65,45,000**
Sales Less returns, during the year ended 31st March, 2018	**91,00,000**
Purchase Less return, from 01.04.2018 to 31.01.2019	**56,64,000**
Sales Less returns, from 01.04.2018 to 31.01.2019	**78,24,000**

In valuing stock on 31st March, 2018 ₹45,900 had been written off out of certain stock which was of a poor selling line, having cost ₹1,37,700. A portion of these goods were sold in October, 2018 at a loss ₹11,080 on the original cost of ₹55,080. The remaining stock of this goods on the date of fire was to be valued at 80% of its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout. The stock salvaged from fire was ₹1,23,800.

You are required to compute the amount of claim to be lodged for loss of stock. The stock was insured for ₹12,50,000.

(June-19, 7 Marks)

Solution

In the books of Toli Textiles Limited
Trading Account
For the Year ended 31-03-2018

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		11,35,000	By Sales		91,00,000
To Purchases	65,45,000				
Less: PSL	(1,37,700)				
		64,07,300	By Closing Stock	12,64,100	
To Gross Profit		27,30,000	Less: PSL (1,37,700 – 45900)	(91,800)	11,72,300
		1,02,72,300			1,02,72,300

Gross Profit Ratio = 27,30,000/91,00,000 = 30%

Memorandum Trading Account
For the period from 01-04-2018 to 31-01-2019

Particulars	(₹)	Particulars	(₹)	(₹)
To Opening Stock	11,72,300	By Sales	78,24,000	
		Less: PSL (55,080 – 11,080)	(44,000)	77,80,000
To Purchases	56,64,000			
		By Closing Stock (bal.fig.)		13,90,300

To Gross Profit	23,34,000			
(77,80,000 x 30%)				
	91,70,300			91,70,300

Calculation of Loss of Stock

Particulars	Amount (₹)
Goods destroyed by fire	
Normal	13,90,300
Poor Selling Line (1,37,700 – 55,080) x 80%	66,096
	14,56,396
Less: Salvaged	(1,23,800)
	13,32,596

Amount of Claim

Claim = Amount of Policy x Actual Loss/Value of stock on the date of fire

= 12,50,000 x 13,32,596/14,56,396

= ₹ 11,43,745

Question-12

The factory premises of Aurishi Ltd. were engulfed in the fire on August 16, 2020, as a result of which a major part of stock burnt to ashes. The stock was covered by policy for ₹90,000, subject to Average Clause. The records at the office of the company revealed the following information:

Particulars	Amount (₹)
Stock on 1st April, 2019	**1,15,200**
Purchases during the year ended 31st March, 2020	**4,80,000**
Sales during the year ended 31st March, 2020	**6,07,800**
Closing stock on 31st March, 2020	**95,400**
Purchases from 1st April, 2020 to August 16, 2020	**1,62,000**
Sales from 1st April, 2020 to August 16, 2020	**1,84,200**

An item of stock purchased in 2018 at a cost of ₹30,000 was valued at ₹18,000 on 31st March, 2019, due to obsolescence. Half of this stock was sold in July, 2019 for ₹7,800; the remaining was valued at ₹7,200 on 31st March, 2020. One-fourth of the original stock was sold in June, 2020, for ₹4,200. Remaining stock is valued at 60%. Salvaged stock was valued at ₹36,000.

You are required to compute the amount of claim to be lodged with Insurance Company for Loss of Stock.

(Dec-16, 8 Marks)

Solution

In the books of Aurishi Ltd.
Trading Account
For the Year ended 31-03-2020

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock	1,15,200		By Sales	6,07,800	
Less: PSL	(18,000)	97,200	Less: PSL	(7,800)	6,00,000
To Purchases		4,80,000			
			By Closing Stock	95,400	
To Gross Profit		1,11,000	Less: PSL	(7,200)	88,200
		4,58,800			4,58,800

Gross Profit Ratio = 1,11,000/6,00,000 = 18.5%

Memorandum Trading Account
For the period from 01-04-2020 to 16-08-2020

Particulars	(₹)	Particulars	(₹)	(₹)
To Opening Stock	88,200	By Sales	1,84,200	
		Less: PSL	(4,200)	1,80,000
To Purchases	1,62,000			
		By Closing Stock (bal.fig.)		1,03,500
To Gross Profit	33,300			
(1,80,000 x 18.5%)				
	2,83,500			2,83,500

Calculation of Loss of Stock

Particulars	Amount (₹)
Goods destroyed by fire	
Normal	1,03,500
Poor Selling Line (30,000 – 15,000 - 7,500) x 60%	4,500
	1,08,000
Less: Salvaged	(36,000)
	72,000

Amount of Claim

Claim = Amount of Policy x Actual Loss/Value of stock on the date of fire

= 90,000 x 72,000/1,08,000

= ₹ 60,000

Question-13

On 01.04.2020, godown of Y Ltd. was destroyed by fire. The records of the company revealed the following particulars:

Particulars	Amount (₹)
Stock on 01.01.2019	**75,000**
Stock on 31.12.2019	**80,000**
Purchases during 2019	**3,10,000**
Sales during 2019	**4,00,000**
Purchase from 01.01.2020 to the date of fire	**75,000**
Sales from 01.01.2020 to the date of fire	**1,00,000**

In valuing Closing Stock of 2019, ₹5,000 was written off whose cost was ₹4,800. Part of this stock was sold in 2020 at a loss of ₹400, Costing ₹2,400. Stock salvaged was ₹5,000. The godown and the cost of which was fully insured.

Indicate from above amount of claim to be made against the insurance company.

