

Chapter 10

Unit 1: Hire Purchase and Instalment Sale Transactions

Question 1

S Ltd. has a Hire-purchase department. Goods are sold on hire-purchase at cost plus 60%.

From the following particulars draft Hire-purchase trading account and compute profit or loss for the year ended 31st March, 2007:

	Rs.
<i>Goods with customers on 1.4.2006 (instalments are not due)</i>	3,20,000
<i>Instalments due on 1.4.2006 (customers are paying)</i>	20,000
<i>Goods sold on hire-purchase during the year (i.e., from 1.4.2006 to 31.3.2007)</i>	16,00,000
<i>Cash received from customers</i>	11,20,000
<i>Goods re-possessed from customers valued at 40%</i>	16,000
<i>Unpaid instalments in respect of re-possessed goods</i>	40,000
<i>Goods with customers as on 31.3.2007 (at hire-purchase price)</i>	7,20,000
	(8 Marks) (May, 2007)

Answer

In the books of S Ltd.
Hire Purchase Trading Account
for the year ended on 31st March, 2007

	Rs.		Rs.
To Hire Purchase Stock	3,20,000	By Hire Purchase Stock Reserve (W.N.1)	1,20,000
To Instalments due	20,000	By Bank A/c (Cash received)	11,20,000
To Goods sold on Hire Purchase	16,00,000	By Goods Repossessed A/c	16,000
To Hire Purchase Stock Reserve (W.N.3)	2,70,000	By Goods sold on hire purchase (loading) (W.N.2)	6,00,000
To Profit and Loss A/c (balancing figure)	4,26,000	By Hire purchase stock	7,20,000
	_____	By Instalments due (W.N.4)	_____
	<u>26,36,000</u>		<u>60,000</u>
			<u>26,36,000</u>

Working Notes:

		Rs.
1. Opening H.P. Stock reserve	$3,20,000 \times \frac{60}{160}$	1,20,000
2. Loading on goods sold on H.P.	$16,00,000 \times \frac{60}{160}$	6,00,000
3. Closing H.P. Stock reserve	$7,20,000 \times \frac{60}{160}$	2,70,000
4. Calculation of Instalments due at the end of the year		
Opening H.P. Stock + Opening Instalments due + H.P. Sales during the year (i.e., 3,20,000 + 20,000 + 16,00,000)		19,40,000
Less: Cash received from customers	11,20,000	
Instalments unpaid for repossessed goods	40,000	
Closing balance of H.P. Stock	<u>7,20,000</u>	<u>18,80,000</u>
Closing Instalments Due		<u>60,000</u>

Question 2

Ram & Co. acquired a motor lorry on hire-purchase basis. It has to make cash down payment of Rs.1,00,000 at the beginning. The payments to be made subsequently are Rs.2,63,000; Rs.1,85,000 and Rs.1,14,000 at the end of first year, second year and third year respectively. Interest charged is @ 14% per annum. Calculate the cost price of motor lorry and interest paid in each instalment.

(4 Marks) (May, 2008)

Answer**Calculation of cost price and total interest to be paid on motor lorry**

No. of instalment	Amount due at the time of instalment	Interest on cumulative instalment	Cash Price in each instalment
III	1,14,000	$1,14,000 \times \frac{14}{114} = 14,000$	1,00,000
II	1,85,000	$2,85,000^* \times \frac{14}{114} = 35,000$	1,50,000
I	2,63,000	$5,13,000^{**} \times \frac{14}{114} = 63,000$	2,00,000
Cash down payment			<u>1,00,000</u>
Total		<u>1,12,000</u>	<u>5,50,000</u>

* 1,00,000 + 1,85,000 = 2,85,000.

