Insurance Claim
Practice Questions

Dear Students. The following questions have been taken from the last 10 years' question paper and other different books for your Practice. Endeavour has been made to make this compilation error–free, yet mistakes may have crept in for which I am apologetic. Suggestions are welcome for improving this compilation from every walk of the society. Readers should feel free to write me about their queries at my email ***tss_chd@hotmail.com****.*

Average Clause

A fire insurance policy normally includes an average clause. The effect of his clause is that if the value of stock or any asset insured on the date of fire is more than the amount of policy taken, the full value of stock or any asset destroyed does not become payable to the insured but the insurance company pays the proportion of the loss which the amount of policy taken bears to the total value of stock or any asset in hand on the date of fire. In case of under insurance, the claim which is admitted by the insurance company can be calculated with the help of following formulae :

$$\text{Value of stock destroyed} \times \frac{\text{Value of Insurance Policy}}{\text{Value of stock on the date of fire}}$$

For example : X got his stock insured against fire for a sum of Rs. 6,00,000. Subsequently fire occurred and destroyed a part of stock of Rs. 5,50,000. Stock of the value of Rs. 2,00,000 was salvaged. The policy was subject to average clause. In this case, the amount of claim for loss of stock will be calculated as under :

$$\text{Net Claim} = 5,50,000 \times \frac{6,00,000}{7,50,000} = \text{Rs. } 4,40,000$$

Loss of Stock by fire

Step 1 : Calculate Gross Profit Ratio

The percentage of G.P. on sales so that cost of goods sold during the year of fire can be calculated. If no information is given, then the percentage of G.P. on sales earned last year is applied to the current year and for this purpose Trading account of the last year may be prepared to calculate the G.P. ratio of the last year. If rate of gross profit of the last year is given in the question, then this Step is not required.

Step 2 : Calculate the value of stock on the date of fire

The Memorandum Trading Account of the current year upto the date of fire on the basis of opening stock, purchases and sales from the beginning of the year to the date of fire and estimated G.P. on the basis of last year's G.P. ratio is prepared. Any balance left the Memorandum Trading Account will be the estimated value of stock in hand on the date of fire.

Step 3 : Calculate the actual amount of claim to be lodged

The actual amount of claim for the loss of stock to be lodged with the insurance company is calculated as follows :

Value of stock on the date of Fire (As per Memorandum Trading Account) = _____

Less Value of Stock salvaged

Value of stock destroyed by fire (i.e. Amount of Claim)

If stock in trade of the last year was not valued at cost, it should be adjusted to cost to calculate the correct percentage of G.P. on sales to be applied to the current year . If there is a poor selling line stock in opening and closing stock, such stock should be eliminated from the Trading account of the last year to get the G.P. ratio to be applied to the current year. Any sale of poor selling line should also be deducted from the total sales to find out normal sales because G.P. is to be applied to the normal sales. The same procedure is to be applied for poor selling line stock and sales in case of Memorandum Trading account.

If, G.P. ratios for a number of years are given, an average of these should be calculated to find out the G.P. ratio to be applied to the current year. If there is a continuous and persistent fall the G.P. ratio from year to year, then average G.P. ratio of number of years should not be applied. Rather a reasonably declining rate of G.P as compared to the previous year should be applied to the current year.

Step 4 : Apply Average Clause

In case of under insurance, the final amount of claim is calculated by applying the Average Clause (Refer Q1).

$$\text{Value of stock destroyed} \times \frac{\text{Value of Insurance Policy}}{\text{Value of stock on the date of fire}}$$

Loss of Profit Insurance or Consequential Loss Policy

When a fire occurs in a business, not only assets like building, furniture, Machinery, stock etc are destroyed but it also results in partial or total stoppage of business leading to trading losses. Therefore, a separate policy known as consequential loss policy is taken to cover the following losses due to fire :

1. Loss of profit due to inability to produce and sell.
2. Loss of standing or fixed charges due to their non–recovery or less recovery because of no or less production as a result of fire.
3. Increased cost of working as a result of fire such as renting a new business place temporary for conducting the business operations.

Calculation of Claim for Loss of Profit

Following steps to be followed in calculation of claim for loss of profit :

Step 1 : Calculate Short Sales

1. Calculate SHORT SALES by comparing the *sales made during the abnormal period in the year of fire* with the sales of the *same period of the year preceding the year of fire*.

Important Point : Calculation of SHORT SALES is to be made for the period of dislocation due to fire or the period of indemnity for which policy is taken, WHICHEVER IS LESS.

The amount of SHORT SALES is calculated *by adjusting the normal or standard turnover for any increase of decrease expected in the year of fire* as a result of increasing or decreasing or increasing trend in the turnover.

Short Sales = Standard Turnover (adjusted) – Actual Turnover during indemnity period.

Standard Turnover means the turnover during that period in the 12 months immediately before the date of fire which corresponds with the indemnity period.

For example : A fire occurred on 1st May 2001 and its effect continued upto 30th September, 2001 . Period of indemnity is 6 months. Sales from 1st May 2001 to 30th September 2001 are only Rs. 50,000, while sale from 1st May 2000 to 30th September, 2000 were Rs. 3,50,000. In this case the short sales will be calculated as under :

Sales during 1st May 2000 to 30th September 2000	3,50,000
Less Sales during 1st May 2001 to 30th September, 2001	50,000
Short Sales will be	**3,00,000**

Step 2 : Calculate Rate of Gross Profit of the Financial year Preceding the year for Fire.

The formula for calculating gross profit is :

$$\text{Rate of Gross Profit} = \frac{\text{Net Profit + Insured Standing Charges}}{\text{Sales of the financial year preceding the year of fire}} \times 100$$

Step 3 : Calculate Loss of Profit on Short Sales

Loss of Profit = Short Sales x Rate of Gross Profit (as calculated in Step 2)

Step 4 : Calculate Increased Cost of Working or Add Additional Expenses

Add increased cost or additional expenses to mitigate the effect of loss on account of short sales to the loss of profit as calculate in Step 3. The CLAIM for INCREASED COST OF WORKING is restricted to the lowest of the following amounts :

(a) Actual increased working expenses

(b)
$$\frac{\text{Net Profit + Insured Constant Expenses}}{\text{Net Profit + All Constant Expenses}} \times \text{Increased Working Cost}$$

OR

$$\frac{\text{Gross Profit on preceding 12 month's sale}}{\text{Gross Profit on preceding 12 months' sales + Uninsured Expenses}} \times \text{Increased Working Cost}$$

(c) Gross profit on sales resulting from the increased working expenses

Step 5 : Calculate Amount of Gross Claim for Loss of Profit (But subject to Average Clause)

DEDUCT THE AMOUNT OF EXPENSES SAVED as a result of fire from the TOTAL CLAIM as calculated in Step 4. The balancing figure will be the amount of GROSS CLAIM for Loss of Profit.

Step 6 : Apply Average Clause (if Required)

The Gross Claim as calculated in Step 5 is subjected to AVERAGE CLAUSE

$$\text{Gross Claim} \times \frac{\text{Amount of Policy}}{\text{Gross Profit on 12 months' (adjusted) sales immediately preceding the date of fire}}$$

The amount so calculated will be amount of CLAIM FOR LOSS OF PROFIT to be lodged with insurance company.

When the Average Clause is to be applied

1. If the AMOUNT OF THE POLICY is **LESS** than the GROSS PROFIT on the ADJUSTED TURNOVER of 12 MONTHS preceding the Date of Fire.

