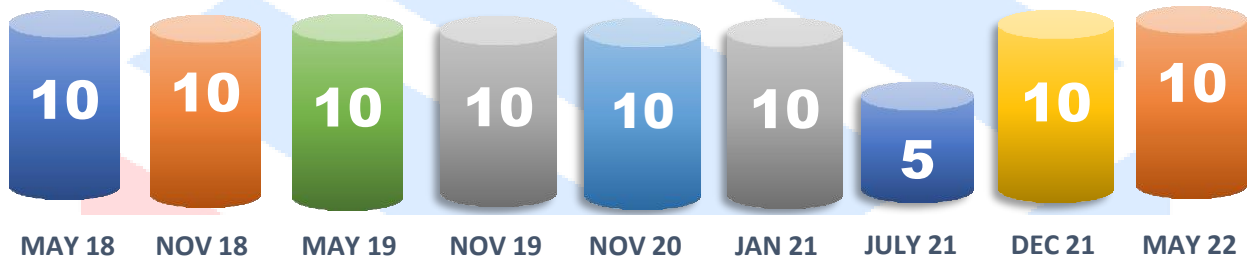


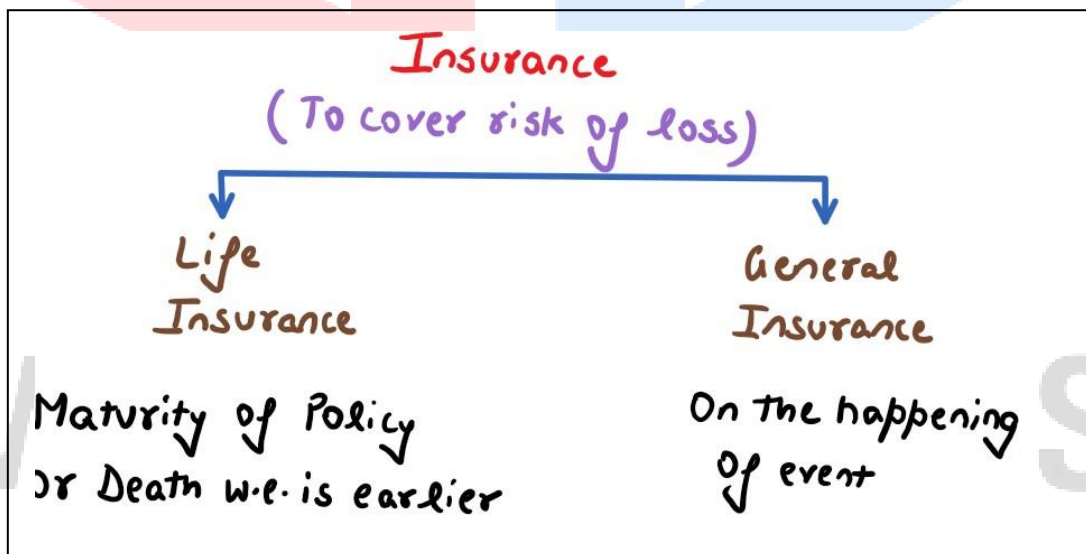
"Don't be pushed around by the Fears in your Mind. Be led by the Dreams in your Heart."

WEIGHTAGE IN PAST YEAR EXAMS



INSURANCE

- ❖ It's a contract between the two parties that if first party suffers any loss, the second party will make such loss good. Thus, the risk of one is assumed by the other.
- ❖ The party which transfers such risk is called **insured** and the other party which assumes such risk is called **insurer**.
- ❖ Insured pays the amount of **premium** to insurer in consideration of risk being undertaken by the insurer and in the event of mishappening, the insurer provides the lump sum amount to insured in the name of claim.



LOSS OF STOCK

→ Meaning & Nature:

- ❖ Business enterprises gets insured against the loss of stock on the happening of certain events such as fire, flood, theft, earthquake etc. Stock destroyed by fire is an abnormal loss.
- ❖ If goods are insured against fire, proper accounts must be maintained for such stocks, otherwise, it will be very difficult to assess the real value of stock at the date of fire i.e., a proper "Stock- Book" must be maintained.
- ❖ The insurance company will compensate only the value of stock which was held immediately before the fire. In the absence of such "Stock-Book", value of stock is to be ascertained on the basis of estimated values.
- ❖ Whatever method of valuation of stock is followed, accurate value of stock immediately before the date of fire must be ascertained correctly, since the insurance company will consider only the actual loss of stock which was destroyed by fire. Actual loss of stock can be determined after deducting the salvage value of stock from the total value of stock destroyed at the date of fire.

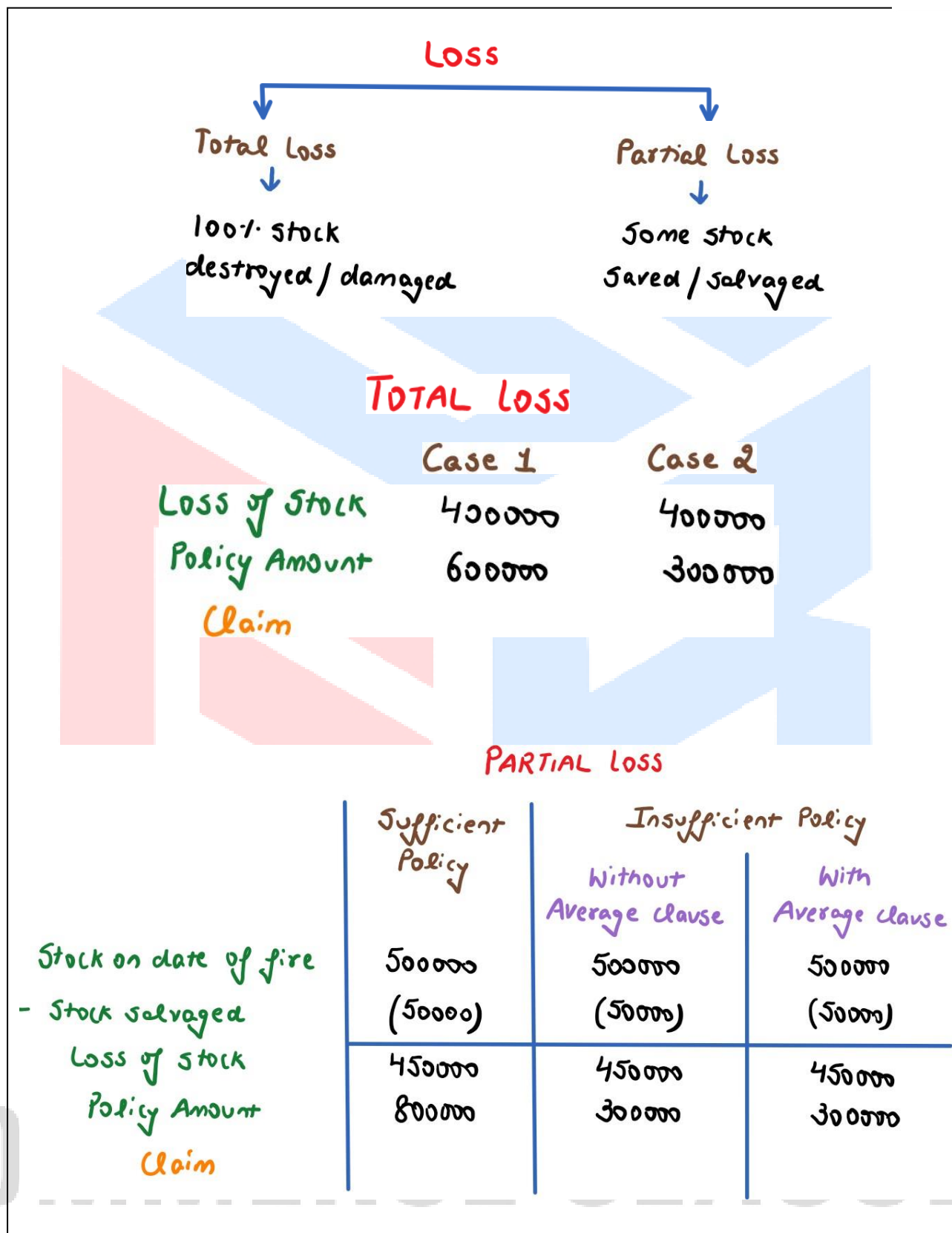
→ Extent of Insurance Claim:

Total Loss	If the goods are totally destroyed, the amount of claim is equal to the actual loss, provided the goods are fully insured. However, in case of under insurance (i.e. insurable value of stock insured > the sum insured), the amount of claim is restricted to the policy amount.	
Partial Loss	If the goods are partially destroyed, amount of claim is equal to actual loss provided the goods are fully insured. However, in case of under insurance, the amount of claim will depend upon the nature of insurance policy	
	Without Average clause	Claim is lower of actual loss or the sum insured.
	With Average Clause	Claim for loss of stock is proportionately reduced, considering the ratio of policy amount (i.e. insured amount) to the value of stock as on the date of fire (i.e. insurable amount)

Significance of Average Clause:

- ❖ Insurance companies tend to discourage under-insurance by including the average clause.
- ❖ The effect of the clause is that if the insured value of the subject matter concerned is less than the total cost, then loss will be limited to that proportion of the loss as the insured value bears to the total cost.
- ❖ Thus, the loss will be borne by the insurance company and the insured proportionately.
- ❖ The insured will bear to the extent of the stock which were not insured and the insurance company will bear/compensate the insured portion of stocks. The actual claim amount would therefore be determined by the following formula:

$$\frac{\text{Amount of policy}}{\text{Value of stock on the date of fire}} \times \text{Actual loss}$$



→ **STEPS :****1. Computation of Stock on the Date of Fire**

Prepare Memorandum Trading Account for current year upto the date of fire. In such Trading Account, Gross Profit should be calculated based on % of sales.

Balancing figure is called closing stock i.e. stock on date of fire

Memorandum Trading A/c

	Amount	Particulars	Amount
To Opening Stock	xx	By Sales	xx
To Purchases xx		By Closing Stock (Bal. figure)	xx
Less: Returns (xx)			
Less: Samples (xx)			
Less: Drawings (xx)	xx		
To Direct Expenses	xx		
To Gross Profit (% of Sales)	xx		
	XXX		XXX

Note: Gross Profit Ratio is either given or the same is calculated by preparing previous year/s Trading Account.

2. Computation of Claim

Stock on date of fire	XX
Less: Stock Salvaged/ Saved*	(XX)
Add: Fire Fighting Expenses	XX
TOTAL LOSS	XX

Apply average clause if applicable.

**Salvaged stock can be made saleable after it is reconditioned. In that case, the cost of such stock must be credited to the Trading Account and debited to a salvaged stock account. The expenses on reconditioning must be debited and the sales credited to this account, the final balance being transferred to the Profit & Loss Account.*

NOTES:

- 1) Wherever possible, stock will be shown at cost price only to calculate GP ratio & claim of stock loss.
- 2) Trading Account should be free from errors.
- 3) Sales means where goods have been delivered & Purchases means where goods have been received.
- 4) If salvage has been delivered to insurance company, then it will be considered as stock lost.
- 5) Average clause should not increase amount of claim.

