P H MITKARY EDUCATION

MITKARY SIR'S CAPS
LEARN • EVOLVE • LEAD

ACCOUNTING

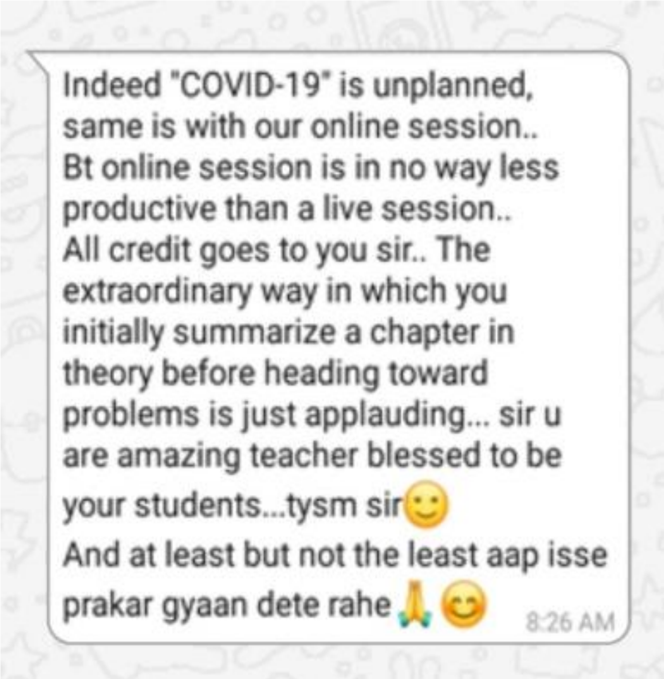
(Including Accounting Standards)

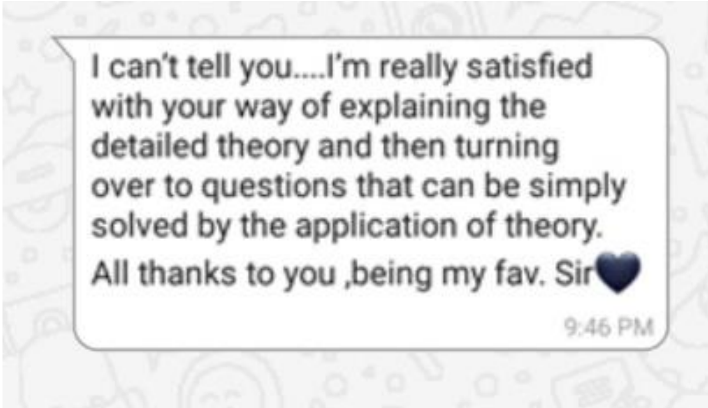
CA INTERMEDIATE

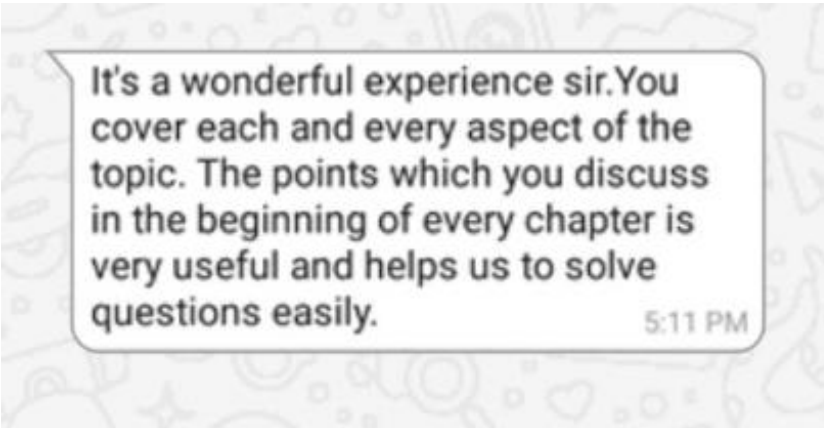
CA Zubair Khan

FCA, B.Com, Dip.in IFRS (UK)

FEEDBACK OF PREVIOUS BATCH STUDENTS FOR ZUBAIR SIR







Previously i was not good in accounts nd my basics were not clear...
But when i joined your classes that changes my way of thinking regarding accounts ...When u teaches us i get the topic very clearly...nd each nd everyday when u motivate us.. That motivation builds up a new spirit of becoming a CA...Now as per current situation.. U r providing video lectures nd seriously that are similar to live classes...each chapter is understandable...Thankyou sir for such a wonderful teaching nd guidance... 🥰🥰

1:02 PM

Hello sir,
I want to know you that My all basics concept was cleared,specially from company account
I' m enjoying the subject very much espically the theory part (theroy attend karke asa lag raha hai law bhi aapse he padh lu😜)
Video lectures bhi bhaut sahi hai jyada maja aa raha hai 😂
Thank you so much to make accounts so easy for me
Your teaching style are amazing and I love that .
Thank you sir 🙂

1:44 PM

Sir i think i should not say this .
But u r far far better than the other accounts faculties there.. I am not comparing but we all talk about the way u teach n we all loved it. U r one of the best account's faculty.. And mitkary sir can never go wrong with his students ☺️

12:00 PM

Dear sir ,
Video lecture of Accounts are really very great . It just feels like I am studying live with you . With maximum level of conceptual clarity.
Thanks a lot sir For such a amazing support 😇

12:30 PM

PREFACE

I am delighted to present this book on Accounting for CA-Intermediate. I have strategically designed this book as a complete solution for CA intermediate examination. This book covers the entire syllabus and is divided into three parts:

1. Accounting for special transactions
2. Company Accounts
3. Accounting Standards.

After thorough study of the subject and examination pattern, this book is carefully designed to include detailed theory as per the latest amended notes of ICAI. Along with that ample of examples are provided for every topic that will be solved in the class. It also includes chapter wise drill that will help students practise the topic thoroughly. The highlight of this book are creative infographics that will help students revise the topics easily.

I fervently hope this book will cater my reader's expectations.

I would highly appreciate any suggestions, recommendations and feedback that will help in adding value to my initiative.

CA Zubair Khan

(FCA, B.Com, Dip. IFRS London (UK))
Email: ca.zubairkhan@gmail.com

PART I – ACCOUNTING FOR SPECIAL TRANSACTIONS

Chapter No.	Chapter Name
1	Insurance Claim
2	Accounting from Incomplete Records
3	Hire Purchase & Instalment Sales Transaction
4	Department Accounts
5	Branch Accounts
6	Investment Accounts

PART II – COMPANY ACCOUNTS

Chapter No.	Chapter Name
7	Bonus & Right Issue
8	Redemption of Preference Shares
9	Redemption of Debenture
10	Profit Prior to Incorporation
11	Company Financial Statement (Including Schedule III)
12	Cash Flow Statement

PART III – ACCOUNTING STANDARDS

Chapter No.	Chapter Name
13	Introduction to Accounting Standards
14	Framework for Preparation and Presentation of Financial Statements
15	AS-1 Disclosure of Accounting Policies
16	AS-2 Valuation of Inventories
17	AS-3 Cash Flow Statement
18	AS-10 Property, Plant & Equipment
19	AS-11 The effects of changes in foreign exchange rates
20	AS-12 Accounting for Government Grants
21	AS-13 Accounting for Investments
22	AS-16 Borrowing Costs

* AS-3 “Cash Flow Statement” has already been covered in Cash Flow Statement chapter

1

Insurance Claim

Introduction:

Business enterprises get insured against the loss of stock on the happening of certain events such as fire, flood, theft, earthquake etc. the policy is known as loss of stock policy. Sometimes an enterprise also gets itself insured against consequential loss of profit due to decreased turnover, increased expenses etc. the policy is known as loss of profit or consequential loss policy. Insurance being a contract of indemnity, the claim for loss is restricted to the actual loss of assets.

Insurance claim can be studied under two parts as under:-

1. Loss of Stock Policy
2. Loss of Profit or Consequential Loss Policy

LOSS OF STOCK

The procedure of determining the value of the goods in stock at the time of fire, in absence of the stock records which also must have been destroyed. This will be required for working out the amount of loss to lodge the claim with insurance company.

Calculate claim for loss of stock

Stock policy will cover the loss of stock due to fire, accident etc. The claim will be calculated as follows. Calculation of claim for loss of stock as follows:

Particulars	₹
Stock on the date of fire	xxx
Less: Salvage Value	xxx
Loss by fire	xxx

Example

A fire occurred in the premises of Gupta Traders on 20th September, 2019 when a large part of stock valued at ₹ 10,00,000 was destroyed. Salvage was ₹ 75,000. Calculate loss of stock.

Solution:

Calculation of Loss of Stock

Stock on the date of fire	10,00,000
(-) Salvage value	75,000
Loss of stock by fire	9,25,000

Average clause

If cost of stock on the date of fire (known as insurable sum) was more than the Insured value (policy value) that means it is case of under insurance and Average clause will be applied and claim amount will be reduced as follows.

Claim = [Policy Amount / Total Stock on the date of fire] x Loss by Fire

This means average clause implies that insurance company will reimburse the loss proportionate to part insured by them and the balance loss will have to be borne by the insured.

Example

A fire occurred in the premises of Manish Traders on 31th October, 2019 when a large part of stock valued at ₹ 21,00,000 was destroyed. Salvage was ₹ 1,75,000. The Insurance Policy was for ₹ 15,00,000. It includes an average clause. Calculate the amount of claim.

Solution:

Calculation of Loss of Stock

Stock on the date of fire	21,00,000
(-) Salvage value	1,75,000
Loss of stock by fire	19,25,000

Average clause: Policy amount is of ₹ 15,00,000 whereas insurable sum that is stock on the date of fire is ₹ 19,25,000 that means it is a case of under insurance hence average clause will apply.

Claim = [Policy Amount / Total Stock on the date of fire] x Loss by Fire

= [₹ 15,00,000 / ₹ 21,00,000] x ₹ 19,25,000 = ₹ 13,75,000

If records are also destroyed

Where stock records are maintained and such records are not destroyed by fire, the value of the stock as at the date of the fire can be easily arrived at. Where they are destroyed by the fire the usual method of arriving at this value is by preparing Trading Account as from the date of last accounting year to the date of fire.

In that case information is obtained from the customers and suppliers have to be circularised to ascertain the amount of sales and purchases. All the figures like Opening Stock, Purchases, sales etc. as given are entered in the Trading A/c. & Gross Profit is calculated on a % as was the last year (or at Adjusted Rate) and the Balancing figure then in Trading A/c. is taken as the cost of stock on that date of fire. When percentage (%) gross profit of is not given then it is ascertained by preparing trading account of earlier year.

Abnormal loss

While calculating the Gross Profit ratio of earlier year, or the cost of stock of this year etc., the Cost or Sale value of Abnormal item (i.e. items which are NOT valued, purchased, sold at normal prices) should be EXCLUDED while preparing Trading A/c. After calculating Stock as per above, such abnormal item if was lying in stock should be added to get total stock on the date of fire.

