KEY TO UNSOLVED QUESTIONS IN ACCOUNTS BOOK GROUP-1

INSURANCE CLAIMS FOR LOSS OF STOCK AND LOSS OF PROFIT

Solution to illustration 1

Memorandum Trading Account

for period from 01.10.2019 to 31.12.2019

	₹	₹		₹
To Opening stock		33,000	By Sales	1,40,000
(₹ 29,700 x 100/90)			By Closing stock (bal. fig.)	30,500
To Purchases	75,000			
Less: Cost of plant	(5,000)	70,000		
To Wages	33,000			
Less: Wages paid for plant	(500)	32,500		
To Gross profit		35,000		
(33.33% on cost or 25% on sales)				
		1,70,500		1,70,500

Computation of claim for loss of stock:	₹
Stock on the date of fire i.e. 31.12.2019 (Refer working note)	30,500
Less: Salvaged stock	(3,000)
Loss of stock	27,500

Amount of claim = Insured Value / Cost of Stock X Loss of Stock = 25,000/30,500 X27,500 = 22,541

Solution to illustration 2

Memorandum Trading A/c

(01.04.2019 to 20.10.2019)

Particulars	**(₹)**	**Particulars**	**(₹)**
To Opening stock (Refer W.N.)	2,40,000	By Sales (₹ 6,20,000 – ₹ 80,000)	5,40,000
To Purchases (₹ 2,80,000 + ₹ 40,000)	3,20,000	By Closing stock (bal. fig.)	1,55,000
To Gross profit (₹ 5,40,000 x 25%*)	1,35,000		
	6,95,000		6,95,000
* It is assumed that gross profit is provided as a percentage of sales			

Working Note:

Stock as on 1st April, 2019 was valued at 10% lower than cost.

Hence, original cost of the stock as on 1st April, 2019 would be

$$= \frac{2,16,000}{90} \times 100 = ₹\ 2,40,000$$

Stock on the date of fire (i.e. on 20.10.2019)	1,55,000
Less: Stock salvaged	(31,000)
Stock destroyed by fire	1,24,000

Insurance claim = Amount of policy / Value of stock on the date of fire x Loss of stock

=1,00,000/1,55,000 × 1,24,000 = ₹ 80,000

Solution to illustration 3

Memorandum Trading Account

for the period ending on 12.06.2019

Particulars	**Normal** ₹	**Particulars**	**Normal** ₹
To Opening stock	83,500	By Sales	1,54,000
To Purchases	1,12,000	By Closing stock (bal. fig.)	87,700
To Gross profit (30% on sales)	46,200		
	2,41,700		2,41,700

Computation for Loss of Stock

Closing stock	87,700
Less : Stock Salvaged	(11,200)
Less: Agreed value of damaged Stock	(10,500)
Loss of Stock	66,000

Amount of Claim = 60,000/87,700 x 66,000 = ₹ 45,154

Solution to illustration 4

Memorandum Trading Account

(from 01.01.2019 to 30.03.2019)

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	95,600	By Sales (W.N.)	2,42,000
To Purchases (1,70,000-30,000)	1,40,000	By Goods with customers (for approval) (W.N.)	26,400*
To Wages (50,000 – 3,000)	47,000	By Closing stock (Bal. fig.)	62,600
To Gross profit (20% on sales)	48,400		
	3,31,000		3,31,000

* For financial purpose, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.

Working Note:

Calculation of actual sales

Total sales – Sale of goods on approval (2/3rd) = ₹ 2,75,000 – ₹ 33,000 = ₹ 2,42,000.

Calculation of goods with customers

Since no approval for sale has been received for the goods of ₹ 33,000 (i.e. 2/3 of ₹ 49,500) hence, these should be valued at cost i.e. ₹ 33,000 – 20% of ₹ 33,000 = ₹ 26,400.

Computation of claim for loss of stock

Stock on the date of fire i.e. on 30.03.2019	62,600
Less: Value of salvaged stock	(12,300)
Loss of stock	50,300

Amount of claim

= Insured value/Cost of stock x Loss of stock = 60,000/62,600 X 50,300 48,211

Solution to illustration 5

Shri Ramesh : Trading Account for 2018
(to determine the rate of gross profit)

	₹		₹	₹
To Opening Stock	73,500	By Sales A/c		4,87,000
To Purchases	3,98,000	By Closing Stock: As valued	79,600	
To Gross Profit (b.f.)	97,400	Add: Amount written off to restore stock to full cost	2,300	81,900
	5,68,900			5,68,900

The (normal) rate of gross profit to sales is = 97,400/4,87,000 x 100 = 20%

Memorandum Trading Account upto March 31, 2019

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal ₹	Abnormal Items ₹	Total items ₹
To Opening Stock	75,000	6,900*	81,900	By Sales	2,28,000	3,200	2,31,200
To Purchases	1,62,000	-	1,62,000	By Loss	-	250	250
To Gross Profit (20% on ₹2,28,000)	45,600	-	45,600	By Closing Stock (bal. fig.)	54,600	3,450**	58,050
	2,82,600	6,900	2,89,500		2,82,600	6,900	2,89,500

* at cost, book value is ₹ 4,600

** Book value will also be restored for remaining unsold abnormal stock since the remainder of this stock was now estimated to be worth its original cost.