EXAMPLE:

A fire occurred in the premises of Mr. X on 7th June 2021. Determine the claim to be lodged with the insurance company in the following cases:

CASE-1

Stock on 1.4.2021	99,000
Purchases from 1.4.2021 to 07.06.2021	5,00,000
Sales from 1.4.2021 to 07.06.2021	6,00,000

GP Ratio is 20% of sales.

CASE-2

Stock on 1.4.2021	99,000
Purchases from 1.4.2021 to 07.06.2021	5,00,000
Sales from 1.4.2021 to 07.06.2021	6,00,000

GP Ratio is 20% of sales. Stock on 1st April 2021 is valued at 10% above cost.

CASE-3

Same as Case-2. Mr. X has taken policy for ₹ 3 lakhs.

CASE-4

Same as Case-2. Mr. X has taken policy for ₹ 1 lakh.

CASE-5

Same as Case-2. Mr. X has taken policy for ₹ 3 lakhs. Stock salvaged ₹ 26,000.

CASE-6

Same as Case-2. Mr. X has taken policy for ₹ 1 lakh. Stock salvaged ₹ 26,000.

CASE-7

Stock on 1.4.2021	99,000
Purchases from 1.4.2021 to 07.06.2021	5,00,000
Sales from 1.4.2021 to 07.06.2021	6,00,000

GP Ratio is 20% of sales.

Goods given away as free samples ₹ 2,000, as charity ₹ 3,000 and withdrew for personal use ₹ 4,000. Also cashier had misappropriated cash sales of ₹ 40,000.

→ ABNORMAL STOCK/ ABNORMAL ITEM**Trading Account [Last Year]**

Particulars	Amount	Particulars	Amount
To Opening Stock	xx	By Sales (net of Returns)	xx
To Purchases (net of Returns)	xx	By Closing Stock Actual Value shown in books xx Add: Amount written off xx	xx
To Gross Profit (Bal. Figure)	xx		
	XX		XX

Memorandum Trading A/c

Particulars	Normal	Ab-normal	Total	Particulars	Normal	Ab-normal	Total
To Opening Stock				By Sales			
To Purchases				By Loss on sale			
To Direct Expenses				By Loss on revaluation			
To Gross Profit (% of Normal sales)				By Closing Stock (Bal. figure)			

Treatment of Abnormal Items of Stock

- 1) If any abnormal items of stock is given in question, then amount which has been written off from this stock shall be 1st of all added in closing stock while preparing last year Trading A/c.
- 2) Total value of this closing stock shall be written in Total column in Memo Trading A/c, the original cost of abnormal items shall be written in abnormal column & the balance stock shall be written in normal column.
- 3) For loss of stock on date of fire, closing stock includes both normal & abnormal stocks.
- 4) Unless otherwise stated, estimated value of stock on date of fire consists of book value of normal items & book value of abnormal items. Sometimes specific valuation of abnormal items is given for purpose of claim, then instead of book value such valuation should be taken.

ASSIGNMENT QUESTIONS

TOPIC 1: LOSS OF STOCK: BASIC CONCEPTUAL QUESTIONS

Question 1 _____ Pg no. _____

A fire broke out in the godown of a business house on 8th July, 2021. Goods costing ₹ 2,03,000 in a small sub-godown remain unaffected by fire. The goods retrieved in a damaged condition from the main godown were valued at ₹1,97,000.

The following particulars were available from the books of accounts:

Stock on the last Balance Sheet date at 31st March, 2021 was ₹15,72,000. Purchases for the period from 1st April, 2021 to 8th July, 2021 were ₹ 37,10,000 and sales during the same period amounted to ₹52,60,000. The average gross profit margin was 30% on sales.

The business house has a fire insurance policy for ₹10,00,000 in respect of its entire stock. Compute the amount of claim of loss by fire.

Question 2 _____ Pg no. _____

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

Value of stock destroyed by fire	₹90,000
Insurance policy amount (subject to average clause)	₹65,000
Value of stock salvaged from fire	₹40,000

Question 3 _____ Pg no. _____

A fire broke out in the warehouse of Amitabh Traders Ltd. on 30th September, 2021. The company desires to file a claim with the insurance company for loss of stock and gives you the following information to enable you to calculate the amount to be claimed:

Sundry debtors on 31.12.2020	3,20,000
Sundry debtors on 30.9.2021	2,40,000
Cash received from debtors	11,52,000
Stock on 31.12.2020	1,20,000
Purchases from 1.1.2021 to 30.9.2021	10,00,000
Rate of gross profit to cost of sales	25%

Question 4 _____ Pg no. _____

Fire occurred in the premises of Bad Luck Ltd. on 20th February, 2021. The company has taken out a fire insurance policy of ₹1,00,000 covering its stock in trade and policy was subject to average clause. Ascertain the claim to be lodged.

Particulars	₹
Stock on 1st January, 2020	90,000
Purchases during the year 2020	3,65,000
Purchases returns during the year 2020	5,000
Stock on 31st December, 2020	1,26,000
Sales for the year 2020	4,10,000
Sales returns during the year 2020	10,000
Purchases from 1.1.2021 to date of fire	84,000
Sales from 1.1.2021 to date of fire	1,03,000
Sales returns from 1.1.2021 to date of fire	4,000
Value of stock saved	19,800

It was the practice of the concern to value the stocks at cost less 10%.

Question 5

Pg no. _____

(a) The premises of X Ltd. caught fire on 22nd January, 2021 and the stock was damaged. The value of goods salvaged was negligible. The firm made up accounts to 31st March each year. On 31st March, 2020 the stock at cost was ₹13,27,200 as against ₹ 9,62,200 on 31st March 2019.

Purchases from 1st April, 2020 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2019-2020 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively.

You are given the following further information:

- In July, 2020, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.
- The rate of gross profit is constant. X Ltd. had taken an insurance policy of ₹ 5,50,000 which was subject to the average clause.

From the above information, you are required to make an estimate of the stock in hand on the date of fire and compute the amount of the claim to be lodged to the insurance company

(b) Assume other things remaining same, clerk misappropriated unrecorded cash sales. It is assumed that defalcation average ₹ 2,000 per week from 1st April, 2020 until clerk was dismissed on 18th August, 2020.

Question 6

Pg no. _____

The premises and stock of Param Chand Stores were totally destroyed by fire on 30th January, 2021. From the account books and other records that were saved, the following information is available. The stock on hand has always been valued at 10% less than cost.

Particulars	2018 ₹	2019 ₹	2020 ₹	2021 ₹
Opening stock as valued	27,090	32,400	36,000	36,900
Purchases less returns	74,900	80,000	81,000	6,000
Sales less returns	1,20,000	1,32,000	1,40,000	12,000
Wages	17,400	16,400	23,600	2,000
Closing stock as valued	32,400	36,000	36,900	

Calculate the amount of claim to be lodged to the Insurance Company.

Question 7 *(RTP Nov 2019) ICAI Study Material (Similar) / RTP Nov 2021 (Similar)*

Pg no. _____

On 2.6.2021 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

Stock at cost on 1.4.2020	1,35,000
Stock at 90% of cost on 31.3.2021	1,62,000
Purchases for the year ended 31.3.2021	6,45,000
Sales for the year ended 31.3.2021	9,00,000
Purchases from 1.4.2021 to 2.6.2021	2,25,000
Sales from 1.4.2021 to 2.6.2021	4,80,000

Sales upto 2.6.2021 includes ₹75,000 being the goods not dispatched to the customers. The sales invoice price is ₹75,000.

Purchases upto 2.6.2021 includes a machinery acquired for ₹15,000.

Purchases upto 2.6.2021 does not include goods worth ₹30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire.

Value of stock salvaged from fire ₹22,500 and this has been handed over to the insurance company. The insurance policy is for ₹1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

Question 8 *(ICAI Study Material)* Pg no. _____

On 30th March, 2021 fire occurred in the premises of M/s Suraj Brothers. The concern had taken an insurance policy of ₹ 60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March 2021.

1. Stock as per Balance Sheet at 31st December, 2020, ₹ 95,600.
2. Purchases (including purchase of machinery costing ₹ 30,000) ₹ 1,70,000
3. Wages (including wages ₹ 3,000 for installation of machinery) ₹ 50,000.
4. Sales (including goods sold on approval basis amounting to ₹ 49,500) ₹ 2,75,000.
No approval has been received in respect of 2/3rd of the goods sold on approval.
5. The average rate of gross profit is 20% of sales.
6. The value of the salvaged goods was ₹ 12,300.

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

Question 9 Pg no. _____

On 13th September, 2021 fire occurred in the premises of M/s DEF & Co. Most of the stocks were destroyed. Cost of stock salvaged being ₹ 40,000. In addition some stock was salvaged in damaged condition and its value in that condition agreed at ₹ 20,000. From the salvaged accounting records, the following information is available:

Stock of goods @ 10% lower than cost as on 31st March, 2021	8,64,000
Purchases (1.4.21 to 13.09.21)	35,29,900
Sales (1.4.21 to 13.09.2021)	46,93,200

Additional information:

- 1) Sales upto 13th September, 2021, includes ₹ 70,000 for which goods had not been dispatched and ₹ 25,000 of goods sent on approval basis but approval for which not received.
- 2) Purchases upto 13th September, 2021 did not include ₹ 60,000 for which purchase invoices had not been received from suppliers, though goods have been received in Godown. Further purchases include purchase of machinery costing ₹ 40,000.
- 3) Past records show the gross profit rate of 25%.
- 4) M/s DEF & Co. has insured their stock for ₹ 9,00,000.

Find out the value of loss of stock by applying the above points.

Question 10 *(ICAI Study Material)* Pg no. _____

A fire occurred in the premises of M/s. Kailash & Co. on 30th September 2021. From the following particulars relating to the period from 1st April 2021 to 30th September 2021, you are required to ascertain the amount of claim to be filed with Insurance Company for the loss of Stock. The company has taken an Insurance policy for ₹ 75,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 27,000. The average rate of Gross Profit was 20% throughout the period.

Particulars	Amount (₹)
Opening Stock	1,20,000
Purchase made	2,40,000
Wages paid (including wages for the installation of a machine ₹5,000)	75,000

Sales	3,10,000
Goods taken by the Proprietor (Sale Value)	25,000
Cost of goods sent to Consignee on 20th September 2021, lying unsold with them	18,000
Free Samples distributed - Cost	2,500

Question 11 (ICAI Study Material)

Pg no. _____

On 29th August, 2021, the godown of a trader caught fire and a large part of the stock of goods was destroyed. However, goods costing ₹ 1,08,000 could be salvaged incurring fire fighting expenses amounting to ₹ 4,700.

