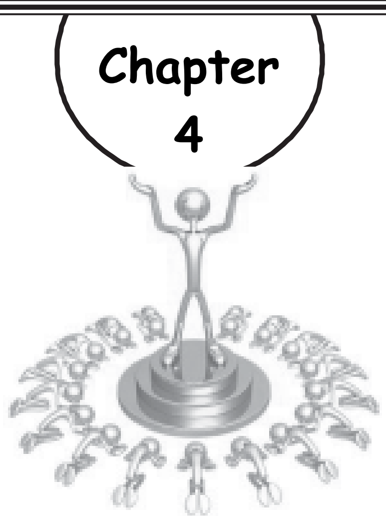

Fire Insurance Claim

INTRODUCTION

A fire at a business place destroys assets such as building, Machinery, furniture, stock, etc. It destroys records also. Not only does it destroy the assets but also creates dislocation in the usual working of a business concern. Hence, a prudent businessman prefers to take out an insurance policy to cover the risk of loss due to fire. In case of happening of an event, the businessman gets compensation equal to the amount of loss sustained. For this purpose he has to lodge a claim for loss of stock with the Insurance company. It is easy to claim for loss of assets except stock. In case of stock, the insured has to decide the stock on date of fire [SOFD]. It becomes difficult to decide the claim when there is no proper record of inventory is left due to loss of documents due to fire.

Procedure of claim for loss of stock:

- If records are not destroyed by fire:- In such a case calculation of claim will be:-

  Calculate the amount of stock lost by fire:

SOFD	xx
(-) Salvage	xx
Stock lost by fire	xx

  Calculation for amount of claim:

- If there no average clause then stock lost by fire = Amount of claim
- If there is average clause then

  amount of claim = Policy Amount/SOFD × Stock lost by fire
- If records are also destroyed by fire

Calculate Percentage of Gross Profit:

Determine the Gross Profit to sales. In absence of any information. It is necessary to take the figure of pervious year for deciding the percentage. In case of information about sale and gross profit is available. It is necessary to take average of these figures.

Prepare a Trading Account in the usual manner. Following are some of the items connected with preparation of Trading Account:

(a) Stock: Stock includes stock on Raw materials, Work in progress, Finished goods, etc. In absence of clear information, stock is considered as stock of finished goods only. Valuation of such stock should be at cost. If any other basis is given, convert it to cost.

(b) Purchases less returns.

(c) Wages.

(d) Manufacturing expenses.

(e) Sales less returns.

(g) Gross profit.

The rate of Gross profit is important for deciding the stock on the date of fire. Therefore, there should be consistency in the gross profit ratio.

1. MEMORANDUM TRADING ACCOUNT

Prepare Memorandum Trading Account up to the date of fire by collecting figures in respect of opening stock, purchases, direct expenses and sales from the record. In case the record is destroyed by fire, the information can be made available from the documentary evidence.

The balancing figure on the credit side of the Memorandum Trading Account is the estimated value of stock on the date of fire. While preparing Memorandum or Pro forma Trading Account, following points should be given proper consideration:

(i) Period: This Account is prepared for the period from last date of accounts to the date of fire which is given in the problem.

(ii) Stock (Opening): The basis of valuation of stock should be changed to cost.

If there is undervaluation of stock:

Cost of stock = (100\100 – Rate of Undervaluation) × Value of stock

If there is overvaluation of stock :

Cost of stock = (100\100 + Rate of Overvaluation) × Value of stock

(iii) Purchases: Purchases should be for the period from last date of accounts to the date of fire. Goods included in the purchases. Goods received but not accounted should be added to purchases. If the amount of purchases is not given, the same can be calculated by preparing Creditors Account.

	₹
Purchases	XX
Less: Goods included in purchases but not actually received	XX
Add: Unrecorded purchases	XX
Less: Purchase Returns	XX
Purchases to be debited to Trading A/c	XX

If purchases are not given. It should be decided by preparing creditors A/c as follows.

Creditors A/c

	₹		₹
To Bank A/c	XX	By Balance b/d	XX
To Discount A/c	XX	By Purchases (Bal.fig.)	XX
To Bills Payable A/c	XX		
To Balance c/d	XX		
	XX		XX

(iv) Sales: Sales should be for the period from last date of accounts to the date of fire. Goods included in the above sales but not delivered should be deducted from sales. Misappropriated cash sales and goods delivered but not recorded should be added to sales.

	₹
Sales	XX
Less: Goods sold but not delivered	XX
Less: Sale of assets	XX
Add: Unrecorded sales	XX
Less: Sales Returns	XX
Sales to be credited to Trading A/c	**XX**

If sales are not given it should be ascertained by preparing Debtors A/c as follows:

Debtors A/c

	₹		₹
To Balance b/d	XX	By Bank A/c	XX
To Sales A/c (Bal.fig.)	XX	By Discount A/c	XX
		By Sales Returns A/c	XX
		By Bills Receivable A/c	XX
	XX		XX

(v) Wages : Wages for the period from the last accounts to the date of fire should be debited to Pro forma Trading Account.

Amount of wages should be calculated as follows:

	₹
Wages paid	XX
Less: Wages incurred for installation of machinery	XX
Less: Outstanding wages of the last year paid during the year	XX
Add: Outstanding wages for the current year	XX
Wages to be debited to Trading A/c	**XX**

(vi) Manufacturing Expenses: Any manufacturing expenses or factory expenses for the period to the date of fire should also be considered.

(vii) Gross Profit and Gross Profit Ratio: Gross profit ratio may be at a certain percentage on cost or on sales. Consistent gross profit ratio over the past years is necessary to find out stock on the date of fire. Gross profit ratio should be adjusted under the following circumstances:

(a) Different gross profit ratios in past years should be averaged out.

(b) Change in material prices.

(c) Change in expenses ratio.

(d) Change in sales price.

(e) Different gross profit ratios for different goods.

The ratio of Gross Profit for the purpose of claim should be normal rate.

(i) If information about the Gross Profit ratio of the just preceding year is given, then the Gross Profit ratio of the previous year should be taken as a normal rate of Gross Profit.

(ii) If the rate of Gross Profit of previous years has been falling from year to year consistently then it is not proper to consider the average rate of gross profit of previous years as normal rate of gross profit. In such a situation, make an estimate of the rate of gross profit that is likely to prevail in the current year and consider that rate as the normal rate of gross profit for, e.g., gross profit rates for three years have been 30%, 25% and 20%. In this case, average will be 25%, Instead of taking average reasonable gross profit rate likely to prevail will be 15%.

The above procedure should be followed. In case there is a continuous rise in the rate of gross profit.

(viii) **Abnormal Goods:** Goods which are slow moving or which are damaged are called as abnormal goods. Valuation of such goods may be at cost or at a lower value as given. It becomes necessary to adjust purchases, sales and stock on account of abnormal goods.

Abnormal items are treated as follows:

1. If abnormal items are included in closing stock:

   (a) Deduct value of abnormal items from closing stock.

   (b) Deduct cost of abnormal items from purchases.

   (c) Deduct sale of abnormal items from sales.

2. If abnormal items are included in opening stock:

   (a) Deduct value of abnormal items from opening stock.

   (b) Deduct sale of abnormal items from sales.

   (c) Deduct value of abnormal items if any, from closing stock.

3. If abnormal items are written off to some extent from closing stock:

   (a) Deduct the value of remaining items from closing stock.

   (b) Deduct cost of abnormal items from purchases.

   (c) Deduct sale of abnormal items from sales.

(ix) **Stock:** Balancing figure in Pro forma Trading Account after adjustment of gross profit is the stock of normal goods. Then it should be adjusted for (i) Goods with consignee or third party and (ii) Salvage, i.e., realisable value of scrap or partly damaged goods. The adjusted stock is the amount of loss suffered.

3. Loss of Stock

Deduct the amount of salvage from the value of stock on the date of fire to get the value of loss of stock.

Loss of stock = stock on the date of fire – salvage.

4. Average Clause

The purpose of insurance is to compensate loss and not to allow profit. Hence, a fire insurance policy usually includes an average clause in order to discourage under insurance of stock. As per this clause, the insurance company pays compensation to the insured proportionately if the value of stock or asset on the date of fire is more than the amount of policy. Following formula may be applied in the case of an average clause:

Claim = (Value of policy/Value of stock on the date of fire) ×Value of stock destroyed

3. PROFORMA OF MEMORANDUM

Dr. **Trading A/c for the period** **Cr.**

Particular		**₹**	**Particular**		**₹**
To Opening stock		XX	By Sales	XX	
To Purchases	XX		*Less:* Returns	XX	XX
Less: returns	XX	XX	By Stock distributed as free samples		XX
To Wages		XX	By Stock sent on Consignment		XX
To Carriage		XX			
To Gross Profit		XX	By Stock sent on approval		XX
			By Stock kept with bailee		XX
			By Stock on the date of fire (bal.fig.)		XX
		XX			XX

Illustration 1: Find out sales when cost of goods sold is 80,000 and Gross Profit ratio 20%.

[B.Com., BU, April, 2005]

Solution:

Gross Profit = $80{,}000 \times \frac{1}{4} = 20{,}000$

∴ Sales = cost of goods sold + Gross Profit

= 80,000 + 20,000 = ₹ 1,00,000

Illustration 2: Ascertain purchases when cost of goods sold is ₹ 2,00,000

Opening stock : 20,000

Closing stock : 50,000 **[B.Com., BU, April, 2005]**

Solution:

Cost of goods sold = Opening Stock + Purchases – Closing Stock

2,00,000 = 20,000 + Purchases – 50,000

2,00,000 – 20,000 + 50,000 = Purcahses

∴ Purchases = ₹ 2,30,000

Illustration 3 (Calculation of claim in case of under Insurance):

Particulars	₹
Loss of stock by fire	4,00,000
Amount of policy	3,42,000
Total value of stock destroyed by fire	4,56,000

Calculate the amount of claim by applying average clause.
(Bangalore University, B.Com. April 1994)

Solution:

$$\text{Amount of Claim} = \text{Policy Amount} \times \frac{\text{Actual Loss of Stock}}{\text{Stock on the date of Fire}}$$

$$= ₹\ 3{,}42{,}000 \times \frac{₹\ 4{,}00{,}000}{₹\ 4{,}56{,}000}$$

$$\mathbf{= ₹\ 3{,}00{,}000}$$

Illustration 4 (Calculation of Claim in case of under insurance, using average clause): Find out the actual claim in the following case:

Particulars	₹
Value of stock on the date of fire	25,000
Value of stock saved from fire	5,000
Value of the Insurance Policy	20,000

There is an average clause in the policy. **(Bangalore University, B.Com. November 1993)**

Solution:

1. Calculation of Actual Amount of Loss

	₹
Stock on the date of fire	25,000
Less: Stock saved from fire	5,000
Actual Amount of Loss	20,000

2. Calculation of Amount of Claim

$$\text{Amount of Claim} = \text{Policy Amount} \times \frac{\text{Actual Loss of Stock}}{\text{Stock on the date of Fire}}$$

$$= ₹\ 20{,}000 \times \frac{₹\ 20{,}000}{₹\ 25{,}000}$$

$$= \mathbf{₹\ 16{,}000}$$

Illustration 5 (when rate of Gross Profit and policy amount is not given): On 15th June 2015, the premises and stock of a firm was destroyed by fire but the accounting records were saved from which the following particulars are available:

	₹
Stock on 1.1.2014	73,500
Stock on 31.12.2014	81,900
Purchases for the year 2014	3,98,000
Sales for the year 2014	4,87,000
Purchases from 1.1.2015 to 15.6.2015	1,62,000
Sales from 1.1.2015 to 15.6.2015	2,31,200

The stock salvaged was ₹ 5,300. Show the amount of claim.

(Mumbai University, T.Y.B.Com. Modified)

Solution:

Step 1: Preparation of Last Year Trading Account

Dr. Trading Account for the year ending 31st December 2014 Cr.

Particulars	₹	Particulars	₹
To Opening Stock	73,500	By Sales	4,87,000
To Purchases	3,98,000	By Closing Stock	81,900
To Gross Profit (Balancing figure)	97,400		
	5,68,900		**5,68,900**

Step 2: Calculation of Rate of Gross Profit on Sales

$$\text{Rate of G/P} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \frac{₹\,97{,}400}{₹\,4{,}87{,}000} \times 100 = 20\%$$

Step 3: Preparation of Memorandum Trading Account

Memorandum Trading Account

Dr. **(From 1.1.2015 to 15.6.2015)** **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	81,900	By Sales	2,31,200
To Purchases	1,62,000	By Closing Stock (Balancing figure)	58,940
To Gross Profit (20% of ₹ 2,31,200)	46,240		
	2,90,140		**2,90,140**

Step 4: Calculation of Actual Amount of Loss

Particulars	₹
Stock on the date of fire	58,940
Less: Salvaged Stock	5,300
Actual Amount of Loss	**53,640**

Step 5: Calculation of Amount of Claim

The problem does not provide any information about the policy amount. Hence, the amount of claim will be the same as actual amount of loss.

∴ The amount of claim = ₹ 53,640.

Illustration 6 (When information of Debtors are given): A fire broke out in the warehouse of Merchantile Traders Ltd. on 30th Sep., 15. The company desires to file a claim with the insurance company for loss of stock. From the following information prepare a statement showing the amount of claim. The last account of company were prepared on 31.12.14.