Calculation of Insurance Claim	**₹**
Value of stock on March 31, 2019	58,050
Less: Salvage	(5,800)
Loss of stock	52,250

Claim subject to average clause:

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

= ₹ 50,000/58,050 x 52,250 = ₹ 45,004

Solution to illustration 6

Shri Garib Das
Trading Account for the year ended on 31.12.2018

Date	Particulars	₹	Date	Particulars	₹	₹
	To Opening Stock	36,750		By Sales A/c		2,43,500
	To Purchases	1,99,000		By Closing stock: As valued	39,800	
	To Gross profit (b.f.)	48,700		Add: Amount written off to restore stock to full cost	1,150	40,950
		2,84,450				2,84,450

The normal rate of gross profit to sales is = 48,700/2,43,500 x 100 = 20%

Memorandum Trading Account upto 19.05.2019

Particulars	Normal Items ₹	Abnormal Items ₹	Total ₹	Particulars	Normal ₹	Abnormal Items ₹	Total items ₹
To Opening Stock	37,500	3,450*	40,950	By Sales	1,14,000	1,600	1,15,600
To Purchases	81,000	-	81,000	By Loss	-	125	125
To Gross Profit (20% on ₹ 1,14,000)	22,800	-	22,800	By Closing Stock (bal. fig.)	27,300	1,725**	29,025
	1,41,300	3,450	1,44,750		1,41,300	3,450	1,44,750

* at cost, book value is ₹ 2,300.

** Book value will also be restored for remaining unsold abnormal stock since the remainder of this stock was now estimated to be worth its original cost.

Calculation of Insurance Claim

Value of Stock on 19th May, 2019	29,025
Less: Salvage	(2,900)
Loss of stock	26,125

Assuming the stock to be fully insured, insurance claim will be for ₹ 26,125.

Solution to illustration 7

The claim in respect of profit will be calculated as follows:	₹
Indemnity Period	
01.04.2019 to 30.09.2019	
Standard Turnover	
01.04.2018 to 30.09.2018	5,00,000
Add: Trend	No Adjustment
Less: Turnover 01.04.2019 to 30.09.2019	(3,00,000)
Reduction in turnover	2,00,000
Loss of Profit 2,00,000 X 20%	40,000

Working Note:	
Rate of Gross Profit	
Turnover of last financial year	= ₹ 12,00,000
Net profit + Insured Standing Charges	= ₹ 2,00,000
Rate of Gross Profit 2,00,000/12,00,000 X 100	= 20%

Less: saving in insured standing charges	(10,000)
Add: Claim for increased cost	24,718

Working Note:	
Least of the following:	
(i) actual expenditure	30,000
(ii) Gross Profit on sales generated by increased cost of working	
1,60,000 X 20%	32,000
(iii) 30,000 X Gross Profit on adjusted annual turnover/Gross Profit on adjusted annual turnover + Uninsured Standing Charges	
= 30,000 X 2,34,000/2,84,000	

Total Amount of Claim (40,000 – 10,000 + 24,718)	54,718
Average clause:	
Policy Amount/Gross Profit on AAT X Claim Amount	
2,00,000/2,34,000 X 54,718	**46,768**

Working Note:	
Annual Turnover from 01.04.2018 to 31.03.2019 =	11,70,000
Add: Trend	no adjustment
Adjusted Annual Turnover	11,70,000
Gross Profit on AAT 11,70,000 X 20%	2,34,000
Gross Profit + Uninsured Standing Charges	2,84,000
(2,34,000 + 50,000)	

Solution to illustration 8

Computation of the amount of claim for the loss of profit

Indemnity Period	**01.02.2019 to 30.06.2019**
Standard turnover (Period)	**01.02.2018 to 30.06.2018**
Standard turnover	2,00,000
Add: trend (2,00,000 X 15%)	30,000
Adjusted Standard Turnover	2,30,000
Less: Actual Turnover	(80,000)
Short sales	1,50,000
Loss of profit 1,50,000 X 30%	45,000

Working Note:

Rate of Gross Profit for last Financial Year:	₹
Gross Profit:	
Net Profit	70,000
Add: Insured Standing Charges	56,000
Gross Profit	1,26,000
Turnover for the last financial year	4,20,000

Rate of Gross profit =1,26,000/4,20,000 X 100 = 30%

Less: Saving in Insured Standing Charges	(2,450)
Add: Additional Expenditure	6,372

Least of the following

(i) Actual = ₹ 6,700

(ii) 80,000 x 30% = 24,000

(iii) Additional Exp. ×G.P. on Adjusted Annual Turnover/G.P. on AAT + Uninsured Standing Charges
6,700 × 1,55,250/1,63,250 = 6,372

Working Note:

Annual Turnover (adjusted):	₹
Turnover from 1st Feb., 2018 to 31st January, 2019	4,50,000
Add: 15% expected increase	67,500
	5,17,500
Gross Profit on ₹ 5,17,500 @ 30%	1,55,250
Standing charges not Insured (64,000 – 56,000)	8,000
Gross Profit plus non-insured standing charges	1,63,250

Amount of Claim	48,922
Application of Average Clause: 1,25,000/1,55,250 X 48,922	39,390

Solution to illustration 9

Computation of loss of profit Insurance claim

		₹
(1)	**Rate of gross profit:**	
	Net profit for the last financial year	90,000
	Add: Insured standing charges	60,000
		1,50,000
	Turnover for the last financial year	
	Rate of gross profit = $\left[\frac{1,50,000}{5,00,000}\times 100\right]$ = 30%	5,00,000
(2)	**Short sales:**	
	Standards Turnover	2,40,000
	Add: 10% increasing trend	24,000
		2,64,000
	Less: Turnover during the dislocation period (which is at par with the indemnity period of 6 months)	(80,000)
		1,84,000
(3)	**Annual (Adjusted) Turnover:**	
	Annual Turnover (01.03.2018 to 23.02.2019)	6,00,000
	Add: 10% increasing trend	60,000
		6,60,000

Note: Assumed that trend adjustment is required on total of annual turnover. However, part of the annual turnover represents trend adjusted figure. Alternatively, the students may ignore trend and take simply annual turnover. The claim would be ₹ 55,000 which is more than the claim computed in Para (5). So the Insurance Company would insist on trend adjusted on annual turnover.