2. For calculation of ADJUSTED TURNOVER, Adjustments are made to the TURNOVER OF 12 MONTHS immediately PRECEDING THE DATE OF FIRE

3. Similarly, the Amount of SHORT SALES will be adjusted if any increase or decrease is to be expected.

PRACTICAL QUESTIONS

1. A fire occurred on 25th August 2002when a large part of stock destroyed. Following detail is available for the period January 1, 2002 to August 25, 2002 : Purchases Rs.1,70,000; Sales Rs.1,80,000; Goods costing Rs.10,000 taken for domestic use; Stock at cost (January 1) Rs.80,000; Salvage Rs.30,000. the company sells goods at gross margin of 33 1/3%. Insurance policy was for Rs.1,00,000. Compute insurance claim.

2. A fire occurred on 15th September 2000 in the godown of M/s A and B. From the following figures ascertain the claim to be lodged:

Stock on 1st April 2000	1,05,300
Purchase\s from 1st April 2000 to the date of fire	3,50,400
Manufacturing Expenses and Wages	2,60,000
Sales from 1st April 2000 to the date of fire	6,76,000
Goods used by the partners themselves (at Cost)	10,500

The rate of Gross Profit is 30% on cost. The stock salvaged was valued at Rs.36,000.

3. A fire occurred in the premises of X on 25th August, 2004, when a large part of the stock was destroyed. Salvage value was Rs.15,000. Following additional information is available :

a) Purchases Rs.85,000
b) Sales Rs.90,000
c) Goods costing Rs.5,000 were taken by X for personal use.
d) Cost price of stock on January 1, 2004 was Rs.40,000.

Over the fast few years X has been selling goods at a gross profit of 33 1/3%. The insurance policy was for Rs.50,000. It included an average clause. X asks you to prepare a statement of claim to be made the insurance company.

4. A fire occurred in the premises of Mr.Y on June 15, 2000 and a considerable part of the stock was destroyed. The value of the stock saved was Rs.4,000. The books disclosed that on 1st April, 2000 the stock was valued art s.45,000; the purchases up to the date of fire amounted to Rs.1,25,000 and the sales to Rs.1,80,000. On investigation, it was found that during the past five years, the average gross profit on sales was 30%. You are required to prepare a statement showing the amount Mr.Y should claim from the insurance company in respect of stock destroyed by fire.

5. A fire occurred on 25th April 2000 in the premises of a company. From the following particulars, ascertain the amount of claim to be lodged in case of the loss of stock which was insured :

	Rs.
Stock as on 1–1–2000	2,50,000
Purchases from 1–1–2000 to the date of fire	10,00,000
Wages	2,00,000
Manufacturing Expenses	1,00,000
Sales from 1–1–2000 to the date of fire	15,00,000

The gross ratio is 15%. The stock salvaged was estimated at Rs.57,500

6. On 15th June, 1995 the premises of Ram and Laxman were destroyed by fire but sufficient records were saved from which the following particulars were ascertained :

Stock at Cost on 1.1.1994	73,500
Stock at Cost on 31.12.1994	79,600
Purchases less returns for the year ended 31.12.1994	3,98,000
Sales less returns for the year ended 31.12.1994	4,87,000
Purchases less returns from 1st January, 1995 to 15th June, 1995	1,62,000
Sales less returns from 1st January 1995 to 15th June, 1995	2,31,200

In valuing stock for Balance Sheet at 31st December, 1994 Rs.2,300 had been written off certain stock which was of a poor selling line, having cost Rs.6,900. A portion of these goods was sold in March, 1995 at a loss of Rs.250 on the original cost of Rs.3,450. The remainder of this stock was now estimated to worth the original cost. Subject to the above exception gross profit had remained at a uniform rate throughout. The stock salvaged was Rs.5,800. Show the amount of claim.

7. Fire occurred in the premises of A & Co. on 1st September 2001 and stock of the value of Rs.5,05,000 was salvaged and the business books and records were saved. The following information was obtained :

Purchases for the year ended 31.03.2001	35,00,000
Sales for the year ended 31.03.2001	55,00,000
Purchases from 01.03.2001 to 01.09.2001	12,00,000

Sales from 01.03.2001 to 01.09.2001	18,00,000
Stock on 31.03.2000	15,00,000
Stock on 31.03.2001	17,00,000

Further information is also given that the stock on 31.3.2001 was overvalued by Rs.1,00,000. Calculate the amount of claim to be presented to the insurance company in respect of losses. Rate of gross profit is to be based on the year ended 31.03.2001.

8. On 1.04.2004, the godown of Stone Ltd. Was destroyed by fire. Following particulars were revealed from records :

Stock on 1.1.2003	75,000
Stock on 31.12.2003	80,000
Purchases during 2003	3,10,000
Sales during 2003	4,00,000
Purchases from 1st January to 1.4.2004	75,000
Sales from 1st January to 1.4.2004	1,00,000

While valuing the closing stock of 2003, Rs.5,000 were written off those whose cost was Rs.4,800. Part of this stock was sold in 2004 at a loss of Rs.400 whose cost was Rs.2,400. Stock salvaged was Rs.5,000. Stock was fully insured. Remaining abnormal stock is valued at cost. Calculate insurance claim for loss of stock.

9. The premises of P were destroyed by fire on 3-0–6–2000. The following figures, however were collected from various sources. Prepare a statement of claim in respect in respect of the loss of stock for submission to the Fire Insurance Company. The firm closes its books on 31st December every year.

Details	1997 (Rs.)	1998 (Rs.)	1999 (Rs.)	30–06–2000 (Rs.)
Opening stock	20,000	22,000	11,800	34,020
Purchases less returns	1,60,000	1,45,000	1,70,000	35,000
Sales less returns	2,00,000	1,98,500	1,87,500	26,000
Freight (inward)	5,000	3,000	5,000	1,000
Freight (outward)	6,000	7,000	3,000	250

In 1997, while valuing closing stock, a slow moving item costing Rs.5,000 was valued at Rs.4,000. This was sold for Rs.4,500 in 1998. In 1998 an item costing Rs.6,000 was wrongly valued at Rs.7,000. This was sold for Rs.5,500 in 1999. In 1999 a slow moving item costing Rs.12,000 was valued at Rs.10,000; 50% of which was sold before 30–06–2000 for Rs.6,000. The value of salvage was Rs.8,000.

10. From the following figures, calculate the amount of claim to be lodged for loss of stock :

Stock at cost on 1st January, 2000	90,000
Stock at cost on 1st January, 2001	70,000
Purchases during 2000	4,00,000
Purchases from 1st January, 2001 to 30th September, 2001	6,00,000
Sales during 2000	6,00,000
Sales from 1st January, 2001 to 30th September, 2001	8,80,000

You are informed that –

a) In 2001 the cost of purchase have risen by 20% above the level prevailing in 2000.
b) In 2001 the selling prices have gone up by 10% over the levels prevailing in 2000.
c) Salvage Value is Rs.5,000

11. On 1st January, 2006, trader took loss of profit policy for Rs.37,500 with a period of indemnity of 6 months. For the financial year ended 31st December, 2005, the net profit earned by him was Rs.30,000. Standing charges totaled Rs.6,000 (all insured) and the turnover of the period was Rs.1,20,000. A fire occurred on 31st March, 2006 and the normal turnover was not restored until the end of September, 2006. it was disclosed that reduction in turnover during the period of indemnity was Rs.12,000, when compared with the corresponding period in the previous year. The increased cost of working incurred in an effort to maintain turnover was assessed at Rs.1,800, but it was found that there had been a saving of Rs.200 in insured standing charges over the same period. It was ascertained that turnover for the 12 months ended 31st March, 2006 was Rs.1,22,500. You are required to calculate the claim for the loss of profit based on average clause.