Solution

In the books of Y Ltd.
Trading Account
For the Year ended 31-12-2019

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		75,000	By Sales		4,00,000
To Purchases	3,10,000		By Closing Stock	80,000	
Less: PSL	(4,800)	3,05,200	Add: PSL (5,000 – 5,200)	200	
To Gross Profit		1,00,000			80,200
		4,80,200			4,80,200

Gross Profit Ratio = 1,00,000/4,00,000 = 25%

Memorandum Trading Account

For the period from 01-01-2020 to 01-04-2020

Particulars	(₹)	Particulars	(₹)	(₹)
To Opening Stock	80,200	By Sales	1,00,000	
		Less: PSL (2,400 - 400)	2,000	98,000
To Purchases	75,000			
		By Closing Stock (bal.fig.)		81,700
To Gross Profit	24,500			
(98,000 x 25%)				
	1,79,700			1,79,700

Calculation of Loss of Stock

Particulars	Amount (₹)
Goods destroyed by fire	
Normal	81,700
Poor Selling Line (4,800 – 2,400) x 100%	2,400
	84,100
Less: Salvaged	(5,000)
	79,100

Amount of Claim

As policy amount is not given, we are considering loss of stock i.e., ₹ 79,100 will be amount of claim.

Miscellaneous

Question-14

A fire occurred on 15th September 2020 in the premises of Sen & Co. from the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock.

Particulars	Amount (₹)
Stock at cost on 01.01.2019	**40,000**
Stock at cost on 01.01.2020	**60,000**
Purchases in 2019	**80,000**
Purchase from 01.01.2020 to 15.09.2020	**1,76,000**
Sales in 2019	**1,20,000**

Sales from 01.01.2020 to 15.09.2020	**2,10,000**

During the current year cost of purchase has risen by 10% above last years' level. Selling prices have gone up by 5%. Salvage value of stock after fire was ₹4,000.

Solution

Memorandum Trading Account

For the period from 01.01.2020 to 15.09.2020

Particulars	Current Year (₹)	Last Year (₹)	Particulars	Current Year (₹)	Last Year (₹)
To Opening Stock	60,000	60,000	By Sales	2,10,000	2,00,000
To Purchase	1,76,000	1,60,000	By Closing Stock	1,32,000	1,20,000
To Gross Profit	1,06,000	1,00,000			
	(bal. fig.)	(50% of Sales)			
	3,42,000	3,20,000		3,42,000	3,20,000

Working:

Loss of Stock/ Amount of Claim

Particulars	Amount (₹)
Closing Stock	1,32,000
Less: Stock Salvaged	(4,000)
Actual Value of Stock lost	1,28,000

Trading Account (for ascertaining rate of Gross Profit)

For the year ended 31.12.2019

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	40,000	By Sales (less returns)	1,20,000
To Purchase (less returns)	80,000	By Closing Stock	60,000
To Gross profit (bal. fig.)	60,000		
	1,80,000		1,80,000

Percentage of gross profit on sales = (Gross Profit/Sales) x100

= (₹60,000/₹1,20,000) ×100

= 50%

Question-15

From the following information, calculate the amount of claim for loss of stock with Insurance Company C Ltd:

Particulars	Amount (₹)
Purchase for the year 2020	**9,15,000**
Sales for the year 2020	**12,00,000**
Purchase from 01.01.2021 to 30.06.2021	**8,00,000**
Sales from 01.01.2021 to 30.06.2021	**9,90,000**
Stock on 01.01.2020	**1,35,000**
Stock on 01.01.2021	**1,50,000**

You are informed that:

i. **In 2021 the purchase prices raised by 20% above the level prevailing in 2020.**
ii. **In 2021 the selling prices hiked by 10% over the level prevailing in 2020.**
iii. **Salvaged value of stock ₹20,000.**
iv. **Fire insurance policy for ₹1,48,750 to cover the loss of stock by fire.**

Solution

WN- 1 Calculation of New Gross Profit Rate for 2020

Trading Account
For the year ended 31.12.2020

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,35,000	By Sales	12,00,000
To Purchase	9,15,000	By Closing Stock	1,50,000
To Gross profit (bal. fig.)	3,00,000		
	13,50,000		**13,50,000**

Percentage of gross profit on sales = (Gross Profit/Sales) x100

= (3,00,000/12,00,000) ×100

= 25%

WN- 2 Calculation of New Gross Profit Rate for 2021

Particulars	Sale Price	Cost	Profit	Gross Profit Rate
Existing	100 (Let)	100-25 = 75	100 x 25% = 25	25% (from trading)
New				
- For Opening Stock	110	75	35	35/110 = 38.818%
- For Purchased goods	110	75+20% = 90	20	20/110 = 18.1818%

WN- 3 Calculation of Cost of Goods Sold

Total Sales = 9,90,000

Sale Price of Opening stock

Cost = 1,50,000

Profit = 1,50,000 x 35/75 = 70,000

Sale = 1,50,000 + 70,000 = 2,20,000

Cost of Purchase goods sold

Sale value of Purchased goods = 9,90,000 -2,20,000 = 7,70,000

Profit on above = 7,70,000 x 18.1818% = 1,40,000

Cost = 7,70,000 – 1,40,000 = 6,30,000

Total Cost of Goods sold = 1,50,000 + 6,30,000 = 7,80,000

Gross Profit = 9,90,000 – 7,80,000 = 2,10,000

Calculation of Closing Stock on the date of fire

Particulars	Amount (₹)
Purchase	8,00,000
Less: Sale form purchased goods	(6,30,000)
Stock on the date of fire	1,70,000

Note: it can also be determined by preparing Memorandum Trading Account

Memorandum Trading Account

For the period from 01-01-2021 to 30-06-2021

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,50,000	By Sales	9,90,000
To Purchases	8,00,000		
To Gross Profit (WN-3)	2,10,000	By Closing Stock (bal.fig.)	1,70,000
	11,60,000		**11,60,000**

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	1,70,000
Less: Salvage (22,400+ 20,800)	(20,000)
	1,50,000