Stock on 31.12.14	1,20,000
Sundry debtors on 31.12.14	3,20,000
Sundry debtors on 30.9.15	2,40,000
Cash received from debtors	11,52,000
Purchases from 1.1.15 to 30.9.15	10,00,000

Rate of Gross Profit on sales 25%

(Mumbai University, T.Y.B.Com. Modified)

Solution:

Dr. **Total Debtors Account** **Cr.**

Particulars	₹	Particulars	₹
To Opening bal b/d	3,20,000	By Cash received	11,52,000
To Credit Sales (Bal. fig.)	10,72,000	By Closing bal. c/d	2,40,000
	13,92,000		**13,92,000**

Dr. **Memorandom Trading Account for the Year 30.9.15** **Cr.**

Particulars	₹	Particulars	₹
To Opening stock	1,20,000	By Sales	10,72,000
To Purchases	10,00,000	By Closing stock (bal. fig.)	3,16,000
To Gross Profit (10,72,000 × 25%)	2,68,000		
	13,88,000		**13,88,000**

Statement of Claim

Particulars	₹
Closing stock	3,16,000
Less: Salvage	—
Amount of claim	**3,16,000**

Illustration 7 (When commission on Purchases is given): Balu Traders have taken a fire policy of ₹ 4,80,000 covering its stock in Trade. A fire occurs on 31-3-2015 and stock was destroyed with the exception of the value of ₹ 1,24,080.

Following particulars are available from the books of accounts of the firm:

	₹
Stock on 31-12-2014	1,80,000
Purchases to the date of fire	7,80,000
Sales to the date of fire	5,40,000
Carriage Inwards	24,000
Commission paid on purchases	2%
Rate of Gross Profit on cost	50%

The policy was subject to average clause. You are required to calculate

(i) Total loss of stock.

(ii) Amount of claim to be lodged with the Insurance Company.

(iii) Loss suffered due to under insurance. **[B.Com. BU, April, 2004]**

Solution:

Step 1

Memorandum Trading Account from 1-1-2015 to 31-3-2015

Particulars	₹	Particulars	₹
To Opening Stock	1,80,000	By Sales	5,40,000
To Purchases	7,80,000	By Closing Stock (Bal. fig.)	6,39,600
To Carriage Inwards	24,000		
To Commission (2/100 × 7,80,000)	15,600		
To Gross Profit [5,40,000×1/3]	1,80,000		
	11,79,600		**11,79,600**

Note: 50% or 1/2 on cost = 1/3 on sales.

Step 2

Calculation of Actual Loss

Closing Stock	6,39,600
Less: Salvage	1,24,080
Actual Loss	**5,15,520**

Step 3

Calculation of Amount of Claim

$$\text{Claim} = \frac{\text{Policy Amount}}{\text{Closing Stock}} \times \text{Actual Loss}$$

$$= \frac{4,80,000}{6,39,600} \times 5,15,520$$

= ₹ 3,86,882

Step 4

Calculation of loss due to under insurance

	Actual Loss	5,15,520
Less:	Amount of claim	3,86,882
	Loss due to under insurance =	**1,28,638**

Illustration 8 (when rate of Gross Profit and policy amount is not given and distribution of sample is given): On 1st April, 2015, a fire destroyed the stock of a business firm. From the records which were saved, the following information was obtained:

		₹
Stock	- on 1.1.2014	45,000
	- on 1.1.2015	55,000
Purchases	- for calender year 2014	1,29,250
	- for 3 months upto 31.3.2015	60,000
Sales	- for year ended 31.12.2014	1,70,000
	- upto the date of fire	1,00,000
Manufacturing Expenses	- Calender year 2014	21,000
	- 3 months upto 31.3.2015	?

In February 2015, goods valued at a cost price of ₹ 500 were distributed as samples. Manufacturing expenses were normally found to be constant per month. The salvaged stock was estimated at ₹ 7,000. Prepare a statement showing the amount of claim. **(Bangalore University, B.Com. Modified)**

Solution:

Step 1: Preparation of Last Year Trading Account

Dr. Trading Account for the year ending 31st December 2014 Cr.

Particulars	₹	Particulars	₹
To Opening Stock	45,000	By Sales	1,70,000
To Purchases	1,29,250	By Closing Stock	55,000
To Manufacturing Expenses	21,000		
To Gross Profit (Balancing figure)	29,750		
	2,25,000		**2,25,000**

Step 2: Calculation of Rate of Gross Profit on Sales

$$\text{Rate of G/P} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \frac{₹\,29{,}750}{₹\,1{,}70{,}000} \times 100 = 17.5\%$$

Step 3: Preparation of Memorandum Trading Account:

Dr. Memorandum Trading Account for Three months ending 1.4.2015 Cr.

Particulars	₹	Particulars	₹
To Opening Stock	55,000	By Sales	1,00,000
To Purchases (₹ 60,000 less samples ₹ 500)	59,500	By Closing Stock (Balancing figure)	37,250
To Manufacturing Expenses			
($\frac{3}{12}$ × ₹ 21,000)	5,250		
To Gross Profit (17.5% of ₹ 1,00,000)	17,500		
	1,37,250		**1,37,250**

Note: 1. Samples given are deducted from purchases, since so much of purchases are not available for sale. 2. Manufacturing expenses are calculated proportionately.

Step 4: Calculation of Actual Amount of Loss:

Particulars	₹
Stock on the date of fire	37,250
Less: Salvaged Stock	7,000
Actual Loss of Stock	**30,250**

Step 5: Calculation of Amount of Claim:

The problem does not provide any information about the policy amount. Hence, the amount of claim will be the same as actual amount of loss.

∴ The amount of claim = ₹ 30,250.

Illustration 9 (when average rate of Gross Profit is required): The Premises and Stock of Gulab Jam were totally destroyed by fire on 30.1.2015 from the 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	2012	2013	2014	2015
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	19,000	20,900	2,000
Closing stock as valued	32,400	36,000	36,900	–

Prepare a statement for submission to the Insurance Company in support of the company for loss of stock.

(Mumbai University, T.Y.B.Com. Modified)

Solution: Step - 1

Dr. **Trading Account for the year ending 31.12.12** **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock $\left(27{,}090 \times \frac{100}{90}\right)$	30,100	By Sales A/c	1,20,000
		By Closing Stock A/c $\left(32{,}400 \times \frac{100}{90}\right)$	36,000
To Purchases A/c	74,900		
To Wages	17,400		
To Gross Profit	33,600		
	1,56,000		**1,56,000**

$$\text{Rate of Gross Profit} = \frac{33{,}600}{1{,}20{,}000} \times 100 = 28\%$$

Dr. **Trading Account for the year ending 31.12.13** **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	36,000	By Sales	1,32,000
To Purchases	80,000	By Closing Stock $\left(36{,}000 \times \frac{100}{90}\right)$	40,000
To Wages	19,000		
To Gross Profit	37,000		
	1,72,000		**1,72,000**

$$\text{Rate of Gross Profit} = \frac{37{,}000}{1{,}32{,}000} \times 100 = 28\%$$

Dr. **Trading Account for the year ending 31.12.14** **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	1,40,000
To Purchases A/c	81,000	By Closing Stock $\left(36{,}900 \times \frac{100}{90}\right)$	41,000
To Wages A/c	20,900		
To Gross Profit	39,100		
	1,81,000		**1,81,000**

$$\text{Rate of Gross Profit} = \frac{39{,}100}{1{,}40{,}000} \times 100 = 28\%$$

$$\text{Average rate of Gross Profit} = \frac{28 + 28 + 28}{3} = 28\%$$

Step 2:

Dr. Memorandum Trading Account for 1.1.2015 to 30.1.2015 Cr.

Particulars	₹	Particulars	₹
To Opening Stock	41,000	By Sales A/c	12,000
To Purchases A/c	6,000	By Closing Stock A/c (Bal. fig)	40,360
To Wages	2,000	(Value of stock on the date of fire)	
To Gross Profit (12,000 × 28%)	3,360		
	52,360		**52,360**

Step 3: Statement of claims: Claims = 40,360 (claim amount is equal to value of stock on the date of fire).

Illustration 10 (when average clause is to be applied): A fire occurred in the premises of a firm on 1.7.2015. From the following information, calculate the claim to be made by the firm:

	₹
Stock on 1.1.2014	63,000
Purchases for the year ending 31.12.2014	4,17,500
Sales for the year ending 31.12.2014	5,00,000
Wages for the year ending 31.12.2014	20,000
Salary for the year ending 31.12.2014	10,000
Stock on 31.12.2014	81,000
Purchases from 1.1.2015 to date of fire	2,00,000
Sales from 1.1.2015 to date of fire	3,00,000
Stock salvaged	10,000
Value of Policy	30,000

There is an average clause in the policy. The firm had the practice of valuing stock at 20% above cost price. However, during 2014 the policy was changed and the stock on 31.12.2014 was valued at 10% less than the cost. Expenses incurred for extingushing the fire was ₹ 2,000.

(Mumbai University, T.Y.B.Com. Modified)

Solution:

Step 1: Preparation of Last Year Trading Account:

Dr. **Trading Account for the year ended 31st December, 2014** **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock $\left(₹\,63{,}000 \times \frac{100}{120}\right)$	52,500	By Sales	5,00,000
To Purchases	4,17,500	By Closing Stock $\left(₹\,81{,}000 \times \frac{100}{90}\right)$	90,000
To Wages	20,000		
To Gross Profit (Balancing figure)	1,00,000		
	5,90,000		**5,90,000**

Notes: 1. Stocks have been valued at cost price and recorded.

2. Salaries doesn't appear in the Trading Account. Hence, it is not considered.

Step 2: Calculation of Rate of Gross Profit on Sales:

$$\text{Rate of G/P} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \frac{₹\,1{,}00{,}000}{₹\,5{,}00{,}000} \times 100 = 20\%$$

Step 3: Preparation of Memorandum Trading Account:

Memorandum Trading Account
Dr. **(from 1.1.2015 to 1.7.2015)** **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	90,000	By Sales	3,00,000
To Purchases	2,00,000	By Closing Stock (Balancing figure)	50,000
To Gross Profit (20% of ₹ 3,00,000)	60,000		
	3,50,000		**3,50,000**

Step 4: Calculation of Actual Amount of Loss:

Particulars	₹
Stock on the date of fire	50,000
Less: Salvaged stock	10,000
	40,000
Add: Expenses on extinguishment of fire	2,000
Actual Loss	**42,000**

Step 5: Calculation of Amount of Claim:

Stock on the date of fire = ₹ 50,000

Policy Amount = ₹ 30,000

So, there is under-insurance and average clause is applicable.

$$\therefore \text{Amount of Claim} = \text{Policy Amount} \times \frac{\text{Actual Loss of Stock}}{\text{Stock on the date of Fire}}$$

$$\text{Amount of Claim} = ₹\ 30{,}000 \times \frac{₹\ 42{,}000}{₹\ 50{,}000}$$

Amount of Claim = ₹ 25,200

SAQ 1. A fire occurred on April 15, 2015, and destroyed the business premises of X & Co. The books of accounts and Stock amounting to ₹ 1,80,000 were saved and the following information was rendered available from the books:

Particulars	**Sales (₹)**	**Gross Profit (₹)**
Year ending December 31, 2010	86,00,000	21,50,000
Year ending December 31, 2011	71,00.000	21,30,000
Year ending December 31, 2012	60,00,000	20,00,000
Year ending December 31, 2013	55,00,000	18,70,000
Year ending December 31, 2014	48,00,000	16,00,000

The stock on December 31, 2014, was valued at ₹ 9,70,000. The Purchases, sales and production wages from January 1, 2015 to April 14, 2015 were ascertained at ₹ 7,50,000, ₹ 15,90,000 and ₹ 3,00,000 respectively.

You are to prepare a statement in support of your claim against the Insurance Company together with any comments you may feel necessary to make.

[Ans.: G.P. Ratio $3\frac{1}{3}$ %, SOFD = 9,60,000, Loss Claim = 7,80,000]

SAQ 2. M Traders have taken out a fire policy of ₹ 80,000 covering its stock in trade. A fare occurs on 31st March, 2015 and stock was destroyed with the exception of ₹ 20,680 worth. Following particulars are available from the books of accounts of the firm:

Particulars	**₹**
Stock on 1st January, 2015	30,000
Purchase to the date of fire	1,30,000
Sale to the date of fire	90,000
Commission paid to the purchase manager on purchase	2%
Carriage paid on purchases	800
Average gross profit on cost	50%

The policy was subject to average clause.

You are required to calculate the:

(i) Total loss of stock, and (ii) Amount of claim made against the Insurance Co.

SAQ 3. The Godown of Seo was destroyed by fire on 15.4.15. From the following figures, ascertain the value of goods destroyed by fire.

Particulars		**₹**
Stock as on 1.1.2014		720
Purchases less Returns:	From 1.1.10 to 31.12.14	2,800
	From 1.1.15 to 15.4.15	2,920
Sales Less Returns:	From 1.1.14 to 31.12.14	4,000
	From 1.1.15 to 15.4.15	3,200
Stock as on 31.12.14		480
Cost price of goods salvaged		240
Cost price of goods taken by the proprietor for personal use and not recorded in the books	(From 1.1.15 to 15.4.15)	320

The stocks are valued at cost less 20%.

[Ans.: G.P. Ratio = 19.5%, SOFD = 504, Claim = 264/-]

SAQ 4. The premises of Orange Plastic Co. caught fire on 20th November, 2015 and the stock was damaged. The firm made up accounts on 31st March each year. On 31st March, 2015 the stock was valued at ₹ 36,000, being 10% less than the cost as against stock was valued at cost as on 31st March, 2014 amounted to ₹ 10,000.