Particulars		₹
Stock on the date of fire		
▪ Normal Item	xxx	
▪ Abnormal Item	xxx	xxx
Less: Salvage Value		xxx
Loss by fire		xxx

What is salvage value?

The destroyed goods also may fetch some scrap value, which is known as salvage value. Salvage value reduces the loss for insured because he has realized that much amount and hence is deducted from cost of stock lost. Sometimes the insurance company may take over such salvaged goods. In such cases also 1st Calculate the claim as seen earlier after applying average clause if applicable and then to that amount add the salvage value because it is taken over by insurance company.

Particulars	₹
Claim (calculated as usual)	xxx
Add: Salvage value (if taken over by insurance co.)	xxx
Total recoverable from insurance company	xxx

LOSS OF STOCK

Information of Purchase, Sales, Direct expenses & Gross Profit help us to find out Closing stock i.e. Stock on the date of fire

Year End on 31st March 19

Date of Fire 31st July 19

From Last Year Financial Statement we can take Closing Stock figure mans opening stock of current year

Intention to Find Out Stock on the Date of Fire

Gross Profit Ratio

Not Given

1. Last Year Trading A/c
2. Memorandum Trading A/c

Given

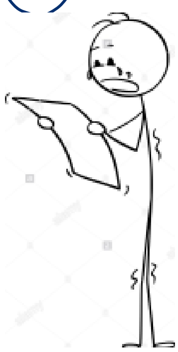
1. Memorandum Trading A/c

Memorandum Trading A/c help us to find out stock on the date of fire & Abnormal Item Should be shown separately

Calculation of Claim

Stock on the Date of Fire	
• Normal Stock	xxx
• Abnormal Stock	xxx
Less: Salvage Value	(xxx)
Loss of Stock (Claim)	xxx

Amount of claim subject to Average clause



Average Clause will apply If Stock on the Date of Fire > Policy Amount then claim will be

$$\text{Claim} = \frac{\text{Policy Amount}}{\text{Stock on the date of fire}} \times \text{Loss of Stock}$$

Adjustment of Loss of Stock

LOSS OF PROFIT OR CONSEQUENTIAL LOSS POLICY

When an accident like fire, earthquake etc., occurs, apart from the direct loss on account of stock or other assets destroyed, there is also a consequential loss because, for some time, the business is disorganized or has to be discontinued. During this period either will be no sales or sales will be significantly less as a result organization loss the profit which it could have earned on such sale. Moreover, there is loss of profits which the business would have earned during the period. This loss can be insured against by a "Loss of Profit" or "Consequential Loss" policy; there must be a separate policy in respect of the consequential loss.

The Loss of Profit Policy normally covers the following items:

1. Loss of net profit
2. Any increased cost of working, e.g., renting of temporary premises

Calculation of claim under profit policy

Claim Calculated as follows:

	Particulars	₹
(1)	In respect of Reduction in Turnover	
	Reduction in turnover x Adjusted G.P. Rate	xxx
(2)	In respect of increase in cost of working	xxx
	Total	xxx
Less:	Saving in Insured standing charges during the indemnity period	xxx
	Loss amount (Profit lost)	xxx

Claim amount will be calculated after applying average clause to this loss amount.

Average Clause

If an amount calculated as (Annual Turnover duly adjusted x G.P. Rate) (known as insurable sum) is higher than the policy amount (sum insured) then it is a case of under insurance and hence, average clause is applicable and the loss amount will be reduced as follows.

$$\text{Claim Amount} = \text{Loss Amount} \times \frac{\text{Sum Insured (Policy Amount)}}{\text{(Annual Turnover duly adjusted x G.P.Rate)}}$$

Reduction in turnover

Standard turnover (-) Actual Turnover during claim period is known as reduction in Turnover. Claim is available on this amount of Reduction in turnover. Standard turnover is the turnover which could have been achieved, had the accident not taken place. Hence when it is compared with the actual turnover we get reduction in turnover due to disturbance of business.

Particulars	₹
Standard Turnover	xxx
+/- Trend	xxx
Adjusted Standard Turnover	xxx
Less: Actual Turnover	xxx
Reduction in Turnover	xxx

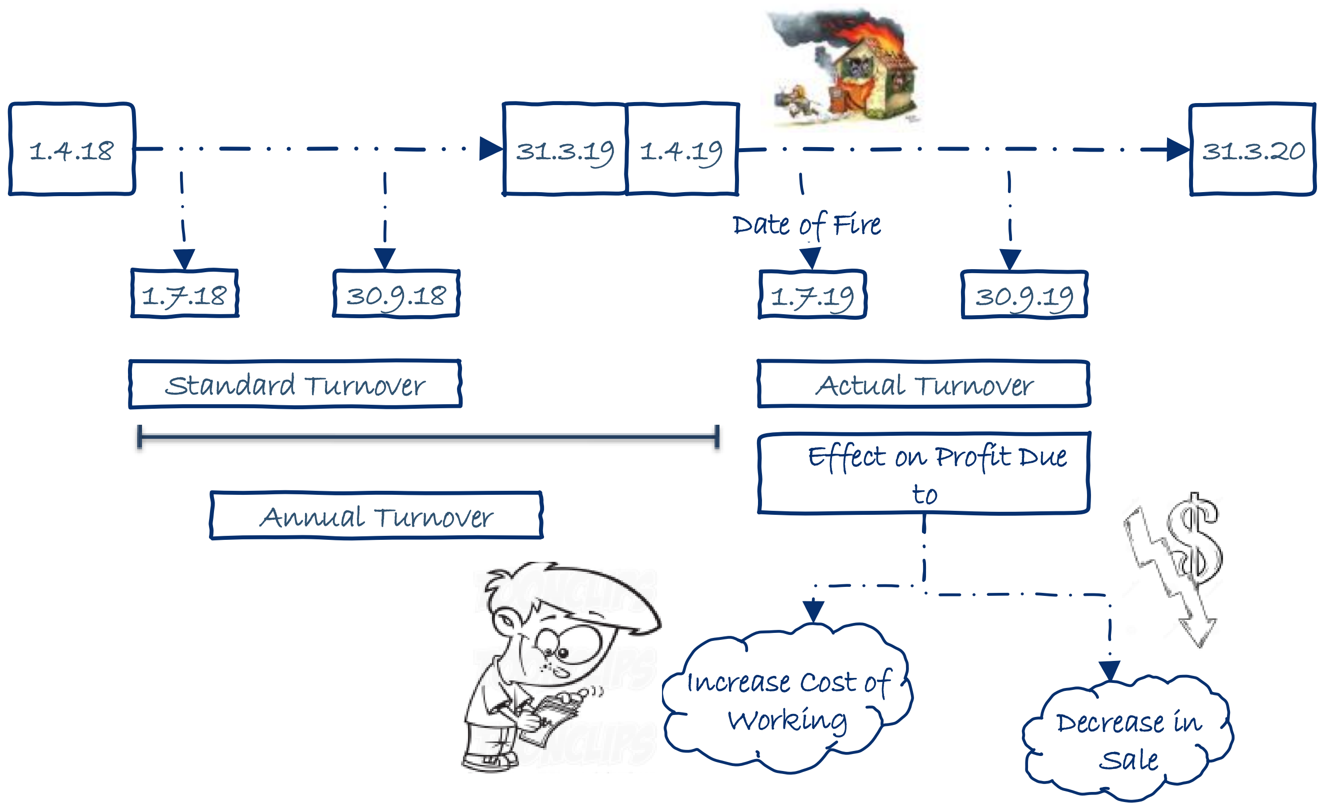
Standard Turnover

It is turnover of that product in the last 12 months which corresponds to claim period. It should be adjusted for the new trend. It means the turnover which should have been achieved in this period (disruption period), had the accident/ disruption not taken place. **Example** – Accident took place on 1.7.2019 and business is disturbed for 3 months. Then standard turnover will be the turnover of 1.7.2018 to 30.9.2018.

Annual Turnover

Turnover during 12 months immediately before accident (Not of previous financial year). Annual turnover duly adjusted for trend, is used to calculate insurable sum for applying average clause.

Example – Accident took place on 1.7.2019, annual turnover is the turnover for 12 months period of 1.7.18 to 31.6.19



Gross Profit Ratio means

$$= \frac{\text{Net Profit + Insured standing charges}}{\text{Sales}} \times 100$$ *[of previous financial year duly adjusted for new trend]*

It must have noted gross profit (GP) under the two policies is quite distinct. Trend in gross profit rate may also be given sometimes i.e. whether current period gross profit rate will be more or less than past period rate.

Increase in cost (additional cost of working)

If some additional expenses are incurred to reduce or avoid the reduction in turnover due to damage then such amount can be claimed from Insurance Co. but it will be limited to the lower of the following:

a) Actual Additional Expenses
b) Sales generated by increased cost of workings X G.P. ratio
c) Additional Expenses x $\dfrac{\text{G.P on Annual Turnover}}{\text{G.P on Annual Turnover + Uninsured Standing Charges}}$

Note: While calculating claim for increased cost of working. We have to calculate G.P. on the Sales generated by increased cost of workings. The Sales generated by increased cost of workings will be given in the question otherwise the actual sales of interrupted period should be taken as Sales generated by increased cost of workings. That means we are assuming that without this expense the actual turnover would have been zero.

Standing charges

Standing charges mean's the expenses of fixed nature, which does not change even when production or sale changes. Interest, Rent, Rates, Taxes, Salaries and wages of skilled employees, lodging & boarding of resident directors, manager, Directors fees etc. and unspecified standing charges (not exceeding 5% of specified standing charges) are generally insured standing charges (i.e. charges which are covered under terms of policy).

Total standing charges = Insured standing charges + Un-Insured standing charges.

Indemnity period

Indemnity period is the period specified in the policy as the maximum period of interruption for which claim can be made. It is counted from the date of fire.

Claim period

Claim is available for the Indemnity period or actual period of interruption whichever is lower.

Trend in turnover

The annual turnover and standard turnover should be adjusted for any upward or downward trend in turnover. If agreed % of increase/ decrease is given then that is to be applied for calculating adjusted turnover .Otherwise the trend (% of Increase/ decrease) can be calculated when more than one financial years sales are given.

$$\frac{\text{Annual turnover } (-) \text{ turnover of last financial year}}{\text{Turnover of last financial year}} \times 100$$

Trend indicates whether future turnover is expected to be more or less than past period turnover.