Amount of Claim

Claim = Amount of Policy x Actual Loss/Value of stock on the date of fire

= 1,48,750 x 1,50,000/1,70,000

= ₹ 1,31,250

Question-16

A fire occurred in the premises of M/s Bad Luck Traders twice during the accounting year 2021-22 that is on 31st August 2021 and again on 30th November, 2021. From the following particulars, calculate the claim to be lodged in respect of the goods lost by fire on the aforementioned date:

i. **The stock as at 31st March, 2021 was valued at ₹ 59,000.**
ii. **The purchases from 1st April, 2021 to 31st August, 2021 amounted to ₹ 3,45,000.**
iii. **The purchases from 1st September, 2021 to 30th November, 2021 amounted to ₹ 1,90,000 of which goods costing ₹ 45,000 were received on 10th December, 2021.**
iv. **Sales for the period from 1st April, 2021 to 31st August, 2021 amounted to ₹ 4,71,000.**
v. **The sales for the period from 1st September, 2021 to 30th November, 2021 amounted to ₹ 2,25,000. It includes sale of old furniture of ₹ 27,000.**
vi. **The company earns a steady rate of Gross profit at 20% at the beginning of the year 2021. However, the selling price was raised by 20% from the month of April.**

The value of the goods salvaged was ₹ 30,000 and ₹ 2,000 on 31st August, 2021 and on 30th November, 2021 respectively.

The firm had taken out a fire insurance policy of ₹ 45,000 on 1st April, 2021. At the time of receiving the insurance claim on 31st August, 2021, no additional premium was paid for restoration of the insurance policy to its original amount. The policy was subject to average clause.

Solution

WN- 1 Calculation of New Gross Profit Rate for 2022

Particulars	Sale Price	Cost	Profit	Gross Profit Rate
Existing	100 (Let)	100-20 = 80	100 x 20% = 20	20% (given)
New	100+ 20% = 120	80	40	40/120 = 33.33%

Calculation of Claim for Fire occurred on 31-08-2021

Memorandum Trading Account
for the period Apr. 1 – Aug. 31, 2021

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	59,000	By Sales	4,71,000
To Purchases	3,45,000	By Closing Stock [Bal. Fig.]	90,000
To Gross Profit	1,57,000		
(4,71,000 × 33.33%) (WN: 1)			
	5,61,000		**5,61,000**

Loss of Stock

Particulars	Amount (₹)
Closing Stock	90,000
Less: Stock Salvaged	(30,000)
Actual Value of Stock lost	60,000

Amount of Claim

Claim = Amount of Policy x Actual Loss/Value of stock on the date of fire

= 45,000 x 60,000/90,000

= ₹ 30,000

Calculation of Claim for Fire occurred on 30-11-2021

Memorandum Trading Account
for the period Sep. 1 – Nov. 30, 2021

Particulars	Amount (₹)		Particulars	Amount (₹)	
To Opening Stock		30,000	By Sales	2,25,000	
To Purchases	1,90,000		Less: Sale of Furniture	(27,000)	1,98,000
Less: Goods in transit	(45,000)	1,45,000			
To Gross Profit (1,98,000 × 33.33%) (WN: 1)		66,000	By Closing Stock [Bal. Fig.]		43,000
		2,41,000			**2,1,000**

Loss of Stock

Particulars	Amount (₹)
Closing Stock	43,000
Less: Stock Salvaged	(2,000)
Actual Value of Stock lost	41,000

Amount of Claim

Claim = Amount of Policy x Actual Loss/Value of stock on the date of fire

= 15,000 x 41,000/43,000

= ₹ 14,302

Note: Policy Value of the fire insurance policy

For the first insurance claim

The value of fire insurance policy taken = ₹ 45,000

For the second insurance claim

As the original policy was not restored at the time of receiving the insurance claim on 31.8.2021, the subsequent 'Policy Value' will get reduced by the amount of insurance claim received.

Revised policy value = Original policy value – Compensation received on first insurance claim

= 45,000 – 30,000

= ₹ 15,000

Question-17

Mr. X's godown was destroyed by fire on 01.06.2020 when the goods in stock were insured for ₹60,000. The following particulars are given:

Balance Sheet (Extract)

as at 31st December 2019

Liabilities	Amount (₹)	Asset	Amount (₹)
Creditor for goods	**20,000**	**Stock (including goods held by agent ₹ 2,000)**	**36,000**
		Debtors	**70,000**

Transactions upto 31st May, 2020 include:

Particulars	Amount (₹)	Particulars	Amount (₹)
Cash Received from Debtors	**3,40,000**	**Cash paid to Creditors**	**2,20,000**
Bad Debt written off	**3,500**	**Discount Received**	**1,000**
Balance on 31.05.2020:			
Debtors	**70,000**		
Creditors	**30,000**		

Additional information

i. **Debtors on 31.5.2020, included an amount owing from the agent from sales to date ₹4,000 less 10% commission and his expenses amounting to ₹100 on 31.5.2020 – the agent still held the said goods valued at ₹3,600 (at selling price).**

ii. **Sales (total) for the periods include ₹1,600 for goods which have the selling price reduced by 50% and also ₹6,000 reduced by 25%.**

iii. **The normal mark-up is 50% on cost and except the above, all sales can be assumed to be at the full selling price.**

iv. **All the goods were destroyed and there was no salvage value of the goods. Calculate the amount of claim.**

Solution

In the Books of Mr. X

Debtors Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013			2013		
Jan 1	To Balance b/d	70,000	May 31	By Cash Received	3,40,000
May 31	To Sales (bal. fig.)	3,40,000		By Bad Debts	3,500
				By Balance c/d (Excluding form agent)	66,500
		4,10,000			4,10,000

Creditors Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013			2013		
May, 31	To Cash paid	2,20,000	Jan. 1	By Balance b/d	20,000
	To Discount Received	1,000	May 31	By Purchase (bal. fig)	2,31,000
	To Balance c/d	30,000			
		2,51,000			2,51,000

Godown Stock Account

Particulars		Amount (₹)	Particulars	Amount (₹)
To Balance b/d (₹ 36,000 – ₹ 2,000)		34,000	By Sales	3,40,000
To Purchase from the Creditors	2,31,000			
Less: Transferred to agent	(3,067)	2,27,933		
To Gross Profit (WN-2)		1,10,934	By Closing Stock	32,867
		3,75,934		3,75,934