(4) Additional Expenses:		**₹**
(i)	Actual Expenses	9,300
(ii)	Gross Profit on sales generated by additional expenses 30/100 x (₹ 80,000 - ₹ 55,000)	7,500
(iii)	$\frac{\text{Gross Profit on Annual (Adjusted) Turnover}}{\text{Gross Profit shown in the numerator + Uninsured standing charges}}\times$ Additional Expenses $\frac{30\% \text{ on } ₹6,60,000}{30\% \text{ on } ₹6,60,000+5,000}$ x ₹ 9,300 $\frac{₹1,98,000}{₹2,03,000}\times$ ₹ 9,300 =	9,071

Least of the above three figure, i.e. ₹ 7,500 allowable.

(5) Claim:	**₹**
Loss of profit on short sales (30% on ₹ 1,84,000)	55,200
Add: Allowable additional expenses	7,500
	62,700
Less: Savings in insured standing charges	(2,700)
	60,000
Application of average clause	
$\left[60,000 \frac{₹1,65,000}{₹1,98,000}\right]$	50,000

Solution to illustration 10

Calculation of loss of stock:

Sony Ltd. : Trading A/c

for the period 1.1.2019 to 31.3.2019

	₹		₹
To Opening stock	90,000	By Sales	2,50,000
To Purchases	3,00,000	By Closing stock (balancing figure)	2,60,000
To Manufacturing expenses	70,000		
To Gross profit (20% of ₹ 2,50,000) (W.N.1)	50,000		
	5,10,000		5,10,000

W.N.1

Rate of gross profit in 2018

Gross profit/ Sales x 100 = 2,50,000/ 10,00,000 x 100 = 25%

In 2019, gross profit had declined by 5% due to increased cost, hence, the rate of gross profit for loss of stock is taken at 20%.

Claim Amount for loss of stock	**₹**
Stock destroyed by fire	2,60,000
Amount of fire policy	3,00,000

As the value of stock destroyed by fire is less than the policy value, the entire claim will be admitted.

Calculation of Loss of Profit

Computation of short sales:	₹
Sales from 01.01.2018 to 31.03.2018 (2,50,000 X 100/115)	2,17,391
Sales from 01.04.2018 to 31.12.2018 (10,00,000 – 2,17,391)	7,82,609
Average sales for the period 01.04.2018 to 30.06.2018 (₹ 7,82,609/3)	2,60,870
Add: Increasing trend of sales (15%)	39,130
Less: Sales during the period 01.04.2019 to 30.06.2019	(87,500)
Short sales	2,12,500
Loss of Profit:2,12,500×5%)	10,625

Working note:

Computation of Rate of Profit

$$\text{Gross Profit ratio} = \frac{\text{Net profit + Insured Standing Charges}}{\text{Sales}} \times 100$$

$$= \frac{₹50,000 + ₹50,000}{₹10,00,000} \times 100 = \quad 10\%$$

Less: Decreasing trend in G.P. 5%

5%

Add: Additional Expenses 4,375

Least of the following

(i) Actual expenditure 60,000

(ii) 87,500 X 5% 4,375

(iii) Additional Exp. $\times \frac{\text{G.P on Adjusted Annual Turnover}}{\text{G.P. as above + Uninsured Standing Charges}}$

$$₹\ 60,000 \times \frac{57,500}{57,500 + 1,30,000} = ₹\ 18,400$$

According to the given information standing charges include administrative expenses (₹80,000) and finance charges (₹1,00,000). Insured standing charges being ₹50,000, uninsured standing charges would be ₹1,30,000.

Working Note:

Adjusted Annual Turnover

Annual turnover for the period 01.04.2018 to 31.12.2018	7,82,609
Turnover for the period 01.01.2019 to 31.03.2019	2,50,000
Total	10,32,610
Add: Increase in trend (15% of ₹ 7,82,609)	1,17,391
Total	11,50,000
Gross profit on annual turnover (5% of ₹ 11,50,000)	57,500

Amount of Claim 15,000

As gross profit on annual turnover (₹ 57,500) is less than policy value (₹ 1,00,000), average clause is not applicable.

Total Claim 2,60,000 + 15,000 2,75,000

Solution to illustration 11

1. Short sales

Period	Adjusted Standard Turnover	Actual Turnover	Shortage
	₹	₹	₹
January	1,00,000	-	1,00,000
Feb. to October	9,60,000	8,00,000	1,60,000
	10,60,000	8,00,000	2,60,000

2. Gross profit ratio for the purpose of insurance claim on loss of profit

Gross profit - Insured Standing Charges - Uninsured standing charges = Net profit

OR

Gross profit - Uninsured standing charges = Net profit +Insured Standing Charges

= 4,06,400 – 20,000 = 3,86,400

$$\frac{₹3,86,400}{₹12,70,000} \times 100 = 30.425\%$$

3. Amount allowable in respect of additional expenses

Least of the following:

(i) Actual expenses = 1,80,000

(ii) Gross profit on sales during 10 months period = 8,00,000 × 30.425% =2,43,400

(iii) $$\frac{\text{Gross Profit on Annual Adjusted Turnover}}{\text{Gross Profit on Annual Adjusted Turnover + Uninsured Standing Charges}} \times \text{Additional Expenses}$$

$$\frac{3,86,400}{3,86,400+20,000} \times 1,80,000 = 1,71,142 \text{ (approx..)}$$

Least i.e. = ₹ 1,71,142 is admissible

4. Amount of claim

	₹
Gross profit on short sales = $₹2,60,000 \times \frac{30,425}{100}$	79,105
Add: Amount allowable in respect of additional expense	1,71,142
	2,50,247
Less: Savings in Insured Standing Charges	(28,000)
	2,22,247

On the amount of final claim, the average clause will not apply since the amount of the policy ₹ 4,00,000 is higher than gross profit on annual adjusted turnover ₹ 3,86,400.