Purchases during the period 1st April, 2015 to the date of fire amounted to ₹ 1,26,200 as against purchases of ₹ 2,40,000 for full year ended 31st March, 2015 and corresponding sales figures were ₹ 1,80,000 and ₹ 3,00,000 respectively.

Following further information is available:

In October, 2015 goods of the sale value of ₹ 6,000 were given as samples and no entry was made in books. Also during the period, goods costing ₹ 500 were being misappropriated every month by the Store-keeper from 1st May, 2015 until he was caught on 31st August, 2015 and the value of misappropriated goods was recovered from him and he was dismissed.

The rate of gross profit was constant. From the above information make an estimate of stock on hand on the date of fire.

Value of goods salvaged amount to ₹ 10,000. Calculate the amount of claim.

SAQ 5. On 21st June, 2015 the premises of X Ltd., were destroyed by fire but sufficient records were saved from which the following particulars were ascertained:

Particulars	**₹**
Stock at cost on 1.1.2014	73,500
Stock on 31.12.2014	79,600
Purchases during the year 2014	3,98,000
Sales during the year 2014	4,87,000
Purchases from 1.1.2015 to 21.6.2015	1,62,000
Sales from 1.1.2015 to 21.6.2015	2,31,200

In valuing the stock for the Balance Sheet at 31-12-2014 ₹ 2,300 had been written off certain stock, which was a poor selling line, having cost ₹ 6,900. A portion of these goods was sold in April, 2015 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 above exception, gross profit had remained at a uniform rate throughout.

The stock salvaged was ₹ 5,800.

Show the amount of claim.

SAQ 6. On 1st April, 2015 there was a devastating fire in the godown of Fire proof Equipment Manufacturing Ltd., which completely destroyed the stock and also other books and records. However, they are able to obtain the following information from their Income-Tax and Sales Tax Consultants:

Particulars	**₹**
Sales: For the year to 31-12-2014.	8,00,000
For January and February 2015.	80,000
Purchases: For the year to 31-12-20142.	3,65,000
For January and February 2015.	24,000
Stocks (At cost):	
As at 1-1-2014	1,00,000
As at 31-12-2014	45,000
Wages for the year to 31-12-2014.	1,08,000
Other direct expenses for the year to 31-12-2014.	72,000

Further Information:

(1) The Sales and Purchases for March, 2015 may be assumed as having been made at the same rate as in past two months.

(2) In January, 2015 a theft had taken place as a result of which goods of the value of ₹ 6,000 were lost.

(3) Wages and other direct expenses may be taken after 31-12-2014 at the same rate as in the year 2014.

(4) Insurance policy was taken for ₹ 22,500. There was an average clause in the policy.

You are required to prepare a statement showing the claim to be lodged with the Insurance Co., taking the value of Salvage at ₹ 5,000. All workings should form part of your answer.

SAQ 7. The premises of Simal were destroyed by fire on 30-4-2015. Following details were available.

Details	**2012** ₹	**2013** ₹	**2014** ₹	**2015** ₹
Opening Stock	20,000	22,000	11,800	34,020
Sales	2,22,000	2,02,500	1,93,500	28,000
Purchases	1,60,000	1 ,45,000	1,70,000	35,000
Freight Outward	6,000	7,000	3,000	2,500
Freight Inward	5,000	3,000	5,000	1,000
Return Inward	22,000	4,000	6,000	2,000
Closing Stock	22,000	11,800	34,020	?

Further Information:

(1) In 2012, while valuing closing stock, goods costing ₹ 5,000 were valued at ₹ 4,000 and they were sold in 2013, for ₹ 4,500.

(2) In 2013, while valuing closing stock, goods costing ₹ 6,000 were wrongly valued at ₹ 7,000 and were sold in 2015 for ₹ 5,500.

(3) In December 2014 while valuing closing stock, goods costing ₹ 12,000 were valued at ₹ 10,000. 50% of these goods were sold before 30-4-2015 for ₹ 6,000.

(4) The goods salvaged were ₹ 10,000.

(5) Accounts were closed every year on 31st December.

Prepare statement of claim, showing the amount of claim.

SAQ 8. A fire occurred in the premises of Ajit on 1st Sept., 2015 and stock of the value of ₹ 1,01,000 was salvaged. However, books and records were saved. The following information was available:

Particulars	**₹**
Purchases for the year ended 31-3-2015	6,80,000
Sales for the year ended 31-3-2015	11,00,000
Purchases from 1-3-2015 to 1-9-2015	2,50,000
Sales from 1-3-2015 to 1-9-2015	3,60,000
Stock on 31-3-2014	3,00,000
Stock on 31-3-2015	3,40,000

Further information is given:

(1) The stock on 31-3-2015 was overvalued by ₹ 20,000.

(2) The sales and purchases for the year ended 31-3-2015 were spread evenly during the year.

(3) From April, 2015 selling price was lowered by 10%.

(4) The stock was insured for ₹ 3,00,000 and there was average clause in the policy.

Calculate the amount of the claim.

[Ans.: G.P. Ratio = 42%, SOFD = 4,39,499, Claim = 2,31,057]

Illustration 11 (When free samples are given): The premises of Mercantile Traders caught fire on 1.7.2015, and their stock was damaged. The stock was *fully insured*. The concern has made accounts upto 31st December of each year. The following information is available:

	₹
Stock on 31.12.2014	1,32,720
Stock on 31.12.2013	96,140
Purchases from 1.1.2015 upto date of fire	3,48,270
Purchases upto 31.12.2014	4,52,580
Sales upto 31.12.2014	5,20,000
Sales from 1.1.2015 upto date of fire	4,91,700

Further Information

1. In May 2015, goods costing ₹ 10,000 were given away for advertising purposes, no entry being made in the books.
2. During 2015, a Clerk had misappropriated unrecorded cash sales of ₹ 4,000.
3. The rate of Gross Profit is constant over the years.
4. Value of stock salvaged was ₹ 13,000 and the expenses incurred to extinguish fire ₹ 800.

From the above information, prepare a statement showing the claim for loss of stock.

(Bangalore University, B.Com. Modified)

Solution:

Step 1: Preparation of Previous Year Trading Account

Dr. Trading Account for the year ended 31st December, 2014 Cr.

Particulars	₹	Particulars	₹
To Opening Stock	96,140	By Sales	5,20,000
To Purchases	4,52,580	By Closing Stock	1,32,720
To Gross Profit (Balancing figure)	1,04,000		
	6,52,720		**6,52,720**

Step 2: Calculation of Rate of Gross Profit on Sales

$$\text{Rate of Gross Profit} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \frac{₹\,1,04,000}{₹\,5,20,000} \times 100 = 20\%$$

Step 3: Preparation of Memorandum Trading Account:

Memorandum Trading Account
(From 1.1.2015 to 1.11.2015)

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		1,32,720	To Sales	4,91,700	
To Purchases	3,48,270		*Add:* Unrecorded sales	4,000	4,95,700
Less: Goods given for advertising, not available for sales	10,000	3,38,270	To Closing Stock (Balancing figure)		74,430
To Gross Profit (20% of ₹ 4,95,700)		99,140			
		5,70,130			**5,70,130**

Step 4: Calculation of Actual Amount of Loss:

Particulars	₹
Stock on the date of fire	74,430
Less: Salvaged stock	13,000
	61,430
Add: Expenses incurred for extinguishing fire	800
Actual Loss of Stock	**62,230**

Step 5: Calculation of Amount of Claim:

The problem clearly states that stock was fully insured. Hence, the amount of claim will be the same as actual amount of loss.

Amount of claim = ₹ 62,230

Note: 1. Goods given away for advertisement purposes is to be deducted from purchases in the Memorandum Trading A/c because it is given at cost price.

2. Unrecorded cash sales must be added to sales in Memorandum Trading A/c.

3. Expenses for extinguishing fine is to be added to calculation of Actual Loss.

Illustration 12 (When ratio of gross profit is given): On 12th June, 2015, 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 accounts, the following particulars were available:

1. His stock at the close of account on December 31, 2014 was valued at ₹ 83,500.
2. His purchases from 1.1.2015 to 12.6.2015 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% on sales.

Patel has insured his stock for ₹ 60,000. Compute the amount of claim.

(CS Executive Modified)

Solution:

Step 1: Preparation of Last Year Trading Account

- Not required in this problem -

Step 2: Calculation of Rate of Gross Profit on Sales

Rate of Gross Profit on Sales (given) = 30%

Step 3: Preparation of Memorandum Trading Account

Memorandum Trading Account

Dr. **(From 1.1.2015 to 12.6.2015)** **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	83,500	By Sales	1,54,000
To Purchases	1,12,000	By Closing Stock (Balancing figure)	87,700
To Gross Profit (30% of ₹ 1,54,000)	46,200		
	2,41,700		**2,41,700**

Step 4: Calculation of Actual Amount of Loss

Particulars		₹
Stock on the date of fire		87,700
Less: Salvaged Stock:		
In good condition	11,200	
In damaged condition	10,500	21,700
Actual Loss of Stock		**66,000**

Step 5: Calculation of Amount of Claim

Stock on the date of fire ₹ 87,700

Policy Amount ₹ 60,000

There is an under-insurance and average clause is applicable.

$$\text{Amount of Claim} = \text{Policy Amount} \times \frac{\text{Actual Loss of Stock}}{\text{Stock on the date of Fire}}$$

$$\text{Amount of Claim} = ₹\,60{,}000 \times \frac{₹\,66{,}000}{₹\,87{,}700}$$

Amount of Claim = ₹ 45,154

Illustration 13 (Simple problem – Overvaluation of stock): A fire occurred in the godown of Make Money Ltd, on 15th April 2015, the books of accounts and stock amounting to ₹ 10,800 were saved. Company's average rate of Gross Profit is 33% on sales. The stock on hand on 31st Dec. 2014 valued at 10% above cost was ₹ 58,300. Purchases, Wages and Sales were at ₹ 45,000 ₹ 18,000 and ₹ 95,400 respectively.

Prepare a statement of claim.

(Mumbai University, B.Com. Modified)

Solution:

Memorandum Trading A/c for the period 1.1.2015 to 15.4.2015

	₹		₹
To stock	53,000	By Sales	95,400
To Purchases	45,000	By Closing Stock	52,082
To Wages	18,000	(bal.fig.)	
To Gross Profit	31,482		
	1,47,482		**1,47,482**

Statement of Claim	₹
Stock on the date of fire	52,082
Less: Salvage	10,800
Claim	**41,282**

Note: For deciding claim find out the stock at cost

Cost of Stock (58,300\110) × 100 = 53,000

Illustration 14 (When sales and gross profit are given for different years): A fire occurred on April 15, 2015, and destroyed the business premises of X and Co. The books of accounts and Stock amounting to ₹ 1,80,000 were saved and the following information was rendered available from the books:

	Sales ₹	Gross Profit ₹
Year ending Dec.31.2010	86,00,000	21,50,000
Year ending Dec.31.2011	71,00,000	21,30,000
Year ending Dec.31.2012	60,00,000	20,00,000
Year ending Dec.31.2013	55,00,000	18,70,000
Year ending Dec.31.2014	48,00,000	16,00,000

The stock on Dec. 31.2014, was valued at ₹ 9,70,000. The Purchases, sales and production wages from Jan. 1.2015, to April 14.2015 were at ₹ 7,50,000, ₹ 15,90,000 and ₹ 3,00,000 respectively.

You are to prepare a statement in support of your claim against the Insurance Company together with any comments you may feel necessary to make.

(PCC Modified)

Solution:

Proforma Trading A/c for the Period 1 Jan. to April 14, 2015

	₹		₹
To Stock	9,70,000	By Sales	15,90,000
To Purchases	7,50,000	By Stock	9,60,000
To Wages	3,00,000	(bal.fig.)	
To Gross Profit			
(₹ 15,90,000 x 33 1/3%)	5,30,000		
	25,50,000		**25,50,000**

Amount of Claim = (Stock on 14.4.2013 – Stock Salvaged)

= ₹ 9,60,000 – ₹ 1,80,000

= ₹ 7,80,000

Hints and solution

Rate of Gross Profit in different years:

for 2010 = ₹ 21,50,000/86,00,000 × 100 = 25%

for 2011 = ₹ 21,30,000/71,00,000 × 100 = 30%

for 2012 = ₹ 20,00,000/60,00,000 × 100 = 33,1/3%

for 2013 = ₹ 18,70,000/55,00,000 × 100 = 34%

for 2014 = ₹ 16,00,000/48,00,000 × 100 = 33,1/3%

The rate of Gross Profit in 2015 may be considered as 33,1/3% (and not the average of 5 years) on the assumption that this is the conservative basis of rate of Gross Profit. Because it shows that there is a constant increase in the rate of gross profit from 2010 to 2013 and then the same is declined. That is why, the rate of Gross Profit, for 2015, should be considered as the rate of Gross Profit for 2014.

Illustration 15 (When stock is over-valued): A fire occurred in the godown of X Ltd. on 9th March, 2015, destroying the entire Stock. the books records were salvaged from which the following particulars were ascertained:

	₹
Sales for the year, 2014	10,01,000
Sales for the period 1.1.2015 - 8.3.2015	3,00,000
Purchases for the year, 2014	8,00,000
Purchases for the period 1.1.2015 - 8.3.2015	1,25,000
Stock on 1.1.2014	3,31,100
Stock on 31.12.2014	3,85,000

The Company has been following the practice of valuing the stock of goods at actual cost plus 10%. Included in the stock on 1.1.2014 were some shop-soiled goods which originally cost ₹ 2,000, but were valued at ₹ 1,100. These goods were sold during sold during the year 2014 for ₹ 1,000. Subject to these, the rate of Gross Profit on the basis of valuation of stock was uniform.