**2,63,000 + 1,50,000 + 1,00,000 = 5,13,000.

Question 3

Wye sells goods on Hire-purchase at cost plus 50%. Prepare Hire Purchase Trading Account from the information given below:

	Rs.
Stock with customers on hire-purchase price (opening)	1,62,000
Stock in hand at shop (opening)	3,24,000
Instalments overdue (opening)	1,35,000
Purchases during the year	10,80,000
Goods repossessed (instalments not due Rs. 36,000)	9,000
Stock at shop excluding repossessed goods (closing)	3,60,000
Cash received during the year	10,35,000
Installments overdue (closing)	1,62,000

The vendor spent Rs.2,000 on goods repossessed and then sold it for Rs. 15,000.

(8 Marks) (November, 2008)

Answer

Hire Purchase Trading Account

	Rs.		Rs.
To Opening balance		By Cash received (on Instalments)	10,35,000
Hire Purchase Debtors	1,35,000	By Stock reserve (Opening) (W.N.2)	54,000
Hire Purchase Stock (Instalments overdue)	1,62,000	By Goods sold on hire purchase (loading) (W.N.1)	5,22,000
To Goods sold on hire purchase (W.N.1)	15,66,000	By Cash received (on sale of re-possessed goods)	15,000
To Cash	2,000	By Closing balance	
To Stock reserve (closing) (W.N.5)	2,10,000	Hire Purchase Stock (Inst. Overdue) (W.N.4)	6,30,000
To Profit and loss account	<u>3,43,000</u>	Hire Purchase Debtors	<u>1,62,000</u>
	<u>24,18,000</u>		<u>24,18,000</u>

Working Notes:

1.

Memorandum Stock at Shop Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	3,24,000	By Goods sold on hire purchase account (at cost)	10,44,000
To Purchases (at cost)	<u>10,80,000</u>	By Balance c/d	<u>3,60,000</u>

	<u>14,04,000</u>		<u>14,04,000</u>	
Goods sold on hire purchase account (at invoice price) 10,44,000 x 150%			Rs.15,66,000	
Loading Rs.15,66,000 – Rs.10,44,000			Rs.5,22,000	
2.	Opening Stock reserve:	$\frac{1,62,000}{150} \times 50 = \text{Rs.}54,000$		
3.	Hire Purchase Debtors Account			
	<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i> <i>Rs.</i>	
To	Balance b/d	1,35,000	By Cash received	10,35,000
To	Goods sold on hire purchase	15,66,000	By Hire purchase stock account (Bal. Fig.)	5,04,000
			By Balance c/d	<u>1,62,000</u>
		<u>17,01,000</u>		<u>17,01,000</u>
4.	Hire Purchase Stock Account			
	<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i> <i>Rs.</i>	
To	Balance b/d	1,62,000	By Goods repossessed (instalments not due)	36,000
To	Hire Purchase Debtors A/c (W.N.3)	<u>5,04,000</u>	By Balance c/d (Bal. fig.)	<u>6,30,000</u>
		<u>6,66,000</u>		<u>6,66,000</u>
5.	Closing stock reserve:	$\frac{6,30,000}{150} \times 50 = \text{Rs.}2,10,000.$		

Question 4

Mr. X purchased a machine on hire-purchase system, Rs.30,000 being paid on delivery and the balance in five instalments of Rs.60,000 each, payable annually on 31st December. The cash price of the machine was Rs.3,00,000. Compute the amount of interest for each year.

(2 Marks) (June, 2009)

Answer

1 st year	=	Amount outstanding for interest after down payment	3,00,000
2 nd year	=	Amount outstanding for interest after 1 st Instalment	2,40,000
3 rd year	=	Amount outstanding for interest after 2 nd instalment	1,80,000
4 th year	=	Amount outstanding for interest after 3 rd instalment	1,20,000
5 th year	=	Amount outstanding for interest after 4 th instalment	60,000

Total interest = Hire Purchase price – Cash Price
= 3,30,000 – 3,00,000 = 30,000

Instalment outstanding ratio = 3,00,000 : 2,40,000 : 1,80,000 : 1,20,000 : 60,000
 = 5:4:3:2:1