Thus, amount of claim which will be lodged for ₹ 32,867

Workings:

1. Amount receivable from agent included in Debtors

Particulars	Amount (₹)
Sales	4,000

Less: Commission @10%	400
Expenses	100
	3,500

2. Calculation of Gross Profit

Particulars	Amount (₹)
Sales	3,40,000
Add: Discounts given [{(1,600 /50%) x 50%} + (6,000/75%) x 25%]	3,600
Normal selling price	3,43,600
Normal Gross Profit	1,14,534
Less: Discounts given	3,600
Actual Gross Profit	1,10,934

3. Stock transferred to Agent from purchased goods

Particulars	Selling Price	Cost (₹)
Good Sold	4,000	2,667 (₹ 4,000 × 2/3)
Goods with agent at end	3,600	2,400(₹ 3,600 × 2/3)
		5,067
Less: Stock at agents' hand at the beginning		2,000
Stock with Agent		3,067

UNIT-2 LOSS OF PROFIT

Question-1

From the following particulars, prepare a claim for loss of profits under the consequential loss policy:

Particulars	Amount (₹)
Date of fire – 30-06-2020	**-**
Period of indemnity – 6 months	**-**
Sum insured	**40,000**
Turnover for the year ended 30-06-2020	**2,00,000**
Net profit for the accounting year ending 31-03-2020	**12,500**
Standing charges for the accounting year ending 31-03-2020	**28,500**
Turnover for the year ending 31-03-2020	**1,98,000**
Turnover for the indemnity period from 01-07-2020 to 31-12-2020	**56,000**
Turnover for the period from 01-07-2019 to 31-12-2019	**1,10,000**

The turnover of the year 2020-21 had shown a tendency of increase of 10% over the turnover of the preceding year.

Solution

1.	Calculation of Short Sales	Amount (₹)
	Standard Turnover (01-07-2019 to 31-12-2019)	1,10,000
	Add: Upward Trend (1,10,000 x 10%)	11,000
		1,21,000
	Less: Actual Sales (01-07-2020 to 31-12-2020)	56,000
		65,000
2.	**Calculation of Gross Profit Ratio**	
	Net Profit for last year	12,500
	Add: Insured Standing Charges (ISC)	28,500
	Gross Profit	41,000
	Turnover for last financial year	1,98,000
	Gross Profit Ratio (41,000 /1,98,000) x 100	20.71%
3.	**Calculation of Loss of Profit**	
	Gross Profit on short sales (65,000 x 20.71%)	13,462

4.	**Amount of Claim**	
	(Amount of Policy/ G.P on Annual Adjusted Turnover) x Loss of Profit	
	(40,000 / 45,562) x 13,462	11,818

Working Notes

1.	**Annual Adjusted Turnover (AAT)**	**Amount (₹)**
	Turnover for the year ended 30-06-2020	2,00,000
	Add: Upward Trend	20,000
		2,20,000
2.	**Gross Profit on AAT** (2,20,000 x 20.71%)	45,562

Question-2

Due to flood, business of Mr. Singh was dislocated from 01.04.2013 to 31.08.2013 (5 months). From the following details, calculate the amount of claim to be lodged in respect of loss of profit policy.

Particulars	**Amount (₹)**
Policy amount	**1,25,000**
Turnover from 01.04.2013 to 31.08.2013	**2,40,000**
Standing charges from 01.04.2013 to 31.08.2013	**60,000**
Turnover during 01.04.2012 to 31.03.2013	**12,00,000**

Gross profit ratio 10% on sales. Standing charges for the year 2012-13, 84,000. The turnover for the year 2013-14 was anticipated to increase by 10% over the turnover of the preceding year.

(Dec-13, 6 marks)

Solution

1.	**Calculation of Short Sales**	**Amount (₹)**
	Standard Turnover (01-04-2012 to 31-08-2012) 12,00,000 x 5/12	5,00,000
	Add: Upward Trend (5,00,000 x 10%)	50,000
		5,50,000
	Less: Actual Sales (01-04-2013 to 31-08-2013)	2,40,000
		3,10,000
2.	**Calculation of Loss of Profit**	
	Gross Profit on short sales (3,10,000 x 10%)	31,000

	Add: Increase in standing charges 60,000 - (84,000 x 5/12)	25,000
		56,000
3.	**Amount of Claim**	
	(Amount of Policy/ G.P on Annual Adjusted Turnover) x Loss of Profit	
	(1,25,000 / 1,32,000) x 56,000	53,030

Working Notes

1.	**Annual Adjusted Turnover (AAT)**	**Amount (₹)**
	Annual Turnover	12,00,000
	Add: Upward Trend (12,00,000 x 10%)	1,20,000
		13,20,000
2.	**Gross Profit on AAT** (13,20,000 x 10%)	1,32,000

Note:

a. As standard turnover is not given in question, we assumed turnover during previous year occur evenly.

b. Annual turnover in this case will be same as last year's turnover as business got disturbed from 01-04-2013 and 12 month's turnovers ending the day before flood is 31-03-2013.

Question-3

A fire occurred in the premises of BRIGHT LTD. on 1st August 2015. The company had a loss of profit policy for ₹ 6.00 lakhs which was subject to average clause. Sale from 1st August 2014 to 31st July 2015 were ₹ 50 lakhs and from 1st August 2014 to 30th Nov. 2014 being ₹ 15 lakh. During the indemnity period which lasted four months sales amounted to only ₹ 2,00,000. The company made up its accounts on 31st March. The Profit and Loss Account for the year ended 31st March 2015 is given below:

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	**5,00,000**	**Sales**	**47,50,000**
Purchases	**30,00,000**	**Closing Stock**	**2,50,000**
Manufacturing Expenses	**3,35,000**		
Variable Selling Expenses	**4,52,500**		
Fixed Expenses	**3,62,500**		
Net Profit	**3,50,000**		
	50,00,000		**50,00,000**

Comparing the sales of first four months of year 2015-16 those of year 2014-15, it was found that sales were 20% higher in the year 2015-16.