You are required to ascertain the value of the stock destroyed.

(IPCC Modified)

Solution:

Dr. **Trading A/c for the year ended 31.12.2014** **Cr.**

	₹		₹
To Opening Stock	3,00,000	By Sales	10,00,000
To Purchases	8,00,000	(₹ 10,01,000-1000)	
To Gross Profit	2,50,000	By Closing stock	3,50,000
	13,50,000		**13,50,000**

Workings:

	₹
1. Opening Stock	3,31,1000
Less: Shop Soiled Goods	1,100
	3,30,000
Less: Profit @ 1/11 (10/110)	30,000
therefore, at cost	3,00,000
2. Closing Stock	3,85,000
Less: Profit 1/11	35,000
Therefore, at cost	3,50,000

Rate of Gross Profit on Sales = 2,50,000/10,00,000 × 100

Trading A/c for the year ended 31.12.2014.

Dr. **Cr.**

	₹		₹
To Stock	3,50,000	By Sales	3,00,000
To Purchases	1,25,000	By Stock	2,50,000
		(bal.fig.)	
To Gross Profit	75,000		
(25% on sales)			
	5,50,000		**5,50,000**

Value of the stock destroyed ₹ 2,50,000.

Illustration 16: A fire occurred on the premises of a business man on 30th June, 2015, destroying a part of his stock. No stock records have been maintained. The following information was ascertained from his books which were not involved in the fire:

	₹
Valued of stock on 1st January, 2015	12,500
Purchases from 1st January, 2015 to 30th June, 2015	45,500
Sales for the above period	56,500
Purchases in 2012	2,20,000
Purchases in 2013	1,75,000
Purchases in 2014	1,50,000
Sales in 2012	2,50,000
Sales in 2013	1,60,000
Sales in 2014	1,90,000
Gross Profit in 2012	75,000
Gross Profit in 2013	32,000
Gross Profit in 2014	19,000
Value of stock saved from fire	2,500

Prepare a statement showing the amount to be claimed from the Insurance Company, mentioning any further factors which you consider should be taken into consideration while preparing the claim.

(Mumbai University, T.Y.B.Com. Modified)

Solution:

Calculate G/P

	2012	2013	2014
Sales	2,50,000	1,60,000	1,90,000
Gross Profit	75,000	32,000	19,000
G/P %	30%	20%	10%

Note: The above G/P percentages show a declining trend of 10% each year and accordingly current year's G/P percentage works out to 0%. It is assumed that minimum margin of profit of the current year was 5%.

Memorandum Trading Account (From 1.1.15 to 30.6.15)

	₹		₹
To Opening Stock	12,500	By Sales	56,500
To Purchases	45,500	By Closing Stock (Bal fig.)	4,325
To Gross Profit (5% of 56,500)	2,825		
	60,825		**60,825**

Statement of Claim

Estimated Value of Closing Stock	4,325
On the date of fire	
(–) Salvaged	2,500
∴ Loss of Stock	1,825

Illustration 17: The Trading Account of M/s. Good & Bad Co. for the year ending 31st March, 2014 is given below:

	₹		₹
To Opening Stock	68,480	By Sales Less Return	1,95,000
To Purchases Less Return	1,56,940	By Closing Stock	58,820
To Gross Profit c/d.	29,400		
	2,54,820		**2,54,820**

A fire occurred in their godwon, which was situated behind their offices premises, on 31st December 2015. A considerable part of the stock of ready-made garments was destroyed by fire. The salvaged stock realized ₹ 2,255. The stocks and the premises were fully insured against fire risks.

Considering the following further particulars, prepare a statement showing the amount of claim to be lodged by M/s Good & Bad Co. with the All India Insurance Co. Ltd. for the loss of stocks only.

Sales for the period ending 31st December, 2015 were ₹ 1,09,200. The amount paid for purchases was ₹ 88,016 including a cheque for ₹ 562 which was not presented to the bankers upto 31.12.2015. As shown by the books of account, Trade Creditors on 31.3.2015 amounted to ₹ 24,608 and on 31st December, 2015 were ₹ 22,112. Good worth ₹ 6,390 were returned to creditor during the period ending 31.12.2015.

(IPCC Modified)

Solution:

To find out the purchases upto the date of size, creditors a/c. is prepared.

Creditors A/c

	₹		₹
To Cash/Bank	88,016	By Opening Balance b/d	24,608
To P/Return	6,390	By Purchase (bal. fig.)	91,910
To Closing Balance c/f	22,112		
	1,16,518		**1,16,518**

Memorandum Trading A/c (From 1.4.15-31.12.15)

		₹		₹
To Opening Stock		58,820	By Sales	1,09,200
To Purchase	91,910		By Closing Stock (Bal.fig.)	51,520
(–) P/Return	6,390	85,520		
To Gross Profit (15% of 1,09,200)		16,380		
		1,60,720		**1,60,720**

Statement of Claim

Estimated Value of Closing Stock on the date of fire	51,520
(–) Salvaged	2,255
∴ Loss of Stock	49,265

Illustration 18: A trader, who had covered his stock by taking an insurance policy of ₹ 30,000 his stock partly destroyed by fire on March 18, 2015. Ledgers were saved and accounts disclosed.

	₹
Stock on 31st December, 2013	31,300
Purchases during 2014	78,050
Carriage paid and due during 2014	3,770
Wages paid during 2014	39,810
Sales during 2014	1,85,310
Stock on 31st December, 2014	30,110
Purchases from January 1, 2013 to March 18, 2015	15,500
Wages paid from January 1, 2015 to March 18, 2015	7,600
Wages owing on March 18, 2015	60
Sales from January 1, 2015 to March 18, 2015	24,200

Addition information:

(i) Included in the stock on 31st December, 2013 was the stock of stationery ₹ 500.

(ii) Included in the stock at 31st December, 2014 was the stock of stationery ₹ 620.

(iii) Wages owing during 2014, ₹ 2,500.

(iv) During 2014, purchase invoices amounting to ₹ 1,200 had been omitted from the books.

(v) During 2014 private purchases amounting to ₹ 1,200 had been included in purchase day book.

(vi) During 2014, stock of ₹ 400 (cost price) was sold to Mr. X at 33-1/3% profit on sale on 30th December, 2014 and was recorded as sales. However, the goods being not delivered were by mistake included in the stock at cost price. The goods were delivered on 8th January, 2015.

(vii) During 2014 a plant which stood at ₹ 5,000 in the books on 1st January was sold for ₹ 1,900 in part exchange for a new machinery costing ₹ 4,200. A net invoice of ₹ 2,300 was passed through purchases day book.

(viii) Purchases in 2015, included a wrong purchase of ₹ 500 half of which was sold in the same year at a loss of ₹ 50 and the remaining was treated at cost price for insurance claim.

(ix) Stock saved ₹ 12,000.

(x) There was an average clause in the policy.

Calculate loss of stock and claim on average basis.

(ICWA Modified)

Solution:

Trading A/c of 2014

		₹			₹
To Opening	31,300		By Sales		1,85,310
(–) Stationery	500	30,800	By Closing Stock	30,110	
To Purchase	78,050		(–) Stationery	620	
(+) Not recorded	1,200		(–) Customer's Stock	400	29,090
(–) Drawings	1,200				
(–) Plant Purchases	2,300	75,750			
To Carriage		3,770			
To Wages	39,810				
(+) Outstanding	2,500	42,310			
To Gross Profit (33-1/3%)		61,770			
		2,14,400			**2,14,400**

Memorandum Trading A/c (From 1.1.15 to 18.3.15)

		₹			₹
To Opening		29,090	By Sales	24,200	
To Purchases	15,500		(–) Ab. Sales	200	24,000
(–) Additional	500	15,000	By Closing Stock (Bal.fig.)		33,250
To Wages	7,600				
(+) Outstanding	60				

(–) O/S of L/y paid	2,500	5,160		
To Gross Profit (33-1/3% of 24,000)		8,000		
		57,250		**57,250**

Statement of Claim		**For Problem**	
Estimated Value of Stock		If Loss	100
1. Normal Goods (As per T.A/c)	33,250	(+) Profit	100
2. Abnormal Goods (As per T.A/c)	250	∴ at Price	200
Total Stock	33,500	**At Price**	**Cost Price**
(–) Salvaged	12,000	200	100
∴ Loss of Stock	21,500	3,00,000	(?)
		= 1,50,000 (at cost)	

Applying Average Clause

$$\text{Amount of Claim} = \frac{\text{Amount of Policy}}{\text{Actual Stock}} \times \text{Loss of Stock}$$

$$= \frac{30,000}{35,500} \times 21,500 \quad = \mathbf{19,225}$$

Illustration 19: A fire occurred in the shop of Nirbhaya on 13th Feb., 2015 and destroyed a part of the stock and furniture goods, costing ₹ 13,000 and furniture of the value of ₹ 400 were salvaged from the fire. Stock of goods and furniture were insured against fire as:

	₹
Stock	5,100
Furniture	2,000

Following information was obtained from the books and records saved:

(i) Balances as per the Balance sheet as on 31st Dec., 2014

	₹
Stock (at cost)	13,000
Furniture	2,500

	Creditors for goods	1,200
	Debtors for goods	2,000
(ii)	Transactions from 1.1.15 to 13.2.15	
		₹
	Payment made to the creditors for goods	11,000
	Receipts from debtors for goods	12,000
	Purchase returns	300
	Sales return	700
	Balance of Creditors for goods on 31.02.15	2,000
	Balance of Debtors goods on 13.2.15	3,500

All the sales were made so as to realize a profit of 20% on selling price. There were no other purchases or sales. Prepare a statement of claim to be lodged in respect of stock of goods and furniture.

(IPCC Modified)

Solution:

Memorandum Trading Account (From 1.1.15 to 13.2.15)

		₹			₹
To Opening Stock		13,000	By Sales	14,200	
To Purchase	12,100		(–) Sales Return	700	13,500
(–) Purchase return	300	11,800	By Closing Stock (Bal.fig.)		14,000
To Gross Profit (20%)		2,700			
		27,500			**27,500**

Total Debtors A/c.

	₹		₹
To Balance b/d	2,000	By Cash/Bank	12,000
To Sales	14,200	By Sales Returns	700
		By Balance c/f	3,500
	16,200		**16,200**

Total Creditors A/c

	₹		₹
To Cash/Bank	11,000	By Balance b/d	1,200
To Purchase Return	300	By Purchase	12,100
To Balance c/f	2,000		
	13,300		**13,300**

Statement of Claim

(1) For Stock

	₹
Estimated Value of Closing Stock	14,000
(–) Salvaged	1,300
∴ Loss of Stock	12,700

Applying Average Clause

$$\frac{5,100}{14,000} \times 12,700 = \mathbf{4,626}$$

(2) For Furniture

	₹
Book Value	2,500
(–) Salvaged	400
∴ Loss	2,100

Applying Average Clause

$$\frac{2,000}{2,500} \times 2,100 = \mathbf{1,680}$$

∴ Total Claim for Stock & Furniture **₹ 6,306**

Illustration 20: On Friday 13th May, 2015, a fire at the premises of P. (Wholeseller) Ltd. 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 ₹ 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 financial year ended 31 December, 2014 the following figures were included in the profit calculation:

	₹
Sales	4,06,000
Purchases	2,96,000
Stock 1.1.2014	70,000
Stock 31.12.2014	80,000

Note:

(a) The stock at 1st January included ₹ 6,000 representing goods which had been reduced in value at the stock taking and were all sold during 2014 for the same reduced amount.

(b) The stock at 31st December, 2014 included ₹ 10,000 representing goods which were reduced to half-cost at the stock taking. Of these, ₹ 6,000 were sold at the reduced amount in January, 2015. ₹ 2,000 were scrapped in February, 2015, without any revenue at and he balance had not been disposed off at the time of the fire.

The cost price of stock at 13th May, 2015 unaffected by the fire was ₹ 32,000 but the rest of the stock was completely destroyed and this included in the balance of the marked down stock referred to in (b) above.

The mix products sold up to 13th May, 2015 was substantially the same as for 2014. No writing-down of the stock values takes place except at annual stock taking and with the exception of the items mentioned, there have been no alternatives to normal selling prices.

Purchases from 1st January to 13th May, 2015 Total ₹ 1,45,500. Sales for the same period total ₹ 1,90,000 and there were returns from customers of ₹ 4,000.

You are required to calculate the amount you expect the Company could claim for the loss of stock.

(ICWA Modified)

Solution:

Trading A/c (2014)

		₹			₹
To Opening Stock	70,000		By Sales	4,06,000	
(–) Abnormal	6,000	64,000	(–) Abnormal	6,000	4,00,000
To Purchases	2,96,000		By Closing Stock	80,000	
(–) Abnormal	20,000	2,76,000	(–) Abnormal	10,000	70,000
To Gross Profit (32.5%)		1,30,000			
		4,70,000			**4,70,000**

Memorandum Trading A/c (From 1.1.15 to 13.5.15)

	₹			₹
To Opening Stock	70,000	By Sales	1,90,000	
To Purchases	1,45,500	(–) Returns	4,000	
To Gross Profit (32.5%) (1,83,000)	59,475	(–) Sale of	3,000	1,83,000
		Abnormal Stock (50% of 6,000)		
		By Goods Scrapped (50% of 2,000)		1,000
		By Closing Stock		90,975
	2,74,975			**2,74,975**

Abnormal		**Apply Average Clause**
Cost	20,000	$\text{Amount of Claim} = \dfrac{\text{Amount of Policy}}{\text{Actual Stock}} \times \text{Loss of Stock}$
(–) Sold in '84	6,000	
(–) Scrapped	2,000	$\dfrac{84,000}{1,03,975} \times 71,975 = 58,148$
∴ Left	12,000	

Statement of Claim

	Estimated Value of Stock		
1.	Normal Goods (Trading A/c.)	91,975	
2.	Abnormal Goods (at cost) (W.Note)	12,000	1,03,975
	Less: Salvaged		32,000
	∴ Loss of Stock		**71,975**

Illustration 21: A fire occurred in the business premises of M/s. Poonawala on 15th Oct., 2015. From the following particulars ascertain the loss of stock and prepare a claim for insurance.