			Rs.
Interest for 1 year	=	$\frac{5}{15} \times 30,000$	= 10,000
Interest for II year	=	$\frac{4}{15} \times 30,000$	= 8,000
Interest for III year	=	$\frac{3}{15} \times 30,000$	= 6,000
Interest for IV year	=	$\frac{2}{15} \times 30,000$	= 4,000
Interest for V year	=	$\frac{1}{15} \times 30,000$	= <u>2,000</u>
			<u>30,000</u>

Question 5

Mr. X purchased a machine on hire purchase system. He made cash payment of Rs.30,000 and the balance was payable in 5 annual instalments of Rs.60,000 each. The cash price of the machine is Rs.3,00,000. Assume that the purchase was made on 1st April and the annual instalments are payable on 31st March of every year. Calculate the amount of interest for each year.

(2 Marks) (November, 2009)

Answer

Hire Purchase Price	=	Total of all instalments + Down Payment
	=	(5 x 60,000) + 30,000 = Rs. 3,30,000
Total interest	=	H.P. Price – Cash Price
	=	Rs.3,30,000 – Rs.3,00,000
	=	Rs. 30,000

Statement showing calculation of interest for each year:

Year			Interest Rs.
I	$\text{Rs.}30,000 \times \frac{5}{15}$	=	10,000
II	$\text{Rs.}30,000 \times \frac{4}{15}$	=	8,000
III	$\text{Rs.}30,000 \times \frac{3}{15}$	=	6,000

IV	$\text{Rs.}30,000 \times \frac{2}{15}$	=	4,000
V	$\text{Rs.}30,000 \times \frac{1}{15}$	=	<u>2,000</u>
			<u>30,000</u>

Unit 2: Investment accounts

Question 1

On 1st April, 2008, Mr. Neel purchased 5,000 equity shares of Rs.100 each in X Ltd. @ Rs.120 each from a Broker, who charged 2% brokerage. He incurred ½% as cost of shares transfer stamps. On 31st January, 2009, Bonus was declared in the ratio of 1:2. Before and after the record date of bonus shares, the shares were quoted at Rs.175 per share and Rs.90 per share respectively. On 31st March, 2009, Mr. Neel sold bonus shares to a broker, who charged 2% brokerage.

Show the Investment Account in the books of Mr. Neel, who held the shares as current assets and closing value of investments shall be made at cost or Market value, whichever is lower.

(8 Marks)(June,2009)

Answer

Investment Account in the books of Mr. Neel

For the year ended 31st March, 2009

(Scrip: Equity Shares of X Ltd.)

Dr.				Cr.			
Date	Particulars	Nominal Value (Rs.)	Cost (Rs.)	Date	Particulars	Nominal Value (Rs.)	Cost (Rs.)
1.4.08	To Bank A/c (W.N.1)	5,00,000	6,15,000	31.3.09	By Bank A/c (W.N.2)	2,50,000	2,20,500
31.01.09	To Bonus Shares	2,50,000	-	31.3.09	By Balance c/d (W.N.4)	5,00,000	4,10,000
31.03.09	To Profit and Loss A/c (W.N.3)	-	15,500				
		<u>7,50,000</u>	<u>6,30,500</u>			<u>7,50,000</u>	<u>6,30,500</u>

Working Notes:

1. Calculation of cost of equity shares purchased on 1.4.08

$$= 5,000 \times \text{Rs.}120 + 2\% \text{ of Rs.}6,00,000 + \frac{1}{2}\% \text{ of Rs.}6,00,000 = \text{Rs.}6,15,000$$

2. Calculation of profit proceeds of equity shares sold on 31.3.09

$$= 2,500 \times \text{Rs.}90 - 2\% \text{ of Rs.}2,25,000 = \text{Rs.}2,20,500$$

3. Calculation of profit on sale of bonus shares on 31.3.09

= Sale proceeds – Average cost

$$= 2,20,500 - 2,05,000 \text{ i.e. } \left(6,15,000 \times \frac{2,50,000}{7,50,000} \right) = \text{Rs.}15,500$$

4. Valuation of equity shares on 31.3.09

$$\text{Cost} = 6,15,000 \times \frac{5,00,000}{7,50,000} = \text{Rs.}4,10,000$$

$$\text{Market value} = 5,000 \text{ shares} \times \text{Rs.}90 = \text{Rs.}4,50,000$$

Closing Balance has been valued at Rs.4,10,000 i.e. at cost which is lower than the market value.