12. From the following data, compute a consequential loss claim :

Financial year ends on 31st December

Turnover Rs.4,00,000

Indemnity period 6 months

Period of interruption – 1st July to 31st October

Net Profit Rs.36,000

Standing charges Rs.84,000 out of which Rs.20,000 have not been insured.

Sum assured Rs.1,00,000.

Standard turnover Rs.1,30,000

Turnover in the period of interruption Rs.50,000 out of which Rs.12,000 was from a rented place at Rs.1,200 p.m.

Annual Turnover Rs.4,80,000

Saving in standing charges Rs.9,450 per annum

Date of Fore – 30th June (night)

It was agreed between the insurer and the insured that the business trends would lead to an increase of 10% in the turnover.

13. From the following particulars, compute a consequential loss claim :

Financial year ending 31st December, 2002

Turnover Rs.2,00,000

Indemnity period 6 months

Period of interruption – 1st July to 31st October

Net Profit Rs.18,000

Standing charges Rs.42,000 out of which Rs.10,000 have been insured.

Sum assured Rs.50,000

Standard Turnover Rs.65,000

Turnover in the period of interruption: Rs.25,000 out of which Rs.6,000 was from a rented place at Rs.600 p.m.

Annual Turnover Rs.2,40,000

Savings in standing charges Rs.4,725 per annum.

Date of Fire – Night of 30th June

It was agreed between the insurer and the insured that the business trends would lead to an increase of 10% in turnover.

14. A fire occurred in the premises of Mr. X on June 15, 2007 and a considerable par of the stock was destroyed. The value of he stock saved was Rs.4,000. The books disclosed that on 1st April, 2007 the stock was valued at Rs.45,000; the purchases up to the date of fire amounted to Rs.1,25,000 and the sales to Rs.1,80,000. On investigation, it was found that during the past five years, the average gross profit on sales was 30%. You are required to prepare a statement showing the amount Mr.X should claim from the insurance company in respect of stock destroyed by the fire.

15. The godown of Purple Ltd. caught fire on 15th June, 2007. Records saved from fire showed the following particulars:

Particulars	Rs.	Particulars	Rs.
Stock at cost on 1st January, 2006	60,000	Sales less returns for the year 2006	7,20,000
Stock at cost on 31st December, 2006	84,000	Purchases less returns from January 1 to June 15, 2007	1,80,000
Purchase less returns for the year 2006	5,08,000	Sale less returns from January 1 to June 15, 2007	2,46,000
Wages for the year 2006	20,000	Wages from January 1 to June 15, 2007	16,200

Gross profit remained at a uniform rate. The stocks salvaged was worth Rs.7,200 and it was retained by Purple Ltd. The godown was insured. Show the amount of claim.

16. The fire insurance policy taken out by Sultan Limited included stork purchased by the company for re–sale and stock sent to the company on approval for which a pro–forma invoice was sent by the supplier. A disastrous fire took place at the warehouse on 1.10.2007 and you have been asked to prepare the claim for submission to the insurance company. Unfortunately, many of the records of Sultan Limited were destroyed by the fire, but the following information was available :

(a) Value of stock salvaged after the fire Rs.68,640.

(b) Goods supplied on approval and lost in the fire Rs.4,000.

(c) Sales for nine months to 30.9.2007, Rs.6,26,500.

(d) Purchases for nine months to 30.9.2007, Rs.6,02,100.

(e) Stock (as per accounts) at 31.12.2006, Rs.1,65,206 – but on examination of the stock sheets it was found that the stock had been undervalued by Rs.7,534.

(f) The average rate of gross profit during last few years were 20% – it was expected that this rate would have been maintained during the year 2007.

Show the claim that you would submit to the insurance company.

17. On 31st August, 2007 the premises and stock of a firm were totally destroyed by fire, the books of accounts, however, were saved. In order to make a claim on their fire policy, they ask you to advise on the basis of the following information. The stock in hand has always been valued at 5% below cost :

Particulars	2004–05 (Rs.)	2005–06 (Rs.)	2006–07 (Rs.)	2007–08 (Rs.)

Opening stock as valued	22,800	30,400	36,100	29,900
Purchases less returns	91,000	1,10,000	1,20,000	41,000
Sales less returns	1,40,000	1,70,000	1,86,000	75,000
Wages	28,400	31,200	34,200	12,000
Closing Stock	30,400	36,100	39,900	?

Prepare a statement for submission to the insurance company in support of your claim for loss of stock. The company closes its book of account every year on 31st March.

18. The premises of X Ltd. caught fire on 22nd January, 2008 and the stock was damaged. The firm had made up accounts to 31st March each year and on 31st March, 2007, the stock at cost was Rs.13,27,200 as against Rs.9,62,200 on 31st March, 2006. Purchases from 1st April, 2007 to the date of fire were Rs.34,82,700 as against Rs.45,25,000 for the full year 2006–07 and the corresponding sales figures were Rs.49,17,000 and Rs.52,00,000 respectively. You are given the following further information :

(i) In July 2007, goods costing Rs.1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2007–08, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs.2,000 per week from 1st April, 2007 until the clerk was dismissed on 21st August, 2007.

(iii) The rate of gross profit is constant.

From the above information make an estimate of the stock in hand on the date of fire.

19. On 17th June, 2007 a fire occurred in the premises of M/s Tara, a bookseller. Most of the stock was destroyed with the cost of salvaged stock being Rs. 11,200. In addition, some stock was salvaged in damaged condition and its value was estimated at Rs. 10,400. From books of account the following particulars are available :

1. Stock at close of accounts on 31st December, 2006 was valued at Rs. 83,500.
2. Purchases from 1.1.2007 – 17.6.2007 amounted to Rs. 1,12,000 and sales during that period amounted to Rs. 1,54,000.
3. On the basis of past 3 years it appears that on an average gross profit of 25% is earned on sales.
4. Stock was insured for Rs. 75,000.

Compute the amount of claim.

20. A trader took out a fire policy containing an average clause covering his stock for Rs. 15,000. His practice was to base his selling price at cost plus 33 1/3%. He closes his books on 30th June every year.

On 31st March, 2007 a fire occurred at his premises and destroyed his stock. The salvaged stock was worth Rs. 6000. During the period of 9 months preceding the fire his purchases amounted to Rs. 61000 and sale to Rs. 84,000. His stock at 1st July, 2006 was valued at rs. 20,000. You are required to prepare a statement showing the amount of claim.

21. Due to a fire in the godown of a company on 30th September, 2007, the entire stock was burnt except some stock costing Rs. 70,000. The books were, however, saved. From the information available, it was found that :

1. The company's average gross profit was 25% on sales.
2. The stock on 31st March, 2007 valued at 10% above cost was Rs. 2,20,000.
3. The purchases and sales from 1st April, 2007 upto the date of fire were Rs. 3,00,000 and Rs. 6,80,000 respectively.
4. The wages for the period amounted to Rs. 1,44,000.
5. The company got the stock insured for Rs. 1,20,000.
6. The policy had an average clause.

You are required to prepare a statement showing the amount of stock lost by fire and the amount of claim to be lodged with the insurance company.