The trader provides you the following additional information:

Cost of stock on 1st April, 2020	7,10,500
Cost of stock on 31st March, 2021	7,90,100
Purchases during the year ended 31st March, 2021	56,79,600
Purchases from 1st April, 2021 to the date of fire	33,10,700
Cost of goods distributed as samples for advertising from 1st April, 2021 to the date of fire	41,000
Cost of goods withdrawn by trader for personal use from 1st April, 2021 to the date of fire	2,000
Sales for the year ended 31st March, 2021	80,00,000
Sales from 1st April, 2021 to the date of fire	45,36,000

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

Question 12 (RTP May 2019)

Pg no. _____

A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2021. The building, equipment and stock were destroyed, and salvage recorded the following: Building - ₹ 4,000; Equipment - ₹ 2,500; Stock - ₹ 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2021:

Particulars	₹
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31st December, 2020	1,50,000
Building (value on 31st December, 2020)	3,75,000
Equipment (value on 31st December, 2020)	75,000
Depreciation provision till 31st December, 2020 on:	
: Building	1,25,000
: Equipment	22,500

No depreciation has been provided since December 31st 2020. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method. Normally business makes a profit of 25% on net sales.

If claim was also settled for ₹ 5,25,000. Prepare statement of claim & then give necessary journal entries in this regard.

TOPIC 2: LOSS OF STOCK: ABNORMAL STOCK

Question 13 *(ICAI Study Material)*

Pg no. _____

On 19th May, 2021, the premises of Shri Garib Das were destroyed by fire, but sufficient records were saved, wherefrom the following particulars were ascertained:

Particulars	₹
Stock at cost on 1.1.2020	36,750
Stock at cost on 31.12.2020	39,800
Purchases less returns during 2020	1,99,000
Sales less returned during 2020	2,43,500
Purchases less returns during 1.1.2021 to 19.5.2021	81,000
Sales less returns during 1.1.2021 to 19.5.2021	1,15,600

In valuing the stock for the balance Sheet as at 31st December, 2020, ₹ 1,150 had been written off on certain stock which was a poor selling line having the cost ₹ 3,450. A portion of these goods were sold in March, 2021 at a loss of ₹ 125 on original cost of ₹ 1,725. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was ₹ 2,900.

Show the amount of the claim of stock destroyed by fire. Memorandum Trading Account to be prepared for the period from 1-1-2021 to 19-5-2021 for normal and abnormal items.

Question 14

Pg no. _____

On 1st April, 2021, the godown of Rekha Limited was destroyed by fire. From the books of account, the following particulars are gathered:

Particulars	₹
Stock at cost on 1st January, 2020	27,570
Stock as per Balance sheet on 31st December, 2020	51,120
Purchases during 2020	2,71,350
Purchases from 1st January, 2021 to 31st March, 2021	75,000
Sales during 2020	3,51,000
Sales from 1st January, 2021 to 31st March, 2021	91,500
Value of goods salvaged	6,300

Goods of which original cost was ₹3,600 had been valued at ₹1,500 on 31st Dec, 2020. These were sold in March, 2021 for ₹2,700. Except this transaction, rate of gross profit has remained constant. On 31st March, 2021 goods worth ₹15,000 had been received by the godown keeper, but had not been entered in the purchases account.

Calculate the value of goods destroyed by fire.

Question 15

Pg no. _____

On 30.09.2021 the stock of Harshvardhan was lost in a fire accident. Calculate claim amount.

Particulars	₹
Stock at cost on 1.4.2020	75,000
Stock at cost on 31.3.2021	1,04,000
Purchases less returns for the year ended 31.3.2021	5,07,500
Sales less returns for the year ended 31.3.2021	6,30,000
Purchase less returns up to 30.09.2021	2,90,000
Sales less returns up to 30.09.2021	3,68,100

In valuing the stock on 31.03.2021 due to obsolescence 50% of the value of the stock which originally cost ₹12,000 had been written-off. In May 2021, 3/4th of these stocks had been sold at 90% of original cost and it is now expected that the balance of the obsolete stock would also realize the same price, subject to the above, G.P had remained uniform throughout stock to the value of ₹ 14,400 was salvaged.

Question 16 *(ICAI Study Material)*

Pg no. _____

From the following information, ascertain the value of stock as on 31st March, 2021:

Particulars	₹
Stock as on 01-04-2020	28,500
Purchases	1,52,500
Manufacturing Expenses	30,000
Selling Expenses	12,100
Administration Expenses	6,000
Financial Expenses	4,300
Sales	2,49,000

At the time of valuing stock as on 31st March, 2020, a sum of ₹ 3,500 was written off on a particular item, which was originally purchased for ₹ 10,000 and was sold during the year for ₹ 9,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

Question 17

Pg no. _____

On 25th June, 2021 a fire broke out in the premises of Unlucky Co. All the stocks were destroyed except some which were partly damaged and sold subsequently for ₹7,900. Calculate claim amount assuming that the policy was for ₹20,000.

Particulars	₹
Stock as on 1st January, 2021	24,400
Purchases upto the date of the fire	73,000
Sales upto the date of the fire	97,000
Purchases during the year 2020	1,53,500
Sales during the year 2020	1,96,500
Stock as on 1st January, 2020	18,500

The stock as on 1st January, 2020 included a special item valued ₹5,600 which was sold at a profit of 20% on sales. A part of this item was sold in 2020 while the balance was sold on 3rd May, 2021 for ₹ 2,500. Except for this item, gross profit on all other items was at a uniform rate throughout the period.

Question 18

Pg no. _____

A fire occurred in the premises of a timber merchant on the night on 31st December, 2021. Goods worth ₹ 25,200 only could be salvaged. Following further information is available:

- The accounting year ends on 31st March every year.
- The closing stock on 31st March 2021 was valued at ₹ 1,10,000. This was 10% above cost.
- The purchases during the period from 1st April 2021 to 31st December 2021 accounted to ₹ 5,50,000 as per the purchase register. However, goods worth ₹ 30,000 were received on 3rd January, 2022.
- The sales during the period from 1st April 2021 to 31st December, 2021 amounted to ₹ 6,45,000 and included goods sold on approval basis for which the period of approval was not yet over on 31st December, 2021. The goods so sold on approval basis had been invoiced at ₹ 30,000 which was 50% above the cost.

- e) On 30th December, 2021, goods worth ₹ 60,000 had been sent to a commission agent on consignment basis.
- f) The wages paid during the period from 1st April, 2021 to 31st December, 2021 amounted to ₹ 40,000 and included ₹10,000 paid to workers engaged in construction work.
- g) The amount spent on carriage inward during the period from 1st April, 2021 to 31st December, 2021 was ₹ 25,000.
- h) It was agreed to take gross profit ratio as weighted average of the gross profit ratios of the preceding 4 years. For this purpose, greater weight was to be given to later years, also an item purchased in July 2021 for ₹ 20,000 & sold in Aug 2021 at a loss of ₹ 5,000 was to be considered separately.
- i) The gross profit and sales of the preceding four years were:

Year	Gross Profit (₹)	Sales (₹)
2017 - 18	1,04,000	4,00,000
2018 - 19	90,000	4,50,000
2019 - 20	1,15,200	4,80,000
2020 - 21	1,52,800	5,10,000

The merchant had obtained a policy of ₹ 1,00,000 to cover the loss of stock by fire and the policy contained the average clause. You are required to determine the amount of claim to be lodged with the insurance company for the stock destroyed by fire.

Question 19

Pg no. _____

On 30th June, 2021 accidental fire destroyed a major part of the stocks in the godown of Jay Associates. Stocks costing ₹ 30,000 could be salvaged but not their stores ledgers. A fire insurance policy was in force under which sum insured was ₹3,50,000. From records, following information was received:

- Total of sales invoices during the period April to June amounted to ₹30,20,000. An analysis showed that goods of the value of ₹3,00,000 had been returned by the customers before the date of fire.
- Opening stock on 1.4.2021 was ₹2,20,000 including stocks of value of ₹20,000 being lower of cost and net value subsequently realized.
- Purchases between 1.4.2021 and 30.6.2021 were ₹21,00,000.
- Normal gross profit rate was 33¹% on sales.
- A sum of ₹30,000 was incurred by way of firefighting expenses on the date of fire. Prepare a statement showing the insurance claim recoverable.

Question 20

Pg no. _____

A fire occurred in the premises of M/s Fireprone Co. on 30th May 2021. From the following particulars, relating to the period from 1.1.2021, you are required to ascertain the amount of claim to be filed with the insurance company for the loss of stock.

Particulars	₹
Stock as per Balance Sheet as at 31st December, 2020	99,000
Purchases (including purchase of Machinery costing ₹ 30,000)	1,70,000
Wages (including wages for the installation of Machinery ₹ 3,000)	50,000
Sales (including goods sold on approval basis amounting to ₹ 49,500. No confirmation has been received in respect of 2/3 rd of such goods sold on approval basis.)	2,75,000
Sales value of goods drawn by partners	15,000
Cost of goods sent to consignee on 15th May 2021, lying unsold with them	16,500
Sales value of goods distributed as free samples	1,500

The average rate of gross profit had been 20% in the past. The selling price had increased by 20% with effect from 1.1.2021. been

For valuing the stocks for the Balance Sheet as at 31st Dec. 2020, ₹ 1,000 been
had

written-off in respect of a slow-moving item, the cost of which was ₹ 5,000. A portion of those goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500. The remainder of the stock was now estimated to be worth the original cost.

Subject to the above exceptions, the gross profit had remained at a uniform rate throughout. The value of goods salvaged was estimated at ₹ 25,000. The concern had taken an insurance policy for ₹ 60,000 which was subject to the average clause.

Question 21

Pg no. _____

From the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock:

Particulars	₹
Stock at cost on 1st January, 2020	90,000
Stock at cost on 1st January, 2021	70,000
Purchases during 2020	4,00,000
Purchases from 1st January, 2021 to 30th September, 2021	6,00,000
Sales during 2020	6,00,000
Sales from 1st January, 2021 to 30th September, 2021	8,80,000

Fire occurred on 30th September 2021 & apply FIFO method.

You are informed that:

- In 2021 the cost of purchases have risen by 20% above the level prevailing in 2020;
 - In 2021 the selling prices have gone up by 10% over the levels prevailing in 2020;
- Salvage value is ₹5,000.

Question 22

Pg no. _____

Unfortunate Ltd. has a godown, a shop and a manufacturing unit. Godown is used to store goods purchased for manufacture as well as to store finished goods. Goods are transferred from godown everyday in the morning to manufacturing unit and shop. Inventory in godown is insured for ₹ 20 lakhs, that of manufacturing unit for ₹ 30 lakhs and of the shop for ₹ 5 lakhs. As on 31.12.20 inventory in godown at cost was ₹ 26 lakhs, inventory in manufacturing unit at cost was ₹ 12 lakhs and inventory in shop at cost was

₹ 5 lakhs. Following transactions took place during the period mentioned:

Particulars	₹ In Lakhs			
	Jan 21	Feb 21	March 21	1st Apr to 28th Apr
Purchases	20	15	16	8
Returns to suppliers	-	-	4	-
Stock transfer to shop	26	20	25	10
Returns from shop	1	-	1	1
Sales in shop @ Gross Profit				
10%	10	12	8	4
12%	18	12	15	5

Fire occurred in shop in the midnight of 27th April-28th April, 2021 and the entire stock was engulfed in fire. Good costing ₹ 40,000 could be salvaged intact and balance goods were recovered in damaged condition.