Question 2

Mr. T purchased 1,000 nos. 10% debentures of Rs.100 each on 1st April, 2009 at Rs.96 cum-interest, the previous interest date being 31st December, 2008. Compute cost of investment.

(2 Marks) (June, 2009)

Answer

	Rs.
Total amount payable $1,000 \times 96 =$	96,000
Less: Interest included in the price for January, February and March i.e. $1,00,000 \times \frac{10}{100} \times \frac{3}{12} =$	<u>2,500</u>
Cost of the Investment	<u>93,500</u>

Unit 4: Branch Accounts

Question 1

Alphs & Co., having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.2007, it was found that the goods dispatched by head office for Rs.2,00,000 was received by the branch only to the extent of Rs.1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

(2 Marks) (May, 2007)

Answer

Nagpur branch must include the inventory in its books as goods in transit.

The following journal entry must be made by the branch:

Goods in transit A/c	Dr.	50,000
To Head office A/c		50,000

[Being Goods sent by Head office is still in transit on the closing date].

Question 2

Beta Ltd. having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31st March, 2007:

	Head Office (Rs.)	Branch (Rs.)
Opening stock (as on 1.4.2006)	2,25,000	-
Purchases	25,50,000	-
Goods sent to branch (Cost to H.O. plus 80%)	9,54,000	-
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2007.

(8 Marks) (November, 2007)

Answer

Trading and Profit and Loss A/c
For the year ended 31st March 2007

	Head office	Branch		Head office	Branch
	Rs.	Rs.		Rs.	Rs.
To Opening stock	2,25,000	-	By Sales	27,81,000	9,50,000
To Purchases	25,50,000	-	By Goods sent to branch	9,54,000	-
To Goods received from head office	-	9,54,000	By Closing stock (W.N.1 & 2)	7,00,000	99,000
To Gross profit c/d	<u>16,60,000</u>	<u>95,000</u>			
	<u>44,35,000</u>	<u>10,49,000</u>		<u>44,35,000</u>	<u>10,49,000</u>
To Office expenses	90,000	8,500	By Gross profit b/d	16,60,000	95,000
To Selling expenses	72,000	6,300			
To Staff salaries	65,000	12,000			
To Branch Stock Reserve (W.N.3)	44,000	-			
To Net Profit	<u>13,89,000</u>	<u>68,200</u>			
	<u>16,60,000</u>	<u>95,000</u>		<u>16,60,000</u>	<u>95,000</u>

Working Notes:**(1) Calculation of closing stock of head office:**

	Rs.
Opening Stock of head office	2,25,000
Goods purchased by head office	<u>25,50,000</u>
	27,75,000
Less: Cost of goods sold $[37,35,000 \times 100/180]$	<u>20,75,000</u>
	<u>7,00,000</u>

(2) Calculation of closing stock of branch:

Goods received from head office [At invoice value]	9,54,000
Less: Invoice value of goods sold $[9,50,000 \times 180/200]$	<u>8,55,000</u>
	<u>99,000</u>

* Rs.27,81,000 + Rs.9,54,000

(3) Calculation of unrealized profit in branch stock:

Branch stock	Rs.99,000
Profit included	80% of cost

Hence, unrealized profit would be = Rs. 99,000 x 80/180 = Rs.44,000

Question 3

Goods worth Rs.50,000 sent by head office but the branch has received till the closing date goods for worth Rs.40,000 only. Give journal entry in the books of H.O. and branch for goods in transit.