22. The premises of EF Ltd. Were damaged due to fire on 21st December, 2006. The company made up its accounts on 30th June, each year. On 30th June, 2006 the stock at cost was Rs.13,272 as against Rs. 9,614 on 30th June, 2005. The purchases for full year 2005-06 were Rs. 45,258 and that for current year upto date of fire were Rs. 34,827. Corresponding sales were Rs. 52,000 and Rs. 29,170 respectively. In October 2006 goods costing Rs. 943 were given as samples for which no entries were made. During August to November a clerk had misappropriated unrecorded cash sales. It is estimated that defalcation was at Rs. 20 per week for 20 weeks. A part of stock is salvaged for Rs. 300. A part of stock is salvaged for Rs. 300. Rate of Gross profit is constant. The policy is for Rs. 18,800 with average clause. Ascertain the amount of claim.

23. On 20th Juy 2007, the godown and the business premises of a merchant were affected by the fire. From the accounting records salvaged, the following information is made available to you : (all figures in Rupees)

Stock of goods on 1st Paril, 2006	1,00,000	Sales for the same period	6,00,000
Stock of goods at 10% lower than cost as on 31st March, 2007	1,08,000	Purchases less return from 1st April, 2007 to 20th Juy, 2007	1,40,000
Purchases of goods for the year from	4,20,000	Sales less returns for the above	3,10,000

1st April, 2006 to 31st March, 2007		period	

Sales upto 20th July 2007 included Rs. 40000 for which goods had not been dispatched. Purchases upto 20th July 2007 did not include Rs. 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 Rs. 12,000 and these were handed over to the insured. Ascertain the value of the claim for the loss of goods/stock which could be preferred on the insurer.

24. A fire occurred in the premises of Shri Romesh on 1st April 2007 and a considerable part of the stock was destroyed. The stock salvaged was worth Rs.1,12,000. Shri Romesh had taken a fire insurance policy for Rs.6,84,000 to cover the loss of stock by fire. You are required to ascertain the insurance claim due from the insurance company for the loss of stock by fire. The following particulars are available : (All figures in rupees)

Purchases for the year 2006	37,52,000	Stock on 1st January 2006	5,76,000
Sales for the year 2006	46,40,000	Stock on 31st December 2006	9,68,000
Purchases from 1st January 2007 to 1st April 2007	7,28,000	Wages paid during the year 2006	4,00,000
Sales from 1st January 2007 to 1st April 2007	9,60,000	Wages paid during 1st January 2007 to 1st April 2007	72,000

Shri Romesh had in June 2006 consigned goods worth Rs.2,00,000 which were lost in an accident. As there was no insurance the loss was borne by him in full. Stocks at the end of each year for and till the end of calendar year 2005 had been valued at cost less 10%. From 2006 however, there was a change in the valuation of closing stock which was ascertained by adding 10% to its cost.

25. A fired occurred on 1st October, 2007 in the premises of X Co. Ltd. From the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock: (all figures in rupees)

Stock at cost on 1.1.2006	90,000	Purchases from 1.1.2007 to 30.9.2007	6,00,000
Stock at cost on 1.1.2007	70,000	Sales during 2006	6,00,000
Purchases during 2006	4,00,000	Sales from 1.1.2007 to 30.9.2007	8,80,000c

You are informed that :

(a) In 2007 the cost of purchases has risen by 20% over the levels prevailing in 2006;

(b) In 2007 the selling prices have gone up by 10% over the levels prevailing in 2006; and

(c) Salvaged value is Rs.5,000.

26. The warehouse of Cores (India) Ltd. was destroyed by fire on 1.5.2007. The goods in stock were insured to a value of Rs.25,000. The following information is available:

Balance Sheet figures at 31.12.2006 –

Stock (including goods held by agent Rs.700); Rs.16,900; Debtors Rs.31,300; Creditors Rs.12,900.

Transactions to 30.4.2007 include –

Receipts from debtors Rs.1,48,600; Payment to creditors Rs.1,07,300; Bad debts Rs.300;

Discount received Rs.100.

Balances at 30.4.2007 –

The closing debtors' figure includes an amount owing from the agent for sales to date Rs.1,800, less 10% commission and his expenses of Rs.20. At 30.4.2007, the agent still held goods from the company valued at their selling price of Rs.1,500. The total sales for the period includes Rs.600 for goods which have had the selling price reduced by 50% and Rs.2,400 where the selling price was reduced by 20%. The normal mark–up is 50% and, except as indicated differently above, all sales can be assumed to be at the full selling price. All of the stock in the warehouse was destroyed and there was no salvage value. You are required to calculate the amount of insurance claim.

27. On 1st April 2008, the godown of Hindustan Ltd. was destroyed by fire. From the books of account, the following particulars are gathered: (all figures in rupees)

Stock at cost on 1st January 2007	27,570	Sales during 2007	3,51,000
Stock as per B/S on 31st December 2007	51,120	Sales from 1st Jan 2008 to 31st March 2008	91,500
Purchases during 2007	2,71,350	Value of goods salvaged	6,300
Purchases from 1st Jan to 31st March 2008	75,000		

Goods of which original cost was Rs.3,600 had been valued at Rs.1,500 on 31st December 2007. These were sold in March 2008 for Rs.2,700. Except this transaction, the rate of gross profit has remained constant. On 31st March 2008 goods worth Rs.15,000 had been received by the godown keeper, but had not been entered in the Purchase Account. Calculate the value of goods destroyed by fire.

28. On Friday, 13.5.2008, a fire at the premises of Rustam Limited destroyed a substantial part of the stock. It also destroyed some of the office records. The company has a loss of stock insurance policy under which the amount

insured is Rs.84,000. The amount of the claim for stock lost in the fire will have to be calculated from what information is available. For the accounting year ended 31.12.2007, the following figures were included in the profit calculation :Sales Rs.4,06,000; Purchases Rs.3,06,000; Stock (1.1.2007) Rs.70,000; Stock (31.12.2007) Rs.80,000.

Notes :

(ii) The stock at 1.1.2007 included Rs.6,000 representing goods which had been reduced in value at the stock taking and were all sold during 2007 for the same reduced amount.

(iii) The stock at 31.12.2007 included Rs.10,000 representing goods which were to half–cost at the stock taking. Of these, Rs.6,000 were sold at the reduced amount in January, 2008, Rs.2,000 were scrapped in February 2008 without any revenue at all, and the balance had not been disposed of at the time of fire.

The cost price of stock at 13.5.2008 unaffected by the fire was Rs.26,143 but the rest of the stock was completely destroyed, and this included the balance of the marked–down stock referred to in (ii) above. The mix of products sold up to 13.5.2008 was substantially the same as for 2007. No writing–down of stock values takes place except at annual stocktaking and, with the exception of the items mentioned, there have been no alterations to normal selling prices. Purchases from 1.1.2008 to 13.5.2008 total Rs.1,45,500. Sales for the same period total Rs.1,90,000, and there were returns from customers of Rs.4,000. Calculate the amount which you expect the company could claim for the loss of stock.