LOSS OF PROFIT OR CONSEQUENTIAL LOSS POLICY

Calculation of Claim of Loss of Profit

1. In respect of Reduction in Turnover [Reduction in Turnover x G.P Ratio]	Xxx
2. Increase Cost of Working	Xxx
Less: Saving in Insured Standing Charges during Indemnity Period	(xxx)
Loss of Profit	xxx

G.P Ratio → [N.P + ISC]/Sales x 100

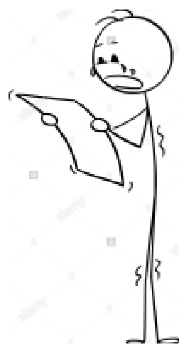
Red. T.O → Adj. Standard T.O – Actual T.O

Increase Cost → Least of the 3

- Adn Expenses x $\frac{\text{G.P on Annual Turnover}}{\text{G.P on Annual Turnover + UISC}}$
- Sales Generated through New Premises x G.P.R
- Actual Additional Expenses

Average Clause will apply If Insurable Sum i.e. Adj Annual T.O x G.P. R > Policy Amount

$$\text{Claim} = \frac{\text{Loss of Profit}}{\text{Insurable Sum}} \times \text{Policy Amount}$$



PRACTICAL PROBLEMS

LOSS OF STOCK BY FIRE

1. **[Nov. 2017]** A fire occurred in the premises of Agni on 25th August, 2017 when a large part of stock was destroyed. Salvage was ₹ 15,000 . Agni gives you the following information for the period of January 1st, 2017 to August 25th, 2017:
   (a) Purchases ₹ 85,000.
   (b) Sales ₹ 90,000
   (c) Goods costing ₹ 5,000 were taken by Agni for personal use.
   (d) Cost price of stock on January 1st, 2017 was ₹ 40,000.
   Over the past few years, Agni has been selling goods at a consistent gross profit margin of 33 1/3%. The Insurance Policy was ₹ 50,000. It includes an average clause. Agni asks you to prepare a statement of claim to be made on the insurance company.

2. On 1st April, 2015, a trader took out a fire policy containing an average clause covering his stock for ₹ 15,00,000. His practice was to place his selling price at cost plus 33 1/3%. He closes his book on 31st March, every year.
   On 31st December, 2015, a fire broke out at the premises and destroyed his stock. The value of salvaged stock was ₹ 6,00,000. During the period of 9 months preceding the fire, his purchases amounted to ₹ 61,00,000 and sales to ₹ 84,00,000. His stock on 1st April, 2015 was valued at ₹ 20,00,000.
   Prepare a statement showing the amount of claim.

3. **[May 2013]** On 15th December, 2012, a fire occurred in the premises of M/s OM Exports. Most of the stock 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, 2012 was valued at ₹ 9,40,000.
   ii. Purchases from 01-04-2012 to 15-12-2012 amounted to ₹ 13,20,000 and the sales during that period amounted to ₹ 20,25,000.
   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.

4. **[Nov. 2012]** On 29th August, 2012 the godown of a trader caught fire and a large part of the stock of goods was destroyed. However, goods costing ₹ 1,08,000 could be salvaged incurring fire fighting expenses amounting to ₹ 4,700.
   The trader provides you the following additional information:

Particulars	₹
Cost of stock on 1st April, 2011	7,10,500
Cost of stock on 31st March, 2012	7,90,100

Purchases during the year ended 31st March, 2012	56,79,600
Purchases from 1st April, 2012 to the date of fire	33,10,700
Cost of goods distributed as samples for advertising from 1st April, 2012 to the date of fire	41,000
Cost of goods withdrawn by trader for personal use from 1st April, 2012 to the date of fire.	2,000
Sales for the year ended 31st March, 2012	80,00,000
Sales from 1st April, 2012 to the date of fire	45,36,000

The insurance company also admitted fire fighting expenses. The trader had taken the fire insurance policy for ₹ 9,00,000 with an average clause.
Calculate the amount of the claim that will be admitted by the insurance company.

5. **[Nov. 2010]** On 20th October, 2009, the godown and business premises of Aman Ltd. were affected by fire. From the salvaged accounting records, the following information is available.

Particulars	₹
Stock of goods @10% lower than cost as on 31st March, 09	2,16,000
Purchases less returns (1.4.09 to 20.10.09)	2,80,000
Sales less return (1.4.09 to 20.10.09)	6,20,000

Additional Information:
a. Sales up to 20th October, 09 includes ₹ 80,000 for which goods had not been dispatched.
b. Purchases up to 20th October, 09 did not include ₹ 40,000 for which purchases invoices had not been received from suppliers, though goods have been received in Godown.
c. Past records show the GP rate 25%.
d. The value of goods salvaged from fire ₹ 31,000.
e. Aman Ltd. has insured their stock for ₹ 1,00,000.

Compute the amount of claim to be lodged to the insurance company.

6. **[Nov. 2016]** On 1st April, 2016 the stock of Mr. Hariprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Particulars	₹
Stock at cost 1 Jan. 2015	1,47,000
Stock at cost 31st Dec. 2015	1,59,200
Purchases year ended 31 Dec. 2015	7,96,000
Sales year ended 31st Dec. 2015	9,74,000
Purchases 1.1.2016 to 31.3.2016	3,24,000
Sales 1.1.2016 to 31.3.2016	4,62,400

In valuing the stock for the Balance Sheet at 31st Dec. 2015 ₹ 4,600 had been written off on certain stock which was a poor selling line having the cost ₹ 13,800. A portion of these goods were sold in March, 2016 at a loss of ₹ 500 on original cost of ₹ 6,900. The remainder of this stock was now estimated to be worth its original cost. Subject to the above exception gross profit had reminded 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 the claim of loss by fire.

7. **[May 2011]** On 30th March, 2011 fire occurred in the premises of M/s Suraj Brothers. The concern had taken an insurance policy of ₹ 60,000 which was subject to the average clause. From the books of account, the following particulars are available relating to the period 1st January to 30th March, 2011.
   a) Stock as per Balance Sheet at 31st December, 2010, ₹ 95,600.
   b) Purchases (including purchase of machinery costing ₹ 30,000) ₹ 1,70,000.
   c) Wages (including wages ₹ 3,000 for installation of machinery) ₹ 50,000.
   d) Sales (including goods sold on approval basis amounting to ₹ 49,500) ₹ 2,75,000. No approval has been received in respect of 2/3rd of the goods sold on approval.
   e) The average rate of gross profit is 20% of sales.
   f) The value of the salvaged goods was ₹ 12,300.

   You are required to compute the amount of the claim to be lodged to the insurance company.

8. **[Nov. 2017]** on 27th July, 2016, a fire occurred in the godown of M/s Vijay Exports and most of the stocks were destroyed. However goods costing ₹ 5,000 could be salvaged. Their fire fighting expenses were amounting to ₹ 1,300. From the salvaged accounting records, the following information is available relating to the period from 1.4.2016 to 27.7.2016

	₹
(i) Stock as per Balance Sheet at 31-03-2016	63,000
(ii) Purchases (including Purchase of machinery costing ₹10,000)	2,92,000
(iii) Wages (including wages for the installation of a machine ₹ 3,000)	53,000
(iv) Sales (including goods sold on approval basis amounting to ₹ 40,000). No approval has been received in respect of 1/4th of the goods sold on approval.	4,12,300
(v) Cost of goods distributed as free samples.	2,000

Other Information:

a) While valuing the stock at 31st March, 2016, ₹ 1,000 were written off in respect of a slow moving item costing ₹ 4,000. A portion of these goods were sold in june 2016 at a loss of ₹ 700 on the original cost of ₹ 3,000. The remainder of the stocks is now estimated to be worth the original cost.

b) Past records shows the normal gross profit rate is 20%.

c) The insurance company also admitted firefighting expenses. The company had taken the fire insurance policy of ₹55,000 with the average clause.

Compute the amount of stock destroyed by fire, to be lodged to the insurance company. Also prepare memorandum stock account to be for the period 1.4.2016 to 27.7.2016 for normal and abnormal items.

9. **[Nov. 2011]** A fire occurred in the premises of M/s. Fireproof Co. on 31st August, 2010. From the following particulars relating to the period from 1st April, 2010 to 31st August, 2010 you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for ₹ 60,000 which is subject to average clause.

Particulars	₹
(i) Stock as per Balance Sheet at 31-03-2010	99,000
(ii) Purchases	1,70,000
(iii) Wages (including wages for the installation of a machine ₹ 3,000)	50,000
(iv) Sales	2,42,000
(v) Sale value of goods drawn by partners	15,000
(vi) Cost of goods sent to consignees on 16th August, 2010, lying unsold with them.	16,500
(vii) Cost of goods distributed as free samples.	1,500

While valuing the stock at 31st March, 2010, ₹ 1,000 were written off in respect of a slow moving item. The cost of which was ₹ 5,000. A portion of these goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at ₹ 20,000. The average rate of gross profit was 20% throughout.

10. **[Nov. 2020]** A Fire occurred in the premises of M/s B & Co. on 30th September, 2019. The firm had taken an insurance policy for ₹ 1,20,000 which was subject to average clause. Following particulars were ascertained from the available records for the period from 1st April, 2018 to 30th September, 2019.

Particulars	₹
Stock at cost on 01-04-2018	2,11,000
Stock at cost on 31-03-2019	2,52,000
Purchase during 2018-19	6,55,000
Wages during 2018-19	82,000
Sales during 2018-19	8,60,000
Purchases from 01-04-2019 to 30-09-2019 (including Purchase of Machinery Costing ₹ 58,000)	4,48,000
Wages from 01-04-2019 to 30-09-2019 (including wages for installation of	85,000

machinery Costing ₹ 7,000)	
Sales from 01-04-2019 to 30-09-2019	6,02,000
Sales value of goods drawn by partners (1-4-19 to 30-9-19)	52,000
Cost of goods sent to consignee on 18th September, 2019 lysing unsold with them.	44,800
Cost of goods distributed as free sample	8,500

While valuing the stock at 31st March, 2019, ₹ 8,000 were written off in respect of a slow moving item, cost of which was ₹ 12,000. A portion of these goods were sold at a loss of ₹ 4,000 on the original cost of ₹ 9,000. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at ₹ 35,000. You are required to ascertain the amount of claim to be lodged with the Insurance Company for the loss of stock.

11. **[RTP May 2018]** The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was ₹ 6,63,600 as against ₹ 4,81,100 on 31st March, 2015.

Purchases from 1st April, 2016 to the date of fire were ₹ 17,41,350 as against ₹ 22,62,500 for the full year 2015-16 and the corresponding sales figures were ₹ 24,58,500 and ₹ 26,00,000 respectively. You are given the following further information:

(i) In July, 2016, goods costing ₹ 50,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 1,000 per week from 1st April, 2016 until the clerk was dismissed on 18st August, 2016.

(iii) The rate of gross profit is constant.

You are required to **calculate** the value of stock in hand on the date of fire with the help of above information

12. **[Nov. 2012]** From the following, ascertain the value of stock as on 31st March 2012.