Goods recovered in damaged condition could be sold @ 40% of cost. The insurance policy had average clause. Compute the claim to be lodged with Insurance Co.

PRACTICE QUESTIONS

TOPIC 1: LOSS OF STOCK: BASIC CONCEPTUAL QUESTIONS

Question 1 _____ Pg no. _____

A fire occurred on 25th April, 2021 in the premises of a company. Ascertain the amount of claim to be lodged in case of the loss of stock which was insured.

Stock on 1.1.2021	2,50,000
Purchases from 1.1.2021 to date of fire	10,00,000
Wages	2,00,000
Manufacturing expenses	1,00,000
Sales from 1.1.2021 to the date of fire	15,00,000

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

(Ans: Claim 2,17,500)

Pg no. _____

Question 2 _____

Sachin has taken out a fire policy of ₹ 1,60,000 covering its stock. A fire occurred on 31st March, 2021. The following particulars are available:

Stock as on 31.12.2020	60,000
Purchases to the date of fire	2,60,000
Sales to the date of fire	1,80,000
Carriage Inwards	1,600
Commission on purchase to be paid	2%

Gross Profit Ratio @ 50% on cost. You are asked to ascertain

- (i) total loss of stock;
- (ii) amount of claim to be made against the Insurance Company assuming that the policy was subject to average clause. Stock salvage amounted to ₹ 41,360.

(Ans: Claim 1,28,000)

Question 3 *(ICAI Study Material)* _____ Pg no. _____

On 15th December, 2021, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of stock salvaged being ₹1,40,000. From the books of account, the following particulars were available:

- (i) Stock at the close of account on 31st March, 2021 was valued at ₹9,40,000.
- (ii) Purchases from 01-04-2021 to 15-12-2021 amounted to ₹13,20,000 and the sales during that period amounted to ₹20,25,000.

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales. Compute the amount of the claim, if the stock were insured for ₹ 4,00,000.

(Ans: Claim 3,12,500)

Question 4 *(ICAI Study Material)* _____ Pg no. _____

On 12th June, 2021 fire occurred in the premises of N.R. Patel, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹ 11,200. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹ 10,500. From the books of account, the following particulars were available.

His stock at the close of account on December 31, 2020 was valued at ₹ 83,500. His purchases from 1-1-2021 to 12-6-2021 amounted to ₹ 1,12,000 and his sales during that period amounted to ₹ 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 ₹ 60,000. Compute the amount of the claim.

(Ans: Claim 45,154)

Question 5 (RTP May 2018)

Pg no. _____

The premises of Anmol Ltd. caught fire on 22nd January 2021, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2020 the stock at cost was ₹ 6,63,600 as against ₹ 4,81,100 on 31st March, 2019. Purchases from 1st April, 2020 to the date of fire were ₹ 17,41,350 as against ₹ 22,62,500 for the full year 2019-20 and the corresponding sales figures were ₹ 24,58,500 and ₹ 26,00,000 respectively.

You are given the following further information:

- In July, 2020, goods costing ₹ 50,000 were given away for advertising purposes, no entries being made in the books.
- During 2020-21, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 1,000 per week from 1st April, 2020 until the clerk was dismissed on 18th August, 2020.
- The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire.

(Ans: Stock on date of Fire 3,72,150)

Question 6 (ICAI Study Material)

Pg no. _____

Mr. A prepares accounts on 30th September each year, but on 31st December, 2021 fire destroyed the greater part of his stock. Following information was collected from his book:

Stock as on 1.10.2021	29,700
Purchases from 1.10.2021 to 31.12.2021	75,000
Wages from 1.10.2021 to 31.12.2021	33,000
Sales from 1.10.2021 to 31.12.2021	1,40,000

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

Additional information:

- Stock at the beginning was calculated at 10% less than cost.
- A plant was installed by firm's own worker. He was paid ₹ 500, which was included in wages.
- Purchases include the purchase of the plant for ₹ 5,000

You are required to calculate the claim for the loss of stock. (Ans: Claim 22,541)

Question 7 (ICAI Study Material)

Pg no. _____

On 20th October, 2021, the godown and business premises of Aman Ltd. were affected by fire. From the salvaged accounting records, the following information is available:

Stock of goods @ 10% lower than cost as on 31st March, 2021	₹ 2,16,000
Purchases less returns (1.4.21 to 20.10.21)	₹ 2,80,000
Sales less returns (1.4.21 to 20.10.21)	₹ 6,20,000

Additional information:

- 1) Sales upto 20th October, 2021 includes ₹ 80,000 for which goods been had not dispatched.
 - 2) Purchases upto 20th October, 2021 did not include ₹ 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in Godown.
 - 3) Past records show the gross profit rate of 25%.
 - 4) The value of goods salvaged from fire ₹ 31,000.
 - 5) Aman Ltd. has insured their stock for ₹ 1,00,000.
- Compute the amount of claim to be lodged to the insurance company.

(Ans: Claim 80,000)

Question 8 (Inter May 2018) (10 Marks)

Pg no. _____

On 30th March, 2021 fire occurred in the premises of M/s Alok & Co. The concern had taken an insurance policy of ₹ 1,20,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March, 2021:

(i)	Stock as per Balance Sheet at 31st December, 2020	1,91,200
(ii)	Purchases (including purchase of machinery costing ₹ 60,000)	3,40,000
(iii)	Wages (including wages ₹ 6,000 for installation of machinery)	1,00,000
(iv)	Sales (including goods sold on approval basis amounting to ₹ 99,000) No approval has been received in respect of 2/3rd of the goods sold on approval.	5,50,000
(v)	The average rate of gross profit is 20% of sales.	
(vi)	The value of the salvaged goods was ₹ 24,600	

Compute the amount of the claim to be lodged to the Insurance Company.

(Ans: Claim 96,422)

Question 9 (Inter Nov 2018) (10 Marks)

Pg no. _____

A fire engulfed the premises of a business of M/S Kite Ltd. in the morning, of 1st October, 2021. The entire stock was destroyed except, stock salvaged of ₹ 50,000. Insurance Policy was for ₹ 5,00,000 with average clause. The following information was obtained from the records saved for the period from 1st April to 30th September,

Sales	27,75,000
Purchases	18,75,000
Carriage inward	35,000
Carriage outward	20,000
Wages	40,000
Salaries	50,000
Stock in hand on 31st March, 2021	3,50,000

Additional Information:

- (1) Sales upto 30th Sep, 2021, includes ₹ 75,000 for which goods had not been dispatched.
- (2) On 1st June, 2021, goods worth ₹ 1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of 2/3rd of goods sold to him till 30th September, 2021.
- (3) Purchases upto 30th Sep, 2021 did not include ₹ 1,00,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.
- (4) Past records show the gross profit rate of 25% on sales.

You are required to prepare the statement of claim for loss of stock for submission to the Insurance Company. (Ans: Claim 3,25,000)

Question 10 *(Inter Jan 2021) (10 Marks)*

Pg no. _____

A Fire occurred in the premises of M/S MJ & Co., on 31st December, 2021. From the following particulars related to the period from 1st April 2021 to 31st December 2021, you are required to ascertain the amount of claim to be filed with the insurance company for the loss of stock.

The company has taken an insurance policy for ₹ 1,00,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 31,000. The average rate of gross profit was 20% throughout the period:

Particulars	Amount
Opening stock as on 1st April, 2021	1,50,000
Purchases during the year	4,20,000
Goods withdrawn by the proprietor for his self-use at Sales Value	10,000
Goods distributed as charity at cost	4,000
Purchases include ₹ 5,000 of Tools purchased, these Tools should have been capitalized.	
Wages (include wages paid for the installation of machinery ₹ 6,000)	90,000
Sales during the year	6,10,000
Cost of goods sent to consignee on 1st November, 2021, lying unsold with the consignee.	25,000
Sales Return	10,000

(Ans: Claim 76,515)

Question 11 *(RTP Nov 2020) / (RTP May 2021) (Similar)*

Pg no. _____

Ram trader's godown caught fire on 29th August, 2021, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged. The trader provides you the following additional information:

Cost of stock on 1st April, 2020	3,55,250
Cost of stock on 31st March, 2021	3,95,050
Purchases during the year ended 31st March, 2021	28,39,800
Purchases from 1st April, 2021 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2021 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2021 to the date of fire	1,000
Sales for the year ended 31st March, 2021	40,00,000
Sales from 1st April, 2021 to the date of fire	22,68,000

The trader had taken the fire insurance policy for ₹ 2,50,000 with an average clause. Calculate the amount of the claim that will be admitted by the insurance company. *(Ans: Claim 2,19,409)*

Question 12

Pg no. _____

A fire occurred in the premises of Sri. G. Venkatesh on 1.4.2021 and a considerable part of the stock was destroyed. The stock salvaged was ₹ 28,000.

Sri Venkatesh had taken a fire insurance policy for ₹ 17,10,000 to cover the loss of stock by fire.

Ascertain the insurance claim which the company should claim from the insurance company for the loss of stock by fire. The following particulars are available:

Particulars	₹
Purchases for the year 2020	93,80,000
Sales for the year 2020	1,16,00,000
Purchases from 1.1.21 to 1.4.21	18,20,000
Sales from 1.1.21-1.4.21	24,00,000
Stock on 1.1.20	14,40,000
Stock on 31.12.2020	24,20,000
Wages paid during 2020	10,00,000
Wages paid 1.1.21-1.4.21	1,80,000

Sri Venkatesh had in June 2020 consigned goods worth ₹ 5,00,000, which unfortunately were lost in an accident. Since there was no insurance cover taken, the loss had to be borne by him full. Stocks at the end of each year for and till the end of calendar year 2019 had been valued at cost less 10%. From 2020, however there was a change in valuation of closing stock which was ascertained by adding 10% to its costs.

(Ans: Claim 16,89,000)

Question 13 (RTP May 2022)

Pg no. _____

A fire occurred in the premises of M/s Star & Sons on 21st March 2020. The concern had taken Insurance Policy of ₹ 70,000 which was subject to average clause. From the books of accounts, the following particulars are available relating to the period 1st April 2019 to March 21st 2020:

1)	Stock as on April 1st 2019	₹1,50,500
2)	Purchases (including purchase of ₹ 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown)	₹3,17,000
3)	Cost of goods distributed as, samples for advertising from April 1st 2019 to the date of fire, included in above purchases	₹ 32,000
4)	Sales (excluding goods sold on approval basis having sale value ₹ 35,000). Approval has been received for all goods sold on approval basis, before the date of fire.	₹ 4,55,000
5)	Purchase return	₹ 15,000
6)	Wages (including salary of Manager ₹ 10000)	₹ 65,000
7)	Average Rate of Gross Profit @ 20% on sales.	
8)	Cost of goods salvaged	₹ 12,000

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

(Ans: Claim 59,940)

TOPIC 2: LOSS OF STOCK: ABNORMAL STOCK

Question 14 (ICAI Study Material)

Pg no. _____

On 1st April, 2021, the stock of Shri Ramesh was destroyed by fire, but sufficient records were saved, wherefrom the following particulars were ascertained:

Particulars	₹
Stock at cost on 1.1.2020	73,500
Stock at cost on 31.12.2020	79,600
Purchases less returns during 2020	3,98,000
Sales less returned during 2020	4,87,000
Purchases less returns during 1.1.2021 to 31.03.2021	1,62,000
Sales less returns during 1.1.2021 to 31.03.2021	2,31,200

In valuing the stock for the balance Sheet as at 31st December, 2020, ₹ 2,300 had been written off on certain stock which was a poor selling line having the cost ₹ 6,900. A portion of these goods were sold in March, 2021 at a loss of ₹ 250 on original cost of ₹ 3,450. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was ₹ 5,800. The policy was for ₹ 50,000 & was subject to the average clause. Work out the amount of claim of loss by fire.