You are required to compute the amount of claim to be lodged with the Insurance Company

under the Loss of Profit Policy.

(June-16, 4 + 2 + 2 = 8 marks)

Solution

1.	**Calculation of Short Sales**	**Amount (₹)**
	Standard Turnover (1st August 2014 to 30th Nov. 2014)	15,00,000
	Add: Upward Trend (15,00,000 x 20%)	3,00,000
		18,00,000
	Less: Actual Sales (1st August 2015 to 30th Nov. 2015)	2,00,000
	Short Sales	16,00,000
2.	**Calculation of Gross Profit Ratio**	
	Net Profit for last year	3,50,000
	Add: Insured Standing Charges (Assumed all fixed expenses is insured)	3,62,500
	Gross Profit	7,12,500
	Turnover for last financial year	47,50,000
	Gross Profit Ratio (7,12,500 /47,50,000) x 100	15%
3.	**Calculation of Loss of Profit**	
	Gross Profit on short sales (16,00,000 x 15%)	2,40,000
4.	**Amount of Claim**	
	(Amount of Policy/ G.P on Annual Adjusted Turnover) x Loss of Profit	
	(6,00,000 / 9,00,000) x 2,40,000	1,60,000

Working Notes

1.	**Annual Adjusted Turnover (AAT)**	**Amount (₹)**
	Annual Turnover	50,00,000
	Add: Upward Trend (50,00,000 x 20%)	10,00,000
		60,00,000
2.	**Gross Profit on AAT** (60,00,000 x 15%)	9,00,000

Question-4

A fire occurred on 1st February, 2021, in the premises of Pioneer Ltd., a retail store and business were partially disorganized upto 30th June, 2021. The company was insured under a loss of profits for ₹1,25,000 with a six months period indemnity. From the following information, compute the amount of claim under the loss of profit policy.

Particulars	Amount (₹)
Actual turnover from 1st February,2021 to 30th June, 2021	**80,000**
Turnover from 1st February, 2020 to 30th June, 2020	**2,00,000**
Turnover from 1st February, 2020 to 31st January, 2021	**4,50,000**
Net Profit for last financial year	**70,000**
Insured standing charges for last financial year	**56,000**
Total standing charges for last financial year	**64,000**
Turnover for the last financial year	**4,20,000**

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

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

Solution

1.	**Calculation of Short Sales**	**Amount (₹)**
	Standard Turnover	2,00,000
	Add: Upward Trend	30,000
		2,30,000
	Less: Actual Sales	80,000
		1,50,000
2.	**Calculation of Gross Profit Ratio**	
	Net Profit for last year	70,000
	Add: Insured Standing Charges (ISC)	56,000
	Gross Profit	1,26,000
	Turnover for last financial year	4,20,000
	Gross Profit Ratio (1,26,000 /4,20,000) x 100	30%

3.	**Calculation of Loss of Profit**		
	Gross Profit on short sales (1,50,000 x 30%)		45,000
	Add: Additional Expenses – Lower of following		
	a. Actual Expense	6,700	
	b. Actual expenses x (G.P. on AAT /G.P. AAT + UISC) [1,55,250 / (1,55,250 + 8,000)] x 6,700	6,372	
	c. Gross Profit on sales generated by additional expenses 80,000 x 30%	24,000	
			6,372
			51,372
	Less: Saving in Insured Standing Charges		(2,450)
			48,922
4.	**Amount of Claim**		
	(Amount of Policy/ G.P on AAT) x Loss of Profit		
	(1,25,000 / 1,55,250) x 48,922		39,390

1.	**Annual Adjusted Turnover (AAT)**	
	Annual Turnover	4,50,000
	Add: Upward Trend (4,50,000 x 15%)	67,500
		5,17,500
2.	**Gross Profit on AAT** (5,17,500 x 30%)	1,55,250
3.	**Uninsured standing charges (UISC)** (64,000 – 56,000)	8,000

Question-5

The premises of XY Limited were partially destroyed by fire on 1st March, 2021 and as a result, the business was practically disorganized upto 31st August, 2021. The company is insured under a loss of profits policy for ₹1,65,000 having an indemnity period of 6 months. From the following information, prepare a claim under the policy:

Particulars	Amount (₹)
Actual turnover during the period of dislocation (01-03-2021 to 31-8-2021)	**80,000**
Turnover for the corresponding period (dislocation) (01-03-2020 to 31-8-2020)	**2,40,000**
Turnover for the 12 months immediately preceding the fire (01-03-2020 to 28-02-2021)	**6,00,000**

Net profit for the last financial year	**90,000**
Insured standing charges for the last financial year	**60,000**
Uninsured standing charges	**5,000**
Turnover for the last financial year	**5,00,000**

Due to substantial increase in trade, before and up to the time of the fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to ₹9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only ₹55,000. There was also a saving during the indemnity period of ₹2,700 in insured standing charges as a result of the fire.

Solution

1.	**Calculation of Short Sales**		**Amount (₹)**
	Standard Turnover		2,40,000
	Add: Upward Trend		24,000
			2,64,000
	Less: Actual Sales		80,000
			1,84,000
2.	**Calculation of Gross Profit Ratio**		
	Net Profit for last year		90,000
	Add: Insured Standing Charges (ISC)		60,000
	Gross Profit		1,50,000
	Turnover for last financial year		5,00,000
	Gross Profit Ratio (1,50,000 /5,00,000) x 100		30%
3.	**Calculation of Loss of Profit**		
	Gross Profit on short sales (1,84,000 x 30%)		55,200
	Add: Additional Expenses – Lower of following		
	a. Actual Expense	9,300	
	b. Actual expenses x (G.P. on AAT /G.P. AAT + UISC) 9,300 x [1,98,000 / (1,98,000 + 5,000)]	9,071	
	c. Gross Profit on sales generated by additional expenses (80,000 – 55,000) x 30%	7,500	
			7,500