Particulars	₹
Stock as on 01-04-2011	28,500
Purchases	1,52,500
Manufacturing Expenses	30,000
Selling Expenses	12,100
Administration Expenses	6,000
Financial Expenses	4,300
Sales	2,49,000

At the time of valuing stock as on 31st March 2011, a sum of ₹ 3,500 was written off on a particular item, which was originally purchased for ₹ 10,000 and was sold during the year for ₹ 9,000. Baring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

13. **[May 2008]** On 11.11.2007 the premises of Rocky Ltd. was destroyed by fire. The following information is made available:

Particulars	₹
Stock as on 1.4.2006	3,75,000
Purchases from 1.4.2006 to 31.3.2007	5,20,000
Sales from 1.4.2006 to 31.3.2007	8,55,000
Stock as on 31.3.2007	2,00,000
Purchase from 1.4.2007 to 11.11.2007	3,41,000
Sales from 1.4.2007 to 11.11.2007	4,35,500

In valuing the stock on 31.3.2007, due to damage 50% of the value of the stock which originally cost ₹ 22,000 was written off.
In June, 2007 about 50% of this stock was sold for ₹ 5,500 and the balance of obsolete stock is expected to realize the same price (i.e. 50% of the original cost).
The gross profit ratio is to be assumed as uniform in respect of other sales. Stock salvaged from fire amount to ₹ 11,500. Compute the value of stock lost in fire.

14. **[May 2007 & RTP Nov. 2019]** On 2.6.2007 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

Particulars	₹
Stock at cost on 1.4.2006	1,35,000
Stock at 90% of cost on 31.3.2007	1,62,000
Purchases for the year ended 31.3.2007	6,45,000
Sales for the year ended 31.3.2007	9,00,000
Purchases from 1.4.2007 to 2.6.2007	2,25,000
Sales from 1.4.2007 to 2.6.2007	4,80,000

- Sales upto 2.6.2007 includes ₹ 75,000 being the goods not dispatched to the customers. The sales invoice price is ₹ 75,000.
- Purchases upto 2.6.2007 includes a machinery acquired for ₹ 15,000.
- Purchases upto 2.6.2007 does not include goods worth ₹ 30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire.
- Value of stock salvaged from fire ₹ 22,500 and this has been handed over to the insurance company.
- The insurance policy is for ₹ 1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

15. **[Nov. 2018]** Unfortunate Ltd. has a godown, a shop and a manufacturing unit. Godown is used to store goods purchased for manufacture as well as to store finished goods. Goods are transferred from godown every day in the morning to manufacturing unit and shop. Inventory in godown is insured for ₹ 20 lakhs, that of manufacturing unit for ₹ 30 lakhs and of the shop for ₹ 5 lakhs

As on 31.12.17 inventory in godown at cost was ₹ 26 lakhs, inventory in manufacturing unit at cost was ₹ 12 lakhs and inventory in shop at cost was ₹ 5 lakhs. Following transactions took place during the period mentioned: (₹ In Lakhs)

Particulars	Jan.'18	Feb.'18	March '18	1st Apr.- 28th Apr
Purchases	20	15	16	8
Return to suppliers	-	-	4	-
Stock Transfer to shop	26	20	25	10
Return from Shop	1	-	1	1
Sales in Shop @ Gross Profit				
10%	10	12	8	4
12%	18	12	15	5

Fire occurred in shop in the midnight of 27th April – 28th April, 2018 and the entire stock was engulfed in fire. Good costing ₹ 40,000 could be salvaged intact and balance goods were recovered in damaged condition.

Expenses of fire fighting/salvage operation amounted to ₹ 20,000. Goods recovered in damaged condition could be sold @ 40% of cost. The insurance policy had average clause. Compute the claim to be lodged with Insurance Co.

16. **[RTP – May 2019]** A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2018. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – ₹ 4,000; Equipment – ₹ 2,500; Stock – ₹ 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2018:

Particulars	₹
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31st December, 2017	1,50,000
Building (value on 31st December, 2017)	3,75,000

Equipment (value on 31st December, 2017)	75,000
Depreciation provision till 31st December, 2017 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided since December 31st 2017. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method. Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company

17. **[Nov. 2007]** A company lodged a claim to insurance company for ₹ 5,00,000 in September, 2006. The claim was settled in February, 2007 for ₹ 3,50,000. How will you record the short fall in claim settlement in the books of the company.

LOSS OF PROFIT POLICY

18. **[May 2019]** A fire occurred in the premises of M/s Bright on 25th May, 2017. As a result of fire, sales were adversely affected up to 30th September, 2017. The firm had taken Loss of profit policy (with an average clause) for ₹ 3,50,000 having indemnity period of 5 months. There is an upward trend of 10% in sales. The firm incurred an additional expenditure of ₹ 30,000 to maintain the sales. There was a saving of ₹ 5,000 in the insured standing charges.

Particulars	₹
Actual turnover from 25th May, 2017 to 30th September, 2017	₹ 1,75,000
Turnover from 25th May, 2016 to 30th September, 2016	₹ 6,00,000
Net profit for last financial year	₹ 2,00,000
Insured standing charges for the last financial year	₹ 1,75,000
Total standing charges for the last financial year	₹ 3,00,000
Turnover for the last financial year	₹ 15,00,000
Turnover for one year from 25th May, 2016 to 24th May, 2017	₹ 14,00,000

You are required to calculate the loss of profit claim amount, assuming that entire sales during the interrupted period was due to additional expenses.

19. The premises of a Company were partly destroyed by fires which took place on 1st March 2016 and as a result of which the business was disorganised from 1st March to 31st July, 2016. Accounts are closed on 31st December, every year. The company is insured under a Loss of Profits Policy for ₹ 7,50,000. The period of indemnity specified in the Policy is 6 months. From the following information you are required to compute the amount of claim under the Loss of Profits Policy:

a)	Turnover for the year 2015	40,00,000
b)	Net Profits for the year 2015	2,40,000
c)	Insured standing charges	4,80,000
d)	Uninsured standing charges	80,000
e)	Turnover during the period of dislocation i.e. from 1-3-2016 to 31-7-2016	8,00,000
f)	Standard turnover for the corresponding period in the preceding year	20,00,000
g)	Annual Turnover for the year immediately preceding the fire i.e. from 1-3-2015 to 29-2-2016	44,00,000
h)	Increased cost of working	1,50,000
i)	Savings in Insured Standing Charges	30,000
j)	Reduction in turnover avoided through increase in working cost	4,00,000

Owing to reasons acceptable to the Insurer, the "Special circumstances clause" stipulates for:

(a) Increase of turnover (Standard and Annual) by 10% and

(b) Increase of rate of gross profit by 2%

20. **[May 1994, May 1998]** A fire occurred on 1.2.2016 in the premises of Unfortunate Ltd. and business was partially dis-organised upto 30.6.2016. From the books of accounts, the following information was extracted:

Particulars	₹
a) Actual turnover from 1.2.16 to 30.6.16	1,50,000
b) Turnover from 1.2.15 to 30.6.15	4,20,000
c) Turnover from 1.2.15 to 31.1.16	9,00,000
d) Net profit for last financial year	40,000
e) Insured standing charges for the last financial year	1,12,000
f) Total standing charges for the year	1,28,000
g) Turnover for the last financial year	8,40,000

The company incurred additional expenses amounting to ₹ 13,400 which reduce the loss in turnover. There was also a saving during the indemnity period of ₹ 4,900 in the insured standing charges as a result of the fire.

The company holds a "Loss of Profit" Policy for ₹ 2,48,400 having an indemnity of 6 months.

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

Compute the claim under the policy.

21. The premises of XY Limited were partially destroyed by fire on 1st March 2017 and as a result, the business was practically disorganized up to 31st August 2017. The company is insured under a loss of profit policy for ₹ 1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy:

	Particulars	₹
a)	Actual turnover during the period of dislocation (1-3-17 to 31-8-17)	80,000
b)	Turnover for the corresponding period (dislocation) in the 12 months before the fire (1-3-2016 to 31-8-2016)	2,40,000
c)	Turnover for the 12 months immediately preceding the fire (1-3-16 to 28-2-17)	6,00,000
d)	Net profit for the last financial year	90,000
e)	Insured standing charges for the last financial year	60,000
f)	Uninsured standing charges	5,000
g)	Turnover for the 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 turn over. 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 is also a saving during the indemnity period, of ₹ 2,700 in insured standing charge as a result of the fire.

22. From the following particulars, you are required to calculate the amount of claim for Buildwell Ltd., whose business premises was partly destroyed by fire:

Sum insured (from 31st December 2011)	₹ 4,00,000
Period of indemnity	12 months
Date of damage	1st January, 2012
Date on which disruption of business ceased	31st October, 2012

The subject matter of the policy was gross profit but only net profit and insured standing charges are included.

The books of account revealed:

(a) The gross profit for the financial year 2011 was ₹ 3,60,000.

(b) The actual turnover for financial year 2011 was ₹ 12,00,000 which was also the annual turnover in this case.

(c) The turnover for the period 1st January to 31st October, in the year preceding the loss, was ₹ 10,00,000.

During dislocation of the position, it was learnt that in November-December 2011, there has been an upward trend in business done (compared with the figure of the previous years) and it was stated that had the loss not occurred, the trading results for 2012 would have been better than those of the previous years.

The Insurance company official appointed to assess the loss accepted this view and adjustments were made to the pre-damaged figures to bring them up to the estimated amounts which would have resulted in 2012.

The pre-damaged figures together with agreed adjustments were:

Period	Pre-damaged Figures ₹	Adjustment to be added ₹	Adjusted standard Turnover ₹
January	90,000	10,000	1,00,000
Feb. to October	9,10,000	50,000	9,60,000
November to December	2,00,000	10,000	2,10,000
	12,00,000	70,000	12,70,000
Gross Profit	3,60,000	46,400	4,06,400

Rate of Gross Profit 30% (actual for 2011), 32% (adjusted for 2012). Increased cost of working amounted to ₹ 1,80,000.

There was a clause in the policy relating to savings in insured standard charges during the indemnity period and this amounted to ₹ 28,000.

Standing Charges not covered by insurance amounted to ₹ 20,000 p.a. The actual turnover for January was nil and for the period February to October 2012 ₹ 8,00,000.

23. **[Nov. 2013]** Monalisa & Co. Runs plastic goods shop. Following details are available from quarterly sales tax return filed.

Sales	2009 ₹	2010 ₹	2011 ₹	2012 ₹
From 1st January to 31st March	1,80,000	1,70,000	2,05,950	1,62,000
From 1st April to 30th June	1,28,000	1,86,000	1,93,000	2,21,000
From 1st July to 30th September	1,53,000	2,10,000	2,31,000	1,75,000
From 1st October to 31st December	1,59,000	1,47,000	1,90,000	1,48,000
Total	6,20,000	7,13,000	8,19,950	7,06,000

Period	₹
Sales from 16.09.2011 to 30.09.2011	34,000
Sales from 16.9.2012 to 30.9.2012	nil
Sales from 16.12.2011 to 31.12.2011	60,000
Sales from 16.12.2012 to 31.12.2012	20,000

A loss of profit policy was taken for ₹ 1,00,000. Fire occurred on 15th September, 2012. Indemnity period was for 3 months. Net profit was ₹ 1,20,000 and standing charges (all insured) amounted to ₹ 43,990 for year ending 2011. Determine the Insurance claim?

