



# **FIRE INSURANCE CLAIMS**

**By**

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# STEPS TO CALCULATE FIRE INSURANCE CLAIMS

There are three steps to calculate the amount of claim:

Step 1 – Calculation of stock on the date of fire

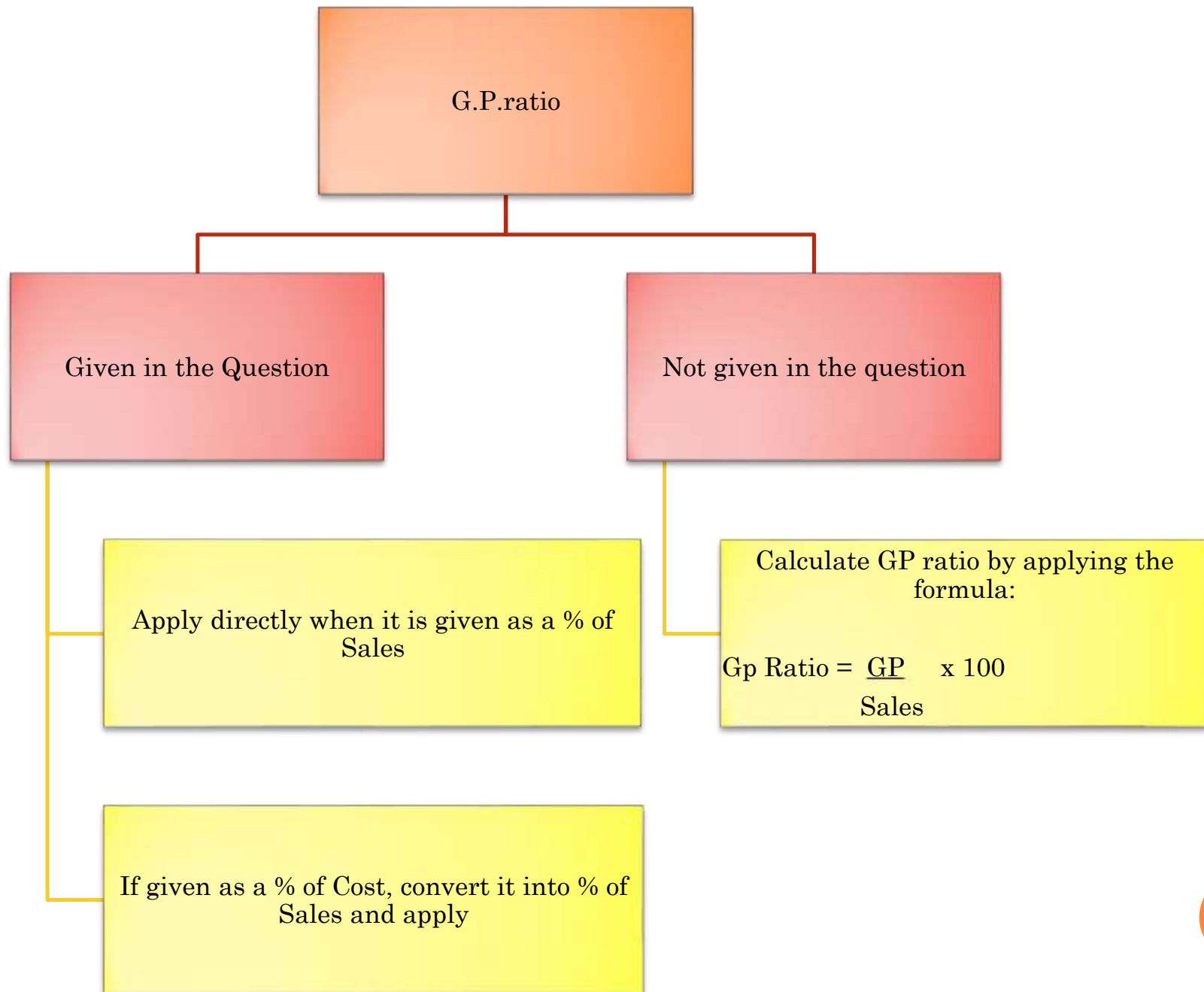
Step 2 – Calculation of Loss by fire

Step 3 – Calculation of Amount of Claim

Step 1 – Calculation of Stock on the date of fire:

## Memorandum Trading Account

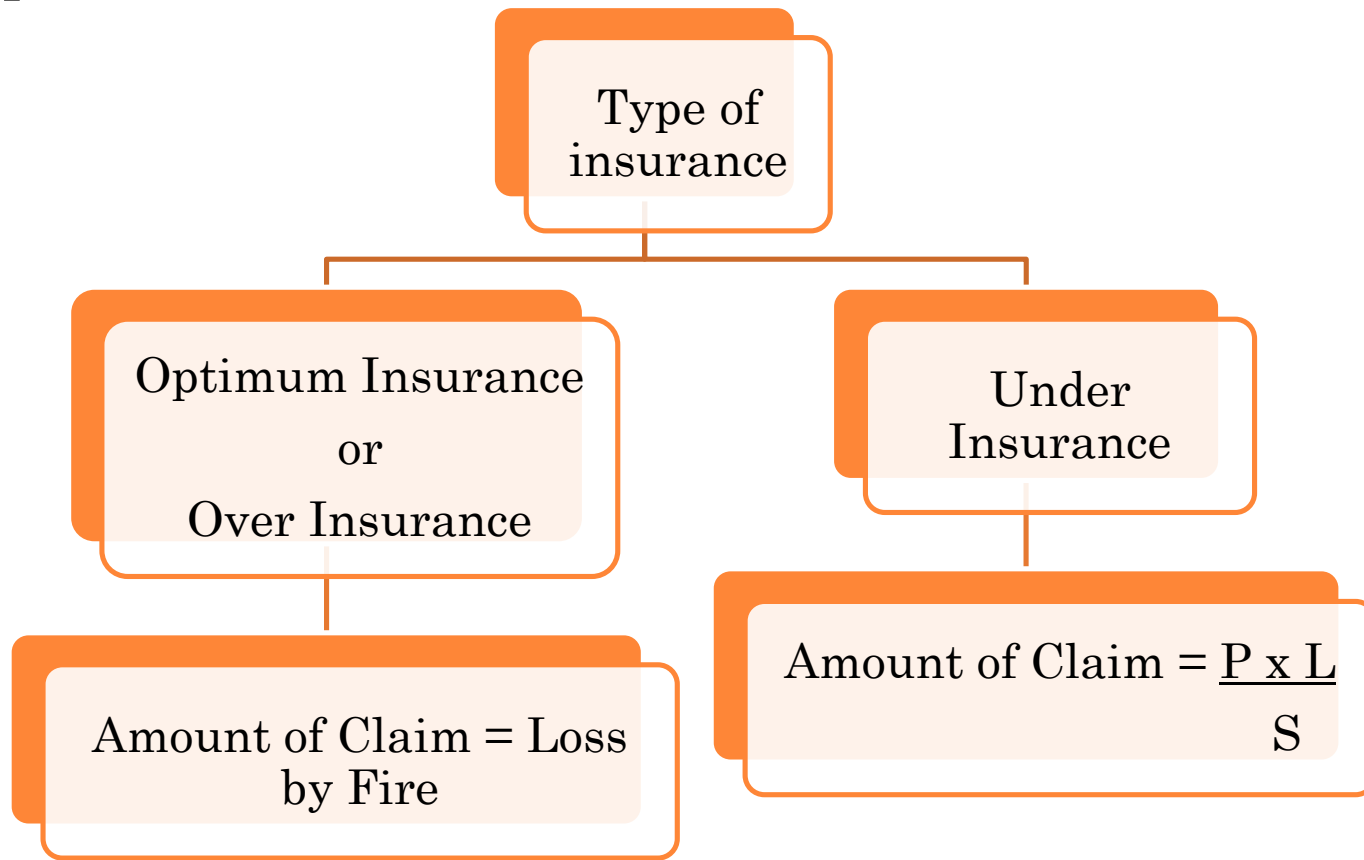
Particulars	Rupees	Particulars	Rupees
To Opening Stock	Xxx	By Sales	Xxx
To Purchases	Xxx		
To Direct Expenses	Xxx	By Stock on the date of fire (*)	xxx
To Gross profit (% of Sales)	Xxx		
	Xxxx		xxxx



- Step 2: Calculation of Loss by fire:

Particulars	Rupees
Stock on the date of fire (Step 1)	Xxx
Less: Salvage	(xx)
Loss of Fire	xxx

- Step 3: Calculation of Amount of Claim:



**Q.2.** The premises of Mr. Badnasib were totally destroyed by fire on 21st April, 1995. The following information is available. Make calculations for insurance claim.

Particulars	1992	1993	1994	1995
Opening stock	18,000	24,000	28,500	31,500
Purchases	68,250	83,250	90,000	30,750
Sales	1,05,000	1,27,500	1,39,500	56,250
Wages	21,750	23,250	24,600	9,000

Working Notes:

1) Calculation of Gross profit for 1992:

Trading Account for 1992

Particulars	Rupees	Particulars	Rupees
To Opening Stock	18,000	By Sales	1,05,000
To Purchases	68,250	By Closing Stock	24,000
To Wages	21,750		
To Gross profit (*)	21,000		
	1,29,000		1,29,000



## 2) Calculation of Gross profit for 1993:

### Trading Account for 1993

Particulars	Rupees	Particulars	Rupees
To Opening Stock	24,000	By Sales	1,27,500
To Purchases	83,250	By Closing Stock	28,500
To Wages	23,250		
To Gross profit (*)	25,500		
	1,56,000		1,56,000

## 3) Calculation of Gross profit for 1994:

### Trading Account for 1994

Particulars	Rupees	Particulars	Rupees
To Opening Stock	28,500	By Sales	1,39,500
To Purchases	90,000	By Closing Stock	31,500
To Wages	24,600		
To Gross profit (*)	27,900		
	1,71,000		1,71,000

## 4) Calculation of Average Gross profit ratio:

Gross profit ratio = Gross profit / Net sales X 100

For 1992, GP ratio = 21,000 / 1,05,000 x 100 = 20%

For 1993, GP ratio = 25,500 / 1,27,500 x 100 = 20%

For 1994, GP ratio = 27,900 / 1,39,500 x 100 = 20%

**Average GP ratio = 20 + 20 + 20 / 3 years = 60 / 3 = 20%**



**Solution:****Step 1: Calculation of Stock on the date of fire:**

## Memorandum Trading Account For the period 1.1.95 to 21.4.1995

Particulars	Rupees	Particulars	Rupees
To Opening Stock	31,500	By Sales	56,250
To Purchases	30,750	By Stock on the date of fire (*)	26,250
To Wages	9,000		
To Gross profit (56,250 x 20%)	11,250		
	82,500		82,500

**Step 2: Calculation of Loss by fire:**

Particulars	Rupees
Stock on the date of fire	26,250
Less: Salvage	(0)
Loss by fire	26,250

**Step 3: Calculation of Amount of Claim:**

Since the amount of policy is not given, it will be assumed that it is a case of Optimum insurance and hence,

$$\text{Amount of Claim} = \text{Loss by fire}$$

**Amount of Claim = Rs. 26,250**