(2 Marks) (November, 2008)

Answer

Journal entry in the books of Head Office

No entry

Journal entry in the books of Branch

		Rs.	Rs.
Goods-in-transit account	Dr.	10,000	
To Head Office account			10,000

(Being goods sent by head office is still in transit)

Question 4

Pawan & Co. of Delhi has a branch at Jaipur. Goods are invoiced to the branch at cost plus 25%. The branch is instructed to deposit the receipts everyday in the head office account with the bank. All the expenses are paid through cheque by the head office except petty cash expenses which are paid by the Branch.

From the following information, you are required to prepare Branch Account in the books of Head office:

	Rs.
Stock at invoice price on 1.4.08	1,64,000
Stock at invoice price on 31.3.09	1,92,000
Debtors as on 1.4.08	63,400
Debtors as on 31.3.09	84,300
Furniture & fixtures as on 1.4.08	46,800
Cash sales	8,02,600
Credit sales	7,44,200
Goods invoiced to branch by head office	12,56,000
Expenses paid by head office	2,64,000
Petty expenses paid by the branch	20,900
Furniture acquired by the branch on 1.10.08 (payment was made by the branch from cash sales and collection from debtors)	5,000

Depreciation to be provided on branch furniture & fixtures @ 10% p.a. on WDV basis.

((8 Marks) (November, 2009)

Answer**In the Books of Pawan & Co., Delhi (Head Office)****Jaipur Branch Account**

	Rs.		Rs.
To Opening balances:		By Branch stock reserve	32,800
Branch stock A/c	1,64,000	By Bank A/c (W.N.4)	15,00,000
Branch debtors A/c	63,400	By Goods sent to branch A/c (Loading)	2,51,200
Branch furniture A/c	46,800		
To Goods sent to branch	12,56,000	By Closing Balances:	
To Bank A/c (branch expenses)	2,64,000	Branch stock A/c	1,92,000
To Branch stock reserve A/c	38,400	Branch debtors A/c	84,300
To Profit and loss A/c (Bal. Fig.)	<u>2,74,570</u>	Branch furniture A/c (W.N.2)	<u>46,870</u>
	<u>21,07,170</u>		<u>21,07,170</u>

Working Notes:**1. Depreciation on furniture**

	Rs.
10% p.a. on Rs.46,800	4,680
10% p.a. for 6 months on Rs.5,000	<u>250</u>
	<u>4,930</u>

2. Closing balance of branch furniture as on 31.3.2009

	Rs.
Branch furniture as on 1.4.2008	46,800
Add: Acquired during the year	<u>5,000</u>
	51,800
Less: Depreciation (W.N.1)	<u>4,930</u>
Branch furniture as on 31.3.2009	<u>46,870</u>

3. Collection from branch debtors**Branch Debtors Account**

	Rs.		Rs.
To Balance b/d	63,400	By Bank A/c (Bal.Fig.)	7,23,300
To Sales	<u>7,44,200</u>	By Balance c/d	<u>84,300</u>
	<u>8,07,600</u>		<u>8,07,600</u>

4. Cash remitted by the branch to head office

Cash sales + Collection from debtors – Petty expenses – Furniture acquired by branch

Rs.8,02,600 + Rs.7,23,300 (W.N. 3) – Rs.20,900 – Rs.5,000 = Rs.15,00,000

Unit 5: Insurance Claim

Question 1

On 2.6.2007 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

	Rs.
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 Rs.75,000 being the goods not dispatched to the customers. The sales invoice price is Rs.75,000.

Purchases upto 2.6.2007 includes a machinery acquired for Rs.15,000.

Purchases upto 2.6.2007 does not include goods worth Rs.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 Rs.22,500 and this has been handed over to the insurance company.