LOSS OF STOCK & PROFIT POLICY

24. Ajanta Ltd.'s Trading and Profit and Loss Account for the year ended 31st December, 2013 were as follows:

Trading and Profit and Loss Account for the year ended 31.12.2013

Particulars	₹	Particulars	₹
To Opening Stock	1,20,000	By Sales	10,00,000
To Purchases	5,50,000	By Closing Stock	90,000
To Manufacturing Expenses	1,70,000		
To Gross Profit	2,50,000		
	10,90,000		10,90,000
To Administrative Expenses	80,000	By Gross Profit	2,50,000
To Selling Expenses	20,000		
To Finance Charges	1,00,000		
To Net Profit	50,000		
	2,50,000		2,50,000

The company had taken out a fire policy for ₹ 3,00,000 and a Loss of Profit Policy for ₹ 1,00,000 having an indemnity period of 6 months. A fire occurred on 1.4.14 at the premises and the entire stock were gutted with nil salvage value. The next quarter sales i.e. 1.4.14 to 30.06.14 were severely affected.

The following are the other information:

Particulars	₹
Sales during the period 1.1.14 to 31.3.14	2,50,000
Purchase during the period 1.1.14 to 31.3.14	3,00,000
Manufacturing Expenses 1.1.14 to 31.3.14	70,000
Sales during the period 1.4.14 to 30.6.14	87,500
Sales from 1.4.13 to 30.06.13	3,00,000
Sales during the period 1.4.13 to 31.3.14	12,00,000
Insured Standing Charges	50,000
Uninsured Standing Charges	1,30,000
Actual expenses incurred after fire	6,000

The general trend of the industry shows an increase of sales by 15% and decrease in GP by 1% due to increased costs. Ascertain the claim for Stock and Loss of Profits.

AMOUNT OF POLICY

25. **[May 2015]** M/s. Platinum Jewellers wants to take up a "Loss of Profit Policy" for the Year 2015. The Extract of the Profit and Loss Account of the previous year ended 31.12.2014 is provided below:

Variable Expenses:	Cost of Materials	18,60,000
Fixed Expenses:	Wages for Skilled Craftsmen	1,60,000
	Salaries	2,80,000
	Audit Fees	40,000
	Rent	64,000

Bank Charges	18,000
Interest Income	44,000
Net Profit	6,72,000

Turnover is expected to grow by 25% next year.

To meet the growing Working Capital needs, the Partners have decided to avail Overdraft Facilities from their Bankers @ 12% p.a. interest. The Average Daily Overdraft Balance will be around ₹ 2 Lakhs. The Wages for the Skilled Craftsmen will increase by 20% and Salaries by 10% in the current year. All other expenses will remain the same. Determine the amount of policy to be taken up for the current year by M/s. Platinum Jewellers.

26. **[Nov. 2015]** 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, suggest the policy amount:

Turnover in last financial year	₹ 6,75,000
Standing charges in the last financial year	₹ 1,14,750

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

Increase in turnover expected 30%.

To achieve additional sales, trader has to incur additional expenditure of ₹ 42,500.

27. **[May 2016]** A firm has decided to take out a loss of profit policy for the year 2016 and given the following information for the last accounting year 2015.

Variable manufacturing expenses ₹ 14,20,000. Standing charges ₹ 1,50,000, Net Profits ₹ 80,000. Non-operating income ₹ 2,500, Sales ₹ 18,00,000.

Compute the sum to be Insured in each of the following alternative cases showing the anticipation for the year 2016:

a. If sales will increase by 15%.
b. If sales will Increase by 15% and only 50% of the present standing charges are to be Insured.
c. If sales and variable expenses will increase by 15% and standing charges will increase by 10%.
d. If sales will increase by 15% and variable expenses will decrease by 5%.
e. If sales will increase by 10% and standing charges will increase by 15%.
f. If the turnover and standing charges will increase by 15% and variable expenses will decrease by 10% but only 50% of the present standing charges are to be insured.

PRACTICE DRILL

LOSS OF STOCK BY FIRE

1. **[May 2010]** In January, 2010 a firm took an insurance policy for ₹ 60 lakhs to insure goods in its godown against fire subject to average clause. On 7th March, 2010 a fire broke out destroying goods costing ₹ 44 lakhs. Stock in the godown was estimated at ₹ 80 lakhs. Compute the amount of insurance claim.

Solution:

Stock Policy Claim Calculation

Policy Amount(Sum Insured)	₹ 60 lakh
Stock on the date of fire(Insurable Sum)	₹ 80 lakh
Loss by fire	₹ 44 lakh

Average Clause

Loss is reduced proportionately when average clause is applicable. Average clause applies when there is under insurance i.e. Stock on the date of fire is more than the policy amount. Hence average clause will apply

$$\text{Claim} = \frac{\text{Loss by fire}}{\text{Stock on the date of fire}} \times \text{Policy Amount}$$

$$= \frac{₹\ 44}{₹\ 80} \times ₹\ 60 = ₹\ 33 \text{ Lakh}$$

2. On 20th July, 2017, the godown and the business premises of a merchant were affected by fire and from accounting records salvaged, the following information is made available to you:

Particulars	₹
Stock of goods at cost on 1st April, 2016	1,00,000
Stock of goods at 10% lower than cost as on 31st March, 2017	1,08,000
Purchases of goods for the year from 1st April 2016 to 31st March 2017	4,20,000
Sales for the same period	6,00,000
Purchases less returns for the period from 1st Apr 2017 to 20th Jul 2017	1,40,000
Sales less returns for the above period	3,10,000

Sales up to 20th July 2017 included ₹ 40,000 for which goods had not been dispatched. Purchases up to 20th July, 2017 did not include ₹ 20,000 for which purchase invoices had not been received from suppliers, though goods have been received at the godown. Goods salvaged from the accident were worth ₹ 12,000 and these were handed over to the insurer. A fire insurance policy was in force under which the sum insured was ₹ 90,000. Ascertain the value of the claim for the loss of goods/ stock, which could be preferred on the insurer.

Solution:

Working Notes: 1

Trading A/c

For period 1.4.16 to 31.3.17

Particulars	₹	Particulars	₹
To Opening Stock a/c To Purchases a/c To Gross Profit (1/3rd of sale)	1,00,000 4,20,000 2,00,000	By Sales a/c By Closing stock (1,08,000/90 * 100)	6,00,000 1,20,000
	7,20,000		7,20,000

Gross Profit Ratio = 2,00,000/6,00,000 * 100 = 33.33% or 1/3rd

Memorandum Trading A/c (to ascertain the stock on the date of fire)

For period 1.4.17 to 20.07.17

Particulars		₹	Particulars		₹
To Opening Stock a/c		1,20,000	By Sales a/c	3,00,000	
To Purchases a/c	1,40,000		Less: Goods not dispatched	40,000	2,70,000
Add: Goods not recorded	20,000	1,60,000			
To Gross Profit (1/3rd of sale)		90,000	By Closing stock (balancing figure) (stock on the date of fire)		1,00,000
		3,70,000			3,70,000

Statement of Loss:

Particulars	₹
Stock on the date of fire	1,00,000
Less: Salvage Value	12,000
Loss of stock by fire	88,000

Average clause:

Particulars	₹
Policy amount is of ₹ 90,000 whereas insurable sum that is stock on the date of fire is ₹ 1,00,000 that means it is a case of under insurance hence average clause will apply. Claim = $\frac{\text{Loss by fire}}{\text{Stock on the date of fire}}$ x Policy Amount Claim = $\frac{88,000 \times 90,000}{1,00,000}$	79,200

Add: Salvage goods taken over by insurance company	12,000
Total Claim	91,200

3. **[Nov. 2016]** On 30th June, 2016, accidental fire destroyed a major part of the stocks in the godown of Jay Associates. Stocks costing ₹ 30,000 could be salvaged but not their stores ledgers. A fire insurance policy was in force under which the sum insured was ₹ 3,50,000. From available records, the following information was retrieved:

(a) Total of sales invoices during the period April-June amounted to ₹ 28,20,000. An analysis showed that goods of the value of ₹ 1,00,000 had been returned by the customers before the date of the fire.

(b) Opening stock on 1.4.16 was ₹ 2,20,000 including stocks of value of ₹ 20,000 being lower of cost and net value subsequently realised

(c) Purchases between 1.4.16 and 30.6.16 were ₹ 21,00,000.

(d) Normal gross profit rate was 33 & 1/3% on sales.

(e) A sum of ₹ 10,000 was incurred by way of fire fighting expenses on the day of the fire.

Prepare a statement showing the insurance claim recoverable

Solution:

Memorandum Trading A/c (to ascertain the stock on the date of fire)

For period 1.4.16 to 30.6.16

Particulars	Normal	Abn.	Total	Particulars	Normal	Abn.	Total
To Opening Stock	2,00,000	20,000	2,20,000	By Sales a/c 28,20,000			
To Purchases	21,00,000	-	21,00,000	(–) Return 1,00,000	27,00,000	20,000	27,20,000
To Gross Profit	9,00,000	-	9,00,000	By Closing stock			
(1/3rd of 27,00,000)				(balancing figure)	5,00,000	-	5,00,000
				(stock on the date of fire)			
	32,00,000	20,000	32,20,000		32,00,000	20,000	32,20,000

Statement of Total Loss:

Particulars	₹
Stock on the date of fire (Normal items) (i.e. on 30.06.16)	5,00,000
(+) Stock of Abnormal item (if any)	Nil
Stock on the date of fire	5,00,000
Less: Salvage Value	30,000
Loss of stock by fire	4,70,000
(+) Firefighting Expenses (Expenses incurred for reducing losses)	10,000
Total loss	4,80,000

Average clause:

Particulars	₹
Policy amount is of ₹ 3,50,000 whereas insurable sum that is stock on the date of fire is ₹ 5,00,000 that means it is a case of under insurance hence	

average clause will apply. $\text{Claim} = \dfrac{\text{Loss by fire}}{\text{Stock on the date of fire}} \times \text{Policy Amount}$ $\text{Claim} = \dfrac{4,80,000 \times 3,50,000}{5,00,000}$	3,36,000

4. **[Nov. 2002]** Mr. 'A' prepares accounts on 30th September each year, but on 31st December, 2001 fire destroyed the greater part of his stock. Following information was collected from his books:

Particulars	₹
Stock as on 1.10.2001	29,700
Purchases from 1.10.2001 to 31.12.2001	75,000
Wages from 1.10.2001 to 31.12.2001	33,000
Sales from 1.10.2001 to 31.12.2001	1,40,000

The rate of Gross Profit is 33 1/3 % on cost. Stock to the value of ₹ 3,000 was salvaged. Insurance policy was for ₹ 25,000 and claim was subject to average clause.