29. On 1st April 2008, the stock of Shri Ramesh was destroyed by fire but sufficient records were saved from which following particulars were ascertained: (all figures in rupees)

Stock at cost on 1st January 2007	73,500	Sales for the year ending 31st December 2007	4,87,000
Stock at cost 31st December 2007	79,600	Purchases from January 1 to March 31 2008	1,62,000
Purchases for the year ended 31st December 2007	3,98,000	Sales from January 1 to March 31 2008	2,31,200

In valuing the stock for the Balance Sheet at 31st December 2007, Rs.2,300 had been written off on certain stock which was which was poor selling line having cost Rs.6,900. A portion of these goods was sold in March 2008 at a loss of Rs.250 on the original cost of Rs.3,450. The remainder of this stock is now estimated to be worth its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout the year. The value of stock salvaged was Rs.5,800. The insurance policy was for Rs.50,000 and was subject to the average clause. Work out the amount of the claim of loss by fire. [C.A. (inter) – Adapted]

30. Arif operates a stationery and book shop. Separate records and trading accounts have not maintained in respect of stationery and books. On the night of 31.3.2008, a fire destroyed the shop and all the stock was lost or damaged. As the accounting books and records are kept in Mr. Arif's house, they escaped destruction in the fire. From the surviving books and other records the following information is available :

1. The mark–up on stationery is 33(1/3)% and on books is 50%.
2. The accounts for the year ended 30.6.2007 included the following – Sales for the year Rs.1,75,320.
   Purchases during the year: Stationery Rs.57,100; Books Rs.68,550.
   Stock on 30.6.2007 : Stationery Rs.5,500; Books Rs.12650.
   Stock on 1.7.2006 :Stationery Rs.4,200; Books Rs.12,100.
3. During August each year Arif holds a book of sale of old stock on which he reduces his gross margin to 20%. Records of the sales of old stock in August 2007 and August 2006 show that the proceeds of these sales amounted to Rs.6,250 and Rs.5,400 respectively.
4. Purchases between 1.7.2007 and 31.3.2008 were – Stationery Rs.55,640; Books Rs.66,200.
5. The value of sales (excluding the sale of old book stock in August) between 1.7.2007 and 31.3.2008 increased by 15% in respect of books and 12.5% in respect of stationery as compared with the same period in the year ended 30.6.2007. Sales arise evenly throughout the year, except for the sale of old book stocks in August.
6. Goods salvaged from the fire realized Rs.2,000 of which Rs.1,500 was in respect of books and Rs.500 in respect of stationery.
7. Adequate insurance coverage has been maintained since 1.7.2007.

You are required to prepare a statement showing the amount to be claimed from the insurance company in respect of the stationery and books destroyed in the fire.

31. The premises of Fireproof Ltd. were destroyed by fire on 30.6.2008. The following figures were ascertained:

(figures in Rs.)

	2005	2006	2007	1.1.2008 to 30.6.2008
Opening stock	2,000	2,200	1,180	3,402
Purchases	16,000	14,500	17,000	3,500
Sales	20,000	19,850	18,750	2,600
Carriage Inwards	500	300	500	100
Freight Outwards	600	700	300	25

In 2005, while valuing closing stock, some defective goods costing Rs.500 were valued at Rs.400. These were sold for Rs.450 in 2006. In 2006, an item costing Rs.600 was wrongly valued at Rs.700. This was sold for Rs.550 in 2007. In 2007, items costing Rs.1,200 were valued at Rs.1,000. 50% of these items was sold in June 2008 for Rs.600. Subject to this, the gross profit rate is more or less uniform. Value of salvage was Rs.800. Calculate the claim to be lodged.

32. The factory premises of Toy Company were engulfed in fire on 31st March 2008 as a result of which a major part of stock was burnt to ashes. The stock was covered by policy for Rs.1,00,000 subject to average clause. The records at the office revealed the following information :

1. (a) The company sold goods to dealers on one month credit at dealers' price which is catalogue price less 15%. A cash discount is allowed @5% for immediate payment. (b) The goods are sold to Agents at catalogue price less 10% against cash payment. (c) Goods are sent to branches at catalogue price. (d) Catalogue price is cost + 100%.
2. The Sales/Dispatch during period upto to date of fire is : (a) Sale to dealer (without cash discount) Rs.3,40,000. (b) Sale to dealer (net of cash discount) Rs.3,23,000. (c) Sale to agents Rs.90,000. (d) Dispatch to branches Rs.3,00,000.
3. Stock on 1st January 2008 was Rs.2,50,000 at catalogue price.
4. Purchases at cost from 1st January to 31st march, 2008 Rs.6,25,000.
5. Salvages stock valued at Rs.45,000.

Compute the amount of claim to be lodged.

33. A fire occurred in the premises of M/s Fireprone Co. on 30th may 2008. From the following particulars, relating to the period from 1st January 2008 to 30th may 2008, you are required to ascertain the amount of claim to be filled with the insurance company for the loss of stocks : (all figures in rupees.

1. Stock as per Balance Sheet at 31st December 2007, 99,000.
2. Purchases (including purchase of a machinery costing Rs.30,000), 1,70,000
3. Wages (including wages for the installation of machinery Rs.3,000), 50,000
4. Sales (including goods sold on approval basis amounting to Rs.49,500. No confirmation had been received in respect of two–thirds of such goods sold on approval basis), 2,75,000.
5. Sales value of goods drawn by partners, 15,000.
6. Cost of goods sent to consignees on 15th May 2008, lying unsold with them, 16500.
7. Sales value of goods distributed as free samples, 1,500.

The average rate of gross profit was 20% in the past. The selling price was increased by 20% with effect from 1st January 2008. For valuing the stock for he Balance Sheet as at 31st December 2007 Rs.1,000 were written–off in respect of a slow moving item, the cost of which was Rs.5,000. A portion of these goods were sold at a loss of Rs.500 on the original cost of Rs.2,500. The remainder of the stock is now estimated to be worth the original cost. Subject to the above exceptions, the gross profit remained at a uniform rate throughout. The value of goods salvaged was estimated at Rs.25,000. The concern had taken an insurance policy for Rs.60,000 which was subject to the average clause.

34. From the following information, find the claims under a loss of profit policy: (all figures in rupees)

Sales in 2003	1,00,000	Policy Value	50,000
Sales in 2004	1,20,000	Date of dislocation by fire	1.1.2007
Sales in 2005	1,44,000	Period of dislocation	3 months
Sales in 2006	1,72,800	Indemnity period	9 months
Standing charges (all insured) in 2006	7,280	Sales from 1.1.2006 to 31.3.2006	43,200
Net profit in 2006	10,000	Sales from 1.1.2007 to 31.3.2007	11,840

There was no reduction in standing charges during the dislocation period, nor were there any additional costs.

35. Bright Ltd. has a 'loss of profit' insurance policy of Rs.12,60,000. The period of indemnity is three months. A fire occurred on 31st March 2007. The following information is available (all figures in rupees) :

Sales for the year ended 31st December 2006	42,00,000	Standing charges for 2006	9,60,000

Sales for the period from 1st April 2006 to 31st March 2007	48,00,000	Profit for 2006	3,00,000
Sales for the period from 1st April 2006 to 30th June 2006	10,80,000	Saving in standing charges because of fire	30,000
Sales for the period from 1st April 2007 to 30th June 2007	72,000	Additional expenses to reduce loss of turnover	60,000

Assuming no adjustment has to be made for the upward trend in turnover, compute the claim to be made on the insurance company.

36. A businessman took out a 'loss of policy' for Rs.40,000 with an indemnity period of 6 months. The financial year of the business ended on 30th June. Gross profit for the last financial year was Rs.50,000 and turnover for that period was Rs.2,00,000. Turnover for the 12 months immediately preceding the fire was Rs.2,20,000. A fire occurred on 31st March, 2007. Turnover for 6 months immediately following the fire, compared with the turnover of corresponding months in the previous year was :

	April	May	June	July	August	September
2006 (Rs.)	16,000	17,000	18,000	16,000	17,000	19,000
2007 (Rs.)	–	6,000	9,000	14,000	16,000	18,000

Rs.1,000 was spent on putting the fire out. During the indemnity period, increase in the cost of working directly attributable to sales amounted to Rs.8050. All standing charges of the business were insured and paid. From the above particulars, you are required to assess the loss and the amount payable by the insurance company as claim under the policy.

