Insurance Claim

There are two policies:-

1. Loss of stock policy or stock insurance.

2. Loss of profit or consequential loss policy.

1. Loss of stock policy or stock insurance:-

Step.1

Determination of GP rate of last accounting year or accounting year.

Step.2

Prepare memorandum trading A/c from the date of current year beginning upto the date of fire. The GP rate calculated above will be used and closing stock on the date of fire will be calculated as balancing figure.

Step.3

Calculation of loss of stock: -

Value of stock on the date of fire	xxx
Less: - salvaged stock [In good and damaged condition]	(xxx)
Loss of stock	xxx

Step.4

Calculation of amount of claim:-

- Average clause is not applicable when the amount of policy is equal to more than the value of stock on the date of fire in the godown [before salvaged] then the amount of policy or loss of stock. Whichever is lower will be amount of claim.
- If the amount of policy is less than value of stock on the date of fire in the godown then average clause will be applicable and therefore the amount of claim will be calculated as following :-

Amount of claim : -

$$\left[\frac{\text{Loss of stock} \times \text{Amount of Policy}}{\text{Value of stock on the date of fire}} \right]$$

2. Loss of profit policy or consequential loss policy: -

Computation of amount of claim under loss of profit policy is as under.

Step1:

Determination of indemnity period

Lower of following will be indemnity period: -

- As per policy…….months
- Actual dislocation period…..months

Step2:

Calculation of short sales

Standard sales	
[i.e. sales during the corresponding indemnity period in last year]	xxxx
Add/Less: - Upward or downward trend @…..%	+/-
Adjusted Standard Sales	xxx
Less: - Actual Sales during Indemnity Period	xxx
Short Sales	xxx

Step3:

Calculation of GP rate

For profit in last year:-

$$\left[\frac{\text{Net profit of last financial years} + \text{insurance standing charges}}{\text{Sales of last year financial years}} \times 100\right]$$

For loss in last year:-

$$\left[\frac{\text{Insured Standing Charges} - \left(\dfrac{\text{Loss during last F.Y.} \times \text{Insured Standing Charges}}{\text{Total Standing Charges}}\right)}{\text{Sales of last financial year}}\right]$$

Step4:

Calculation of Loss of Profit

Loss of Profit = Short Sales **X** GP Rate

Step5:

Calculation of adjusted annual sales

Annual sales	
[I.e. sales of 12 months just preceding to the date of fire]	xxxx
Add/less: - Increasing /decreasing trend	xxxx
Adjusted Annual Sales	xxxx

Step6:

GP on adjusted annual sales = Adjusted Annual Sales **X** GP rate

Step7:

Calculation for additional working expenses

(a) Actual amount of additional working expenses.

(b) [Increasing in sales due to additional working expenses **X** GP rate].

(c) $$\left[\frac{\text{Additional working expenses} \times \text{GP on adjusted annual sales}}{\text{GP on adjusted annual sales + uninsured standing charges}}\right]$$

Whichever is lower will be taken.

Step8:

Gross claim calculation

Claim for loss or profit	xxxx
Add: - claim for additional working expenses	xxxx
	Xxxx
Less: - Saving in insured standing charges	
During indemnity period	xxxx
Gross Claim	xxxx

Step9:

Calculation of net amount of claim

- If amount of policy is equals to or more then the GP on adjusted annual sales then no average clause will be applicable and therefore the amount of gross claim will be net claim.
- If the amount of policy is less than the GP on adjusted annual sales then average clause will be applicable. The amount of claim will be calculated as follows:-

Amount of claim

$$\left[\frac{\text{Gross claim} \times \text{amount of policy}}{\text{GP on adjusted annual sales}}\right]$$