Additional information:

(a) Stock in the beginning was calculated at 10% less than cost.

(b) A plant was installed by firm's own worker. He was paid ₹ 500 which was included in wages.

(c) Purchases include the purchases of the plant for ₹ 5,000. You are required to calculate the claim for the loss of Stock

Solution:

Memorandum Trading A/c (to ascertain the stock on the date of fire)
For period 1.10.2001 to 31.12.2001

Particulars		₹	Particulars	₹
To Opening Stock a/c (₹ 29,700/90 * 100)		33,000	By Sales a/c	1,40,000
To Purchases a/c	75,000		By Closing stock (balancing figure) (stock on the date of fire)	30,000
Less: Cost of Plant	5,000	70,000		
To Wages a/c	33,000			
Less: Wages Paid for Plant	500	32,500		
To Gross Profit (33.33% on Cost) (₹ 1,40,000/133.33 * 33.33)		35,000		
		1,70,500		1,70,500

Statement of Loss:

Particulars	₹
Stock on the date of fire (i.e. on 31.12.01)	30,500
Less: Salvage Value	3,000
Loss of stock by fire	27,500

Average clause:

Particulars	₹
Policy amount is of ₹ 25,000 whereas insurable sum that is stock on the date of fire is ₹ 30,500 that means it is a case of under insurance hence average clause will apply. Claim = $\frac{\text{Loss by fire}}{\text{Stock on the date of fire}}$ x Policy Amount Claim = $\frac{27{,}500 \times 25{,}000}{30{,}500}$	22,541

5. **[Nov. 2012]** On 29th August, 2012, the godown of a trader caught fire and a large part of the stock of goods was destroyed. However, goods costing ₹ 1,08,000 could be salvaged incurring firefighting expenses amounting to ₹ 4,700. The trader provides you the following additional information:

Particulars	₹
Cost of stock on 1st April, 2011	7,10,500
Cost of stock on 31st March, 2012	7,90,100
Purchases during the year ended 31st March, 2012	56,79,600
Purchases from 1st April, 2012 to the date of fire	33,10,700
Cost of goods distributed as samples for advertising from 1.4.2012 to the date of fire	41,000
Cost of goods withdrawn by trader for personal use from 1.4.2012to the date of fire	2,000
Sales for the year ended 31st March, 2012	80,00,000
Sales from 1st April, 2012 to the date of fire	45,36,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for ₹ 9,00,000 with an average clause. Calculate the amount of the claim that will be admitted by the insurance company

Solution:

Working Notes: 1

Trading A/c

For period 1.4.11 to 31.3.12

Particulars	₹	Particulars	₹
To Opening Stock a/c To Purchases a/c To Gross Profit	7,10,500 56,79,600 24,00,000	By Sales a/c By Closing stock	80,00,000 7,90,100
	7,20,000		7,20,000

Gross Profit Ratio = 24,00,000/80,00,000 * 100 = 30%

Memorandum Trading A/c (to ascertain the stock on the date of fire)
For period 1.04.2012 to 29.08.2012

Particulars	₹	Particulars	₹
To Opening Stock a/c To Purchases a/c To Gross Profit (30% on Sale)	7,90,100 33,10,700 13,60,800	By Sales a/c By Goods Distributed By Goods taken by owner By Closing stock (balancing figure) (stock on the date of fire)	45,36,000 41,000 2,000 8,82,600
	54,61,600		54,61,600

Statement of Total Loss:

Particulars	₹
Stock on the date of fire (i.e. on 29.08.2012)	8,82,600
Less: Salvage Value	1,08,000
Loss of stock by fire	9,90,600
(+) Firefighting Expenses (Expenses incurred for reducing losses)	4,700
Total loss	7,79,300

Average clause:

Particulars	₹
Policy amount is of ₹ 9,00,000 whereas insurable sum that is stock on the date of fire is ₹ 8,82,600 that means it is a not a case of under insurance hence average clause will not apply. Therefore Claim amount	7,79,300

6. **[May 2018 – CA Inter]** On 30th March, 2018 fire occurred in the premises of M/s Alok & Co. The concern had taken an insurance policy of ₹ 1,20,000 which was subject to the average clause. From the books of accounts the following particulars are available relating to the period 1st January to 30th March, 2018:

Particulars	₹
a. Stock as per Balance Sheet at 31st December, 2017	1,91,200
b. Purchases (including purchase of machinery costing ₹ 60,000)	3,40,000

c. Wages (including wages ₹ 6,000 for installation of machinery)	1,00,000
d. Sales (including goods sold on approval basis amounting ₹ 99,000)	5,50,000
No approval has been received in respect of 2/3rd of the goods sold on approval	

e. The average rate of gross profit is 20% of sales

f. The value of the salvaged goods was ₹ 24,600

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

Solution:

Memorandum Trading A/c (to ascertain the stock on the date of fire)

For period 01.01.2018 to 30.03.2018

Particulars	₹	Particulars	₹
To Opening Stock a/c	1,91,200	By Sales a/c (W.N 1)	4,84,000
To Purchases a/c	2,80,000	By Goods with customer*(W.N 1)	52,800
[₹ 3,40,000 - ₹ 60,000]		By Closing stock (balancing figure)	1,25,200
To Wages	94,000	(stock on the date of fire)	
[₹ 1,00,000 - ₹ 6,000]			
To Gross Profit (20% on Sale)	96,800		
	6,62,000		6,62,000

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

Working Notes:

1. Calculation of goods with customers

   Since no approval for sale has been received for the goods of ₹ 66,000 (i.e. 2/3 of ₹ 99,000) hence, these should be valued at cost i.e. ₹ 66,000 – 25% of ₹ 66,000 = ₹ 52,800.

2. Calculation of actual sales

   Total sales - Sale of goods on approval (2/3rd) = Sales (₹ 5,50,000 - ₹ 66,000) = ₹ 4,84,000.

Statement of Total Loss:

Particulars	₹
Stock on the date of fire (i.e. on 30.03.2018)	1,25,200
Less: Salvage Value	24,600
Loss of stock by fire	1,00,600

Average clause:

Particulars	₹

Policy amount is of ₹ 1,20,000 whereas insurable sum that is stock on the date of fire is ₹ 1,25,200 that means it is a case of under insurance hence average clause will apply. Claim = $\frac{\text{Loss by fire}}{\text{Stock on the date of fire}}$ x Policy Amount Claim = $\frac{1,00,600 \times 1,20,000}{1,25,200}$	96,422 (approx.)

7. **[Nov 2018]** A fire engulfed the premises of a business of M/S Kite Ltd. in the morning, of 1st October, 2017. The entire stock was destroyed except, stock salvaged of ₹ 50,000. Insurance Policy was for ₹ 5,00,000 with average clause.

The following information was obtained from the records saved for the period from 1st April to 30th September, 2017:

Particulars	₹
Sales	27,75,000
Purchases	18,75,000
Carriage inward	35,000
Carriage outward	20,000
Wages	40,000
Salaries	50,000
Stock in hand on 31st March, 2017	3,50,000

Additional Information:

(1) Sales upto 30th September, 2017, includes ₹ 75,000 for which goods had not been dispatched.

(2) On 1st June, 2017, goods worth ₹ 1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of 2/3rd of the goods sold to him till 30th September, 2017.

(3) Purchases upto 30th September, 2017 did not include ₹ 1,00,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.

(4) Past records show the gross profit rate of 25% on sales.

You are required to prepare the statement of claim for loss of stock for submission to the Insurance Company.

Solution:

Memorandum Trading A/c (to ascertain the stock on the date of fire)

For period 1.04.2017 to 30.09.2017

Particulars	₹	Particulars	₹
To Opening Stock a/c	3,50,000	By Sales a/c (W.N 2)	25,68,000
To Purchases a/c	19,75,000	By Goods with customer* (W.N 1)	99,000

[₹ 18,75,000+₹ 1,00,000] To Carriage Inward To Wages To Gross Profit (25% on Sale)	 35,000 40,000 6,42,000	By Closing stock (balancing figure) (stock on the date of fire)	3,75,000
	30,42,000		30,42,000

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

Working Notes:

1. Calculation of goods with customers

   Since no approval for sale has been received for the goods of ₹ 1,32,000 (i.e. 2/3 of ₹ 1,98,000) hence, these should be valued at cost i.e. ₹ 1,32,000 – 25% of ₹ 1,32,000 = ₹ 99,000.

2. Calculation of actual sales

   Total sales – Goods not dispatched - Sale of goods on approval ($2/3^{rd}$) = Sales (₹ 27,75,000 – 75,000 – ₹1,32,000) = ₹ 25,68,000

Statement of Total Loss:

Particulars	₹
Stock on the date of fire (i.e. on 1.10.2017)	3,75,000
Less: Salvage Value	50,000
Loss of stock by fire	3,25,000

Average clause:

Particulars	₹
Policy amount is of ₹ 5,00,000 whereas insurable sum that is stock on the date of fire is ₹ 3,25,000 that means it is a not a case of under insurance hence average clause will not apply.	
Therefore Claim amount	3,25,000

8. **[May 2018 IPCC]** A fire occurred in the premises of M/s. Raxby & Co. on 30-06-2017. From the salvaged accounting records, the following particulars were ascertained.

Particulars	Amount
Stock at cost as on 01-04-2016	1,20,000
Stock at cost as on 31-03-2017	1,30,000
Purchases less return during 2016-17	5,25,000
Sales less return during 2016-17	6,00,000
Purchases from 01-04-2017 to 30-06-2017	97,000
Purchases upto 30-06-2017 did not include ₹ 35,000 for which purchase invoices	

had not been received from suppliers, though goods have been received in godown.	
Sales from 1.4.2017 to 30.6.2017	1,66,000

In valuing the stock for the Balance Sheet at 31st March, 2017, ₹ 5,000 had been written off on certain stock which was a poor selling line having the cost of ₹ 8,000. A portion of these goods were sold in May, 2017 at a loss of ₹ 1,000 on original cost of ₹ 7,000. The remainder of the stock was now estimated to be worth its original cost. Subject to that exception, gross profit had remained at a uniform rate throughout the year.

The value of the salvaged stock was ₹ 10,000. M/s. Raxby & Co. had insured their stock for ₹ 1,00,000 subject to average clause.
Compute the amount of claim to be lodged to the insurance company.