37. A fire occurred on 1st February 2007 in the premises of Pioneer Ltd., a retail store, and business was partially disorganized up to 30th June 2007. The company was insured under a 'loss of profit' for Rs.1,25,000 with a six months period indemnity. From the following information, compute the amount of claim under the loss of profit policy. (all figures in rupees)

Actual turnover from 1st February to 30th June 2007	80,000	Turnover from 1st February to 30th June 2006	2,00,000
Turnover from 1st February 2006 to 31st January 2007	4,50,000	Net profit for last financial year	70,000
Insured standing charges for last financial year	56,000	Total standing charges for last financial year	64,000
Turnover for the last financial year	4,20,000		

The company incurred additional expenses amounting to Rs.6,700 which reduced the loss in turnover. There was also a saving during the indemnity period of Rs.2,450 in the insured standing charges as a result of the fire. There had been a considerable increase in trade since the date of the last annual accounts and it has been agreed that an adjustment of 15% be made in respect of the upward trend in turnover.

38. From the following information, you are required to work out the claim under the 'loss of profit' insurance policy.

1) Cover – Gross profit Rs.1,00,000.
2) Indemnity period – Six months.
3) Damage – due to a fire accident on 28th December, accounting year ends on 31st December.
4) Net profit plus all standing charges in the prior accounting year – Rs.1,30,000.
5) Standing charges uninsured – Rs.25,000.
6) Turnover of the last accounting year was Rs.5,00,000, the rate of gross profit being 25%.
7) The annual turnover – namely the turnover for 12 months immediately preceding the fire – Rs.5,20,000.
8) As a consequence of fire, there was a reduction in certain insured standing charges at the rate of Rs.25,000 per annum.
9) The standard turnover was Rs.2,60,000.
10) Increased costs of working during the period of indemnity were Rs.20,000.
11) Turnover during the period of indemnity was Rs.1,00,000 and out of this, turnover of Rs.80,000 was maintained due to increased costs of working.

39. The premises of a company was partly destroyed by fire on 1st March 2007, as a result of which the business was disorganized from 1st March 2007, as a result of which the business was disorganized from 1st March to 31st July, 2007. Accounts are closed on 31st December every year. The Company is insured under a 'loss of profit' policy for Rs.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 profit policy. (all figures in Rs.)

Turnover for the year 2006	40,00,000	Standard turnover for the corresponding period in the preceding year i.e. from 1.3.2006 to 31.7.2006	20,00,000
Net profit for the year 2006	2,40,000	Annual turnover for the year immediately	44,00,000

		preceding the fire i.e. from 1.3.2006 to 28.2.2007	
Insured standing charges	4,80,000	Increased cost of working	1,50,000
Uninsured standing charges	80,000	Reduction in turnover avoided through increase in working cost	4,00,000
Turnover during the period of dislocation i.e. from 1.3.2007 to 31.7.2007	8,00,000		
Savings in insured standing charges	30,000		

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%.

40. A fire occurred in the premises of a businessman on 31st January 2007, which destroyed stock. However, stock worth Rs.5,940 was salvaged. The company's insurance policy covers the following : Stock – Rs.6,00,000; Loss of profit (including standing charges) – Rs.3,75,000; and Period of indemnity – 6 months. The summarized Profit and Loss Account for the year ended 31st December, 2006 is as follows: (all figures in rupees).

Profit and Loss Account for the year ended 31st December, 2006 Cr.

To Opening Stock	6,18,750	By Sales	30,00,000
To Purchases	27,18,750	By Closing Stock	7,87,500
To Standing charges	2,51,250		
To Variable expenses	1,20,000		
To Net Profit	78,750		
	37,87,500		**37,87,500**

The transactions for the month of January, 2007 were : (i) Turnover – Rs.1,50,000; and (ii) Payment to creditors – Rs.1,60,020. Trade Creditors : 1st January, 2007 – Rs.2,26,000; 31st January, 2007 – Rs.2,30,980. The company's business was disrupted until 30th April, 2007, during which period the reduction in the turnover amounted to Rs.2,70,000 as compared with the corresponding turnover of same period in the previous year. You are required to submit the claim for insurance for loss of stock and loss of profit.

41. A "loss of profit" was taken for Rs.80,000. Fire occurred on 15th March 2007. Indemnity period was for three months. Net profit for 2006 year ending on 31st December was Rs.56,000 and standing charges (all insured) amounted to Rs.49,600. Determine insurance claims from the following details available from quarterly sales tax returns :

Sales	2004 (Rs.)	2005 (Rs.)	2006 (Rs.)	2007 (Rs.)
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 16.3.2006 to 31.3.2006 were Rs.28,000.

Sales from 16.3.2007 to 31.3.2007 were Rs.Nil.

Sales from 16.6.2006 to 30.6.2006 were Rs.24,000.

Sales from 16.6.2007 to 30.6.2007 were Rs.6,000.

42. The Balance Sheet of B. Manufactures Ltd. as at 31st March, 2006 included the following assets :

Fixed Assets : Freehold factory at cost Rs.2,50,000; Plant at cost of Rs.1,40,000 with an accumulated depreciation of Rs.40,000.

Current Assets: Stock Rs.1,85,000

These assets were insured for the following sums: Factory building Rs.3,00,000; Plant Rs.1,60,000; and Stock Rs.1,60,000.

On 30th June, 2006; the factory and its contents which included the above items were totally destroyed by fire, except the stock salvaged. The following bases were agreed with the insurer: Factory Building Rs.2,80,000; Plant Rs.1,50,000 and Stock (subject to average) Rs.2,40,000. The actual stock at the date of fire was valued at Rs.3,00,000 of which Rs.60,000 was salvaged. The claim was paid on 30th September, 2006. The freehold land was estimated by the Directors to have a cost of Rs.40,000 out of the total cost of land and buildings of Rs.2,50,000. Ascertain the amount of insurance claim, record the foregoing in the company's books and show how the concerned items would appear in the Balance Sheet as at 31st March, 2007.

43. On 1st May, 2007 a fire occurred at the factor of ABC Manufacturing Co. Ltd. and claims against the General Insurance Co. Ltd. were admitted on 5th August as follows :

	Original Cost (Rs.)	Book Value (Rs.)	Claimed (Rs.)	Admitted (Rs.)
Repairs to Factory	–	–	1,35,000	90,000
Plant destroyed	3,60,000	2,25,000	3,15,000	2,70,000
Repairs to Plant	–	–	27,000	22,500
Stock destroyed	4,50,000	–	4,50,000	3,87,000
Stock damaged	–	–	45,000	36,000
Loss of Profit	–	–	90,000	45,000
Fire Brigade Charges	–	–	7,200	6,300

The amounts claimed for repairs to factory and plant and the fire brigade charges were paid by the company. Give journal entries in the company's books and state how the final differences, if any, should be treated in the company's Accounts including the profit or loss on account of insurance.

44. A fire occurred on the premises of a merchant on 15th June 2007 and a considerable part of the stock was destroyed. The value of stock saved was Rs.9,000. The books disclosed that on 1st April, 2007 stock was valued at Rs.73,500, purchases to the date of fire amounted to Rs.2,09,880 and sale Rs.3,13,000. On investigation, it was found that during the past five years, the average gross profit on the sales was 36%. You are required to prepare a statement showing the amount, the merchant should claim from the insurance company in respect of stock destroyed by fire.