The insurance policy is for Rs.1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

(8 Marks) (May, 2007)

Answer

In the books of Mr. Black

Trading Account for the year ended 31.3.2007

	Rs.		Rs.
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock at cost	1,80,000
To Gross Profit	3,00,000		
		$\left(1,62,000 \times \frac{100}{90}\right)$	
	<u>10,80,000</u>		<u>10,80,000</u>

Memorandum Trading A/c

for the period from 1.4.2007 to 02.06.2007

To Opening Stock at cost	1,80,000	By Sales	4,80,000
To Purchases	2,25,000	Less: Goods not	
Add: Goods received but		dispatched <u>75,000</u>	4,05,000

invoice not received	<u>30,000</u>		By	Closing stock (Balancing figure)	1,50,000
	2,55,000				
Less: Machinery	<u>15,000</u>	2,40,000			
To Gross Profit (Refer working note)	<u>1,35,000</u>				
	<u>5,55,000</u>				<u>5,55,000</u>

Calculation of Insurance Claim

Claim subject to average clause = Actual loss of stock x Amount of Policy / Value of stock on the date of fire

$$= 1,50,000 * \left(\frac{1,20,000}{1,50,000} \right) = \text{Rs. } 1,20,000$$

Working Note:

$$\text{G.P. ratio} = \frac{3,00,000}{9,00,000} \times 100 = 33 \frac{1}{3} \%$$

$$\text{Amount of Gross Profit} = \text{Rs. } 4,05,000 \times 33 \frac{1}{3} \% = \text{Rs. } 1,35,000$$

Question 2

On 11.11.2007 the premises of Rocky Ltd. was destroyed by fire. The following information is made available:

	Rs.
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
Purchases 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 Rs.22,000 was written off.

In June, 2007 about 50% of this stock was sold for Rs.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 amounts to Rs.11,500.

Compute the value of stock lost in fire.

(8 Marks) (May, 2008)

* Salvaged stock amounting Rs.22,500 handed over to the insurance company is also a loss to Mr. Black.

Answer

In the books of Rocky Ltd.
Trading Account for the year ended 31.3.2007

	Rs.		Rs.
To Opening stock	3,75,000	By Sales	8,55,000
To Purchases	5,20,000	By Closing stock (W.N.)	2,11,000
To Gross profit (Bal. fig.)	<u>1,71,000</u>		
	<u>10,66,000</u>		<u>10,66,000</u>

$$\begin{aligned}
 \text{Gross profit ratio of 2006-2007} &= \frac{\text{Gross profit}}{\text{Sales}} \times 100 \\
 &= \frac{\text{Rs. 1,71,000}}{\text{Rs. 8,55,000}} \times 100 \\
 &= 20\%
 \end{aligned}$$

Memorandum Trading Account
for the period 1.4.2007 to 11.11.2007

	<i>Normal</i> Rs.	<i>Abnormal</i> Rs.		<i>Normal</i> Rs.	<i>Abnormal</i> Rs.
To Opening stock	1,89,000	11,000	By Sales	4,30,000	5,500
To Purchases	3,41,000		By Closing stock	1,86,000	5,500
To Gross profit @ 20%	<u>86,000</u>				
	<u>6,16,000</u>	<u>11,000</u>		<u>6,16,000</u>	<u>11,000</u>

Computation of stock lost in fire:

$$\begin{aligned}
 \text{Closing stock} &= \text{Normal stock} + \text{Abnormal stock} \\
 &= \text{Rs. 1,86,000} + \text{Rs. 5500} \\
 &= \text{Rs. 1,91,500} \\
 \text{Less: Stock salvaged} &\quad \underline{\text{Rs. 11,500}} \\
 \text{Stock lost in fire} &\quad \underline{\text{Rs. 1,80,000}}
 \end{aligned}$$

Working Note:

$$\begin{aligned}
 \text{Closing stock} &= \text{Closing stock as given} + \text{Amount written off} \\
 &= \text{Rs. 2,00,000} + \text{Rs. 11,000} \\
 &= \text{Rs. 2,11,000}
 \end{aligned}$$

Question 3

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: Rs. 1,08,900;
5. Sales were Rs. 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 Rs. 72,000;
7. Rate of Gross profit 18%;
8. Uninsured standing charges Rs. 6,000;
9. Turnover during the disruption period Rs. 67,500;
10. Annual turnover for 12 months immediately preceding the date of fire Rs. 6,60,000;
11. Standard turnover i.e. for corresponding months (1st September to 1st February) in the year preceding the date of fire Rs. 2,25,000;
12. Increase in the cost of working capital Rs. 12,000 with a saving of insured standing charges Rs. 4,500 during the disruption period;
13. Reduced turnover avoided through increase in working capital Rs. 30,000;
14. Special clause stipulated:
 - a. Increase in rate of G.P. 2%.
 - b. Increase in turnover (standard and annual) 10%.