Solution:

Working Notes: 1

Trading A/c
For period 1.4.16 to 31.3.17

Particulars	₹	Particulars		₹
To Opening Stock a/c	1,20,000	By Sales a/c		600,000
To Purchases a/c	5,25,000	By Closing stock	1,30,000	
To Gross Profit	90,000	Add: Amount written off to restore stock to full cost	5,000	1,35,000
	7,35,000			7,35,000

Gross Profit Ratio = 90,000/6,00,000 * 100 = 15%

Memorandum Trading A/c (to ascertain the stock on the date of fire)
For period 1.4.17 to 30.6.17

Particulars	Normal	Abn.	Total	Particulars	Normal	Abn.	Total
To Opening Stock	1,27,000	8,000	1,35,000	By Sales a/c	1,60,000	6,000	1,66,000
To Purchases (₹ 97,000 + ₹ 35,000)	1,32,000	-	1,32,000	By Loss	-	1,000	1,000
To Gross Profit (15% on ₹ 1,60,000)	24,000	-	24,000	By Closing stock (balancing figure) (stock on the date of fire)	1,23,000	1,000	1,24,000
	2,83,000	8,000	2,91,000		2,83,000	8,000	2,91,000

Statement of Total Loss:

Particulars	₹
Stock on the date of fire (Normal items) (i.e. on 30.06.17)	1,23,000
(+) Stock of Abnormal item (if any)	1,000
Stock on the date of fire	1,24,000

Less: Salvage Value	10,000
Loss of stock by fire	1,14,000

Average clause:

Particulars	₹
Policy amount is of ₹ 1,00,000 whereas insurable sum that is stock on the date of fire is ₹ 1,24,000 that means it is a case of under insurance hence average clause will apply. Claim = $\frac{\text{Loss by fire}}{\text{Stock on the date of fire}}$ x Policy Amount Claim = $\frac{1{,}14{,}000 \times 1{,}00{,}000}{1{,}24{,}000}$	91,935 (approx.)

LOSS OF PROFIT

9. **[Nov. 2003]** On account of a fire on 15thJune, 2007 in the business house of a company, the working remained disturbed upto 15th December, 2007 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 the insured standing charges. Ascertain the claim under the consequential loss policy keeping the following additional information in view:

Particulars	₹
Actual sales from 15tn June, 2007 to 15 December, 2007	70,000
Sales from 15th June, 2006 to 15th December, 2006	2,40,000
Net profit for last Financial year	80,000
Insured standing charges for the last Financial Year	70,000
Total standing charges for the last Financial Year	1,20,000
Turnover for the last Financial Year	6,00,000
Turnover for one year: 16th June, 2006 to 15th June, 2007	5,60,000

Solution:

Working Note:

1. **Reduction in Turnover**

Particulars	₹
Standard turnover	2,40,000

Add: Upward trends (25%)	60,000
Adjusted Standard Turnover	3,00,000
Less: Actual sale of dislocation period	(70,000)
Reduction in turnover	2,30,000

2. **Gross Profit Ratio**

$$= \frac{\text{Net Profit + Insured Standing Charges}}{\text{Turnover for Financial Year}} \times 100$$

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

3. **Annual Turnover**

Particulars	₹
Annual turnover	5,60,000
Add: Upward trends (25%)	1,40,000
Adjusted Annual Turnover	7,00,000

4. **Increase Cost of Working**

d) Actual Expenses ₹ 12,000

e) Sales generated by increased cost of workings X G.P. ratio = ₹ 70,000 X 25% = ₹ 17,500

f) Additional Expenses x $\frac{\text{G.P on Annual Turnover}}{\text{G.P on Annual Turnover + Uninsured Standing Charges}}$

$$= ₹\ 12{,}000 \times \frac{(₹\ 7{,}00{,}000 \times 25\%)}{₹\ 1{,}75{,}000 + ₹\ 50{,}000} = ₹\ 9{,}333.$$

Least of the above is allowed i.e. ₹ 9,333.

Claim Calculation: Profit Policy

Particulars	₹
1. Claim in respect of reduction in turnover:	
Reduction in turnover (WN. 1) x G.P. rate (WN. 2) (2,30,000 x 25%)	57,500
2. Increased cost of working as allowed (WN. 4)	9,333
Total	66,833
3. Less Saving in insured standing charges	2,000
Loss of profit	64,833

Average clause:

Particulars	₹
Policy amount is of ₹ 1,40,000 whereas insurable sum (Adjusted Annual Turnover * GP Ratio = ₹ 7,00,000 x 25/100) is ₹ 1,75,000 that means it is a case of	

under insurance hence average clause will apply. Claim = $\frac{\text{Loss of Profit}}{\text{Insurable Sum}}$ x Policy Amount Claim = $\frac{64{,}833 \times 1{,}40{,}000}{1{,}75{,}000}$	51,866 (approx.)

10. [Nov. 2008] From the following details, calculate consequential loss claim:

1. Date of fire: 1st September following;
2. Indemnity period : 6 months;
3. Period of disruption : 1st September to 1st February;
4. Sum insured : ₹ 1,08,900;
5. Sales were ₹ 6,00,000 for preceding financial year ended on 31st March.
6. Net profit for preceding financial year Rs.36,000 plus insured standing charges ₹ 72,000;
7. Rate of Gross profit 18%;
8. Uninsured standing charges ₹ 6,000;
9. Turnover during disruption period ₹ 67,500;
10. Annual turnover for 12 months immediately preceding the date of fire ₹ 6,60,000;
11. Standard turnover i.e. for corresponding months (1st September to 1st February) in the year preceding the date of fire ₹ 2,25,000;
12. Increase in the cost of Working capital ₹ 12,000 with a saving of insured standing charges ₹ 4,500 during the disruption period;
13. Reduced turnover avoided through increase in Working capital ₹ 30,000;
14. Special clause stipulated:
    (a) Increase in rate of G.P. 2%
    (b) Increase in turnover (Standard and Annual) 10%.

Solution:

Working Note:

1. **Reduction in Turnover**

Particulars	₹
Standard turnover	2,25,000
Add: Upward trends (10%)	22,500
Adjusted Standard Turnover	2,47,500
Less: Actual sale of dislocation period	(67,500)
Reduction in turnover	1,80,000

2. **Gross Profit Ratio**

$$= \frac{\text{Net Profit + Insured Standing Charges}}{\text{Turnover for Financial Year}} \times 100$$

$$= \frac{36{,}000 + 72{,}000}{6{,}00{,}000} \times 100 = 18\%$$

Adjusted Gross Profit Ratio = 18% + 2% = 20%

3. **Annual Turnover**

Particulars	₹
Annual turnover	6,60,000
Add: Upward trends (10%)	66,000
Adjusted Annual Turnover	7,26,000

4. **Increase Cost of Working**

a) Actual Expenses ₹ 12,000

b) Sales generated by increased cost of workings X G.P. ratio = ₹ 30,000 X 20% = ₹ 6,000.

c) Additional Expenses x $\frac{\text{G.P on Annual Turnover}}{\text{G.P on Annual Turnover + Uninsured Standing Charges}}$

$$= ₹\ 12{,}000 \times \frac{(₹\ 7{,}26{,}000 \times 20\%)}{₹\ 1{,}45{,}200 + ₹\ 6{,}000} = ₹\ 11{,}523.$$

Least of the above is allowed i.e. ₹ 6,000.

Claim Calculation: Profit Policy

Particulars	₹
1. Claim in respect of reduction in turnover:	
Reduction in turnover (WN. 1) x G.P. rate (WN. 2) (1,80,000 x 20%)	36,000
2. Increased cost of working as allowed (WN. 4)	6,000
Total	42,000
3. Less Saving in insured standing charges	4,500
Loss of profit	37,500

Average clause:

Particulars	₹
Policy amount is of ₹ 1,08,900 whereas insurable sum (Adjusted Annual Turnover * GP Ratio = ₹ 7,26,000 x 20/100) is ₹ 1,45,200 that means it is a case of under insurance hence average clause will apply. Claim = $\frac{\text{Loss of Profit}}{\text{Insurable Sum}}$ x Policy Amount Claim = $\frac{37{,}500 \times 1{,}08{,}900}{1{,}45{,}200}$	28,125

11. [May 1998, May 1994] A fire occurred on 1-2-2016 in the premises of Unfortunate Ltd. and business was partially disorganized upto 30-6-2016. From the books of accounts, the following information was extracted:

Particulars	₹
a) Actual turnover from 1-2-2016 to 30-6-2016	75,000
b) Turnover from 1-2-2015 to 30-6-2015	2,10,000
c) Turnover from 1-2-2015 to 31-1-2016	4,50,000
d) Net profit for last financial year	70,000
e) Insured standing charges for the last financial year	56,000
f) Total standing charges for the year	64,000
g) 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.

The company holds a "Loss of Profit" policy for ₹ 1,24,200 having an indemnity of 6months. There has been a considerable increase in trade since the date of the last annual accounts and it had been agreed that an adjustment of 15% be made in respect of the upward trend in turnover.

Compute the claim under the policy.

Solution:

Working Note:

1. **Reduction in Turnover**

Particulars	₹
Standard turnover	2,10,000
Add: Upward trends (15%)	31,500
Adjusted Standard Turnover	2,41,500
Less: Actual sale of dislocation period	(75,000)
Reduction in turnover	1,66,500

2. **Gross Profit Ratio**

$$= \frac{\text{Net Profit + Insured Standing Charges}}{\text{Turnover for Financial Year}} \times 100$$

$$= \frac{70{,}000 + 56{,}000}{4{,}20{,}000} \times 100 = 30\%$$

3. **Annual Turnover**

Particulars	₹

Annual turnover Add: Upward trends (15%)	4,50,000 67,500
Adjusted Annual Turnover	5,17,500

4. **Increase Cost of Working**
   a) Actual Expenses ₹ 6,700.
   b) Sales generated by increased cost of workings X G.P. ratio = ₹ 75,000 X 30% = ₹ 22,500.
   c) Additional Expenses x $\dfrac{\text{G.P on Annual Turnover}}{\text{G.P on Annual Turnover + Uninsured Standing Charges}}$

   $= ₹\ 6{,}700 \times \dfrac{(₹\ 5{,}17{,}500 \times 30\%)}{₹\ 1{,}55{,}250 + ₹\ \ 8{,}000} = ₹\ 6{,}372.$ (approx.)

   Least of the above is allowed i.e. ₹ 6,672.

Claim Calculation: Profit Policy

Particulars	₹
1. Claim in respect of reduction in turnover:	
Reduction in turnover (WN. 1) x G.P. rate (WN. 2) (1,66,500 x 30%)	49,950
2. Increased cost of working as allowed (WN. 4)	6,372
Total	56,322
3. Less Saving in insured standing charges	2,450
Loss of profit	53,782

Average clause:

Particulars	₹
Policy amount is of ₹ 1,24,200 whereas insurable sum (Adjusted Annual Turnover * GP Ratio = ₹ 5,17,500 x 30/100) is ₹ 1,55,250 that means it is a case of under insurance hence average clause will apply. Claim = $\dfrac{\text{Loss of Profit}}{\text{Insurable Sum}}$ x Policy Amount Claim = $\dfrac{53{,}782 \times 1{,}24{,}200}{1{,}55{,}250}$	43,026 (approx.)