Therefore, insurance claim will be ₹ 2,22,247.

SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:

Memorandum Trading Account for the period 01.04.2018 to 15.12.2018

Particulars	**₹**	**Particulars**	**₹**
To Opening stock	9,40,000	By Sales	20,25,000
To Purchases	13,20,000	By Closing Stock (Bal. figure)	6,40,000
To Gross Profit @20%	4,05,000		
	26,65,000		26,65,000

Statement of Claim

	₹
Estimated value of Stock as at date of fire	6,40,000
Less: Value of Salvaged Stock	1,40,000
Estimated Value of Stock lost by fire	5,00,000

As the value of stock is more than insured value, amount of claim would be subject to average clause.

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

$$\text{Amount of Claim} = \frac{4,00,000}{6,40,000} \times 5,00,000 = ₹\ 3,12,500$$

Solution 2:

Memorandum Trading Account for the period 01.04.2019 to 29.08.2019

		₹		₹
To Opening Stock		7,90,100	By Sales	45,36,000
To Purchases	33,10,700		By Closing stock (Bal. fig.)	8,82,600
Less: Advertisement	(41,000)			
Drawings	(2,000)	32,67,700		
To Gross Profit [30% of Sales - Refer Working Note]		13,60,800		
		54,18,600		54,18,600

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	8,82,600
Less: Salvaged Stock	(1,08,000)
Add: Fire Fighting Expenses	4,700
Insurance Claim	7,79,300

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ 7,79,300 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31.03.2019

	₹		₹
To Opening Stock	7,10,500	By Sales	80,00,000
To Purchases	56,79,600	By Closing stock	7,90,100
To Gross Profit (b.f.)	24,00,000		
	87,90,100		87,90,100

Rate of Gross Profit in 2018-19

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = \frac{24,00,000}{80,00,000} \times 100 = 30\%$$

Solution 3:

Memorandum Trading Account for the period 1.04.2018 to 31.08.2018

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock	95,000	5,000	1,00,000*	By Sales	2,40,000	2,000	2,42,000
To Purchases (Refer W.N.)	1,56,500	-	1,56,500	By Goods sent to Consignee	16,500	-	16,500**
To Wages (50,000 – 3,000)	47,000	-	47,000	By Loss	-	500	500
To Gross profit @ 20%	48,000	-	48,000	By Closing stock (Bal. fig.)	90,000	2,500	92,500
	3,46,500	5,000	3,51,500		3,46,500	5,000	3,51,500

* 99,000 + 1,000

** For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 31.08.2018	92,500
Less: Stock salvaged	(20,000)
Loss of stock	72,500

Amount of claim to be lodged with insurance company

$$= \text{Loss of stock} \times \frac{\text{Policy Value}}{\text{Value of Stock on the date of fire}}$$

$$= ₹\ 72{,}500 \times \frac{60{,}000}{92{,}500} = ₹\ 47{,}027$$

Working Note:

Calculation of Adjusted Purchases

	₹
Purchases	1,70,000
Less: Drawings [15,000 – (20% x 15,000)]	(12,000)
Free samples	(1,500)
Adjusted purchases	1,56,500

Solution 4:

Memorandum Trading Account for the period 01.04.2018 to 30.09.2018

		₹		₹
To Opening Stock		1,20,000	By Sales	3,10,000
To Purchases	2,40,000		By Goods sent to consignee	18,000*
Less: Advertisement	(2,500)		By Closing Stock (Bal. fig.)	1,41,500
Cost of goods taken by proprietor	(20,000)	2,17,500		
To Wages (75,000 – 5,000)		70,000		
To Gross Profit [20% of Sales]		62,000		
		4,69,500		4,69,500

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	1,41,500
Less: Salvaged Stock	(27,00)
Insurance Claim	1,14,500

Note: Since policy amount is less than claim amount, average clause will apply. Therefore, claim amount will be computed by applying the formula

$$\text{Claim} = \frac{\text{Insured Value}}{\text{Total Cost}} \times \text{Loss suffered}$$

Claim amount = ₹ 60,689 (1,14,500 x 75,000/1,41,500)

Solution 5:

The claim in respect of profit will be calculated as follows:	₹
Indemnity Period	
15.06.2019 to 15.12.2019	
Standard Turnover	
15.06.2018 to 15.12.2018	2,40,000
Add: Trend: 2,40,000 X 25% =	60,000
Less: Turnover 15.06.2019 to 15.12.2019	(70,000)
Reduction in turnover	2,30,000
Loss of profit 2,30,000 X 25%	57,500

Working Note:	
Rate of Gross Profit	
Turnover of last financial year	= ₹ 6,00,000
Net Profit	80,000
Add: Insured Standing Charges	70,000
Net profit + Insured Standing Charges	= ₹ 1,50,000
Rate of Gross Profit 1,50,000/6,00,000 X 100	= 25%