		62,700
	Less: Saving in Insured Standing Charges	(2,700)
		60,000
4.	**Amount of Claim**	
	(Amount of Policy/ G.P on AAT) x Loss of Profit	
	(1,65,000 / 1,98,000) x 60,000	50,000

1.	**Annual Adjusted Turnover (AAT)**	
	Annual Turnover	6,00,000
	Add: Upward Trend	60,000
		6,60,000
2.	**Gross Profit on AAT** (6,60,000 x 30%)	1,98,000

Question-6

On account of fire on June 15, 2021, in business house of a company, the working remained disturbed up to December 15, 2021 as a result of which it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for ₹ 1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increase of 25% was marked in the current year's sales as compared to last year. The company incurred an additional expenditure of ₹ 12,000 to make sales possible and made a saving of ₹ 2,000 in insured standing charges.

Ascertain the claim under the consequential loss policy keeping the following additional information in view:

Particulars	Amount (₹)	Particulars	Amount (₹)
Actual sales from 15.6.21 to 15.12.21	**70,000**	**Total standing charges for last financial year**	**1,20,000**
Sales from 15.6.20 to 15.12.20	**2,40,000**	**Turnover for last financial year**	**6,00,000**
Net profit for the financial year	**80,000**	**Turnover from 16.6.20 to 15.6.21**	**5,60,000**
Insured standing charges for last financial year	**70,000**		

Solution

1.	Calculation of Short Sales	Amount (₹)
	Standard Turnover	2,40,000

	Add: Upward Trend [2,40,000 x 25%]		60,000
			3,00,000
	Less: Actual Sales		70,000
			2,30,000
2.	**Calculation of Gross Profit Ratio**		
	Net Profit for last year		80,000
	Add: Insured Standing Charges (ISC)		70,000
	Gross Profit		1,50,000
	Turnover for last financial year		6,00,000
	Gross Profit Ratio (1,50,000 /6,00,000) x 100		25%
3.	**Calculation of Loss of Profit**		
	Gross Profit on short sales (2,30,000 x 25%)		57,500
	Add: Additional Expenses – Lower of following		
	a. Actual Expense	12,000	
	b. Actual expenses x [(Net Profit + ISC) /(Net Profit + All standing Charges)] [(80,000 + 70,000) / (80,000 + 1,20,000)] x 12,000	9,000	
	c. Gross Profit on sales generated by additional expenses 70,000 x 25%	17,500	
			9,000
			66,500
	Less: Saving in Insured Standing Charges		(2,000)
			64,500
4.	**Amount of Claim**		
	(Amount of Policy/ G.P on AAT) x Loss of Profit		
	(1,40,000 / 1,70,000) x 64,500		53,118

1.	**Annual Adjusted Turnover (AAT)**	
	Annual Turnover	5,60,000
	Add: Upward Trend (5,60,000 x 25%)	1,40,000
		7,00,000

2.	**Gross Profit on AAT** (7,00,000 x 25%)	1,75,000
3.	**Uninsured standing charges (UISC) [1,20,000 – 70,000]**	50,000

Question-7

From following information ascertain consequential loss claim:

1. **Financial year ends on 31st March, with Sales of ₹ 25,00,000**
2. **Date of fire: 1st September.**
3. **Period of interruption - 1st September to 1st February, next year.**
4. **Indemnity period: 6 months.**
5. **Net Profit ₹ 2,75,000 plus insured standing charges ₹ 3,00,000.**
6. **Uninsured standing Charges is ₹ 50,000.**
7. **Sum insured ₹ 6,16,000.**
8. **Standard turnover for corresponding months (1st September to 1st February) in the year preceding the fire ₹ 7,50,000.**
9. **Turnover in period of interruption ₹ 2,25,000.**
10. **Annual turnover (i.e. 12 months preceding the fire) ₹ 28,00,000.**
11. **Incurred additional expenses amounting to ₹ 50,000 with a saving of insured standing charges ₹ 14,000.**
12. **Reduced turnover avoided through additional expenses ₹ 1,50,000.**
13. **Special Circumstances clause stipulated:**
    - **Increase in turnover (standard and annual) 10%**
    - **Increase in rate of Gross Profit by 2%**

(June-24, 7 Marks)

Solution

	Particulars	Amount (₹)
1.	**Calculation of Short Sales**	
	Standard Turnover	7,50,000
	Add: Upward Trend [7,50,000 x 10%]	75,000
		8,25,000
	Less: Actual Sales	2,25,000
		6,00,000
2.	**Calculation of Gross Profit Ratio**	
	Net Profit for last year	2,75,000
	Add: Insured Standing Charges (ISC)	3,00,000
	Gross Profit	5,75,000

	Turnover for last financial year		25,00,000
	Gross Profit Ratio (5,75,000 /25,00,000) x 100		23%
	Add: Upward Trend		2%
			25%
3.	**Calculation of Loss of Profit**		
	Gross Profit on short sales (6,00,000 x 25%)		1,50,000
	Add: Additional Expenses – Lower of following		
	a. Actual Expense	50,000	
	b. Actual expenses x (Net Profit + ISC /Net Profit + All standing Charges) [(2,75,000 + 3,00,000) / (2,75,000 + 3,50,000)] x 50,000	46,000	
	c. Gross Profit on sales generated by additional expenses 1,50,000 x 25%	37,500	
			37,500
			1,87,500
	Less: Saving in Insured Standing Charges		(14,000)
			1,73,500
4.	**Amount of Claim**		
	(Amount of Policy/ G.P on AAT) x Loss of Profit		
	(6,16,000 / 7,70,000) x 1,73,500		1,38,800

Note:

1.	**Annual Adjusted Turnover (AAT)**	
	Annual Turnover	28,00,000
	Add: Upward Trend (28,00,000 x 10%)	2,80,000
		30,80,000
2.	**Gross Profit on AAT** (30,80,000 x 25%)	7,70,000

