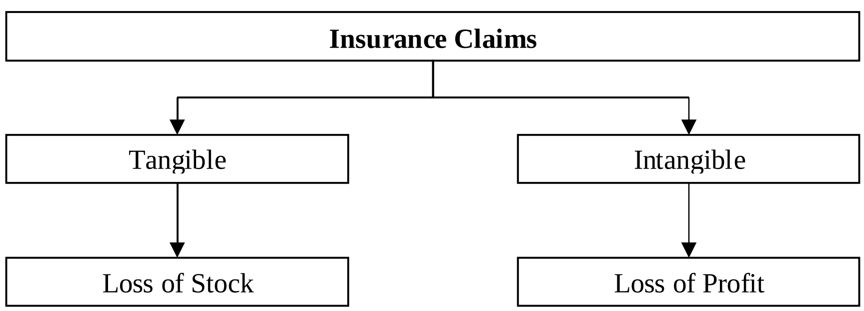
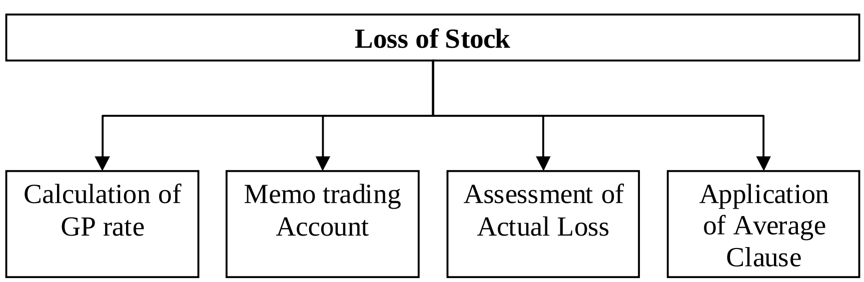
Introduction:
The act of God such as accidental loss of assets due to fire, flood, earthquake etc. cannot be prevented from happening. But the sufferings can be alleviated if insurance policy is taken. Either by choice or force, businessmen quite often take insurance policy as a matter of routine. Of various types of assets available for insurance, policy on stock is very interesting because of its volatility. Estimate of loss is easier for any type of loss as movements in them are less frequent. But in case of stock, it is ever changing hour after hour. Even with the help of advanced computing techniques, tracking the quantity lost is a big problem. The businessman would have lost not only the stock but also at loss of information. To submit figures to the insurance company, the policyholder prepares statement similar to that of a trading account, which would be referred to as Memorandum Trading account.





Loss of stock policy

Step No:1. **Calculation of Gross Profit Ratio**
Normally the earlier year figures forms the base for the calculation of any matter on submission on insurance claim. Calculation of GP rate is no exception. The previous year GP ratio shall be considered for the broken period, if there is no other information contrary to that effect. If the earlier years' rates are consistently ascending, then average rate shall be used. If rates are descending, then the next rate shall be taken. If the rates are not consistent (with fall and raise), then average rate shall be considered.

Step No.2: **Memorandum Trading Account**
Normal items and damaged items of stocks are to be considered in columnar form. Abnormal items are damaged, spoilt, slow moving items etc., sold at different prices are to be excluded from the preparation of Memorandum Trading Account.

Step No.3: **Assessment of Actual Loss**
Not all items would be lost in the accident. Prudent businessmen, employees would save some stock from the accident and this will be abated from the claim.

Step No4: **Application of Average Clause**
To discourage under insurance, the claim amount would proportionately be reduced keeping the policy to the subject matter ratio. In case the policy is taken for Rs.7.5 Lacs against the stockholding at the time of accident of Rs.10 Lacs, the claim on the actual loss of Rs.6 Lacs would be reduced to Rs.4.5 Lacs. This shall be arrived by applying the Policy to Subject matter ratio of 75% on the actual loss. To get fuller value of loss indemnified, the policyholder shall have to pay premia on the fuller value of the stockholding, lest the claim would be subject to average clause.

In the arrival of the closing stock for average clause purpose, all stocks lying at various places shall be reckoned, such are those stocks lying at customers' places pending approval on "Sale or Return" basis sales, at consignee places, in transit etc. Any happening on the stocks wherever lying shall be covered by the policy, is the spirit behind such inclusions.

Loss of Profit policy or consequential loss policy

Step 1:Calculation of Short Sales

Sales during indemnity period of the corresponding months of previous year	xxx
Add /Less: According to the trend	xxx
Standard Turnover	xxx
Less: Actual Turnover during Indemnity Period	xx
Short Sales	xxx

Step 2: Calculation of Gross Profit

Gross Profit = Net Profit + Insured standing charges

Step 3: Calculation of Gross Profit Ratio

(Gross Profit / Sales) * 100	=	X%
Add / Less: Changes in Selling Price	=	Y%
		Z%

Step 4. Calculation of Gross Profit on Short Sales (1 x 3)

Step 5: Calculation of AAT (Adjusted Annual Turnover)

Sales of the immediately preceding 12 months from the date of fire	XXX
Add/Less : ↑/↓ According to the Trend	XX

AAT	XXX

Step 6. Gross Profit in AAT (3 x 5)

Step 7. Increased Working Expenditure (IWE)

a. Actual expenditure

b. $$\frac{\text{GP on AAT}}{\text{GP on AAT + Uninsured Insured Standing charges}} \quad \text{X} \quad \text{IWE}$$

c. GP on RITA

d. GP on Actual turnover

Step 8. Savings in expenses

Step 9. Preliminary claim = (4 + 7 - 8)

Step 10. Application of Average claims

$$\frac{\text{Policy}}{\text{Gross Profit on AAT}} \quad \text{X} \quad \text{Preliminary Claim}$$

Note 1: Step No. 10 shall be applied if the policy amount is lesser than GP on AAT. In all other cases preliminary claim is the final answer.

Note 2: Expenses incurred to put out fire will normally be reimbursed without subjecting to average clause.

Reduction in Turnover Avoided

The term can be understood through an example. Stocktaking was conducted in the godown of X Limited on 31.3.2007 when fire engulfed a portion of the stores. It destroyed some stock, furniture etc. From the next day sales were carried out from a nearby place. The sales during the period of rehabilitation were reported at Rs.40 lacs. The company paid rent to the new place of business (temporary) at Rs.4 Lacs. This rent was forced on the company only on account of the accident and the same was claimed on the insurance company. The insurance company questioned as what would have been the sales without the new place of business (temporary). The policyholder claimed that sales would have been Rs.15 Lacs without that place of temporary business. It is inferred that the reduction in turnover of Rs.25 Lacs, is nothing but boost in sales during the indemnity period. The insurance company would enquire as whether the additional working expenses in paying rent is justified for the additional gross profit out of R.I.T.A. Assume the GP rate is stable at 15%, the insurance company would reimburse only Rs.3.75 lacs and not the actual spending of Rs.4 Lacs. It would mean that the company had not generated adequate income to justify the expenditure.