45. A fire occurred in the premises of Agni on 25th August 2007 when a large part of the stock was destroyed, Salvage was Rs.15,000. Agni gives you the following information for the period of 1st January, 2007 to August 25th, 2007 –

(a) Purchases Rs.85,000; (b) Sales Rs.90,000; (c) Goods costing Rs.5,000 were taken by Agni for personal use; (d) Cost price of stock on January 1, 2007 was Rs.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 for Rs.50,000. It included an average clause. Agni asks you to prepare a statement of claim to be made on the insurance company. [N 97]

46. On 12th June, 2006 fire occurred in the premises of Nagaraj, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being Rs.11,200. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at Rs.10,500. From the books of account, the following particulars were available. (1) His stock at the close of account on December 31, 2005 was valued at Rs.83,500. (2) His purchases of his accounts from 1–1–2006 to 12–6–2006 amounted to Rs.1,12,000 and his sales during that period amounted to Rs.1,54,000. On the basis of his accounts for the past three years it appears that he earns on an average a Gross Profit of 30% of sales. Patel has insured his stock for Rs.60,000. Compute the amount of the claim.

47. On 30th June, 2007, accidental fire destroyed a major part of the stocks in the Godown of Jay associates. Stock costing Rs.30,000 could be salvaged but not their stores ledgers. A fire insurance policy was in force under which the sum insured was Rs.3,50,000. From available records, the following information was retrieved –

(a) Total of Sales involves during the period April – June amounted to Rs.30,20,000. An analysis showed that goods of the value of Rs.3,20,000 had been returned by the customers before the date of fire. (b) Operating Stock on 01.04.2007 was Rs.2,20,000 including stocks of the value of Rs.20,000 being lower of cost and Net Value subsequently realized. (c) Purchases between 01.04.2007 and 30.06.2007 were Rs.21,00,000. (d) Normal Gross Profit rate was 331/3% on Sales. (e) A sum of Rs.30,000 was incurred by way of Fire Fighting Expenses on the day of the fire. Prepare a Statement showing the Insurance Claim recoverable for Loss of Stock. [N 96]

48. Mr.A prepares accounts on 30th September each year, but on 31st December, 2007 fire destroyed the greater part of his stock. Following information was collected from his book :

Stock as on 01.10.2007	29,700
Purchases from 01.10.2007 to 31.12.2007	75,000
Wages from 01.10.2007 to 31.12.2007	33,000
Sales from 01.10.2007 to 31.12.2007	1,40,000

The rate of gross profit is 33.33% on cost. Stock to the value of Rs.3,000 was salvaged, Insurance policy was for Rs.25,000 and claim was subject to Average Clause.

Additional Information –

1) Stock in the beginning was claimed at 10% less than cost.
2) A Plant was installed by firm's own worker. He was paid Rs.500, which was included in wages.
3) Purchases include the purchase of the plant for Rs.5,000.

You are required to calculate the claim for the Loss of Stock. [N 02]

49.

50. A fire occurred in the workshop of Mr. Anup on 31st March, 2006, where a large part of the stock was destroyed. Scrap realized Rs.7,500. Mr. Anup gives you the following information for the period of 1st January to 31st March, 2006:

Purchases	Rs.42,500
Sales	Rs.45,000
Goods taken by Mr.Anup for personal use. [Cost]	Rs.1,000
Cost price of stock on 1st January, 2006	Rs.20,000

Over the past few years, Mr. Anup has been selling goods at a consistent gross profit margin of 30%. The insurance policy was for Rs.25,000. It included an Average Clause. Prepare a statement of claim to be made on the Insurance Company by Mr. Anup.

51. On 1st April, 2006 the stock of Ram was destroyed by fire but sufficient records were saved from which following particulars were ascertained –

Stock at cost – 1st January, 2005	Rs.73,500
Stock at cost – 31st December, 2005	Rs.79,600
Purchases – year ended 31st December, 2005	Rs.3,98,000
Sales – year ended 31st December, 2005	Rs.4,87,000
Purchases – 1-1-2006 to 31-3-2006	Rs.1,62,000
Sales – 1-1-2006 to 31-3-2-6	Rs.2,31,200

In valuing the stock for the Balance Sheet at 31st December, 2005 Rs.2,300 had been written off on certain stock which was a poor selling line having the cost of Rs.6,900. A portion of these goods were sold in March, 2006 at loss of Rs.250 on original cost of Rs.3450. The remainder of this stock was now estimated to be worth its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout the year. The value of stock salvaged was Rs.5,800. The policy was for Rs.50,000 and was subject to the average clause. Work out the amount of the claim of loss by fire.

52. Due to a fire on 1st July, 2007 the entire stock was burnt except some costing Rs.70,000. The information available from the Books of Accounts saved were as follows :

(iv) The Average gross Profit was 25% on sales.

(v) The stock on 31st December, 2006 valued as per practice at 10% above cost was Rs.2,20,000.

(vi) The purchases and sales from 1.1.2007 upto the date of fire were Rs.3,00,000 and Rs.6,80,000 respectively.

(vii) The wages for the period amounted to Rs.1,44,000.

(viii) The company insured stock for Rs.1,20,000.

(ix) The policy had an average clause.

Prepare a statement showing the amount of stock lost by the fire and the amount of claim to be lodged with the insurance company.

53. The following particulars regarding a company are available –

Short sales	Rs.20,000
Increased working expenses	Rs.1,000
Rate of gross profit	20%
Saving in expenses	Rs.200
Sales during 12 months immediately preceding the fire	Rs.1,10,000
Amount of policy	Rs.15,000

The sales are showing an increasing Trend of 10% since the commencement of the Accounting Year. Calculate the Amount of Claim to be admitted by the Insurance Company.

54. X Ltd. has insured itself under a loss of profit policy for Rs.3,63,000. The indemnity period under the policy is six months. On 1st September, 2007 a fire occurred in the factory of X Ltd. and the normal business was affected upto 1st march, 2008 The following information is compiled for the year ended on 31st march, 2007:

Sales	Rs.20,00,000
Insured Standing Charges	Rs.2,40,000
Uninsured Standing Charges	Rs.20,000
Net Profit	Rs.1,20,000

Following further details of turnover are furnished.

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

(b) Turnover during the period of interruption was Rs.2,25,000.

(c) Actual Turnover during the period from 01.09.2006 to 01.03.2007 during the preceding year corresponding to the indemnity period was Rs.7,50,000.

X Ltd. spent an amount of Rs.40,000 as Additional Cost of Working during the Indemnity Period. On account of this Additional Expenditure –

(a) There was a saving of Rs.15,000 in Insured Standing Charges during the Period of Indemnity.

(b) Reduced Turnover avoided was Rs.1,00,000 i.e. but for his expenditure, the Turnover after the date of fire would have been only Rs.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 :

- Increase of turnover standard and annual by 10%.
- 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 to the nearest rupee.

