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B. Com. Part-III

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Preface

It gives me immense pleasure to bring forward this Self-Instructional Material (SIM) for Accountancy Major Paper X (Corporate Accounting Part IV) for the students of B. Com. III (Sem. VI). As per the order and guidelines of the Government of Maharashtra, National Education Policy 2020 is implemented for all the under graduate programmes of Shivaji University from the Academic Year 2024-25. The syllabuses of various papers under various courses for B. Com. III are set considering the guidelines given in the NEP Document and Government Resolutions in this regard and introduced from June 2026.

The subject Accountancy, especially Corporate Accounting, occupies an important place in the content of Commerce and Management Education. Its importance has been arduously recognised by all types of business organisations in private and public limited companies. Considering the need of the hour, the Board of Studies in Accountancy drafted the syllabus of the subject incorporating Introduction to Insurance Business, Computation of Insurance Claims and Final Accounts of Insurance Companies.

The main feature of this book is that the theory and illustrations of each topic are presented in such a way that students can understand easily. Problems of revised nature are illustrated in a sufficient number in each unit with necessary working notes.

I am thankful to all the authors who have contributed to this SIM. I strongly appreciate the sincere efforts taken by the authors to enrich the quality of the concerned units. Because, this course is firstly introduced in the syllabus of the B. Com. Programme. I express my deep sense of gratitude to Hon. Vice Chancellor Prof. (Dr.) Rajneesh Kamat, Hon. Pro-Vice Chancellor Prof. (Dr.) Jyoti Jadhav, Hon. In-charge Dean of the Faculty of Commerce and Management Prof. (Dr.) Varsha Maindargi and Registrar Dr. Vilas Shinde for their supreme support, guidance and encouragement. I especially thanks to the Director, Distance and Online Education Centre for his keen interest in developing quality study material, cooperation and assistance to produce the learning material. I am also thankful to Dr. Sushant Mane, Dr. Sachin Dethe, Mrs. V. G. Kapade and other concerned staff of CDOE who worked continuously for preparation and publication of this learning material.

All your suggestions will be welcomed for the further improvement of the book.

Thank you all.

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B. Com Part-III

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Each Unit begins with the section 'Objectives' -

Objectives are directive and indicative of :

1. What has been presented in the Unit and
2. What is expected from you
3. What you are expected to know pertaining to the specific Unit once you have completed working on the Unit.

The self check exercises with possible answers will help you to understand the Unit in the right perspective. Go through the possible answer only after you write your answers. These exercises are not to be submitted to us for evaluation. These are provided to you as Study Tools to help keep you in the right track as you study the Unit.

Unit 1

Insurance companies Account-I

Introduction to Business of Insurance Companies - Meaning and Types of Insurance business, fire Insurance-Meaning, Nature and principles of fire Insurance risks covered under fire Insurance, types of Policies under Fire Insurance.

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1.0 Objectives :

After studying this unit student will be able to understand

1. Types of Insurance Business
2. Nature of Insurance Business
3 Fire Insurance policies & principles
4 Risks covered under Fire Insurance

1.1 Introduction :

The Insurance business is a Financial service in which an Insurance company provides protection against financial losses in exchange for a regular Financial payment Called a premium. It helps individuals an organizations reduce the Financial impact of anexpected events such as accidents, illness, theft, fire or death.

In modern Farm insurance may b Called as a contract between two parties Whereby one party undertakes, in exchange For a fixed sum to pay the other party a Fixed amount of money on the happening of a certain event (death or attaining a Certain age incase of human life or to pay the amount of actual loss when it takes place through the risks insured. the party who seeks protection against a Particular risk is called the insured, while the party undertaking to protect the former is called the insurer. Mostly the insurers case insurance companies these days.

The amount for which the risk is insured is called the insured amount of Policy money cris also known as the face Value of the policy. The amount which is Paid by the insured to the insurer as a Consideration of the Insurance contract is termed the Insurance policy. When a person takes insurance on the same subject-matter With more than one insurer. It is called double in surance. when an insurer transfers a past of his risk on a particular Policy by insuring it With some other insurer, it is called re-insuran ce. It is a contract between two insurance companies and the original insured is not affected by it. Some insurance companies. Conduct only the business of reinsurance.

With the introduction of specialisation in all branches of commerce, insurance also passed into the hands of experts and now it has become a highly specialised business. many Insurance companies have sprung up which under-take to provide for the loss of human

life and property in business caused by a Particular risk in exchange for a price Fixed in advance.