	₹
Stock as on 1.1.14	30,600
Purchases from 1.1.14 to 31.12.14	1,22,000
Sales from 1.1.14 to 31.12.14	1,80,000
Stock as on 31.12.14	27,000
Purchases from 1.1.15 to 14.10.15	1,47,000
Sales from 1.1.15 to 14.10.15	1,50,000

The stocks were always valued at 90 per cent of cost. The stock saved from fire was worth ₹ 18,000. The amount of the policy was ₹ 63,000. There was an average clause in the policy.

(CS Executive Modified)

Solution:

M/s. Poonawala Trading A/c (2014)

		₹			₹
To Opening	30,600		By Sales		1,80,000
(–) Under Value (10/90)	3,400	34,000	By Closing Stock	27,000	
To Purchases		1,22,000	(+) Undervalue (10/90)	3,000	30,000
To Gross Profit		54,000			
		2,10,000			**2,10,000**

$$\text{Gross Profit Margin} = \frac{\text{GP}}{\text{Sales}} \times 100 = \frac{54,000}{1,80,000} \times 100 = 30\% \text{ of Sales}$$

Memorandum Trading A/c (From 1.1.15 to 5.10.15)

	₹		₹
To Opening Stock	30,000	By Sales	1,50,000
To Purchases	1,47,000	By Estimated Stock	72,000
To Gross Profit (30%)	45,000		
	2,22,000		**2,22,000**

Statement of Claim

Estimated Stock on date of fire	72,000
Less: Salvage	18,000
Loss	54,000

Average Clause

Estimated Stock	72,000
Policy Amount	63,000

Since Stock > Policy

∴ Average Clause is applicable

$$\text{Claim} = \frac{\text{Amount of Policy}}{\text{Actual Stock}} \times \text{Loss of Stock}$$

$$= \frac{54,000}{72,000} \times 63,000 \quad = \mathbf{47,250\,/\text{-}}$$

Illustration 22: On 1st April, 2015 an accidental fire completely destroyed the stock of Chhote Nawab. However, from the various records available from his chartered accountant, the following information was obtained, from which you are requested to prepare a statement showing the amount of claim to be lodged with the Sharmila Insurance Company Limited.

Stock at Cost	1st January, 2014	45,000
	1st January, 2015	55,000
Purchases:	Calendar Year 2014	1,25,000
	Three months to 31.3.2015	60,000
Sales:	Year ended 31st Dec., 2014	1,70,000
	Period upto the date of fire	1,00,000
Manufacturing	Calendar Year 2014	21,000
Expenses:	Three months to 31st March, 2015	?

In February, 2015 goods valued at sale price of ₹ 5,000 were distributed as samples. Manufacturing expenses were normally found to be constant. The value of the salvaged stock was estimated at ₹ 7,000.

(IPCC Modified)

Solution:

Choote Nawab Trading A/c. (2014)

	₹		₹
To Opening Stock	45,000	By Sales	1,70,000
To Purchases	1,25,000	By Closing Stock	55,000
To Manu. Expenses	21,000		
To Gross Profit	34,000		
	2,25,000		**2,25,000**

$$\text{G.P. Marging} = \frac{\text{G.P.}}{\text{Sales}} \times 100 = \frac{34,000}{1,70,000} \times 100 = 20\% \text{ on Sales}$$

Memorandum Trading A/c. (1.1.15 to 31.3.15)

	₹			₹
To Opening Stock	55,000	By Sales	1,00,000	
To Purchases	60,000	(+) Samples	5,000	1,05,000
To Manu. Expenses (21,000 ×3/12)	5,250	By Estimated Stock		36,250
To Gross Profit (20%)	21,000			
	1,41,250			**1,41,250**

Statement of Claim

Estimated Stock on date of fire	36,250
Less: Salvage	7,000
Loss	29,250

Claim = 29,250/-

Illustration 23: A fire occurred in the godwon of M/s. Pratap & Co. on 31st Dec., 2015. Godown was situated behind their office premises. A considerable part of the stock of ready-made garments was destroyed by fire. The salvaged stock realized ₹ 1,520, the stock and premises were fully insured against fire risks. Considering the following particulars, prepare a statement showing the amount of claim to be lodged by M/s. Pratap & Co. with New India Insurance Co. for the loss of stock only.

	₹
Purchases	
Less: returns for the year ending 31.3.2015	1,56,940
Sales less returns for the year ending 31.3.2015	1,96,000

Stock on 1.4.2014	68,480
Stock on 31.3.2015	58,820
Sales for the period ending 31.12.2015	1,09,200
Trade Creditors on 31.3.2015	24,608
Trade Creditors on 31.12.2015	22,112
Amount paid to Creditors during period ending 31.12.2015	88,016
Goods returned to Creditors for the period ending 31.12.2015	6,390

Note: Working shall be treated as part of your answer.

(ICWA Modified)

Solution:

M/s. Pratap & Co. Trading A/cf (31.3.15)

	₹		₹
To Opening Stock	68,480	By Sales	1,96,000
To Purchases	1,56,940	By Closing Stock	58,820
To Gross Profit	29,400		
	2,54,820		**2,54,820**

$$\text{G.P. Margin} = \frac{\text{G.P.}}{\text{Sales}} \times 100 = \frac{29,400}{1,96,000} \times 100 = 15\% \text{ on Sales}$$

Memorandum Trading A/c. (1.4.15 to 31.12.15)

		₹		₹
To Opening Stock		58,820	By Sales	1,09,200
To Purchases	91,910		By Estimated Stock	51,520
(–) Returns	6,390	85,520		
To Gross Profit (15%)		16,380		
		1,60,720		**1,60,720**

Creditors A/c

	₹		₹
To Cash/Bank	88,016	By Balance b/d	24,608
To Purchase Return	6,390	By Purchase A/c	91,910
To Balance c/d	22,112		
	1,16,518		**1,16,518**

Statement of Claim

Estimated Stock on date of Fire	51,520
Less: Salvage	1,520
Loss	50,000

Claim = 50,000/-

Illustration 24: Nixon Prepares accounts on 31st March each year but on 30th June 2015 fire destroyed the greater part of his stock. Following information was collected from his books.

	₹
Stock on 31st March, 2015	29,250
Purchases from 1st April, 2015 to 30th June, 2015	60,000
Wages from 1st April, 2015 to 30th June	22,750
Sales from 1st April, 2015 to 30th June, 2015	1,00,000

Average percentage of gross profit to cost is 33-1/3% stock to the value of ₹ 7,000 was salvaged. Policy was for ₹ 25,000 Claim was subject to average clause.

Following additional information is available:

(a) Stock in the beginning was calculated at 10% less than cost.

(b) Purchases include purchase of plant of ₹ 5,000.

(c) Plan was installed in May and firm's own men has spent time amounts to ₹ 250 which was included in wages.

You are required to calculate the claim for the loss of stock.

(ICWA Modified)

Solution:

Nixon

Memorandum Trading A/c (1.4.15 to30.6.15)

		₹		₹
To Opening Stock	29,250		By Sales	1,00,000
(+) Under Value (10/90)	3,250	32,500	By Estimated Stock	35,000
To Purchases	60,000			
(–) Plant	5,000	55,000		
To Wages	22,750			
(–) Installation	250	22,500		
To Gross Profit (1/4)		25,400		
		1,35,000		**1,35,000**

Statement of Claim

Estimated Stock on date of fire	35,000
Less: Salvage	7,000
Loss	28,000

Average Clause

Estimated Stock	35,000
Policy Amount	25,000

Since Stock Policy Amount ∴ Average Clause is applicable

$$\text{Claim} = \frac{\text{Loss}}{\text{Stock}} \times \text{Policy Amount} \quad = \frac{28,000}{35,000} \times 25,000 \quad = \mathbf{20,000}$$

Illustration 25: The premises of M/s. Nariman & Co. were gutted by fier on 31st August, 2015 and some stock was found badly damaged.

The accounts of the firm are closed on 31st March each year. On 31st March, 2015 stock was valued at cost ₹ 26,544 against ₹ 19,228 as at 31st March, 2014. Purchases and Sales were as follows:

	Full year ended 31st March, 2015 ₹	**Period upto 31st August., 2015** ₹
Purchases	90,516	69,654
Sales	1,04,000	98,340

In addition to the above, you collect the following information:

(1) Sometime in May, 2015 goods costing ₹ 10,000 were distributed as part of advertisement campaign in support whereof no entry appears to have been passed in the books.

(2) During the memorandum period cash sales of ₹ 1,190 were misappropriated and these were not recorded in the books.

Ascertain the estimated value of stock at the date of fire, assuming that the rate of gross profit has been constant.

(IPCC Modified)

Solution:

M/s. Nariman & Co. Trading A/c. (31.3.15)

	₹		₹
To Opening Stock	19,228	By Sales	1,04,000
To Purchases	90,516	By Closing Stock	26,544
To Gross Profit	20,800		
	1,30,544		**1,30,544**

$$\text{G.P. Margin} = \frac{\text{G.P.}}{\text{Sales}} \times 100 \quad = \frac{20,800}{1,04,000} \times 100 \quad = 20\% \text{ on Sales}$$

Memorandum Trading A/c. (1.4.15 to 31.8.15)

	₹			₹
To Opening Stock	26,544	By Sales	98,340	
To Purchases	69,654	(+) Unrec. Sales	1,190	99,530
To Gross Profit (20%)	19,906	By Good dist. On Samples		10,000
		By Estimated Stock		6,574
	1,16,104			**1,16,104**

Claim = **6,574**

Illustration 26: A fire occurred on 15th August, 2015 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.

	₹
Stock at cost as on 1st April, 2014	20,000
Stock at cost as on 1st April, 2015	30,000
Purchases – 2012-15	40,000
Purchases from 1st April, 2015 to 15th August, 2015	88,000
Sales – 2012-15	60,000
Sales from 1st April, 2015 to 15th August, 2015	1,05,000

During the current year cost of purchases have risen by 10% above last year's levels. Selling price have gone up by 5%.

Salvage value of stock after fire was ₹ 2,000.

(Mumbai University, T.Y.B.Com. Modified)

Solution:

'X' Co. Ltd. Trading A/c (31.3.15)

	₹		₹
To Opening Stock	20,000	By Sales	60,000
To Purchases	40,000	By Closing Stock	30,000
To Gross Profit	30,000		
	90,000		**90,000**

$$\text{G.P. Margin} = \frac{\text{G.P.}}{\text{Sales}} \times 100 = \frac{30,000}{60,000} \times 100 = 50\% \text{ on Sales}$$

Memorandum Trading A/c (1.4.15 to 15.8.15)

		₹			₹
To Opening Stock		30,000	By Sales	1,05,000	
To Purchases	88,000		(-) Decre. In price	5,000	1,00,000
(-) Increase in price 10/110	8,000	80,000	By Estimated Stock		60,000
To Gross Profit (50%)		50,000			
		1,60,000			**1,60,000**

Statement of Claim

Estimated Stock on date of fire	60,000
(As per last year's prices)	
Add: Increase in purchase price 10%	6,000
Stock at current year price level	66,000
Less: Salvage	2,000
Loss	64,000

Claim = **64,000**

Illustration 27: The warehouse of National Traders caught fire on 13th June, 2015. The salvaged Stock was ₹ 1,00,000. From following information, prepare a statement showing the amount of the claim to be made upon the Insurance company.

1. Opening Stock at Catalogue price on 1.1.2015 ₹ 3,00,000.
2. Purchases at cost from 1.1.2015 to the date of fire ₹ 10,00,000.
3. Wages from 1.1.1996 to the date of fire ₹ 4,00,000.

4. Goods sold to wholesaler at 20% below catalogue price from 1.1.2015 to the date of fire ₹ 3.50,000.
5. Goods sold to retailers at 10% below catalogue price from 1.1.2015 to the date of fire ₹ 2,70,000.
6. Goods sent to consignee at 25% above cost (Out of the consigned goods 60% goods were unsold on the date of fire) ₹ 2,25,000.
7. Goods sent on sale or return basis at 40% above cost (Out of the sale or return 50% goods were accepted by customers upto the date of fire) ₹ 1,40,000.
8. Goods sold to customers at catalogue price, which is 50% above cost ₹ 4,50,000.
9. The stock was fully insured.