Less: Saving in insured standing charges	(2,000)
Add: Claim for increased cost	9,333

Working Note:	
Least of the following:	
(i) actual expenditure	12,000
(ii) Gross Profit on sales generated by increased cost of working	
70,000 X 25%	17,500
(iii) 12,000 X Gross Profit on adjusted annual turnover/Gross Profit on adjusted annual turnover + Uninsured Standing Charges	
= 12,000 X 1,75,000/2,25,000	= 9,333

Total Amount of Claim (57,500 – 2,000 + 9,333)	64,833
Average clause:	
Policy Amount/Gross Profit on AAT X Claim Amount	
1,40,000/1,75,000 X 64,833	**51,866**

Working Note:	
Annual Turnover from 15.06.2018 to 14.06.2019 =	5,60,000
Add: Trend: 5,60,000 X 25%	1,40,000
Adjusted Annual Turnover	7,00,000
Gross Profit on AAT 7,00,000 X 25%	1,75,000
Gross Profit + Uninsured Standing Charges (1,75,000 + 50,000)	2,25,000

Solution 6:

Gross profit ratio	₹
Net profit in year 2018	1,20,000
Add: Insured standing charges	43,990
Gross profit	1,63,990

$$\text{Ratio of gross profit} = \frac{1,63,990}{8,19,950} = 20\%$$

Calculation of Short sales

Indemnity period: 16.09.2019 to 15.12.2019
Standard sales to be calculated on basis of corresponding period of year 2018

	₹
Sales for period 16.09.2018 to 30.09.2018	34,000
Sales for period 01.10.2018 to 15.12.2018 (Note 1)	1,30,000
Sales for period 16.09.2018 to 15.12.2018	1,64,000
Add: upward trend in sales (15%) (Note 2)	24,600
Standard Sales (adjusted)	1,88,600

Actual sales of disorganized period

Calculation of sales from 16.9.19 to 15.12.19

Sales for period 16.09.2019 to 30.09.2019	Nil
Sales for 01.10.2019 to 15.12.2019 (₹ 1,48,000 – ₹ 20,000)	1,28,000
Actual Sales	1,28,000
Short Sales (₹ 1,88,600 - ₹ 1,28,000)	60,600

Loss of gross profit

Short sales x gross profit ratio = 60,600 x 20%	12,120

Application of average clause

$$\text{Net claim} = \text{Gross claim} \times \frac{\text{Policy Value}}{\text{Gross Profit on Annual Turnover}}$$

$$= 12,120 \times \frac{1,00,000}{1,63,120\ (\text{W.N.3})}$$

Amount of claim = ₹ 7,430

Working notes:

Sales for period 01.10.18 to 15.12.18	₹
Sales for 1.10.18 to 31.12.18 (given)	1,90,000
Sales for 16.12.18 to 31.12.18 (given)	60,000
Sales for period 1.10.18 to 15.12.18	1,30,000

Calculation of upward trend in sales

Total sales in year 2016
Increase in sales in year 2017 as compared to 2016

$$\% \text{ increase} = \frac{93,000(7,13,000 - 6,20,000)}{6,20,000} = 15\%$$

Increase in sales in year 2017 as compared to 2018

$$\% \text{ increase} = \frac{1,06,950(8,19,950 - 7,13,000)}{7,13,000} = 15\%$$

Thus annual percentage increase trend of 15%

Gross profit on adjusted annual turnover	₹
Sales from 16.09.2018 to 30.09.2018 (adjusted) (34,000 x1.15)	39,100
01.10.2018 to 31.12.2018 (adjusted) (1,90,000 x 1.15)	2,18,500
01.01.2019 to 31.03.2019	1,62,000
01.04.2019 to 30.06.2019	2,21,000
01.07.2019 to 15.09.2019 (1,75,000 – Nil)	1,75,000
Sales for 12 months just before date of fire	8,15,600
Gross profit on adjusted annual sales @ 20%	1,63,120

Solution 7:

In the books of Mr. Black

Memorandum Trading Account for the year ended 31.03.2019

Particulars	₹	Particulars	₹
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock at cost	1,80,000
To Gross Profit	3,00,000	$\left(1,62,000 \times \frac{100}{90}\right)$	
	10,80,000		10,80,000

Memorandum Trading A/c

For the period from 01.04.2019 to 02.06.2019

		₹		₹
To Opening Stock (at cost)		1,80,000	By Sales	4,80,000
To Purchases	2,25,000		Less: Goods not dispatched	75,000
Add: Goods received but invoice not received	30,000			4,05,000
	2,55,000		By Closing stock (Balancing figure)	1,50,000
Less: Machinery	15,000	2,40,000		
To Gross Profit (Refer W.N.)		1,35,000		
		5,55,000		5,50,000

Calculation of Insurance Claim

Claim subject to average clause

= Amount of policy / value of stock on the date of fire x Actual loss of stock

= 1,20,000/1,50,000 x 1,50,000 = 1,20,000

Working Note:

G.P. ratio = $\frac{3,00,000}{9,00,000} \times 100 = 33\frac{1}{3}\%$

Amount of Gross Profit = ₹ 4,05,000 × $33\frac{1}{3}$ % = ₹ 1,35,000

Solution 8:

Memorandum Trading Account for the Period from 01.01.2018 to 30.06.2018

		₹			₹
To Opening Stock (01.01.2018)		1,50,000	By Sales	11,50,000	
To Purchases	9,50,000		Less: Sales Returns	(40,000)	11,10,000
Less: Returns	(12,500)	9,37,500			
To Cartage Inwards		17,500	By Closing Stock (Bal. Fig.)		2,80,000
To Wages		7,500			
To Gross Profit (25% of ₹ 11,10,000)		2,77,500			
		13,90,000			13,90,000