(Ans: Claim 45,004)

Question 15

Pg no. _____

A fire occurred in the premises of M/s. Raxby & Co. on 30-06-2021. From the salvaged accounting records, the following particulars were ascertained

Particulars	₹
Stock at cost as on 01-04-2020	1,20,000
Stock at cost as on 31-03-2021	1,30,000
Purchases less return during 2020-21	5,25,000
Sales less return during 2020-21	6,00,000
Purchases from 01-04-2021 to 30-06-2021	97,000
Purchases upto 30-06-2021 did not include ₹ 35,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.	
Sales from 1.4.2021 to 30.6.2021	1,66,000

In valuing the stock for the Balance Sheet at 31st March, 2021, ₹ 5,000 had been written off on certain stock which was a poor selling line having the cost of ₹ 8,000. A portion of these goods were sold in May, 2021 at a loss of ₹ 1,000 on original cost of ₹ 7,000. The remainder of the stock was now estimated to be worth its original cost. Subject to that exception, gross profit had remained at a uniform rate throughout the year.

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

(Ans: Claim 91,935)

Question 16

Pg no. _____

On 11.11.2021 premises of Rocky Ltd. was destroyed by fire. Following information is made available

Particulars	₹
Stock as on 1.4.2020	3,75,000
Purchases from 1.4.2020 to 31.3.2021	5,20,000
Sales from 1.4.2020 to 31.3.2021	8,55,000
Stock as on 31.3.2021	2,00,000
Purchases from 1.4.2021 to 11.11.2021	3,41,000
Sales from 1.4.2021 to 11.11.2021	4,35,500

In valuing the stock on 31.3.2021, due to damage 50% of the value of the stock which originally cost ₹22,000 was written off. In June, 2021 about 50% of this stock was sold for ₹ 5,500 and the balance of obsolete stock is expected to realize the same price (i.e., 50% of the original cost). The gross profit ratio is to be assumed as uniform in respect of other sales. Stock salvaged from fire amounts to ₹11,500.

Compute the value of stock lost in fire. (Ans: Claim 1,80,000)

Question 17 *(Inter July 2021) (5 Marks)*

Pg no. _____

On 13th Jan, 2021 fire occurred in the premises of Mr. X, a cloth merchant. The Goods were totally destroyed. From the books of account, for the period 01-04-2020 to the date of fire the following particulars were available

Particulars	₹
Stock as on 01-04-2020	57,000
Purchases	3,05,000
Manufacturing Expenses	60,000
Selling Expenses	24,200
Sales	4,98,000

At the time of valuing stock as on 31st March, 2020, a sum of ₹ 7,000 was written off on a particular item, which was originally purchased for ₹ 20,000 and was sold during the year for ₹ 18,000. Barring the transaction relating to this item, the gross profit earned during the period was 25% on sales. Mr. X has insured his stock for ₹ 40,000. Compute the amount of the claim.

(Ans: Claim 40,000)

Question 18

Pg no. _____

On 1st July, 2021 a fire took place in the Godown of Aamir Khan which destroyed all stocks. Calculate the amount of insurance claim for stock from the following details:

Particulars	₹
Sales in 2019	2,00,000
Gross Profit in 2019	60,000
Sales in 2020	3,00,000
Gross Profit in 2020	60,000
Stock as on 1.1.2021	2,70,000
Purchases from 1.1.2021 to 30.6.2021	4,00,000
Sales from 1.1.2021 to 30.6.2021	7,20,000

Stock as on 31st December, 2020 had been undervalued by 10 per cent.

A stock taking conducted in March, 2021 had revealed that stocks costing ₹80,000 were lying in a damaged condition. 50 per cent of these stocks had been sold in May, 2021 at 50 per cent of cost and the balance were expected to be sold at 40 per cent of cost. *(Ans: Claim 1,46,000)*

Question 19 *(ICAI Study Material)*

Pg no. _____

A fire occurred in the premises of M/s. Fireproof Co. on 31st August, 2021. From the following particulars relating to the period from 1st April, 2021 to 31st August, 2021, you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for ₹ 60,000 which is subject to an average clause.

Particulars	₹
Stock as per Balance Sheet at 31-03-2021	99,000
Purchases	1,70,000
Wages (including wages for the installation of a machine ₹ 3,000)	50,000
Sales	2,42,000
Sale value of goods drawn by partners	15,000
Cost of goods sent to consignee on 16 th Aug, 21, lying unsold with them	16,500
Cost of goods distributed as free samples	1,500

While valuing the stock at 31st March, 2021, ₹ 1,000 were written off in respect of a slow moving item. The cost of which was ₹ 5,000. A portion of these goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at ₹ 20,000. The average rate of gross profit was 20% throughout.

(Ans: Claim 47,027)

Question 20 *(Inter Nov 2020) (10 Marks)*

Pg no. _____

A Fire occurred in the premises of M/s B & Co. on 30th September, 2021. The firm had taken an insurance policy for ₹ 1,20,000 which was subject to an average clause. Following particulars were ascertained from the available records for the period from 1st April, 2020 to 30th September, 2021:

	Amount
Stock at cost on 01-04-2020	2,11,000
Stock at cost on 31-03-2021	2,52,000
Purchases during 2020-21	6,55,000
Wages during 2020-21	82,000
Sales during 2020-21	8,60,000
Purchases from 01-04-2021 to 30-09-2021 (including purchase of machinery costing ₹ 58,000)	4,48,000
Wages from 01-04-2021 to 30-09-2021 (including wages for installation of machinery costing ₹ 7,000)	85,000
Sales from 01-04-2021 to 30-09-2021	6,02,000
Sale value of goods drawn by partners (01-04-21 to 30-09-21)	52,000
Cost of Goods sent to consignee on 18th September, 2021 lying unsold with them	44,800
Cost of Goods distributed as free samples (01-04-21 to 30-09-21)	8,500

While valuing the Stock at 31st March, 2021, ₹ 8,000 were written off in respect of a slow moving item, cost of which was ₹ 12,000. A portion of these goods were sold at a loss of ₹ 4,000 on the original cost of ₹ 9,000. The remainder of the stock is estimated to be worth the original cost. The value of Goods salvaged was estimated at ₹ 35,000. You are required to ascertain the amount of claim to be lodged with the Insurance Company for the loss of stock.

(Ans: Claim 91,331)

Question 21 *(RTP Nov 2018) / (RTP Nov 2022) (Similar)*

Pg no. _____

On 27th July, 2021, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However, goods costing ₹ 5,000 could be salvaged. Their firefighting expenses were amounting to ₹ 1,300.

From the salvaged accounting records, the following information is available relating to the period from 1.4.2021 to 27.7.2021:

Particulars	₹
Stock as per Balance Sheet at 31-03-2021	63,000
Purchases (including purchase of machinery costing ₹ 10,000)	2,92,000
Wages (including wages for the installation of a machine ₹ 3,000)	53,000
Sales (including goods sold on approval basis amounting to ₹ 40,000). No approval has been received in respect of 1/4th of the goods sold on approval.	4,12,300
Cost of goods distributed as free samples	2,000

Other Information:

- (i) While valuing the stock on 31.3.2021, ₹ 1,000 had been written off in respect of certain slow-moving items costing ₹ 4,000. A portion of these goods were sold in June, 2021 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.
- (ii) Past record shows the normal gross profit rate is 20%.
- (iii) The insurance company also admitted fire-fighting expenses. The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.

Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account to be for the period 1.4.2021 to 27.7.2021 for normal and abnormal items.

(Ans: Claim 51,770)

Question 22 (Inter Dec 2021) (10 Marks)

Pg no. _____

The Godown of X Ltd. caught fire on 01.06.2021, records saved from fire shows the following particulars

Stock at cost as on 01.01.2020	50,000
Stock at cost as on 31.12.2020	80,000
Purchases for the year 2020	4,75,000
Purchase returns for the year 2020	5,000
Carriage inward for the year 2020	20,000
Sales for the year 2020	5,60,000
Sale returns for the year 2020	10,000

Following information is given for the period of 1st January 2021 to 1st June 2021.

- Credit sales of ₹2,50,000, which constituted 25% of total sales.
- Sales return ₹9,500, Goods used for personal purpose costing ₹5,000, Goods distributed as free sample costing ₹2,700, wages ₹25,000.
- Sales include good sold on approval basis amounting to ₹81,000, No confirmation has been received in respect of 50% of such good sold on approval basis.
- Stock on 31st December, 2020 was calculated at 20% less than cost.
- Purchases for the period 1st January, 2021 to 1st June, 2021 is ₹6,75,000, purchase returns ₹10,000.
- Selling price was increased by 20% with effect from 01.01.2021.
- Company had taken an insurance policy of ₹70,000 which was subject to an average close. The value of salvage goods was ₹ 21,967.

You are required to compute the amount of claim.

(Ans: Claim 57,393)

LOSS OF PROFIT POLICY

→ Meaning & Nature

- ❖ When a fire occurs, apart from the direct loss on account of stock or other assets destroyed, the business is disorganized or has to be discontinued and fire may stop partially or totally the business activities for some period which leads to trading losses.
- ❖ Such losses are not protected by the fire policy but by “loss of profit insurance policy” or “consequential loss insurance”.

→ Coverage

- ❖ Such policy covers the following risks as a result of fire:
 - Loss of Net Profit
 - Payments made for standing (fixed) overhead charges, e.g., Salaries, Rent, Depreciation etc.
 - Increased cost of working

→ Conditions to Raise the Claim

- ❖ A claim for loss of profits can be established only if:
 - insured's premises, or property are destroyed by the risk defined in policy; and
 - insured's business carried on premises is interrupted as result of such damage.

→ Indemnity Period

- ❖ It is the period which begins with the date of damage and ends at the time when the business begins its normal operational activities.
- ❖ It may vary from three months to a period of year (12 months).
- ❖ This is the maximum period in respect of which the insurers are liable.
- ❖ The period is selected by the proposer and should be sufficient to extend over the full period of any likely interruption.