(IPCC Modified)

Solution:

National Traders

Cost Structure	Wholesalers	Retailers	Sent to Con.	Sale or Return	Customer
Cost	100	100	100	100	100
(+) Loading	50	50			50
Catalogue Price	150	150	100	100	150
(-) 20%	30 (-) 10%	15 (+) 25%	125 (+) 40%	40	
Selling Price	120	135	125	140	150
Profit	20	35	25	40	50
Margin	20/120	35/135	25/125	40/140	50/150

Memorandum Trading A/c (1.1.15 to 13.6.15)

	₹		₹
To Opening Stock (at cost)	2,00,000	By Sales	
To Purchases	10,00,000	Wholesalers	3,50,000
To Wages	4,00,000	Retailers	2,70,000
To Gross Profit		Sent to Consign	2,25,000
1. Wholesalers 20/120	58,333	On Sale of Return	1,40,000
2. Retailers 35/135	70,000	Customers	4,50,000
3. Sent to consign 25/125	45,000	By Estimated Stock	5,28,333
4. Sale or Return 40/140	40,000		
5. Customers 50/150	1,50,000		
	19,63,333		**19,63,333**

Opening Stock at Cost		**Statement of Claim**	
Cost	At price	Estimated Stock on date of fire	5,28,333
100	150	*Less:* Salvage	1,00,000
(?)	3,00,000	Loss	4,28,333
= 2,00,000		Claim	

Illustration 28: Depression Ltd. suffered loss of stock due to fire on May 31, 2015. From the following information prepare a Statement showing the claim to be lodged:

	₹
Stock on 1st January, 2014	38,400
Purchases during 2014	1,60,000
Sales During 2014	2,02,600
Closing stock on 31st December, 2014	31,800
Purchases from 1st January, 2015 to 31st May 2015	54,000
Sales from 1st January, 2015 to 31st May, 2015	61,400

An item of Stock purchased in 2013 at a cost of ₹ 10,000 was valued at ₹ 6,000 on 31st December, 2013. Half of this stock was sold in 2014 for ₹ 2,600. Remaining Stock was valued at ₹ 2,400 on 31.12.2014. One-fourth of the original stock was sold in March, 2015 for ₹ 1.400. The remaining stock was considered to be worth 60% of the original cost. Salvage was ₹ 12,000. The amount of the policy was ₹ 30,000. There was an average clause in the policy.

(ICWA Modified)

Solution:

Depression Ltd. Trading A/c (2014)

		₹			₹
To Opening Stock	38,400		By Sales	2,02,600	
(-) Abnormal Goods	6,000	32,4000	(-) Abnormal Goods	2,600	2,00,000
To Purchases		1,60,000	By Closing Stock	31,800	
To Gross Profit		37,000	(-) Abnormal Goods	2,400	29,400
		2,29,400			**2,29,400**

$$\text{G.P. Margin} = \frac{\text{G.P.}}{\text{Sales}} \times 100 = \frac{37,000}{2,00,000} \times 100 = 18.5\% \text{ on Sales}$$

Memorandum Trading A/c (1.1.15 to 31.5.15)

	₹			₹
To Opening Stock	29,400	By Sales	61,400	
To Purchases	54,000	(-) Abnormal Goods	1,400	60,000
To Gross Profit (18.5%)	11,100	By Estimated Stock		34,500
	94,500			**94,500**

Statement of Claim

Estimated stock on date of fire	
Add (a) Normal goods	34,500
(b) Abnormal goods	1,500
Total Stock	36,000
Less: Salvage	12,000
Loss	24,000

Abnormal Stock

1	(1.1.14) (cost ₹ 10,000)	10,000
(-)1/2	sold in '14	5,000
1/2	Left on 1.1.15	5,000
(-)1/4	sold in '15	2,500
1/4	Left/destroyed/put the claim	2,500
	Valued at	60%
	AMT:	1,500

Application Average Clause

$$\text{Claim} = \frac{\text{Loss}}{\text{Stock}} \times \text{Policy Amount} \quad = \frac{24,000}{36,000} \times 30,000 = \mathbf{20,000}$$

Valuation of Abnormal Stock

60% of 1/4 × 10,000 = **1,500**

Illustration 29: A fire occurred on April, 15, 2015, and destroyed the business premises of X & Co. The books of accounts and stock amounting to ₹ 1,80,000 were saved and the following information were rendered available from the books.

	Sales	Gross Profits
	₹	₹
Year ending Dec. 31, 2010	86,00,000	21,50,000
Year ending Dec. 31, 2011	71,00,000	21,30,000
Year ending Dec. 31, 2012	60,00,000	20,00,000
Year ending Dec. 31, 2013	55,00,000	18,70,000
Year ending Dec. 31, 2014	48,00,000	16,00,000

The stock on Dec. 31, 2014 was valued of ₹ 9,70,000. The Purchases, sales and production wages from Jan. 1, 2013 to April 14, 2015 were ascertained of ₹ 7,50,000, ₹ 15,90,000 and ₹ 3,00,000 respectively.

(IPCC Modified)

You are to prepare a statement in support of your claim against the Insurance Company together with any comments you may feel necessary to make.

Solution:

'X' & Co. Memorandum Trading A/c (1.1.15 to 15.4.15)

	₹		₹
To Opening Stock	9,70,000	By Sales	15,90,000
To Purchases	7,50,000	By Estimated Stock	9,60,000
To Production Wages	3,00,000		
To Gross Profit (1/3)	5,30,000		
	25,50,000		**25,50,000**

G.P. Margin

2010 $\frac{21,50,000}{86,00,000}\times 100$ 25%

2011 $\frac{21,30,000}{71,00,000}\times 100$ 30%

2012 $\frac{20,00,000}{60,00,000}\times 100$ 33.33%

2013 $\frac{18,70,000}{55,00,000}\times 100$ 34%

2014 $\frac{16,00,000}{48,00,000}\times 100$ 33.33%

G.P. Margin for 2015 is assumed to be the average of last three years.

G.P. i.e. 1/3 = 33.33%

Statement of Claim

Estimated Stock on date of Claim	9,60,000
Less: Salvage	1,80,000
Loss	7,80,000
Claim =	**7,80,000**

Illustration 30: Fire occurred in the premises of Shri Ramesh on 1st April, 2015. All the stock with the exception of ₹ 1,12,000 were destroyed by fire. Shri Ramesh had taken a policy for ₹ 6,84,000 you are required to ascertain the claim. The following particular are available.

	₹
Purchase for the year 2014	37,52,000
Sales for the year 2014	46,40,000
Purchases from 1.1.15 to 1.4.15	7,28,000
Sales from 1.1.15 to 1.4.15	9,60,000
Stock on 1.1.2014	5,76,000
Stock on 31.12.2014	9,68,000
Wages paid during 2014	4,00,000
Wages paid during 1.1.15 to 1.4.15	72,000

Shri Ramesh had in June, 2014 consigned goods worth ₹ 2,00,000 which were lost in an accident. The goods were not insured and the loss was borne by him.

Stock at end of each year for and till the end of calendar year 2013 had been valued of cost less10% from 2014, however, there a change in the valuation and closing stock was ascertained by during 10% to cost.

(ICWA Modified)

Solution:

Shri Ramesh Trading A/c. (2014)

		₹			₹
To Opening Stock	5,76,000		By Sales		46,40,000
(+) Under Value (10/90)	64,000	6,40,000	By Goods sent on Consignment		2,00,000
To Purchases		37,52,000	By Closing Stock	9,68,000	
To Wages		4,00,000	(-) Over Value (10/110)	88,000	8,80,000
To Gross Profit		9,28,000			
		57,20,000			**57,20,000**

$$\text{G.P. Margin} = \frac{\text{G.P.}}{\text{Sales}} \times 100 \quad = \frac{9,28,000}{46,40,000} \times 100 \quad = 20\%$$

Memorandum Trading A/c (1.1.15 to 1.4.15)

	₹		₹
To Opening Stock	8,80,000	By Sales	9,60,000
To Purchases	7,28,000	By Estimated Stock	9,12,000
To Wages	72,000		
To Gross Profit (20%)	1,92,000		
	18,72,000		**18,72,000**

Statement of Claim

Estimated Stock on date of fire	9,12,000
Less: Salvage	1,12,000
Loss	8,00,000

$$\text{Claim} = \frac{\text{Loss}}{\text{Stock}} \times \text{Policy Amount}$$

$$= \frac{8,00,000}{9,12,000} \times 6,84,000 \quad = \mathbf{6,00,000}$$

Illustration 31: On 1st May, 2015 the building of X Ltd., was destroyed by fire but the following particulars were available from the records saved.

1.	Stock at cost on 1st January, 2014	1,10,250
2.	Stock as valued on 31st December, 2014	1,19,400
3.	Purchase for the year ended 31st December, 2014	5,97,000
4.	Sales for the year ended 31st December, 2014	7,30,500
5.	Purchases from 1st January, 2015 to 1st May, 2015	2,43,000
6.	Sales from 1st January, 2015 to 1st May, 2015	3,46,800

In valuing stock for the Balance Sheet at 31st December, 2014 a portion of goods purchased for ₹ 10,350 has been valued below cost by ₹ 3,450 as it was a poor selling line. A portion of these goods was sold in March, 2015 at a loss of ₹ 2,375 on its original cost ₹ 5,175. The remaining stock of these goods was estimated of ₹ 2,800. Subject to this gross profit had remained at a uniform rate. The value of stock salvaged was ₹ 700.

(CS Executive Modified)

Solution:

Trading A/c. for the year ended 31st Dec., 2014

Particulars		Amount	Particulars		Amount
To Opening Stock		1,10,250	By Sales		7,30,500
To purchases	5,97,000		By Closing Stock	1,19,400	
(-) Abnormal Goods Cost	10,350	5,86,650	(-) Abnormal Goods (value)	6,900	1,12,500
To Gross Profit		1,46,100			
		8,43,000			**8,43,000**

$$\text{G.P. Ratio} = \frac{\text{G.P.}}{\text{Sales}} \times 100 \quad = \frac{1,46,100}{7,30,500} \times 100 \quad = 20\%$$

Memorandum Trading A/c. (From 1.1.15 to 1.5.15)

Particulars	Amount	Particulars		Amount
To Opening Stock	1,12,500	By Sales	3,46,800	
To Purchases	2,43,000	(-) Ab. Goods Sold	2,800	3,44,000
To G.P. (20%)	68,800	By Closing Stock (Bal. fig.)		80,300
	4,24,300			**4,24,300**

Statement of Claim

Value of Goods on date of fire (Normal)	80,300
(Abnormal)	2,800
Total	83,100
(-) Salvage	700
Loss of Stock/Amount of Claim	**82,400**

Illustration 32: Mr. Ashok sells goods at a profit of 20% on sales. On 9.9.2015, a fire destroyed the entire stock. Sales and purchases to the date of fire were ₹ 58,100 and ₹ 48,000 respectively, unsold stock as on 31.12.2014 being ₹ 16,000.

During 2015, Purchase price had declined by 25% ; 15% of the amount of benefit being passed on to the customers by revising downwards the sale price.

Accordingly, with effect from 1.1.2015, all sales during 2015 were effected at the revised prices only. Including sales in respect of stock of goods as on 31.12.2014, such sales being ₹ 9,700. Ascertain the Loss of Stock.

(IPCC Modified)

Solution:

Memorandum Trading A/c (From 1.1.15 to 9.9.15)

		₹			₹
To Opening Stock		16,000	By Sales	58,100	
To Purchase	48,000		(+) Reduction in Price (3/97)	1,797	59,897
(+) Reduction in Price (1/13)	16,000	64,000	By Closing Stock (bal.fig.)		32,082
To Gross Profit (20% of 59,897)		11,979			
		91,979			**91,979**

W. Note:

1. G.P. Margin

	Old	New	
SP	100	97	(100 – 3) (15% of 20 = 3)
(-) G.P.	20	37	
∴ Cost	80	60	(80 – 25% of 80) (80 – 20)

2. Break up of closing stock into old stock & New stock

(i) 32,082 closing stock at old prices

8,000	24,082
Old	new

(ii) Old Stock sold at 9,700/-

∴ Sales at Original Price	=	10,000/- (100/97 × 9,700)
∴ Cost of that goods	=	8,000

(iii)

Total Opening Stock	=	16,000
(-) Sold	=	8,000
∴ Left	=	8,000

Statement of Claim

Closing Stock on the date of firm	₹
(a) Old stock (at cost)	8,000
(b) New Stock (24,082 – 25% less)	18,062
Total Stock (at cost)	26,062
(-) Salvaged	Nil
∴ Loss of Stock	26,062

Illustration 33: The premises of KIM Enterprises Ltd. were engulfed by fire on 31st August, 2015. In this fire major portion of stock was destroyed. The company has an insurance policy for ₹ 60,000 with average clause. From the following details, ascertain amount of claim.

(i) During year ended 31.3.2015, Sales were ₹ 5,00,000 and Purchases were ₹ 4,24,000.

(ii) For period 1.4.2015 to 31.8.2015, same were ₹ 4,00,000 and ₹ 3,00,000.

(iii) Stock on 1.4.2014 was ₹ 90,000 and 1.4.2014 it was valued ₹ 1,32,000.

(iv) The stock was valued @ 90% of cost upto 31.3.2015 it was valued @ 110% of cost.

(v) The accounts for 2014-15 had an error Purchase of Equipment costing ₹ 4,000 was included in Purchases.

(vi) The sales since April, 2015 does not include goods costing ₹ 40,000 despatched to customers at normal profit margins. Till date of fire 50% of these are approved.