Stock Destroyed Account

	₹		₹
To Trading Account	2,80,000	By Stock Salvaged Account	20,000
		By Balance c/d (For Claim)	2,60,000
	2,80,000		2,80,000

Statement of Claim

Items	**Cost (₹)**	**Depreciation (₹)**	**Salvage (₹)**	**Claim (₹)**
A	B	C	D	(E=B-C-D)
Stock	2,80,000		20,000	2,60,000
Buildings	3,75,000	1,25,000 + 9,375	4,000	2,36,625
Equipment	75,000	22,500 + 5,625	2,500	44,375
				5,41,000

Solution 9:

Ascertainment of rate of gross profit for the year 2017-18

Trading A/c for the year ended 31.03.2018

	₹		₹
To Opening stock	4,81,100	By Sales	26,00,000
To Purchases	22,62,500	By Closing Stock	6,63,600
To Gross profit	5,20,000		
	32,63,600		32,63,600

Rate of gross profit = $\frac{GP}{Sales} \times 100$

$= \frac{5,20,000}{26,00,000} \times 100 = 20\%$

Memorandum Trading A/c for the period from 01.04.2018 to 22.01.2019

	₹	₹		₹	₹
To Opening stock		6,63,600	By Sales	24,58,500	
To purchases	17,41,350		Add: Unrecorded cash sales	20,000	24,78,500
Less: Goods used for			(W.N.)		
advertisement	(50,000)	16,91,350	By Closings stock		3,72,150
To Gross profit (20% of		4,95,700			
₹ 24,78,500					
		28,50,650			28,50,650

Estimated stock in hand on the date of fire was ₹ 3,72,150.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 01.04.2018 to 18.08.2018= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × ₹ 1,000 = ₹ 20,000.

EXAMINATION QUESTIONS

NOV 2019 (NEW COURSE)

Question. 3. (b) **(10 Marks)**

Solution:

Indemnity period 16.12.2018 to 15.3.2019

Standard turnover 16.12.2017 to 15.3.2018

16.12.2017 to 31.12.2017	68,000
01.01.2018 to 31.03.2018	3,80,000
Less: 16.03.2018 to 31.03.2018	1,20,000
Total	3,28,000
Add: Trend (15%)	49,200
Total	3,77,200

Actual sale in the indemnity period 16.12.2018 to 15.03.2019

16.12.2018 to 15.03.2019	Nil
01.01.2019 to 31.03.2019	2,96,000
Less: 16.03.2019 to 31.03.2019	40,000
Total	2,56,000
Short sale 3,77,200 - 2,56,000	121,200
Loss of profit 121,200 × 20% (w.n.1)	24,240

(w.n.1)

Gross profit ratio

(2,50,000 + 77,980) / 16,39,900 × 100 = 20%

Annual Turnover (16.12.2017 to 15.12.2018)

16.12.2017 to 31.12.2017 =	68,000
01.01.2018 to 31.03.2018 =	3,80,000
Total	4,48,000
Add: trend 15%	67,200
Total	5,15,200
01.04.2018 to 30.06.2018 =	3,24,000
01.07.2018 to 30.09.2018 =	4,42,000
01.10.2018 to 31.12.2018 =	3,50,000
Less:	
16.12.2018 to 31.12.2018 =	Nil
Adjusted Annual Turnover=	16,31,200

Claim amount applying average clause =Amount of Policy/G.P. on Annual Turnover × Claim Amount
= 2,50,000 / 20% of 16,31,200 × 24,240 = 18,575

NOV 2019 (OLD COURSE)

Question. 5. (a) **(8 Marks)**

Solution:

Indemnity period	01.01.2019 to 30.04.2019
Standard Turnover period	01.01.2018 to 30.04.2018
Standard Turnover	4,50,000
Add Trend 10%	50,000
Total	4,95,000
Less Actual sale	(50,000)
Short sale	4,45,000
Add gross profit @ 32% **(w.n.1)**	1,42,400
Add additional cost **(w.n.2)**	4,800
Less saving	(5,000)
Claim amount	1,42,200

Claim amount applying average clause =Amount of Policy/G.P. on Annual Turnover × Claim Amount

=3,30,000/3,52,000 × 1,42,200 = 1,33,313

(w.n.1)

GP ratio = (3,00,000 + 60,000)/ 12,00,000 X 100 = 30%

(w.n.2)

Additional cost allowed shall be least of the following

(i) 20,000
(ii) 15,000 X 32% = 4,800
(iii) 20,000 X GP on AAT = 3,52,000/
(iv) GP on AAT + uninsured standing charges i.e 3,70,000
= 1,90,27

Adjusted Annual Turnover (AAT) = 10,00,000 + 10% of 10,00,00 = 11,00,000

Gross profit on (AAT) = 32% of 11,00,000 = 3,52,000

MAY 2019 (NEW COURSE)

Question 2 (b) **(10 Marks)**

Answer :