STEPS

Step 1: Calculate GP Ratio of Last/Previous Year:

It is calculated as per Insurance Rules & has nothing to do with GP ratios in accounts.

$$a) \text{ GP (\%)} = \frac{\text{NP} + \text{Insured standing charges}}{\text{Sales}} \times 100$$

$$b) \text{ Effective GP (\%)}$$

GP (%)	xxx
+ Increase in Trend	xxx
- Decrease in Trend	(xxx)
Effective GP(%)	xxx

c) In case of Net Loss, there are 2 steps

$$1) \text{ Adjust Net Loss} = \frac{\text{Net Loss} \times \text{Insured Standing Charges}}{\text{All Standing charges}}$$

$$2) \text{ GP Ratio} = \frac{\text{Insured Standing charges} - \text{Adjusted Net Loss}}{\text{Net Sales}} \times 100$$

Note: Insured standing charges means fixed charges which has been insured. Example- Finance expenses like Interest on Debentures, Mortgage Loans and Bank Overdrafts, fixed selling expenses, rent, salaries of permanent staff and Wages to Skilled Employees, Boarding and Lodging of resident Directors and/or Manager, Directors' Fees etc.

Step 2: Calculate Short Sales

Turnover in corresponding period of Previous Year/ Standard Turnover [After adjusting trend, if any]	xxx
Less: Actual Turnover in dislocated/effected period	(xxx)
Short Sales	xxx

Note:

Trend will be given or calculated as below:

Sales in Current Year (Non-Affected Period)	xxx
Sales in Previous Year (Non-Affected Period)	xxx
Increase/Decrease in Turnover	xxx

$$\text{Trend} = \frac{\text{Increase/Decrease in Turnover} \times 100}{\text{Turnover in Previous Year}}$$

Step 3: Loss of Profit = Short Sales X GP (%)
i.e. (Step 2 X Step 1)

Step 4:

- Adjusted Annual turnover= Turnover during 12 months immediately the preceding date of fire [After adjusting trend, if any]
- Insurable Amount = Adjusted Annual Turnover X GP (%)

Step 5: Additional Expenses (Lower of the following to be considered)

- Actual Additional expenses
- Actual Additional Expenses X $\frac{\text{Insurable Amount}}{\text{Insurable Amount} + \text{Uninsured standing charges}}$
- Turnover achieved due to additional expenses X GP Ratio (If not given then take Turnover in dislocated period)

Step 6: Calculate Total Loss

Loss of Profit (Step 3)	xx
Add: Additional Expenses (Step 5)	xx
Less: Saving in insured standing charges	(xx)
Total Loss	xx

Step 7: Applicability of Average Clause

It is applied if Insurable Amount > Insured Amount

$$\text{Claim to be Lodged} = \frac{\text{Total Loss (Step 6)} \times \text{Insured Amount}}{\text{Insurable Amount}}$$

ASSIGNMENT QUESTIONS

TOPIC 1: LOSS OF PROFIT: BASIC CONCEPTUAL QUESTIONS

Question 1

Pg no. _____

Modi Ltd. has a "loss of profit" insurance policy of ₹ 21,00,000. The period of indemnity is three months. A fire occurred on 31st March, 2021. The following information is available:

Particulars	₹
Sales:	
For the year ended 31 st December, 2020	70,00,000
For the period from 1 st April, 2020 to 31 st March, 2021	80,00,000
For the period from 1 st April, 2020 to 30 th June, 2020	18,00,000
For the period from 1 st April, 2021 to 30 th June, 2021	1,20,000
Insured Standing charges for 2020	16,00,000
Uninsured Standing charges for 2020	1,00,000
Profits for 2020	5,00,000
Saving in standing charges because of fire	50,000
Additional expenses to reduce the loss of turnover	1,00,000

Compute the claim to be made on the insurance company.

Question 2 *(ICAI Study Material)*

Pg no. _____

- a) Indemnity period 12 months
- b) Sum insured ₹ 2,00,000
- c) Turnover, last financial year ended Dec. 31, 2020 ₹ 12,00,000.
- d) Gross Profit (Net profit plus insured standing charges) ₹ 2,40,000 giving a gross profit rate of 20%.
- e) Net profit plus all standing charges is ₹ 2,90,000 i.e., 50,000 of the standing charges are not insured.
- f) Fire occurs on 31st March, 2021, and affects business for 6 months.
- g) Turnover for 12 months ended 31st March, 2021, ₹11,70,000.
- h) Turnover: 1-4-2020 to 30-9-2020 ₹ 5,00,000
 - i. 1-4-2021 to 30-9-2021 ₹ 3,00,000
 - ii. Reduction in turnover ₹ 2,00,000
- i) Increase in cost of working, ₹ 30,000 otherwise of which turnover during 1-4-2021 to 30-9-2021 would reduce hereinafter by ₹ 1,60,000.
- j) Saving in insured charges ₹ 10,000.

Question 3

Pg no. _____

A fire occurred in the premises of a businessman on 30th June, 2021. From the following data, compute a consequential loss claim. Financial year ends on 31st December.

1. Turnover ₹2,00,000.
2. Net Profit ₹18,000.
3. Standing charges ₹ 42,000 out of which ₹10,000 have not been insured.
4. Indemnity period 6 months.
5. Period of interruption – 1st July to 31st October
6. Sum assured ₹50,000.
7. Standard turnover ₹65,000.

8. Turnover in the period of interruption ₹25,000 out of which ₹6,000 was from a place rented at ₹600 per month.
9. Saving in standing charges ₹ 4,725 per annum.
10. Annual turnover preceding the date of fire ₹2,40,000.
11. It was agreed between the insurer and the insured that the business trends would lead to an increase of 10% in the turnover.

Question 4 *(ICAI Study Material)*

Pg no. _____

The premises of XY Limited were partially destroyed by fire on 1st March, 2021 and as a result, the business was practically disorganized upto 31st August, 2021.

The company is insured under a loss of profits policy for ₹ 1,65,000 having an indemnity period of 6 months. From the following information, prepare a claim under the policy:

Particulars	₹
Actual turnover during the period of dislocation (1-3-2021 to 31-8-2021)	80,000
Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire (1-3-2020 to 31-8-2020)	2,40,000
Turnover for the 12 months immediately preceding the fire (1-3-2020 to 28-2-2021)	6,00,000
Net profit for the last financial year	90,000
Insured standing charges for the last financial year	60,000
Uninsured standing charges	5,000
Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and up to the time of the fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover.

The company incurred additional expenses amounting to ₹ 9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only ₹ 55,000.

There was also a saving during the indemnity period of ₹ 2,700 in insured standing charges as a result of the fire.

Question 5 *(ICAI Study Material)*

Pg no. _____

On account of a fire on 15th June, 2021 in the business house of a company, the working remained disturbed upto 15th December, 2021 as a result of which it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for ₹1,40,000 and a period of 7 months has been agreed upon as indemnity period.

An increase of 25% was marked in the current year's sales as compared to the last year. The company incurred an additional expenditure of ₹12,000 to make sales possible and made a saving of ₹2,000 in the insured standing charges.

Particulars	₹
Actual sales from 15th June, 2021 to 15th Dec, 2021	70,000
Sales from 15th June 2020 to 15th Dec 2020	2,40,000
Net profit for last financial year	80,000
Insured standing charges for the last financial year	70,000
Total standing charges for the last financial year	1,20,000
Turnover for the last financial year	6,00,000
Turnover for one year: 16th June 2020 to 15th June 2021	5,60,000

Question 6

Pg no. _____

X Ltd. has insured itself under a loss of profit policy for ₹3,63,000. The indemnity period under the policy is six months. On 1st September, 2020 a fire occurred in the factory of X Ltd. and the normal business was affected upto 1st March, 2021.

The following information is compiled for the year ended on 31st March, 2020:

Particulars	₹
Sales	20,00,000
Insured standing charges	2,40,000
Uninsured standing charges	20,000
Net profit	1,20,000

Following further details of turnover are furnished.

- Turnover during the period of 12 months ending on the date of fire was ₹22,00,000.
- Turnover during the period of interruption was ₹ 2,25,000.
- Actual turnover during the period from 1.9.2019 to 1.3.2020 during the preceding year corresponding to the indemnity period was ₹7,50,000.

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

- There was a saving of ₹15,000 in insured standing charges during the period of indemnity.
- Reduced turnover avoided was ₹1,00,000. i.e. but for this expenditure, the turnover after the date of fire would have been only ₹1,25,000.

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

- 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.

Question 7

Pg no. _____

From the following information find the claim under a "loss of profits" policy.

Particulars	₹
Sales in 2017	1,00,000
Sales in 2018	1,20,000
Sales in 2019	1,44,000
Sales in 2020	1,72,800
Net profit in 2020	10,000
Standing charges in 2020 (All insured)	7,280
Sales from 1.1.2020 to 31.3.2020	43,200
Sales from 1.1.2021 to 31.3.2021	11,840
Policy value	50,000
Indemnity period 9 months	
Date of dislocation by fire 1.1.2021	
Period of dislocation 3 months	

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

Question 8

Pg no. _____

There was serious fire in the premises of M/s Fortunate on 1st September, 2021. Their business activities were interrupted until 31st December, 2021, when normal trading conditions were re-established. M/s Fortunate are insured under loss of profit policy for ₹ 42,000, the period of indemnity being 6 months. You are able to ascertain the following information:

1. The net profit for the year ended 31st December, 2020 was ₹20,000.
2. The annual insurable standing charges amounted to ₹30,000 of which ₹2,000 were not included in the definition of insured standing charges under the policy.
3. The additional cost of working in order to mitigate the damage caused by the fire amounted to ₹600, and but for this expenditure, the business would have had to shut down.
4. The saving in insured charges in consequence of the fire amounted to ₹1,500.
5. The turnover for the period of 4 months ended April 30, August 31 & December 31, for each of the years 2020 and 2021 was as under:

Particulars	₹	₹	₹
2020	65,000	80,000	95,000
2021	70,000	80,000	15,000

You are required to compute the relevant claim under the terms of loss of profit policy.

Question 9

Pg no. _____

Gulam Ahmed has a loss of profit policy for ₹12,00,000. Fire occurred on 15 March, 2021. Indemnity period was for three months. Net profit of the year ended 31 December, 2020 was ₹8,40,000.

Standing charges (all insured) amounted to ₹7,44,000. Determine the insurance claim from the following details:

Sales	2018 ₹	2019 ₹	2020 ₹	2021 ₹
1 January - 31 March	18,00,000	19,50,000	21,30,000	19,50,000
1 April - 30 June	12,00,000	13,50,000	15,00,000	6,00,000
1 July - 30 September	15,00,000	16,50,000	18,00,000	15,00,000
1 October - 31 st December	20,45,000	22,50,000	24,90,000	24,00,000
	65,45,000	72,00,000	79,20,000	64,50,000

16 March 2020 - 31 March 2020 ₹ 4,20,000

16 March 2021 - 31 March 2021 ₹ Nil

16 June 2020 - 30 June 2020 ₹ 3,60,000

16 June 2021 - 30 June 2021 ₹ 90,000

Ignore decimals while computing trend of sale.

TOPIC 2: LOSS OF STOCK & LOSS OF PROFIT : MISC. QUESTIONS**Question 10**

Pg no. _____

A fire occurred in the premises of a businessman on 31st Jan., 2021, which destroyed most of the building. However stock worth ₹ 5,940 was salvaged.