55. On Account of a fire on 15th June, 2007in the business house of a Company, the working remained disturbed upto 15th December 2007 as a result of which it was not possible to effect any sales. The company had taken out an insurance policy with an average clause against consequential losses for Rs.1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increased of 25% was marked in the current year's sales as compared to the last year. The company incurred an additional expenditure of Rs.12,000 to make sales possible and made a saving of Rs.2,000 in the insured standing charges. [N 03]

Actual sales from 15th June 2007 to 15th Dec., 2007	Rs.70,000
Sales from 15th June 2006 to 5th Dec. 2006	Rs.2,40,000
Net Profit for the last financial year	Rs.80,000
Insured Standing Charges for the Last Financial Year	Rs.70,000
Total Standing Charges for the Last Financial year	Rs.1,20,000
Turnover for the Last Financial Year	Rs.6,00,000
Turnover for one year: 16th June 2006 to 15th June 2007	Rs.5,60,000

56. Samsung Ltd. Trading and Profit and Loss Account for the year ended 31st December, 2007 were as follows–

Trading and Profit and Loss Account for the year ended 31.12.2007

Particulars	Amount	Particulars	Amount
Opening stock	20,000	Sales	10,00,000
Purchases	6,50,000	Closing stock	90,000
Manufacturing expenses	1,70,000		
Gross profit	2,50,000		
	10,90,000		10,90,000
Administrative expenses	80,000	Gross profit	2,50,000
Selling expenses	20,000		
Finance charges	1,00,000		
Net Profit	50,000		
	2,50,000		2,50,000

The company had taken out a fire policy for Rs.3,00,000 and a Loss of Profits policy for Rs.1,00,000 having an indemnity period of 6 months. A fire occurred on 1.4.2008 at the premises and the entire stock was gutted with NIL salvage value. The Net quarter sales i.e. 1.4.2008 were severely affected. The following are the other information

Sales during the period	1.1.08 – 31.3.08	2,50,000
Purchase during the period	1.1.08 – 31.3.08	3,00,000
Manufacturing expenses	1.1.08 – 31.3.08	70,000
Sales during the period	1.4.08 – 30.6.08	87,500
Standing charges insured		50,000
Actual expense incurred after fire		60,000

The General trend of the industry shows an increase of Sales by 15% and decrease in GP by 5% due to increased cost. Ascertain the Claim for Stock and Loss of Profit.

57. 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 the same. The following further details are also available from the previous year's account.

Total Variable Expenses	Rs.24,00,000
Fixed Expenses :	
Salaries	Rs.3,30,000
Rent, Rates and Taxes	Rs.30,000

Travelling Expenses	Rs.50,000
Postage, Telegram, Telephone	Rs.60,000
Director's Fees	Rs.10,000
Audit Fees	Rs.10,000
Miscellaneous Income	Rs.70,000
Net Profit	Rs.4,20,000

Determine the amount to be taken for the Current Year.

58. A file occurred on 1st February, 2006, in the premises of Vision Ltd., a retail store and business was partially disorganized upto 30th June, 2006. The company was insured under a loss of profits for Rs.1,25,000 with a six months period indemnity. From the following information, compute the amount of claim under the Loss of Profit policy.

Particulars	Rs.
Actual turnover from 1st February to 30th June, 2006	80,000
Turnover from 1st February to 30th June, 2005	2,00,000
Turnover from 1st February, 2005 to 31st January, 2006	4,50,000
Net Profit for last financial year	70,000
Insured standing charges for last financial year	56,000
Total standing charges for last financial year	64,000
Turnover for the last financial year	4,20,000

The company incurred Additional Expenses amounting to Rs.6,700 which reduced the loss of turnover. There was also a saving during the indemnity period of Rs.2,450 in the Insured Standing Charges as a result of the fire. There had been a considerable increase in trade since the date of the Last Annual Accounts and it has been agreed that an adjustment of 15% be made in respect of the upward trend in Turnover.

59. The premises of AB Limited were partially destroyed by fire on 1st March, 2006 and as a result, the business was practically disorganized upto 31st August, 2006. The company is insured under a loss of profits policy for Rs.1,65,000 having an indemnity period of 6 months.

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

	Particulars	Rs.
(a)	Actual turnover during the period of dislocation (1–3–2006 to 31–8–2006)	80,000
(b)	Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire (1–3–2—5 to 31–8–2005)	2,40,000
(c)	Turnover for the 12 months immediately preceding the fire (1–3–2005 to 28–2–2006)	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 last financial year	5,00,000

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

60. M&M Ltd. give the following Trading and Profit and Loss Account for year ended 31st December, 2006:

Trading and Profit and Loss Account for the year ended 31st December, 2006

Particulars	Amount	Particulars	Amount
To Opening Stock	50,000	By Sales	8,00,000
To Purchases	3,00,000	By Closing Stock	70,000
To Wages (Rs.20,000 for skilled labour)	1,60,000		
To Manufacturing Expenses	1,20,000		
To Gross Profit	2,40,000		
TOTAL	8,70,000	TOTAL	8,70,000
To Office Administrative Expenses	60,000	By Gross Profit	2,40,000
To Advertising	20,000		
To Selling Expenses (Fixed)	40,000		
To Commission on Sales	48,000		
To Carriage Outward	16,000		

1831, FF, Nirvana Society, Opp. Ryan School, Sector 49B, Chandigarh
Phone : 098159-84228, 094654-84228

To Net Profit	56,000		
TOTAL	2,40,000	TOTAL	2,40,000

The company had taken out policies both against Loss of Stock and against Loss of Profit, the amounts being Rs.80,000 and Rs.1,72,000. A fire occurred on 1st May, 2007 and as a result of which sales were seriously affected for a period of 4 months. You are given the following further information:

(a) Purchases, wages and other Manufacturing Expenses for the first 4 months of 2006 were Rs.1,00,000, Rs.50,000 and Rs.36,000 respectively.

(b) Sales for the same period were Rs.2,40,000.

(c) Other sales figures were as follows :

From 1st January 2006 to 30th April, 2006 Rs.3,00,000

From 1st May 2006 to 31st August, 2006 Rs.3,60,000

From 1st May, 2007 to 31st August, 2007 Rs.60,000

(d) Due to rise in wages, gross profit during 2007 was expected to decline by 2% on sales.

(e) Additional expenses incurred during the period after fire amounted to Rs.1,40,000. The amount of the policy included Rs.1,20,000 for expenses leaving Rs.20,000 uncovered. Ascertain the claim for Stock and for Loss of Profit.

All workings should form part of your solutions.

Wishing You All The Best

Remember You Can Do Wonders , Nobody Can Stop You From Achieving Success Except You

Get Up and Keep Going, World Is Waiting For You

— Rasesh Tandon

Believe me it''ll work. So be ready to face such situations

Best of Luck

Suggested Answers

1.	75,000	31.	4,202
2.	1,49,200	32.	1,05,000; 70,000
3.	37,500	33.	50,000; 40,000
4.	40,000	34.	4,000
5.	2,17,500	35.	2,94,000; 2,57,250
6.	52,250	36.	20,625; 15,000; 16,000
7.	11,69,000	37.	48,922; 39,390
8.	79,100	38.	44,274; 34,057
9.	42,200	39.	3,30,000; 2,55,682
10.	7,000	40.	8,19,060; 5,95,680
11.	5,200	41.	10,749
12.	17,500	42.	1,28,000;2,80,000;1,50,000
13.	8,750	43.	Journal Entries
14.	40,000	44.	74,060
15.	1,00,800	45.	37,500
16.	2,09,000	46.	45,154
17.	35,000	47.	3,50,000
18.	7,44,300	48.	22,540
19.	54,750	49.	18,750
20.	10,000	50.	45,004
21.	57,313	51.	57,313
22.	18,560	52.	3,273
23.	88,000	53.	93,750
24.	6,00,000	54.	51,600
25.	7,000	55.	2,60,000; 10,625; 4375
26.	24,000	56.	10,65,000
27.	71,160	57.	39,390
28.	65,357; 60,000	58.	50,000
29.	52,250; 45,004	59.	80,000 and 1,28,000
30.	30,985		