Computation of the amount of claim for the loss of profit

Reduction in turnover		₹
Turnover from 25th May, 2018 to 30th September, 2018		6,00,000
Add: 10% expected increase		60,000
		6,60,000
Less: Actual Turnover from 25th May, 2019 to 30th September, 2019		(1,75,000)
Short Sales		4,85,000
Calculation of loss of Profit		
Gross Profit on reduction in turnover @ 25% on ₹4,85,000 **(W.N.1)**		1,21,250
Add: Additional Expenses		22,647
Lower of		
(i) Actual =	₹ 30,000	
(ii) Additional Exp. × $\frac{\text{G.P.on Adjusted Annual Turnover}}{\text{G.P. as above + Uninsured Standing Charges}}$		
30,000x [3,85,000/(3,85,000+1,25,000)] =	₹ 22,647	
(iii) G.P. on sales generated by additional expenses		
175000 x 25% =	₹ 43,750	
It is given that entire sales during the interrupted period was due to additional expenses.		
Therefore, lower of above is (i, ii & iii)		
		1,43,897
Less: Saving in Insured Standing Charges		(5,000)
Amount of claim before application of Average Clause		1,38,897

Application of Average Clause:

$\frac{\text{Amount of Policy}}{\text{G.P on Annual Turnover}}$ × Amount of Claim

(3,50,000/3,85,000) x 1,38,897	=	₹ 1,26,270
Amount of claim under the policy	=	₹ 1,26,270

Working Notes:

1. Rate of Gross Profit for last Financial Year :	₹
Net Profit for last financial year	2,00,000
Add: Insured Standing Charges	1,75,000

Gross Profit	3,75,000
Turnover for the last financial year	15,00,000

Rate of Gross Profit = $\frac{3,75,000}{15,00,000} \times 100 = 25\%$

2. Annual Turnover (adjusted):

Turnover from 25 May, 2018 to 24 May, 2019	14,00,000
Add: 10% expected increase	1,40,000
	15,40,000
Gross Profit on ₹ 15,40,000 @ 25%	3,85,000
Standing charges not Insured (3,00,000 – 1,75,000)	1,25,000
Gross profit + Uninsured standing charges	5,10,000

MAY 2019 (OLD COURSE)

Question 7 (c) **(4 Marks)**

Answer:

Memorandum Trading Account for the period 1st April 2019 to 30th September 2019

		₹		₹
To Opening Stock		1,56,000	By Sales	4,03,000
To Purchases	3,12,000		By Consignment Stock	23,400
Less: Advertisement	(3,250)		By Closing Stock	1,83,950
Cost of goods taken by proprietor	(26,000)		(Balancing figure)	
		2,82,750		
To Wages [97,500 - 6,500]		91,000		
To Gross Profit (20% of Sales)		80,600		
		6,10,350		6,10,350

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	1,83,950
Less: Salvaged stock	(35,100)
Loss of stock	1,48,850

Note: Since policy amount is less than claim amount, average clause will apply. Therefore claim amount will be computed by applying the formula

$$\text{Claim} = \frac{\text{Insured Value}}{\text{Total Cost}} \times \text{Loss suffered}$$

$$\text{Claim amount} = \frac{97,500}{1,83,950} \times 1,48,850 = ₹\ 78,896 \text{ (Rounded off)}$$

NOV 2018 (NEW COURSE)

Question 2. (b) **(10 Marks)**

Answer:

Computation of Claim loss of stock

	₹
Stock on the date of fire (i.e. on 01.10.2019)	3,75,000
Less: Stock salvaged	(50,000)
Stock destroyed by fire (Loss of stock)	3,25,000

Insurance claim = ₹ 3,25,000

(Average clause is not applicable as insurance policy amount (₹5,00,000) is more than the value of closing stock i.e. ₹3,75,000)

Memorandum Trading A/c

(01.04.2019 to 30.09.2019)

Particulars	**(₹)**	**Particulars**	**(₹)**
To Opening Stock	3,50,000	By Sales	25,68,000
To Purchase		By Goods with customers	99,000
(₹18,75,000+₹1,00,000)	19,75,000	(for approval) (W.N.1)	3,75,000
To Carriage inward	35,000	By Closing stock (bal. fig.)	
To Wages	40,000		
To Gross profit			
(₹25,68,000 × 25%)	6,42,000		
	30,42,000		30,42,000

For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the entity and, hence, there was no loss of such stock.

Working Notes:

1. **Calculation of goods with customers**

Since no approval for sale has been received for the goods of ₹ 1,32,000 (i.e. 2/3 of ₹ 1,98,000) hence, these should be valued at cost i.e. ₹ 1,32,000 – 25% of ₹ 1,32,000 =₹ 99,000.

2. **Calculation of actual sales**

Total sales – Goods not dispatched - Sale of goods on approval (2/3rd) = Sales (₹ 27,75,000 – 75,000 - ₹1,32,000) = ₹ 25,68,000

NOV-2018 (OLD COURSE)

Question 5 (b) **(8 Marks)**

Answer:

Memorandum Trading Account for Shop from 01.01.19 to 28.04.19

		(₹ In lacs)			(₹ In lacs)
	To Opening Stock	5.00		By Sales	84.00
	To Transfer 81	78.00			
	less: Return (3)				
	To Gross profit (3.4 + 6)	9.40		By Closing Stock (on 28.4.20)	8.40
		92.40			92.40

Calculation of Insurance Claim

	₹	
Value of stock in shop	8,40,000	
Less : salvage	(40,000)	
	8,00,000	
Stock recovered	3,20,000	(40% of ₹ 8,00,000)
Loss of stock	4,80,000	

Claim subject to average clause:

$$= \frac{\text{amount of Policy}}{\text{value of Stock}} \text{ x Actual loss of stock}$$

Therefore, insurance claim will be calculated as ₹ 5,00,000/8,40,000 x 4,80,000 = ₹ 2,86,000

Add: Firefighting expenses 20,000

Amount of claim to be lodged 3,06,000

MAY-2018 (NEW COURSE)

Question 2. (b) **(10 Marks)**

Answer :

Computation of claim for loss of stock

	₹
Stock on the date of fire i.e. on 30th March, 2020 (W.N.1)	1,25,200
Less: Value of salvaged stock	(24,600)
Loss of stock	1,00,600
Amount of claim = $\frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times$ Loss of stock	
$= \frac{1,20,000}{1,25,200} \times 1,00,600 = 96,422$ (approx.)	96,422 (approx.)

