

CHAPTER - 1

(INSURANCE CLAIMS)

FORMAT FOR INSURANCE CLAIMS

- STEP 1:** PREPARATION OF TRADING ACCOUNT.
STEP 2: ASCERTAINMENT OF RATE OF GROSS PROFIT.
STEP 3: PREPARATION OF MEMORANDUM TRADING ACCOUNT.
STEP 4: ASCERTAINMENT OF “ACTUAL AMOUNT OF LOSS”.
STEP 5: ASCERTAINMENT OF “CLAIM AMOUNT”.

STEP 1: PREPARATION OF TRADING ACCOUNT FOR THE YEAR ENDING...			
Dr.			Cr.
PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Opening stock	XX		
To purchase	XX	By sales	XX
LESS: Purchase returns		LESS: Sales return	
To carriage inwards	XX	By closing stock	XX
To Wages	XX	ADD: stock written off	
To manufacturing expense (factory expenses)	XX		
To custom duties or (clearance charges)	XX		
To coal, gas, water, power, fuel	XX		
To Wages and salaries	XX		
To Commission	XX		
To gross profit (b/f)	XX		
TOTAL	XX	TOTAL	XX

STEP 2: ASCERTAINMENT OF RATE OF GROSS PROFIT

$$\text{RATE OF GROSS PROFIT} = \frac{\text{GROSS PROFIT}}{\text{NET SALES}} \times 100$$

STEP 3: PREPARATION OF MEMORANDUM TRADING ACCOUNT FROM THE BEING OF THE YEAR TILL THE FIRE ACCIDENT			
DR.		CR.	
PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Opening stock	XX		
To purchase LESS: Purchase returns / Drawings / Advertisement/unrecorded purchase	XX	By sales LESS: Sales return / unrecorded sales / sale not dispatched/	XX
To carriage inwards	XX	By closing stock	XX
To Wages	XX		
To manufacturing expense (factory expenses)	XX	By gross loss	
To custom duties or (clearance charges)	XX		
To coal, gas, water, power, fuel	XX		
To Wages and salaries	XX		
To Commission	XX		
To gross profit (b/f)	XX		
TOTAL	XX	TOTAL	XX

STEP 4: ASCERTAINMENT OF “ACTUAL AMOUNT OF LOSS”	
PARTICULARS	AMOUNT
Stock on the date of fire / closing stock	XX
LESS: Goods saved / salvaged goods / salvage value / scrap	XX
TOTAL	XXX
ADD: Expenses incurred for extinguishing fire, if any	XXX
ACTUAL AMOUNT OF LOSS	XXX

STEP 5: ASCERTAINMENT OF “CLAIM AMOUNT”			
Amount of claim	=	Policy amount	X $\frac{\text{Actual loss of stock}}{\text{Stock on the date of fire / closing stock}}$

THEORY QUESTIONS

1. What is Insurance?

It is an agreement between Insured and Insurer to compensate the losses suffered due to uncertainties in future, for a consideration called premium.

2. What is meant by Fire Claims?

It is a kind of General insurance where an agreement is made between the industry (i.e., insured) and General Insurance Company (i.e., insurer) to indemnify the compensation for the loss of stock or profit due to fire accident, for a consideration called premium.

3. Who is an Insured?

Insured is a person/industry/asset, to whom/which the insurance is made. The compensation shall be received on happening of certain event determined i.e., death of a person or destroy of asset or properties.

4. Who is Insurer?

Insurer is an insurance company which pays the losses suffered by the insured on happening of certain event estimated in advance i.e., death of a person or destroy of asset or properties.

5. What is Trading Account?

Trading Account is a ledger prepared to find out the Gross Profit of an accounting year. It includes the trading activities done by an industry during a financial year.

6. When do we have to prepare the previous year's 'trading account under insurance?'

The previous year's trading account is prepared to find out the last year gross profit to help the calculation of Gross Profit during the year in which fire accident occurred, to find out the stock on the date of fire accident.

7. What is Gross Profit Ratio?

Gross Profit Ratio is a ratio which shows the relationship between the Gross Profit and Net Sales.

$$\text{Net Sales} = \text{Total Sales} - \text{Return inwards.}$$

8. How do you calculate Gross Profit Ratio?

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

9. What is Memorandum Trading Account?

The Memorandum Trading Account is similar to usual trading account. It is prepared from the begin date of accounting year and till the date of fire accident. It is not prepared as per double entry system of booking.

10. What is meant by Salvage?

The value of stock saved from the fire accident is called salvaged stock. Sometimes it is also referred as scrap value or realizable value of stock. The saved stock should be deducted from the stock of the date of fire.