The company's insurance policy covers the following:

Particulars	₹
Stock	4,50,000
Building	6,00,000
Loss of Profit (including standing charges)	1,87,500
Period of indemnity- six months	

The summarized Profit & Loss account for year ended 31st December, 2020 is as follow:

Particulars	₹	₹
Turnover		15,00,000
Closing Stock		3,93,750
		18,93,750
Opening Stock	3,09,375	
Purchases	13,59,375	
Standing Charges (Insured)	1,25,625	
Variable Expenses	60,000	18,54,375
Net Profit		39,375

The transactions for the month of January, 2021 were as under:

Particulars	₹
Turnover	75,000
Payment to Creditors	80,010
Trade Creditors:	
Balance as on 1.1.2021	1,13,000
Balance as on 31.1.2021	1,15,490

The company's business was disrupted until 31.5.2021 during which period the reduction in turnover amounted to ₹1,35,000 as compared with the turnover of period corresponding to the previous year.

Building was worth ₹7,50,000 on the date of fire and three quarters of its value was lost by fire. You are required to submit the claim for insurance for loss of stock, loss of building and loss of profit.

Question 11

Pg no. _____

Ramda & Sons had taken out policies (without Average Clause) both against loss of stock and loss of profit, for ₹ 2,10,000 and ₹ 3,20,000 respectively. A fire occurred on 1st July, 2021 and as a result of which sales were seriously affected for a period of 3 months. Trading and Profit & Loss A/c of Ramda & Sons for the year ended on 31st March, 2021 is given below:

Particulars	₹	Particulars	₹
To Opening stock	96,000	By Sales	12,00,000
To Purchases	7,56,000	By Closing stock	1,85,000
To Wages	1,58,000		
To Manufacturing expenses	75,000		
To Gross profit	3,00,000		
	13,85,000		13,85,000
To Administrative expenses	83,600	By Gross Profit	3,00,000
To Selling expenses (fixed)	72,400		
To Commission on sales	34,200		
To Carriage Outward	49,800		
To Net profit	60,000		
	3,00,000		3,00,000

Further data is as follows:

(a) Sales, Purchases, Wages and Manufacturing Expenses for the period 1.04.2021 to 30.06.2021 were ₹ 3,36,000, ₹ 2,14,000, ₹ 51,000 and ₹ 12,000 respectively.

(b) Other Sales figure were as follows

From 01.04.2020 to 30.06.2020	3,00,000
From 01.07.2020 to 30.09.2020	3,20,000
From 01.07.2021 to 30.09.2021	48,000

(c) Due to decrease in material cost, Gross Profit during 2021-22 was expected to increase by 5% on sales.

(d) ₹ 1,98,000 were additionally incurred during the period after fire. The amount of policy included ₹ 1,56,000 for expenses leaving ₹ 42,000 uncovered.

Compute the claim for stock, loss of profit and additional expenses.

Question 12 *(ICAI Study Material)*

Pg no. _____

Sony Ltd.'s Trading and Profit & loss account for the year ended 31st December, 2020 were as follows:

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

The company had taken out a fire policy for ₹ 3,00,000 and a loss of profits policy for ₹ 1,00,000 having an indemnity period of 6 months. A fire occurred on 1.4.2021 at the premises and the entire stock were gutted with nil salvage value. The net quarter sales

i.e. 1.4.2021 to 30.6.2021 was severely affected. The following are the other information:

Sales during the period	1.1.21 to 31.3.21	2,50,000
Purchases during the period	1.1.21 to 31.3.21	3,00,000
Manufacturing expenses	1.1.21 to 31.3.21	70,000
Sales during the period	1.4.21 to 30.6.21	87,500
Standing charges insured		50,000
Actual expenses 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.

Question 13 *(Inter May 2022) (10 Marks)*

Pg no. _____

Surya Limited, which operates a wholesale warehouse, had a fire in the premises on 31st January 2022 which destroyed most of the building, although stock of the value of ₹ 3.96 lakhs was salvaged.

The company has an insurance policy covering the stock for ₹ 600 Lakhs, and loss of profits including standing charges for ₹ 250 Lakhs with a six-month period of indemnity. The company's last annual accounts for the year ended December 31st, 2021 showed the following position:

Particulars	(₹ in Lakhs)	Particulars	(₹ in Lakhs)
To Opening Stock	412.50	By Sales	2000.00
To Purchases	1812.50	By Closing Stock	525.00
To Gross Profit c/d	300.00		
	<u>2525.00</u>		<u>2525.00</u>
To Variable Expenses	80.00	By Gross Profit b/d	300.00
To Standing Charges	167.50		
To Net Profit	52.50		
	<u>300.00</u>		<u>300.00</u>

The company's record show that the turnover for January 2022 of ₹ 100 Lakhs had been the same as for the corresponding month in the previous year, payments made in January 2022 to trade creditors were ₹ 106.68 Lakhs and at the end of that month the balance owing to trade creditors had increased by ₹ 3.32 Lakhs.

The company's business was disrupted until the end of April 2022, during which period the turnover fell by ₹ 180.00 Lakhs compared with the same period in the previous year. You are required to compute the claim to be lodged with the Insurance Company for Loss of Stock and Loss of Profit.

Question 14

Pg no. _____

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

Sum insured (from 31st December, 2020)	₹ 4,00,000
Period of indemnity	12 Months
Date of damage	1 st January 2021
Date on which disruption of business ceased	31 st October 2021

The subject matter of the policy was gross profit, but only net profit and certain standing charges are included. The books of account revealed:

- The gross profit for the financial year 2020 was ₹ 3,60,000.
- The actual turnover for financial year 2020 was ₹12,00,000 which was also the turnover in this case.
- The turnover for the period 1st January to 31st October, in the year preceding loss, was ₹10,00,000.

During dislocation of the position, it was learnt that in November–December 2020, there has been an upward trend in business done (compare with the figure of the previous years) and it was stated that had the loss not occurred, the trading results for 2021 would have been better than those of previous years.

The Insurance company official appointed to assess the loss accepted this view and adjustments were made to the pre-damaged figures to bring them up to the estimated amounts which would have resulted in 2021.

The pre-damaged figures together with agreed adjustments were: Turnover for 2020

Period	Pre damaged Figures (₹)	Adjustment to be added (₹)	Adjusted Standard Turnover (₹)
January	90,000	10,000	1,00,000
Feb - Oct	9,10,000	50,000	9,60,000
Nov - Dec	2,00,000	10,000	2,10,000
	12,00,000	70,000	12,70,000
Gross Profit	3,60,000	46,400	4,06,400

Rate of Gross Profit 30% (Actual for 2020), 32% (adjusted for 2021).

Increased cost of working amounted to ₹ 1,80,000.

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

Standing Charges not covered by insurance amounted to ₹ 20,000 p.a. The annual turnover for January was Nil and for the period February to October 2021 ₹ 8,00,000.

TOPIC 3: COMPUTATION OF POLICY AMOUNT

Question 15 *(ICAI Study Material)*

Pg no. _____

A trader intends to take a loss of profits policy with indemnity period of 6 months, however he was unable to ascertain the amount of policy. From the above details, suggest the policy amount.

Turnover in last financial year: ₹ 4,50,000

Standing Charges in last financial year: ₹ 90,000

Net profit earned in last year was 10% of turnover and the same trend is expected in subsequent year. Expected increase in turnover 25%.

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

Question 16

Pg no. _____

Mr. Anshuman gives you the following information:

Turnover in last financial year 6,00,000

Standing charges in last financial year 1,20,000

Net profit earned in last year was 15% of turnover and the same trend expected in subsequent year. Increase in turnover is expected at the rate of 30%. To achieve additional sales, Mr. Anshuman will have to incur additional expenditure of ₹ 77,000.

He intends to take a loss of profit policy with indemnity period of 6 months. Advise him the policy amount which will be necessary to cover loss of profits.

Question 17

Pg no. _____

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 ₹ 3 lakhs. All other fixed expenses will remain same.

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

Particulars	₹
Total variable expenses	24,00,000
Fixed Expenses	
Salaries	3,30,000
Rent, Rates, and Taxes	30,000
Travelling expenses	50,000
Postage, Telegram, Telephone	60,000
Director's Fees	10,000
Audit Fees	20,000
Miscellaneous Income	70,000
Net Profit	4,20,000

Determine the amount of policy to be taken for the current year.

Question 18

Pg no. _____

M/s. Platinum Jewellers wants to take up a "Loss of Profit Policy" for the year 2021. The extract of the Profit and Loss Account of the previous year ended 31-12-2020 provided below:

Variable Expenses

Cost of Materials	18,60,000
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Fixed Expenses

Wages for skilled craftsmen	1,60,000
Salaries	2,80,000
Audit Fees	40,000
Rent	64,000
Bank Charges	18,000
Interest income	44,000
Net Profit	6,72,000

Turnover is expected to grow by 25% next year.

To meet the growing working capital needs the partners have decided to avail overdraft facilities from their bankers @ 12% p.a. interest

The average daily overdraft balance will be around ₹ 2 lakhs.

The wages for the skilled craftsmen will increase by 20% and salaries by 10% in the current year. All other expenses will remain the same.

Determine the amount of policy to be taken up for the current year by M/s. Platinum Jewellers.

Question 19

Pg no. _____

Shamsher Ltd. has decided to take out a Loss of Profit Policy for the year 2021 and given the following information for the last Accounting Year 2020.

Variable Manufacturing Expenses ₹ 32,80,000, Standing Charges ₹ 4,80,000, Net Profits ₹ 2,45,000, Non-Operating Income ₹ 5,000, Sales ₹ 40,00,000.

Compute the sum to be insured in each of the following alternative cases:

- If Sales will increase by 10%
- If Sales will increase by 10% and only 50% of the present Standing Charges are to be insured.
- If Sales and Standing Charges will increase by 10%.
- If Sales and Variable Expenses will increase by 10%
- If Sales will increase by 10% and Variable Expenses will decrease by 10%.
- If the Turnover and Standing Charges will increase by 10% and Variable Expenses will decrease by 10% but only 50% of the present Standing Charges are to be insured.

PRACTICE QUESTIONS

TOPIC 1: LOSS OF PROFIT: BASIC CONCEPTUAL QUESTIONS

Question 1

Pg no. _____

Calculate the amount of claim for consequential loss from the following information:

1. The policy is for ₹ 4,90,000 with a six months period of indemnity.
2. On 1st July, 2021 fire broke out and sales of 3 months were affected.
3. Sales for 12 months ended 30th June, 2021 amounted to ₹5,00,000.
4. A sum of ₹1,000 was spent as additional expenses to mitigate the effect of loss.
5. After debiting insured standing charges of ₹ 25,000, net profit for the year 2020 was ₹ 2,00,000.
6. Sales for the year 2020 amounted to ₹4,50,000.
7. Accounts are closed each year on 31st December.
8. Sales for 3 months ending 30th September, 2020 were ₹1,00,000.
9. Sales for 3 months ending 30th September, 2021 were ₹40,000.