(ICWA Modified)

Solution:

KIM Enterprise Ltd. (Trading A/c of 2014/15)

		₹			₹
To Opening Stock	90,000		By Sales		5,00,000
(+) Undervalue (1/9)	10,000	1,00,000	By Closing Stock	1,32,000	
To Purchase	4,24,000		(-) Over Value	12,000	1,20,000
(-) Equity Purch.	4,000	4,20,000			
To Gross Profit (20%)		1,00,000			
		6,20,000			**6,20,000**

Memorandum Trading A/c (From 1.4.15 to 31.8.15)

	₹		₹
To Opening Stock	1, 20,000	By Sales	4,00,000
To Purchases	3,00,000	By Goods Sent on	
		approval (at cost)	40,000
To Gross Profit (20%)	80,000	By Closing Stock (bal.fig.)	60,000
	5,00,000		**5,00,000**

Statement of Claim	**₹**
Estimated Value Closing Stock	60,000
On the date of fire (-) Salvaged	Nil
Loss of Stock	60,000

Applying Avg. Clause

$$\text{Amount of Claim} = \frac{\text{Amount of Policy}}{\text{Actual Stock}} \times \text{Lock of Stock} \qquad = \frac{60,000}{60,000} \times 60,000$$

= 60,000

Illustration 34: M/s. Bharat Glass Works Limited suffered loss of stock due to fire on 31st March, 2015.

From the following particulars, calculate the amount of claim to be lodged by the company with the Insurance company:

1. Stock on 1.1.2014 ₹ 20,000 including abnormal Goods Costing ₹ 10,000 valued at ₹ 3,000.
2. Purchases during the year 2014 amounted to ₹ 1,00,000 including purchases of abnormal item of ₹ 15,000/-.
3. Wages paid during the year 2014 ₹ 20,000, including installation charges of machinery ₹ 5,000/-.
4. Wages outstanding for the year 2014 ₹ 2,500.
5. Factory expenses for the year 2014 ₹ 3,000.
6. Sales during the year 2014 was ₹ 1,10,000, including sale of 1/5th of the total cost of abnormal items at 50% loss.
7. Stock as on 31st December, 2014 was ₹ 45,000, including abnormal items valued at cost.
8. Purchases upto the date of fire ₹ 50,000, including the purchases of furniture ₹ 5,000.
9. Actual wages paid upto date of fire ₹ 7,000.
10. Sales upto the date of fire ₹ 60,200 including sale of 50% of the remaining abnormal items at a profit of ₹ 500.
11. There was salvage ₹ 17,000.

It is the practice of the firm to insure the Goods at 20% less cost. Abnormal Goods are valued at 60% less cost. The policy is taken at the commencement of every year.

Apply average clause to ascertain the insurance claim.

(IPCC Modified)

Solution:

(A) Amount Rcvd. From Customers For Sales:

	Total amount deposited into bank		1,06,300
Less:	I. Interest on 10,000, 6% Deb. For 6 months	300	
	II. Sale proceeds of deb.	10,000	10,300
		96,000	
Add:	Amount used by the -		
	Proprietor before depositing it into the bank		
		99,000	

(B)	**Sales:**		
	Debtors at the end		11,000
	Add: Cash recd. From Drs.		99,000
		1,10,000	
	Less: Debtors at the beginning		20,500
		89,500	
Add:	Goods given to Darpan		500
	Sales up to the date of fire		90,000
(C)	**Cash Paid to CRS.:**		
	Total Amount withdrawn from Bank		1,30,000
	Less: Paid for plant	35,000	
	Paid for installation	1,000	
	Paid for business expenses	4,000	40,000
	Amount paid to Creditors		90,000
(D)	**Purchases:**		
	Creditors at the end		30,000
	Add: Amount paid to Creditor		90,000
		1,20,000	
	Less: Creditors at the beginning		35,000
	Purchases up to the date of fire		85,000

(E) Calculation of Stock at the End:

Proforma Trading Account for the Period Ending 15th August, 2014.

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	90,000
To Purchases	85,000	By Goods withdrawn by proprietor	5,000
To Gross Profit (90,000 × 33.33%)	30,000	By Stock (bal. fig.)	60,000
	1,55,000		**1,55,000**

(F) Claim on an Average Basis:

$$\frac{\text{Policy Amount}}{\text{Stock on the Date of Fire}} \times \text{Actual Loss}$$

$$= \frac{50,000}{60,000} \times 45,000 \ (60,000 - \text{Salvage ₹} 15,000) = \mathbf{37,500}$$

M/s. Bharat Glass Work Trading (2015)

Particulars		₹	Particulars		₹
To Op. Stock	20,000		By Sales	1,10,000	
(-) Ab. goods	3,000	17,000	(-) Ab. goods	2,500	1,07,500
To Purchase	1,00,000		By Closing Stock	45,000	
(-) Ab. goods	15,000	85,000	(-) Ab. goods	20,000	25,000
To Wages	20,000				
(-) Installation charges	5,000				
	15,000				
(+) O/S	2,500	17,500			
To Factory Expenses		3,000			
To Gross Profit		10,000			
		1,32,500			**1,32,500**

$$\text{G.P. Margin} = \frac{\text{G.P.}}{\text{Sales}} \times 100$$

$$= \frac{10,000}{1,07,500} \times 100 \quad = 9.30\%$$

Memorandum Trading A/c (1.1.15 to 31.3.15)

Particulars		₹	Particulars		₹
To Op. Stock		25,000	By Sales	60,200	
To Purchase	50,000		(-) Ab. goods	10,500	49,700
(-) Furniture	5,000	45,000	By Closing Stock		29,422
To Wages	7,000				
(-) O/S L.Y.	2,500	4,500			
To Gross Profit		4,622			
		79,122			**79,122**

Statement of Claim

Est. stock on date of fire	29,422
Add: Ab. Goods (40% of 10,000)	4,000
Total Stock	33,422
Less: Salvage	17,000
Loss	16,422

Average Clause	
Policy Amount	
Total Opening Stock (1.1.15)	45,000
(-) 20%	9,000
	36,000

Since Stock < Policy Amount

Average Clause is not Applicable

Amount of Claim = Amount of Loss = 16,422/-

Abnormal Stock (At cost)

Opening	10,000
(+) New	15,000
	25,000

1/5	4/5
(Sold in 1995)	(Left incl. stock)
5,000	20,000
@ 50% cost	AT cost
= 2,500	Less from ct. st. on
Less from 2012 sales	31.12.14

In 2013 (Ab. Stock)

20,000

50%	50%
= 10,000	= 10,000
Sold	Left in godown
@ 10,500	volume
(Less from Sales)	60% Less
	∴ 40% of 10,000
	= **4,000**

Illustration 35: The premised of EMARBEE LIMITED were engulfed by fire on 16th November, 2015 whereby substantial stock was severely destroyed. The records available with the company yields the following information:

(a) For year ended 31^{st} March, 2015:

	₹		₹
To Opening Stock	1,50,000	By Sales	30,00,000
To Purchases	12,30,000	By Stocks	1,80,000
To Freight & Direct Expenses	3,00,000	To Wages	6,00,000
To Gross Profit	9,00,000		
	31,80,000		**31,80,000**

(b) For half year ended 30^{th} September, 2015

Sales ₹ 18,00,000

Purchases ₹ 8,40,000

(c) For period from 1^{st} October to date of fire sales and purchases were at same, monthly rate as for period 1^{st} April, 2015 to 30^{th} September, 2015.

(d) The freight, Wages and direct Expenses during period 1^{st} April, 2015 to date of fire were at the same rate per months as in last year.

(e) Salvage value is 10% of Cost of Stocks.

(f) The sum insured is ₹ 2,00,000 and policy contains Average Clause.

(IPCC Modified)

Solution:

Working Note No. 1.

EMARBEE Limited

G.P. Margin for year ended 31.3.15

$$\frac{\text{G.P.}}{\text{Sales}} \times 100 = \frac{9,00,000}{30,00,000} \times 100$$

= 30% on Sales

Working Note No. 2

Calculation of purchases from 1.10.15 to 16.11.15

Months	**Purchases**
1.4.15 to 30.9.15 (6 months)	8,40,000
1.10.15 to 16.11.15 (1.5 months)	?
$\frac{8,40,000}{6} \times 1.5$	= 2,10,000

Working Note No. 3

Calculation of sales from 1.10.15 to 16.11.15

Months	**Sales**
1.4.15 to 30.9.15 (6 months)	18,00,000
1.10.15 to 16.11.15 (1.5 months)	?
$\frac{18,00,000}{6} \times 1.5$	= 4,50,00

Working Note No. 4

Calculation of freight & Direct expenses & wages

Months	**Expenses**		
Freight 1.4.14 to 31.3.15 (12 months)	3,00,000		
(7.5 months)	?	=	1,87,500
Wages 1.4.97 to 31.3.15 (12 months)	6,00,000		
(7.5 months)	?	=	3,75,000

Memorandum Trading A/c (1.4.15 to 16.11.15)

		Amount			Amount
To Opening Stock		1,80,000	By Sales	18,00,000	
To Purchase	8,40,000		(+) from 1.10.97 to 16.11.97	4,50,000	22,50,000
(+) from 1.10.97 to 16.11.97	2,10,000	10,50,000	By Estimated Stock		2,17,500
To freight & direct exp.		1,87,500			
To Wages		3,75,000			
To Gross Profit (30% of 22,50,000)		6,75,000			
		24,67,500			**24,67,500**

Statement of Claim

Estimated of Stock on date of fire	2,17,500
Less: Salvage (10%)	21,750
Loss of Stock	1,95,750

Average Clause

Stock	2,17,500

Poling Amount/Average Clause is Applicable

$$\text{Claim} = \frac{\text{Amount of Policy}}{\text{Actual Stock}} \times \text{Loss of Stock}$$

$$= \frac{2,00,000}{2,17,500} \times 1,95,750 = \mathbf{1,80,000}$$

SAQ 9. Hari was a paper merchant and his shop was destroyed by fire on 30th April, 2015. He insured the stock for ₹ 20,000. The balance sheet as on 31st December, 2015 disclosed inter alia following items:

Stock ₹ 22,500 and Creditors ₹ 13,500

On examination of books of accounts up to the date of fire, the following particulars were found:

(1) Payments to Creditors ₹ 79,000

(2) Sales ₹ 98,400

(3) Creditors as on 30th April, 2014 ₹ 11,800

The stock on 31st Dec., 2014 included shop-soiled items amounting to ₹ 6,800. These goods were sold at a loss of ₹ 400 in Feb., 2015. Undamaged goods after the fire were ₹ 12,000.

The normal rate of gross profit was 33-1/3% on cost and there was average clause in the policy.

Calculate the amount of claim to be made to the insurance company.

[Ans.: G.P. Ratio = $\frac{1}{3}$ – 33%, SOFD = 19,600, Claim = 7,755]

SAQ 10. On 30-9-2015, the stock of Fred Perry was lost in a fire accident. From the available records the following information is made available to you to enable you to prepare a statement of claim on the insurer:

Particulars	**₹**
Stock at cost on 1-4-2014	37,500
Stock at cost on 31-3-2015	52,000
Purchases less returns for the year ended 31-3-2015	2,53,750
Sales less returns for the year ended 31-3-2015	3,15,000
Purchases less returns upto 30-9-2015	1,45,000
Sales less returns upto 30-9-2015	1,84,050

In valuing the stock on 31-3-2015, due to obsolescence 50% of the value of the Stock, which originally cost ₹ 6,000, had been written off. In May 2015, three-fourth of this Stock had been sold at 90% of original cost and it is now expected that the balance of the obsolete stock would also realise the same price. Subject to the above, Gross Profit had remained uniform throughout.

Stock to the value of ₹ 7,200 was salvaged.

SAQ 11. A fire occurred in the godown of a firm on 31st January, 2015. The stock on 1st January, 2015 was valued at ₹ 67,460. The transactions and other information of the period between 1st January to 31st January were as follows from which you are required to ascertain the value of goods destroyed.

(1) Purchases from 1-1-2015 to 31-1-2015 amounted to ₹ 48,200 of which goods worth ₹ 1,900 were received on 2-2-2015.

(2) Sales from 1-1-2015 to 31-1-2015 amounted to ₹ 56,800 of which sales on the basis of sale or return amounted to ₹ 3,600. No intimation has been received from the customers about half the goods sold on sale or return.

(3) Some of the goods costing ₹ 2,800 were defective and were sold for ₹ 1,200. The same was included in the stock at cost on 1st January.

(4) On 31st January, 2015, goods worth ₹ 3,200 were lying unsold with the consignee, sent to the them on 25-1-2015.

(5) Information regarding cost of goods sold & gross profit of the last three years was as follows:

YEARS	Cost of Goods Sold (₹)	Gross Profit (₹)
2012	80,000	20,000
2013	1,23,000	27,000
2014	1,40,000	39,600

SAQ 12. On 1st April, 2015 the godown of Stone Ltd. was destroyed by fire. The records of the company revealed the following particulars.

Particulars	₹
Stock on 1st January, 2014	75,000
Stock on 31st December, 2014	80,000
Purchases during 2014	3,10,000
Sales during 2014	4,00,000
Purchases from 1st January, 2015 to the date of the fire	75,000
Sales from 1st January, 2015 to the date of the fire	1,00,000

In valuing closing stock of 2014 ₹ 5,000 were written off whose cost was ₹ 4,800. Part of this stock was sold in 2015 at a loss of ₹ 400 for ₹ 2,400. Stock salvaged was ₹ 5,000. The godown was fully insured.

Indicate the amount of claim to be lodged with the Insurance company.

SAQ 13. On 31st May, 2015, the Premises and Stock of a firm were totally destroyed by fire, the books of account, however, being saved. In order to make a Claim on their Fire Policy they ask your advice and you are able to obtain the following information. The Stock on hand has always been valued at 5% below cost:

Details	2012 ₹	2013 ₹	2014 ₹	2015 ₹
Opening Stock as valued	22,800	30,400	36,100	39,900
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.

SAQ 14. The premises of KIM Enterprise Ltd. were engulfed by fire on 31st August, 2015. In this fire major portion of stock was destroyed. The Company has an insurance policy for ₹ 60,000 with average clause. From the following details, ascertain amount of claim.