Question-8

From the following information, calculate a consequential loss claim:

i. **Financial year ends on 31st March.**
ii. **Fire occurs on December 1.**
iii. **Period of disruption: December 1 to March 31.**
iv. **Period of indemnity: 6 months.**

v. **Net profit for previous financial year ₹ 15,00,000**

vi. **Insured standing charges ₹ 25,00,000**

vii. **Uninsured standing charges ₹ 4,00,000**

viii. **Increase in the cost of working ₹ 3,20,000**

ix. **Saving in insured standing charges ₹ 1,00,000**

x. **Reduced turnover avoided through increased cost of workings: ₹8,00,000**

xi. **'Special circumstances clause' stipulated:**

Increase in turnover (standard and annual) :20%

Increase in rate of gross profit :5%

Turnover for the four months ending	31st July	30th Nov	31st March
Year (I)	40,00,000	90,00,000	70,00,000
Year (II)	60,00,000	1,10,00,000	20,00,000

xii. **Sum insured: ₹50,00,000.**

(June-14, 8 Marks)

Solution

1.	Calculation of Short Sales	Amount (₹)
	Standard Turnover	70,00,000
	Add: Upward Trend [70,00,000 x 20%]	14,00,000
		84,00,000
	Less: Actual Sales	20,00,000
		64,00,000
2.	**Calculation of Gross Profit Ratio**	
	Net Profit for last year	15,00,000
	Add: Insured Standing Charges (ISC)	25,00,000
	Gross Profit	40,00,000
	Turnover for last financial year (40,00,000 + 90,00,000 + 70,00,000)	2,00,00,000
	Gross Profit Ratio (40,00,000 /2,00,00,000) x 100	20%
	Add: Upward Trend	5%
		25%
3.	**Calculation of Loss of Profit**	
	Gross Profit on short sales (64,00,000 x 25%)	16,00,000
	Add: Additional Expenses – Lower of following	

	a. Actual Expense	3,20,000	
	b. Actual expenses x (Net Profit + ISC /Net Profit + All standing Charges) [(15,00,000 + 25,00,000) / (15,00,000 + 29,00,000)] x 3,20,000	2,90,909	
	c. Gross Profit on sales generated by additional expenses 8,00,000 x 25%	2,00,000	
			2,00,000
			18,00,000
	Less: Saving in Insured Standing Charges		(1,00,000)
			17,00,000
4.	**Amount of Claim**		
	(Amount of Policy/ G.P on AAT) x Loss of Profit		
	(50,00,000 / 72,00,000) x 17,00,000		11,80,556

1.	**Annual Adjusted Turnover (AAT)**	
	Annual Turnover (70,00,000 + 60,00,000 + 1,10,00,000)	2,40,00,000
	Add: Upward Trend (2,40,00,000 x 20%)	48,00,000
		2,88,00,000
2.	**Gross Profit on AAT** (2,88,00,000 x 25%)	72,00,000
3.	**Uninsured standing charges (UISC)**	4,00,000

Question-9

A trader intends to take a loss of profit policy with indemnity period of 6 months; however, he could not decide the policy amount. From the following details, you are required to suggest the policy amount to him.

a. Turnover in last financial year was ₹ 36,00,000

b. Standing Charges in last financial year were ₹ 7,20,000

c. Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year;

d. Increase in turnover expected 25%;

e. To achieve additional sales, trader has to incur additional expenditure of ₹ 50,000

Solution

Calculation of Gross Profit

= [(Net Profit + Standing Charges)/Turnover] x 100

= (3,60,000 + 7,20,000) / 36,00,000

= 30%

Calculation of policy amount to cover loss of profit

Particulars	Amount (₹)
Turnover in the last financial year	36,00,000
Add: 25% increase in turnover	9,00,000
	45,00,000
Gross profit on increased turnover	13,50,000
Add: Additional standing charges	50,000
Policy Amount	14,00,000

Therefore, the trader should go in for a loss of profit policy of ₹ 14,00,000.

Question-10

CCL wants to take up a loss of profit policy. Turnover during the current year is expected to increase by 20%. The company will avail overdraft facilities from its bank @ 15% interest to boost up the sales. The average daily overdraft balance will be around ₹3 Lakh. All other fixed expenses will remain same. The following further details are also available from the previous year's account:

Particulars	Amount (₹)
Total variable expenses	**24,00,000**
Fixed expenses:	
Salaries	**3,30,000**
Rent, Rates and Taxes	**30,000**
Travelling expenses	**50,000**
Postage, Telegram, Telephone	**60,000**
Director's fees	**10,000**
Audit fees	**20,000**
Miscellaneous income	**70,000**
Net Profit	**4,20,000**

Determine the amount of policy to be taken for the current year.

(Dec-18, 7 Marks)

Solution

Particulars	Amount (₹)
Gross profit on the basis of last year's sales	8,50,000

Add: 20% for increase of turnover	1,70,000
	10,20,000
Add: Increased standing charges (interest on overdraft)	45,000
Policy to be taken for current year	10,65,000

Working notes

Profit and Loss Account for the previous year

Particulars	Amount (₹)	Particulars	Amount (₹)
To variable expenses	24,00,000	By Sales	32,50,000
To Fixed expenses	5,00,000	By Misc. income	70,000
To Net profit	4,20,000		
	33,20,000		33,20,000

Gross profit of the previous year

Particulars	Amount (₹)
Sales	32,50,000
Less: Variable	24,00,000
	8,50,000

Question-11

Surya Limited, which operates a wholesale warehouse, had a fire in the premises on 31st January 2022 which destroyed most of the building, although stock of the value of ₹ 3.96 lakhs was salvaged.

The company has an insurance policy covering the stock for ₹ 600 Lakhs, and loss of profits including standing charges for ₹ 250 Lakhs with a six-month period of indemnity.