(Ans: Claim 31,000)

Pg no. _____

Question 2

From the following particulars prepare a claim for loss of profits under the Consequential Loss Policy. Date of Fire: June 30, 2021 Period of indemnity: Six Months

Particulars	₹
Sum Insured	25,000
Turnover for the year ended June 30, 2021	1,00,000
Net Profit for the accounting year ending March 31, 2021	6,250
Standing charges for the accounting year ending March 31, 2021	14,250
Turnover for the year ending March 31, 2021	99,000
Turnover for the indemnity period from 01.07.21 – 31.12.21	28,000
Turnover for the period from 01.07.20 – 31.12.20	55,000

The turnover of the year 2020-21 had shown a tendency of increase of 10% over the turnover of the preceding year.

(Ans: Claim 6,728)

Question 3 *(ICAI Study Material)*

Pg no. _____

A fire occurred on 1st February, 2021, in the premises of Pioneer Ltd., a retail store and business was partially disorganized upto 30th June, 2021. The company was insured under a loss of profits for ₹ 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	₹
Actual turnover from 1st February to 30th June, 2021	80,000
Turnover from 1st February to 30th June, 2020	2,00,000
Turnover from 1st February 2020 to 31st January, 2021	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 ₹ 6,700 which reduced the loss in turnover. There was also a saving during the indemnity period of ₹ 2,450 in the insured standing charges as a result of the fire.

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.

(Ans: Claim 39,390)

Question 4 (Inter May 2019) (10 Marks)

Pg no. _____

A fire occurred in the premises of M/s Bright on 25th May, 2021. As a result of fire, sales adversely affected up to 30th September, 2021. The firm had taken Loss of profit policy (with an average clause) for ₹ 3,50,000 having indemnity period of 5 months. There is an upward trend of 10% in sales.

The firm incurred an additional expenditure of ₹ 30,000 to maintain the sales. There was a saving of ₹ 5,000 in the insured standing charges.

Actual turnover from 25th May, 2021 to 30th September, 2021	₹ 1,75,000
Turnover from 25th May, 2020 to 30th September 2020	₹ 6,00,000
Net profit for last financial year	₹ 2,00,000
Insured standing charges for the last financial year	₹ 1,75,000
Total standing charges for the last financial year	₹ 3,00,000
Turnover for the last financial year	₹ 15,00,000
Turnover for one year from 25th May, 2020 to 24th May, 2021	₹ 14,00,000

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

(Ans: Claim 1,26,270)

Question 5

Pg no. _____

The premise of Green Limited was partially destroyed by fire on March 01, 2021 and as a result, the business was practically disorganized up to August 31, 2021.

The company is insured under a loss of profits policy for ₹ 6,60,000, having an indemnity period of 6 months.

From the information given below, find out claim under the policy:

Particulars	₹
Actual Turnover from March 01, 2021 to August 31, 2021	3,20,000
Turnover from March 01, 2020 to August 31, 2020	9,60,000
Turnover from March 01, 2020 to February 28, 2021	24,00,000
Net Profit for last Financial Year	3,60,000
Insured Standing Charges for last Financial Year	2,40,000
Uninsured Standing Charges for last Financial Year	20,000
Turnover for the last Financial Year	20,00,000

The company incurred additional expenses amounting to ₹ 40,000 immediately after fire, which reduced the loss in turnover. Otherwise turnover during the period of dislocation would have been only amounting to ₹ 2,20,000. The saving in Insured Standing Charges in consequences of the fire amounted to ₹ 10,800.

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 10% be made in respect of the upward trend in turnover. Assume that, trend adjustment is required on total amount of annual turnover.

(Ans: Claim 2,00,000)

Question 6

Pg no. _____

The premises of a company were partly destroyed by the fire which took place on 1st March, 2021 and as a result of which the business was disorganized from 1st March to 31st July, 2021. Accounts are closed on 31st December, every year. The company is insured under a loss of profit policy for ₹7,50,000. The period of indemnity specified in the policy is 6 months. From the following information you are required to compute the amount of claim under the Loss of Profits policy:

Particulars	₹
Turnover for the year 2020	40,00,000
Net profit for the year 2020	2,40,000
Insured standing charges	4,80,000
Uninsured standing charges	80,000
Turnover during the period of dislocation, i.e., from 1.3.2021 to 31.7.2021	8,00,000
Standard turnover for the corresponding period in the preceding year, i.e., from 1.3.2020 to 31.7.2020	20,00,000
Annual turnover for the year immediately preceding the fire i.e., from 1.3.2020 to 28.2.2021	44,00,000
Increased cost of working	1,50,000
Savings in insured standing charges	30,000
Reduction in turnover avoided through increase in working cost	4,00,000

Owing to reasons acceptable to the insurer, the "special circumstances clause" stipulates for:

- Increase of turnover (Standard and annual) by 10% and
- Increase of rate of gross profit by 2%. (Ans: Claim 2,55,682)

Question 7

Pg no. _____

A Loss of Profit Policy was taken for ₹ 80,000. Fire occurred on 15th March 2021. Indemnity period was for three months. Net profit for 2020 year ending on 31st December was ₹ 56,000 and standing charges (all insured) amounted to ₹ 49,600. Determine insurance claims from the following details available from quarterly sales

Particulars	2018	2019	2020	2021
From 1st Jan 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 Dec.	1,36,000	1,50,000	1,66,000	1,60,000

Sales from 16.03.2020 to 31.03.2020 were ₹ 28,000

Sales from 16.03.2021 to 31.03.2021 were ₹ Nil

Sales from 16.06.2020 to 30.06.2020 were 24,000

Sales from 16.06.2021 to 30.06.2021 were ₹6,000

(Ans: Claim 10,987)

Question 8 (Inter Nov 2019) (10 Marks)

Pg no. _____

A fire occurred in the premises of M/s Kirti & Co. on 15th December, 2020. The working remained disturbed upto 15th March, 2021 as a result of which sales adversely affected. The firm had taken out an insurance policy with an average clause against consequential losses for ₹ 2,50,000.

Following details are available from the quarterly sales tax return filed/GST return filed:

Sales	2017-18	2018-19	2019-20	2020-21
From 1st April to 30th June	3,80,000	3,15,000	4,11,900	3,24,000
From 1st July to 30th September	1,86,000	3,92,000	3,86,000	4,42,000
From 1st October to 31st December	3,86,000	4,00,000	4,62,000	3,50,000
From 1st January to 31st March	2,88,000	3,19,000	3,80,000	2,96,000
Total	12,40,000	14,26,000	16,39,900	14,12,000

A period of 3 months (i.e. from 16-12-2020 to 15-3-2021) has been agreed upon as indemnity period.

Sales from 16-12-2019 to 31-12-2019	68,000
Sales from 16-12-2020 to 31-12-2020	Nil
Sales from 16-03-2020 to 31-03-2020	1,20,000
Sales from 16-03-2021 to 31-03-2021	40,000

Net profit was ₹ 2,50,000 and standing charges (all insured) amounted to ₹ 77,980 for the year ending 31st March, 2020. You are required to calculate loss of profit claim amount. **(Ans: Claim 18,575)**

TOPIC 2: LOSS OF STOCK & LOSS OF PROFIT : MISC. QUESTIONS

Question 9

Pg no. _____

SM Ltd. give the following Trading and Profit and Loss Account for the year ended 31st December, 2020.

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 (₹ 20,000 for skilled workers)	1,60,000		
To Manufacturing Expenses	1,20,000		
To Gross Profit	2,40,000		
	8,70,000		8,70,000
To Other Administration 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 Outwards	16,000		
To Net Profit	56,000		
	2,40,000		2,40,000

The company had taken out policies both against loss of stock and against loss of profit, the amounts being ₹ 80,000 and ₹ 1,72,000. Fire occurred on 1st May 2021 and, as a result of which, sales were seriously affected for the period of 4 months. You are given the following further information:

- Purchases, wages and other manufacturing expenses for the first 4 months of 2021 were ₹ 1,00,000; ₹ 50,000 and ₹ 36,000, respectively.
- Sales for the same period were ₹ 2,40,000
- Other sales figure were as follows:

From 01.01.2020 to 30.04.2020	₹ 3,00,000
From 01.05.2020 to 31.08.2020	₹ 3,60,000
From 01.05.2021 to 31.08.2021	₹ 60,000

- (d) Due to rise in wages gross profit during 2021 was expected to decline by 2% sales.
 (e) Additional expenses incurred during the period after fire amounted to ₹ 1,40,000.
 The amount of the policy included ₹ 1,20,000 for expenses leaving ₹ 20,000 uncovered.

Ascertain the claim for stock and for loss of profit.

(Ans: Claim: Loss of Stock 80,000 and Loss of Profit 57,600)

TOPIC 3: COMPUTATION OF POLICY AMOUNT

Question 10 *(RTP May 2020)*

Pg no. _____

A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

Turnover in last financial year ₹ 36,00,000

Standing charges in last financial year ₹ 7,20,000

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

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of ₹ 50,000.

(Ans: Policy Amount 14,00,000)

Question 11

Pg no. _____

A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

Turnover in last financial year ₹ 6,75,000

Standing charges in the last financial year ₹ 1,14,750

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

Increase in turnover expected 30%.

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

(Ans: Policy Amount 2,79,425)

Question 12

Pg no. _____

A firm has decided to arrange for a loss of profits insurance and you are required to finalize the sum to be insured on a full insurance basis from the following figure for the last financial year; it is anticipated that for the current financial year, turnover will increased by 10% and that all standing (fixed) expenses will remain unchanged.

Particulars	₹	₹
Total variable expenses		21,00,000
Fixed Expenses:		
Wages and salaries to skilled employees and salaries to administration staff	3,00,000	
Depreciation of all fixed assets	1,00,000	
Insurance premium	10,000	
Audit Fees	4,000	
Directors Fees	4,000	
Traveller's Expenses (including Motor Car Expenses)	40,000	
Postage, Cables and Telephones	3,000	

Trade subscriptions	1,000	
Rent, Rates and Taxes	30,000	4,92,000
Non-operating Income		50,000
Net Profit		4,08,000

(Ans: Policy Amount 9,35,000)

Question 13

Pg no. _____

A Firm has decided to take out a Loss of Profit Policy for the year 2021 and given the following information for the last Accounting Year 2018.

Variable Manufacturing Expenses ₹ 14,20,000, Standing Charges ₹ 1,50,000, Net Profits ₹ 80,000, Non-Operating Income ₹ 2,500, Sales ₹ 18,00,000.

Compute the sum to be insured in each of the following alternative cases showing the anticipation for the year 2021:

- If Sales will increase by 15%
- If Sales will increase by 15% and only 50% of the present Standing Charges are to be insured.
- If Sales and Variable Expenses will increase by 15% and Standing Charges will increase by 10%
- If Sales will increase by 15% and Variable Expenses will decrease by 5%.
- If Sales will increase by 10% and Standing Charges will increase by 15%.
- If the Turnover and Standing Charges will increase by 15% and Variable Expenses will decrease by 10% but only 50% of the present Standing Charges are to be insured.

(Ans: Policy Amount 4,37,000; 3,62,000; 2,07,050; 5,18,650; 4,40,500; 5,36,550)