(1) During the year ended 31-3-2015, Sales were ₹ 5,00,000 and Purchases were ₹ 4,24,000.

(2) For period 1-4-2015 to 31-8-2015, same were ₹ 4,00,000 and ₹ 3,00,000.

(3) Stock on 1-4-2014 was ₹ 90,000 and 1-4-2015 it was valued ₹ 1,32,000.

(4) The stock was valued @ 90% of cost up to 31-3-2014, but on 31-3-2015 it was valued @110% of cost.

(5) The account for 2014-2015 had an error Purchase of Equipment costing ₹ 4,000 was included in Purchases.

(6) The sales since April, 2015 does not include goods costing ₹ 40,000 dispatched to customers at normal profit margins. Till date of fire 50% of these are approved.

SAQ 15. A fire on October 1, 2015 destroyed the stocks of a firm. The business records were saved and from them the following particulars were ascertained.

Particulars	₹
Stock at cost on April 30, 2014	44,300
Stock at cost on April 30, 2015	37,550
Purchases for the year to April 30, 2015	1,03,850
Sales for the year to April 30, 2015	1,52,500
Purchase form May 1, 2015 to September 30, 2015	37,350
Sales from May 1, 2015 to September 30, 2015	59,000

In valuing the stock on April 30, 2015 ₹ 800 had been written off a particular line of goods which had originally cost ₹ 1,800 and which were sold in June 2015 for ₹ 1,750. Except as regards this transaction the ratio of gross profit had remained unchanged throughout.

The value of stock salvaged from the fire was ₹ 5,105. You are required to calculate the amount of the claim to be presented to the insurance company in respect of the loss of stock.

SAQ 16. Mr. Rao Bahadur suffered loss of stock due to fire on August 20, 2015. From the following particulars, calculate claim to be made by the trader.

Particulars	**₹**
Stock on 31st December 2013	1,00,000
(Including stock purchased during the year at ₹ 8,000 valued at ₹ 4,000 because of poor selling price)	
Wages paid 2014	30,000
(Including wages paid for the construction of a showroom for which workers of the factory worked ₹ 2,000. Manufacturing wages ₹ 1,500 were outstanding)	
Freight inward: 2014	5,000
Purchases: 2014	1,20,000
(Including purchases of furniture of ₹ 1,500 wrongly passed through Invoice book)	
Sales: 2014	2,46,000
(Including sale of 1/4th of the stock at ₹ 1,000 which has a poor selling line and which was valued at ₹ 4,000 on 31.12.2013)	
Stock on December 31, 2014:	42,000
(Including remaining stock which had a poor selling line at the same value)	
Purchases upto August 20, 2015	1,42,800
Sales upto August 20, 2015	1,42,900
(Including sale of the 1/3 of the remaining stock which had a poor selling line at ₹ 800)	

The remaining stock, which had a poor selling line, was considered at 80% of the original cost for the purpose of insurance claim. The salvage was ₹ 47,400. The firm had taken a policy of ₹ 40,000. There was an average clause in the policy.

EXERCISE

Self Assessment Questions

Objective Questions

1. Fire insurance
   (a) Covers risk of loss (b) Prevents loss
   (c) Increases loss
2. In fire insurance compensation is
   (a) Equal to policy amount (b) Stock on the date of fire
   (c) Actual loss incurred
3. Salvage refers to
   (a) Stock destroyed by fire (b) Stock saved from fire
   (c) Stock moving fast
4. Purchase of furniture should be
   (a) Added to purchases (b) Deducted from purchases
   (c) Ignored
5. % of gross profit should be
   (a) Fluctuating (b) Consistent
   (c) Increasing
6. Stock for the purpose of claim should be
   (a) At marginal price (b) At market value
   (c) At cost
7. Purchase of furniture included in purchases should be
   (a) Added to purchases (b) Deducted from purchases
   (c) Ignored
8. Unrecorded sales should be
   (a) Added to purchases (b) Added to sales
   (c) Ignored
9. Credit purchases should be ascertained from
   (a) Total Creditors Account (b) Total Debtors Account
   (c) Cash Account

10. Debtors Account is prepared to find out
    (a) Credit sales (b) Cash purchases
    (c) Cash sales
11. Abnormal items included in closing stock should be
    (a) Deducted from closing stock (b) Deducted from purchases
    (c) Added to sales
12. Salvage is
    (a) Added to stock on the data of fire (b) Deducted from stock on the date of fire
    (c) Ignored for deciding claim
13. As per average clause insurance company pays compensation
    (a) Proportionately (b) More than the loss
    (c) Less than the loss
14. Goods sent on consignment are
    (a) Debited to Memorandum Trading Account
    (b) Credited to Memorandum Trading Account
    (c) Ignored
15. Goods sent on approval is
    (a) Debited to Memorandum Trading Account
    (b) Credited to Memorandum Trading Account
    (c) Deducted from sales
16. Carriage on purchases should be
    (a) Debited to Memorandum Trading Account
    (b) Credited to Memorandum Trading Account
    (c) Deducted from sales
17. Unrecorded purchases should be
    (a) Added to sales (b) Added to purchases
    (c) Ignored
18. Misappropriated cash sales should be
    (a) Added to Sales Account (b) Added to Purchases
    (c) Added

19. The main objective of the average clause is to

    (a) Encourage full insurance (b) Encourage under insurance

    (b) Discourage full insurance (d) None of these

20. In case of average clause the loss is suffered by both the insurer and the insured

    (a) In the ratio of risk covered, (b) In equal ratio

    (b) Only by insurer (d) None of these

21. A plant worth ₹ 40,000 has been insured for ₹ 30,000, the loss on account of fire is ₹ 25,000. The insurance company will bear loss of extent of

    (a) ₹ 30,000 (b) ₹ 25,000

    (c) ₹ 18,750 (d) ₹ 28,000

22. In case the net profit is ₹ 10,000 insured standing charges ₹ 5,000 and the sales ₹ 1,00,000 the rate of gross profit will be

    (a) 10% (b) 15%

    (c) 5% (d) 20%

23. A property worth ₹ 20,000 is insured for ₹ 15,000. It is completely destroyed by the fire. The policy contains an average clause. The loss to be born by the insurance company will be

    (a) ₹ 15,000 (b) ₹ 10,000

    (c) ₹ 20,000 (d) ₹ 25,000

24. Find gross profit when GP ratio is 25% on sales and cost of goods sold is ₹ 1,00,000

    (a) ₹ 25,000 (b) ₹ 33,333

    (c) ₹ 20,000 (d) None of these

25. If the rate of gross profit for department A is 25% of cost, the amount is gross profit on a turn over of ₹ 1,00,000 will be

    (a) ₹ 25,000 (b) ₹ 20,000

    (c) ₹ 33,333 (d) ₹ 49,000

26. A building worth ₹ 10,00,000 is insured for ₹ 6,00,000. It is completely destroyed by fire. The loss to be admitted will be

    (a) ₹ 10 Lakhs (b) ₹ 6 Lakhs

    (c) ₹ 5 Lakhs (d) None of these

27. The loss of profit policy covers loss of profit due to
    (a) Loss of Sales
    (b) Non-recovery of standing charges
    (c) Loss of sales as well as loss of insured standing charges
    (d) None of these
28. The object of inserting average clause in loss of stock policy is to
    (a) Encourage under insurance (b) Discourage under insurance
    (b) Discourage full insurance (d) None of these
29. Loss of profit insurance is otherwise known as
    (a) Consequential loss policy (b) Average policy
    (b) Both (d) None of these
30. Any savings in expenses is to be deducted for determining the
    (a) First claim (b) Final claim
    (c) Both (a) and (b) (d) None of these
31. The value of closing stock on the date of fire stock can be ascertained by preparing a
    (a) Trading A/c (b) Memorandum trading a/c
    (c) Memorandum P & L A/c (d) None of these
32. _________ claim is lodged with the insurance company for the loss of stock and other assets by fire
    (a) Life insurance (b) Fire insurance
    (c) Medical insurance (d) None of the above
33. To lodge claim for the loss of stock by fire, the value of _______ on the date of fire has to be estimated.
    (a) Opening stock in trade (b) Closing stock in trade
    (c) Sales (d) Claim
34. ________ can be calculated or a reasonably increasing rate of gross profit as compared to the previous year can be applied to the current year.
    (a) Value of stock (b) Average
    (c) Weighted average (d) None of these

35. A fire insurance policy usually includes an _________ to discourage the under insurance of stock or any asset

    (a) Average clause (b) Weighted clause

    (c) Closing stock (d) None of these

36. If the rate of gross profit is 25% on cost it will be equal to

    (a) 20% on sales (b) 20% on cost

    (c) 1/3 on sales (d) 1/5 on cost

37. Fire insurance provides cover for

    (a) Tangible assets (b) Intangible assets

    (c) Fictitious assets (d) None of these

38. Opening stock ₹ 13,500 Purchases ₹ 82,500 Sales ₹ 1,20,000 Stock salvaged ₹ 1,260 Rate of Gross Profit ₹ 50% on cost. Find the claim amount.

    (a) ₹ 14,740 (b) ₹ 24,740

    (c) ₹ 36,000 (d) None of these

39. The average clause in a loss of profit protects the

    (a) Insurer (b) Insured

    (c) Workers (d) None of these

40. Fire insurance policy is taken up to indemnify

    (a) Capital losses to tangible property

    (b) Revenue losses to tangible property

    (b) Capital losses to intangible property

    (d) None of these

41. Claim to be lodged with insurance company is the excess of

    (a) Closing stock + salvaged good

    (b) Closing stock on the date of fire-salvaged goods

    (c) Policy amount – Salvaged goods

    (d) None of these

42. Goods recovered in good condition at the time of fire accident is called

    (a) Salvaged goods (b) Saved goods

    (c) Damaged goods (d) None of these

[***Ans.:*** (1 – a), (2 – c), (3 – b), (4 – b), (5 – b), (6 – c), (7 – b), (8 – b), (9 – a), (10 – a), (11 – a), (12 – b), (13 – a), (14 – b), (15 – b), (16 – a), (17 – b), (18 – a), (19 – a), (20 – a), (21 – c), (22 – b), (23 – a), (24 – b), (25 – b), (26 – b), (27 – c), (28 – b), (29 – a), (30 – b), (31 – b), (32 – b), (33 – b), (34 – c), (35 – a), (36 – a), (37 – a), (38 – a), (39 – a), (40 – a), (41 – b), (42 – a).]

State with Reasons Whether the Following Statements Are True or False

1. Insurance avoids loss due to fire.
2. It is not compulsory to insure the stock.
3. Rate of gross profit need not be consistent for deciding the stock on the date of fire.
4. Valuation of stock is done at market value only.
5. Purchase of machinery should be debited to Trading Account.
6. Goods distributed as free sample should be credited to Trading Account.
7. Sale of asset should be debited to Trading Account.
8. Insured gets compensation equal to the amount of policy.
9. Average clause has no effect on calculation of claim.
10. Memorandum Trading Account is prepared to find out credit sales.
11. Salvage value is added to stock on the date of fire to get claim.
12. Carriage on purchase of machinery should be added to purchases to get the stock on the date of fire.
13. Abnormal goods are fast moving goods.
14. Goods sent on consignment should be credited to Trading Account for deciding stock on the date of fire.
15. In case of overvaluation of stock, it should be brought down to cost.
16. Purchases are ascertained from Debtors Account.
17. Sales are ascertained from Creditors Account.
18. Cash sales are ascertained from Cash Journal.
19. The loss of profit policy covers loss of profit policy covers loss of profits due to loss of sales as well as loss of standing charges due to their non-recovery.
20. The insertion of the Average Clause in an insurance policy results in bearing a part of the loss by the insured himself.
21. It is not necessary to make any adjustment in the standard sales of the preceding period in the light of any change in future prospects.
22. The term 'gross profit' in case of a loss of profit policy is different from the term 'gross profit' as used in case of a loss of stock policy.
23. Any saving in expenses is to be deducted for determining the final claim.

[***Ans.:*** **True:** 6, 14, 15, 18, 19, 20, 22, 23;

False: 1, 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 16, 17, 21.]

Match the Following Columns

	Group 'A'		Group 'B'
(a)	Credit Sales	(i)	Slow moving goods
(b)	Credit purchases	(ii)	Ascertained from Creditors A/c
(c)	Abnormal goods	(iii)	Ascertained from Debtors A/c
(d)	Loss of stock	(iv)	Stock on the date of fire salvage
(e)	Average change	(v)	Discourage under insurance
(f)	Mark up	(vi)	Based on cost
		(vii)	Based on selling price

[***Ans.:*** (a) – (ii), (b) – (ii), (c) – (i), (d) – (iv), (e) – (v), (f) – (vi)]

Theory Questions

1. State the different parties for an Insurance Policy.
2. Who is an Insurer?
3. Who is an Insured?
4. Show the format of Memorandum Trading account.
5. How do you calculate Gross Profit Ratio?
6. State the format for ascertaining Actual Amount of Loss of Stock.
7. What is Average Clause? When is it applicable?
8. How can claim for loss of stock be calculated when average clause is applicable?
9. What is salvage?
10. List the steps in calculating the claim for loss of stock.
11. What are 'abnormal goods' in the context of fire insurance claim?
12. Amount of Insurance Policy is ₹ 50,000. Stock in hand on the date of fire is ₹ 70,000. Of this, the stock destroyed is estimated to be ₹ 35,000. Calculate the claim admitted by the Insurance Company in case of Average Clause. **(Bangalore University, B.Com. April 1995)**

(**Ans:** ₹ 25,000)