12. **[May 1999]** X Ltd. has insured itself under a loss of profit policy for ₹ 3,63,000. The indemnity period under the policy is six months. On 1st September, 2017 a fire occurred in the factory of X Ltd. and the normal business was affected upto 1st March, 2018.

The following information is compiled for the year ended on 31st March, 2017:

Particulars	₹
Sales	20,00,000
Insured standing charges	2,40,000
Uninsured standing charges	20,000

Net profit	1,20,000

Following further details of turnover are furnished:

(a) Turnover during the period of 12 months ending on the date of fire was ₹ 22,00,000;

(b) Turnover during the period of interruption was ₹ 2,25,000;

(c) Actual turnover during the period from 1.9.2016 to 1.3.2017 during the preceding year corresponding to the indemnity period was ₹ 7,50,000;

X Ltd. spent an amount of ₹ 40,000 as additional cost of working during the indemnity period. On account of this additional expenditure:

(a) there was a saving of ₹ 15,000 in insured standing charges during the period of indemnity;

(b) reduced turnover avoided was ₹ 1,00,000 – i.e., but for this expenditure, the turnover after the date of fire would have been only ₹ 1,25,000.

A special clause in the policy stipulates that owing to the reasons acceptable to the insurer under the special circumstances the following increases are to be made:

(a) Increase of turnover – standard and annual – by 10%.

(b) Increase in rate of gross profit by 2% from previous year's level.

X Ltd. asks you to compute the claim for loss of profit. All calculations should be made to the nearest rupee.

Solution:

Working Note:

1. **Reduction in Turnover**

Particulars	₹
Standard turnover	7,50,000
Add: Upward trends (10%)	75,000
Adjusted Standard Turnover	8,25,000
Less: Actual sale of dislocation period	(2,25,000)
Reduction in turnover	6,00,000

2. **Gross Profit Ratio**

$$= \frac{\text{Net Profit + Insured Standing Charges}}{\text{Turnover for Financial Year}} \times 100$$

$$= \frac{1,20,000 + 2,40,000}{20,00,000} \times 100 = 18\%$$

Adjusted Gross Profit Ratio = 18% + 2% = 20%

3. **Annual Turnover**

Particulars	₹
Annual turnover	22,00,000
Add: Upward trends (10%)	2,20,000
Adjusted Annual Turnover	24,20,000

4. **Increase Cost of Working**
   a) Actual Expenses ₹ 40,000.
   b) Sales generated by increased cost of workings X G.P. ratio = ₹ 1,00,000 X 20% = ₹ 20,000.
   c) Additional Expenses x $\dfrac{\text{G.P on Annual Turnover}}{\text{G.P on Annual Turnover + Uninsured Standing Charges}}$

   $= ₹\ 40,000 \times \dfrac{(₹\ 24,20,000 \times 20\%)}{₹\ 4,84,000 + ₹\ 20,000} = ₹\ 38,417.$ (approx.)

   Least of the above is allowed i.e. ₹ 20,000.

Claim Calculation: Profit Policy

Particulars	₹
1. Claim in respect of reduction in turnover:	
Reduction in turnover (WN. 1) x G.P. rate (WN. 2) (6,00,000 x 20%)	1,20,000
2. Increased cost of working as allowed (WN. 4)	20,000
Total	1,40,000
3. Less Saving in insured standing charges	15,000
Loss of profit	1,25,000

Average clause:

Particulars	₹
Policy amount is of ₹ 3,63,000 whereas insurable sum (Adjusted Annual Turnover * GP Ratio = ₹ 24,20,000 x 20/100) is ₹ 4,84,000 that means it is a case of under insurance hence average clause will apply.	
Claim = $\dfrac{\text{Loss of Profit}}{\text{Insurable Sum}}$ x Policy Amount	
Claim = $\dfrac{1,25,000 \times 3,63,000}{4,84,000}$	93,750

13. A loss of profit policy was taken for ₹ 80,000. Fire occurred on 15th March, 2017. Indemnity period was for three months. Net profit for 2016 year ending on 31st December was ₹ 56,000 and standing charges (all insured) amounted to ₹ 49,600. Determine Insurance claims from the following details available from quarterly sales tax returns:

Sales	2014 ₹	2015 ₹	2016 ₹	2017 ₹

From 1st January to 31st March	1,20,000	1,30,000	1,42,000	1,30,000
From 1st April to 30th June	80,000	90,000	1,00,000	40,000
From 1st July to 30th September	1,00,000	1,10,000	1,20,000	1,00,000
From 1st October to 31st December	1,36,000	1,50,000	1,66,000	1,60,000

Sales from 16-3-2016 to 31-3-2016 were ₹ 28,000

Sales from 16-3-2017 to 31-3-2017 were ₹ Nil

Sales from 16-6-2016 to 30-6-2016 were ₹ 24,000 and,

Sales from 16-6-2017 to 30-6-2017 were ₹ 6,000

Solution:

Working Note:

1. **Actual turnover (16.3.17 to 15.6.17)**

Particulars	₹	₹
Turnover from 16.3.17 to 31.03.17		Nil
+ Turnover from 01.4.17 to 15.06.17		
1.4.17 to 30.6.17	40,000	
(-) 16.6.17 to 30.6.17	6,000	34,000
Actual turnover		34,000

2. **Standard turnover: (16.3.16 to 15.6.16)**

Particulars	₹	₹
Turnover from 16. 03.16 to 31. 03.16		28,000
+ Turnover from 01.04.16 to 15. 06.16		
01. 04.16 to 30. 06.16	1,00,000	
(-) 16.06.16 to 30.06.16	24,000	76000
Standard turnover		1,04,000

3. **Annual turnover (16.03.16 to 15. 03.17)**

Particulars	₹	₹
Turnover from 16.03.16 to 31.03.16		28,000
+ Turnover from 01.04.16 to 30.06.16		1,00,000
+ Turnover from 01.07.16 to 30.09.16		1,20,000
+ Turnover from 01.10.16 to 31.12.16		1,66,000
+ Turnover from 01.01.17 to 15.03.17		
1.01.17 to 31.03.17	1,30,000	1,30,000
(-) 16.03.17 to 31.03.17	Nil	
Annual turnover		5,44,000

4. **Trend in Turnover**

Particulars	₹
Sales for the year ended 2014	4,36,000
Sales for the year ended 2015	4,80,000
Sales for the year ended 2016	5,28,000

Increase in 2015 = $\frac{₹\ 4,80,000 - ₹\ 4,36,000}{₹\ 4,36,000}$ = 10.09%

Increase in 2016 = $\frac{₹\ 5,28,000 - ₹\ 4,80,000}{₹\ 4,80,000}$ = 10.0%

From the above we can say there is a increasing trend of 10% in turnover.

5. **Reduction in Turnover**

Particulars	₹
Standard turnover (WN. 2)	1,04,000
Add: Upward trends (10%)	10,400
Adjusted Standard Turnover	1,14,400
Less: Actual sale of dislocation period (WN. 1)	(34,000)
Reduction in turnover	80,400

6. **Gross Profit Ratio**

$= \frac{\text{Net Profit + Insured Standing Charges}}{\text{Turnover for Financial Year}} \times 100$

$= \frac{56,000 + 49,600}{5,28,000} \times 100 = 20\%$

7. **Annual Turnover**

Particulars	₹
Annual turnover (WN. 3)	5,44,000
Add: Upward trends (10%)	54,400
Adjusted Annual Turnover	5,98,400

Claim Calculation: Profit Policy

Particulars	₹
1. Claim in respect of reduction in turnover:	
Reduction in turnover (WN. 5) x G.P. rate (WN. 6) (80,400 x 20%)	16,080
2. Increased cost of working as allowed	Nil
Total	16,080
3. Less Saving in insured standing charges	Nil
Loss of profit	16,080

Average clause:

Particulars	₹
Policy amount is of ₹ 80,000 whereas insurable sum (Adjusted Annual Turnover * GP Ratio = ₹ 5,98,400 x 20/100) is ₹ 1,19,680 that means it is a case of under insurance hence average clause will apply. Claim = $\frac{\text{Loss of Profit}}{\text{Insurable Sum}}$ x Policy Amount Claim = $\frac{16,080 \times 80,000}{1,19,680}$	10,749 (approx.)

AMOUNT OF POLICY

14. 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 Rs. 3 lakh. All other fixed expenses will remain same. The following further details are also available from the previous year's account:

Particulars	₹
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.

Solution:

Trading And Profit & Loss Account of previous year (To find out sales figure of last year)

Particulars	₹	Particulars	₹
To Variable Expenses	24,00,000	By Sales **(Balancing figure)**	32,50,000
To Fixed Expenses (Note)	5,00,000		
To Net Profit (Operating)	3,50,000		
	32,50,000		32,50,000
		By Net Profit (Operating)	3,50,000
To Net Profit	4,20,000	By Misc. Income	70,000

	4,20,000		4,20,000

Note: Fixed expenses = ₹ 3,30,000 + ₹ 30,000 + ₹ 50,000 + ₹ 60,000 + ₹ 10,000 + ₹ 20,000 = ₹ 5,00,000

Last Year's figures

Particulars	₹
Turnover	32,50,000
Net Profit (Operating)	3,50,000
Add: Insured Standing Charges	5,00,000
Gross Profit [₹ 3,50,000 + ₹ 5,00,000]	8,50,000
Gross Profit Ratio = [₹ 8,50,000/ ₹ 32,50,000] x 100	26.1538%

Calculation of Sum to be insured (Next year's forecast)

Particulars	₹
Turnover [₹ 32,50,000 + 20%]	39,00,000
Gross Profit @ 26.1538%	10,20,000
Add: Additional Expenditure (₹ 3,00,000 * 15%)	45,000
∴ Policy should be taken for [₹ 10,20,000 + ₹ 45,000]	10,65,000

Assumption: It is assumed that miscellaneous income is a non-operating income hence the same is excluded in gross profit calculation. Alternatively the same is considered as an operating income then the same will not be excluded from Gross profit.

15. **[Nov. 2010]** 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, suggest the policy amount:

	₹
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

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

Increase in turnover expected 25%

To achieve additional sales, trader has to incur additional expenditure of ₹ 31,250.

Solution:

Calculation of Amount of Policy to be taken.

Last Year's figures

Particulars	₹
Turnover	4,50,000
Net Profit 10%	45,000
Add: Insured Standing Charges	90,000
Gross Profit [₹ 45,000 + ₹ 90,000]	1,35,000
Gross Profit Ratio = [₹ 1,35,000/ ₹ 4,50,000] x 100	30%

Calculation of Sum to be insured (Next year's forecast)

Particulars	₹
Turnover 4,50,000 + 25%	5,62,500
Gross Profit @ 30%	1,68,750
Add: Additional Expenditure	31,250
∴ Policy should be taken for [₹ 1,68,750 + ₹ 31,250]	2,00,000