(8 Marks) (November, 2008)

Answer

Computation of the amount of claim for consequential loss:

(i)	Calculation of short sales:	Rs.
	Standard turnover of 1 st September to 1 st October (preceding)	2,25,000
	Add: Increase of 10% due to upward trend	<u>22,500</u>
	Adjusted turnover	2,47,500
	Less: Actual turnover during disruption period i.e. 1 st September to 1 st October (following)	<u>67,500</u>
		<u>1,80,000</u>

(ii) **Increased rate of G.P.** = 18% + 2% = 20% on sales.

(iii) **Loss of profit on short sales** = 20% of Rs.1,80,000 = Rs.36,000.

(iv) **Calculation of claim for increased cost of working capital:**

	Increased cost of working will be lower of	Rs.
(i)	Actual expense	12,000

$$(ii) \quad \text{Additional expenses} \times \frac{\text{G.P. on Annual turnover}}{\text{G.P. on Annual turnover} + \text{Uninsured charges}} \\ 12,000 \times \frac{1,45,200}{1,45,200 + 6,000} \quad 11,523$$

$$(iii) \quad \text{G.P. on additional sales} = 30,000 \times 20\% \quad 6,000$$

Rs. 6,000 is lower of above three, so additional expenses would be Rs. 6,000

Net claim for increased cost of working capital = Rs.6,000 minus savings in insured standing charges
= Rs.6,000 – Rs.4,500 = Rs.1,500

(v) Calculation of adjusted annual sales	Rs.
Sales for 12 months preceding the date of fire	6,60,000
Add: 10% of increase in trend	<u>66,000</u>
Adjusted Annual Sales	<u>7,26,000</u>

(vi) Insurable Amount i.e gross profit on adjusted annual sales	Rs.
Adjusted annual sales	7,26,000
Rate of Gross Profit	20%
Insurable amount (Rs.7,26,000 x 20%)	1,45,200

(vii) Amount of Insurance Claim:

$$= \frac{\text{Insured Amount}}{\text{Insurable Amount}} \times \text{Total Loss (Loss of profit + Claim for increased cost)}$$

$$= \frac{1,08,900}{1,45,200} \times (36,000 + 1,500)$$

$$= \text{Rs.28,125.}$$

Question 4

What is "average clause" under insurance claim?

(2 Marks)(June, 2009)

Answer

When a businessman wants to reduce the burden of Insurance Premium and wants to take an insurance policy which is less than the value of average stock, it is known as under insurance. For discouraging the under-insurance, fire insurance policies contain an average clause. In such a case, the net claim is calculated by using following formula:

$$\text{Amount of claim} = \frac{\text{Amount of Policy}}{\text{Insurable Amount}} \times \text{Actual Loss}$$

Question 5

Calculate the amount of Insurance claim to be lodged, based on the following information:

Value of stock destroyed by fire	Rs.90,000
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<i>Insurance policy amount (subject to average clause)</i>	<i>Rs.65,000</i>
<i>Value of stock salvaged from fire</i>	<i>Rs.40,000</i>

(2 marks) (November, 2009)

Answer

Total stock before fire = Rs. 90,000 + Rs.40,000 = Rs.1,30,000.

$$\begin{aligned} \text{Amount of insurance claim} &= \frac{\text{Stock destroyed by fire}}{\text{Total stock before fire}} \times \text{Amount insured} \\ &= \frac{\text{Rs.90,000}}{\text{Rs.1,30,000}} \times \text{Rs.65,000} = \text{Rs.45,000} \end{aligned}$$