A claim of ₹ 96,422 (approx.) should be lodged by M/s Alok & Co. to the insurance company.

Working Notes:

1. Calculation of closing stock as on 30th March, 2020

Memorandum Trading Account for (from 1st January, 2020 to 30th March, 2020)

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,91,200	By Sales (W.N.3)	4,84,000
To Purchases		By Goods with customers (for approval) (W.N.2)	52,800*
(3,40,000-60,000)	2,80,000	By Closing stock (Bal. fig.)	1,25,200
To Wages			
(1,00,000 – 6,000)	94,000		
To Gross profit			
(20% on sales)	96,800		
	6,62,000		6,62,000

*For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.

2. Calculation of goods with customers

Since no approval for sale has been received for the goods of ₹ 66,000 (i.e. 2/3 of ₹ 99,000) hence, these should be valued at cost i.e. ₹ 66,000 – 20% of ₹ 66,000 = ₹ 52,800.

3. Calculation of actual sales

Total sales – Sale of goods on approval (2/3rd) = ₹ 5,50,000 – ₹ 66,000 = ₹ 4,84,000.

MAY 2018 (OLD COURSE)

Question 5 (b) **(8 Marks)**

Answer :

M/s Raxby & Co. : Trading Account for 2018-19
(to determine the rate of gross profit)

	₹		₹	₹
To Opening stock	1,20,000	By Sales A/c		6,00,000
To Purchases	5,25,000	By Closing stock as value	1,30,000	
To Gross profit	90,000	Add; amount written off to restore stock to full cost	5,000	1,35,000
	7,35,000			7,35,000

The normal rate of gross profit to sales is $\frac{90,000}{6,00,000} \times 100 = 15\%$

Memorandum trading account up to June 30, 2019

	Normal	Abnormal	total		Normal	Abnormal	Total
	Items	Items				Items	Items
	₹	₹	₹		₹	₹	₹
To opening stock	1,27,000	8,000	1,35,000	By sales	1,60,000	6,000	1,66,000
To purchase				By loss	---	1,000	1,000
(97,000+35,000)	1,32,000	---	1,32,000				
To gross profit				By closing stock			
(15% on ₹1,60,000)	24,000	---	24,000	(bal. fig.)	1,23,000	1,000	1,24,000
	2,83,000	8,000	2,91,000		2,83,000	8,000	2,91,000

* at cost

Calculation of Insurance Claim ₹

value of stock on June 30,2019 1,24,000

less: salvage (10,000)

loss of stock 1,14,000

claim subject to average clause:

$\frac{\text{Amount of Policy}}{\text{Value of Stock}} \times$ actual loss of stock = 1,00,000 / 1,24,000 x 1,14,000 =₹91,935 (approx.)

Therefore, insurance claim will be limited to ₹ 91,935 (approx.)

NOV-2017 OLD COURSE

Question 3 (a) **(10 Marks)**

Answer:

(a) Memorandum Trading Account for the period 1st April, 2019 to 27th July, 2019

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock (w.n.5)	60,000	4,000	64,000	By Sales (w.n.3)	4,00,000	2,300	4,02,300
To Purchase (w.n.1)	2,80,000	–	2,80,000	By Loss	–	700	700
To Wages (w.n.4)	50,000	–	50,000	By Goods on Approval (w.n.2)	8,000	–	8,000
To Gross profit @ 20%	80,000	–	80,000	By Closing Stock (Bal. fig.)	62,000	1,000	63,000
	4,70,000	4,000	4,74,000		4,70,000	4,000	4,74,000

Statement of claim for loss of stock

	₹
Book value of stock as on 27th July, 2019	62,000
Add: Abnormal Stock	1,000
Less: Stock salvaged	(5,000)
Loss of stock	58,000
Add: Firefighting expenses	1,300
Total Loss	59,300

Amount of claim to be lodged with insurance company

$$= \text{Loss} \times \frac{\text{Policy Value}}{\text{Value of Stock on the date of fire}} = ₹\ 59{,}300 \text{ x } (55{,}000/\ 63{,}000) = ₹\ 51{,}770 \text{ (rounded off)}$$

Working Notes:

1. Calculation of adjusted purchase

	₹
Purchases	2,92,000
Less: Purchase of Machinery	(10,000)
Less: Free samples	(2,000)
Adjusted purchases	2,80,000

2. Calculation of goods with customers

Approval for sale has not been received = ₹ 40,000 × 1/4 = ₹ 10,000.
Hence, these should be valued at cost i.e. (₹ 10,000 – 20% of ₹ 10,000) = ₹8,000

3. Calculation of actual sales

Total Sales	₹ 4,12,300
Less: Approval for sale not received (1/4 × ₹ 40,000)	₹10,000
Actual Sales	₹4, 02,300

4. Calculation of wages

Total wages	₹53,000
Less: wages for installation of machinery	₹3,000
	₹50,000

5. Value of opening stock

Original cost of stock as on 31st March, 2020 = ₹ 63,000 + ₹1,000 (Amount written off)
= 64,000