The company's last annual accounts for the year ended December 31st, 2021 showed the following position:

Particulars	(₹ in Lakhs)	Particulars	(₹ in Lakhs)
To Opening Stock	**412.50**	**By Sales**	**2000.00**
To Purchases	**1812.50**	**By Closing Stock**	**525.00**
To Gross Profit c/d	**300.00**		
	2525.00		**2525.00**
To Variable Expenses	**80.00**	**By Gross Profit b/d**	**300.00**
To Standing Charges	**167.50**		
To Net Profit	**52.50**		

	300.00		**300.00**

The company's record show that the turnover for January 2022 of ₹ 100 Lakhs had been the same as for the corresponding month in the previous year, payments made in January 2022 to trade creditors were ₹ 106.68 Lakhs and at the end of that month the balance owing to trade creditors had increased by ₹ 3.32 Lakhs.

The company's business was disrupted until the end of April 2022, during which period the turnover fell by ₹ 180.00 Lakhs compared with the same period in the previous year.

You are required to compute the claim to be lodged with the Insurance Company for Loss of Stock and Loss of Profit.

Solution

Computation of claim for Loss of Stock

Calculation of the value of stock destroyed by fire:	(₹ in lakhs)
Value of stock as per Memorandum Trading A/c (W.N. 1)	550.00
Less: Salvaged value of stock	3.96
Value of claim to be lodged for loss of stock	546.04

As Policy amount is ₹ 600 lakhs and the insurable amount is 550 lakhs so average clause will not be applicable. The value of claim is equal to value of loss i.e., ₹ 546.04 lakhs.

Computation of claim for loss of profit

Particulars	₹ (in lakhs)	₹ (in lakhs)
Short sales (given in the question)		180
Gross Profit:		
Net Profit for the last financial year	52.5	
Add: Insured Standing Charges	167.50	
	220.00	
Turnover for the last financial year	2,000	
Rate of Gross Profit = 220/2,000 X 100 = 11%		
Sales for 12 months up to date of loss is ₹ 2,000 lakhs		
Claim: Loss of profit for short sales (11% of ₹180 lakhs)		19.80
G.P. on sales up to the date of loss of fire is ₹ 220 lakhs		
Insurable amount = ₹ 220 lakhs		
Loss of profit policy taken = ₹ 250 lakhs		
As policy amount is more than insurable amount average clause will not be applicable.		

Value of claim to be lodged for loss of profit = ₹ 19.80 lakhs		

Working Notes:

Memorandum Trading Account

Particulars	₹ (in lakhs)	Particulars	₹ (in lakhs)
To Opening Stock	525	By Sales	100
To Purchases	110	By closing stock (bal. fig.)	550
To Gross profit* (15% of 100 Lakhs)	15		
	650		650

* Gross profit ratio = 300/2000 = 15%

Trade Creditors A/c

Particulars	₹ (in lakhs)	Particulars	₹ (in lakhs)
To Bank A/c	106.68	By Balance b/d	106.68
To Balance c/d (106.68 + 3.32)	110.00	By Purchases	110.00
	216.68		216.68

Note: It is assumed that all standing charges are insured for the purpose of computation of gross profit.

Multiple Choice Questions [MCQs]

1. A business takes a……………insurance policy to cover the claims for loss of stocks and loss of profit.

a. Life insurance
b. Car insurance
c. Fire
d. health insurance

2. _______ clause is applicable in case of under insurance

a. Normal
b. Average
c. Actual
d. Standard

3. The stock which is rescued from fire is-

a. Scrap
b. Salvage
c. Defective
d. Short goods

4. The main objective of average clause contained in a fire insurance policy is to

a. Encourage full Insurance
b. Discourage full Insurance
c. Encourage under Insurance
d. Encourage full Insurance and Discourage under Insurance

5. Gross profit can be calculated as

a. Net profit + Insured standing charges.
b. Net profit - Insured standing charges.
c. Net profit + standing charges.
d. Net Profit - Standing Charges

6. The value of stock on the date of fire can be ascertained by preparation of a…………… Account

a. Trading
b. Profit and Loss
c. Memorandum Trading
d. Memorandum Profit and Loss

7. The Memorandum trading account is prepared for the period from-

a. 1st January to 31st December
b. 1st April to 31st March
c. Opening date of accounting year to the date of fire
d. Opening date of accounting year to closing date of accounting year

8. The difference between standard turnover and actual turnover during indemnity period is called-

a. Actual sales
b. Short Sales
c. Total Sales
d. None of the above

9. Stock of goods destroyed by fire is ₹ 4,00,000 and stock salvaged ₹ 30,000, value of policy is ₹ 3,00,000. The amount of claim if there is an average clause will be-

a. ₹ 3,00,000
b. ₹ 3,70,000
c. ₹ 2,77,500
d. ₹ 4,00,000

10. Prakash sells goods at 25% on sales. His sales were ₹10,20,000 during the year. However, he sold damaged goods for ₹20,000 costing ₹30,000. This sale is included in ₹10,20,000. The amount of gross profit is-

a. ₹ 1,90,000
b. ₹ 2,50,000
c. ₹ 2,40,000
d. ₹ 2,00,000

11. State which of the following statement is false:

a. Salvage of stock means stock saved during accident
b. Unusual items and defective items are separate underinsurance claim.
c. Defective items means goods which cannot fetch the usual rate of gross profit.
d. Average clause is applicable in case of under insurance.

12. In a loss of profit, net Profit, Insured Standing Charges, Uninsured Standing Charges and Rate of Gross Profit for the last financial year are ₹ 6,20,000 ; ₹ 2,60,000; ₹ 80,000; and 25% respectively. If the firm incurred additional expenses amounted to ₹ 85,000 which reduced the loss in turnover of ₹ 3,50,000, then admissible amount for claim of additional expenses will be

a. ₹ 85,000
b. ₹ 77,917
c. ₹ 21,250
d. ₹ 87,500

Answers

1.	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**	**8.**	**9.**	**10.**
c	b	b	d	a	c	c	b	c	c
11.	**12.**								
b	b								