In India, the Insurance Act of 1938 Controls the working and the activities of Companies Carrying on insurance business. on 19th January, 1956, life Insurance business Was nationalised by the government and later on the Life Insurance corporation Act of 1956 Was passed. This act now guverns the life insurance business in our country. In 1963, the Marine Insurance Act was passed to regulate the contracts of marine insurance and affairs of marine insurance companies.

The general insurance lefire, marine and Miscellaneous business was stel set up to guide and supervise the general insurers. Thus, all insurance business is came under the complete ownership and control of the Insurance Business In India.

1.2 Presentation of subject matter :

1.2.1 Meaning of Insurance Business :

Insurance business is the business of providing Financial protection against specified risks in exchange for a premium.

Definition of Insurance Business :

"Insurance business is the business of Undertaking, in return for premiums to compensate or indemnify individuals or organizations for losses, damages or liabilities arising from Specified uncertain events, according to the terms of an Insurance contract."

"Insurance business is defined as a Conceptual arrangement where one party The insurer undertakes the compensate another Party the insured for specified losses, damages or uncertain events."

"Insurance business is defined as a specilized Financial enterprise where an organize assumes the financial risks of individuals or other businesses in exchange for a fee. It operates as a system of risk Pooling and transfer."

"Insurance Business as a dynamic, process-oriented, financial mechanism where Companies pool capital from multiple entities (Policyholders) facing similar risks to compensate. the few who suffer uncertain Losses" - **Institute of Cost Accountants of India (ICMAI)**

"Insurance business is the assumption of obligations by an insurance company to pay a certain sum on the happening of a Particular event and includes re-insurance, the receipt of proposals for or the issuing of policies." **-Financial services Regulatory Commission**

1.2.2 Nature of Insurance Business :

The insurance business is a financial service business in which an insurance company provides protection against financial losses arising from uncertain events. In return for this protection, customers (policyholders) pay a premium. The insurer collects premiums from many policyholders and compensates those who suffer covered losses according to the terms of the insurance policy.

Nature (Characteristics) of Insurance Business explained with the help of following points they are as under

1. Risk Sharing :

Insurance is based on the principle of sharing risk among a large number of people. Many policyholders contribute premiums to a common fund, and the losses of a few are paid from this fund.

2. Contractual Relationship :

Insurance is a legal contract between the insurer and the insured. The rights and obligations of both parties are clearly mentioned in the insurance policy.

3. Financial Protection :

The main purpose of insurance is to provide financial security against unexpected events such as accidents, illness, death, theft, fire, or natural disasters.

4. Payment of Premium :

The insured must pay a premium regularly or as agreed. The premium is the consideration paid for the insurance coverage.

5. Compensation for Loss :

When an insured event occurs, the insurer compensates the insured according to the terms and conditions of the policy. In life insurance, the agreed sum assured is paid, while in general insurance, the actual loss is usually compensated up to the policy limit.

6. Principle of Utmost Good Faith :

Both the insurer and the insured must disclose all important facts honestly. Failure to do so may result in rejection of the claim or cancellation of the policy.

7. Based on Probability :

Insurance companies use statistical data and probability to estimate risks and determine premium rates.

8. Large Number of Policyholders :

Insurance operates effectively because it covers a large number of people, allowing risks to be spread over many policyholders.

9. Social Welfare Function :

Insurance contributes to social welfare by reducing financial hardship and helping individuals and businesses recover after losses.

10. Investment Function :

Insurance companies invest the premiums they collect in government securities, bonds, stocks, infrastructure projects, and other investments. These investments support economic development while generating income for the insurer.

11. Service-Oriented Business :

Insurance is primarily a service industry. Its objective is to provide financial security and peace of mind, while also earning a reasonable profit.

12. Regulated Industry :

The insurance business is regulated by government authorities to protect policyholders, ensure fair practices, and maintain the financial stability of insurance companies.

Objectives of Insurance Business :

1) To provide financial protection against risks.
2) To reduce uncertainty in business and personal life.
3) To encourage savings and investment (especially life insurance).
4) To promote economic growth through long-term investments.

5) To provide peace of mind and financial security.

1.2.3 Types of Insurance Business In India :

The insurance business in India can be divided into two broad categories

i) Life Insurance

ii) General Insurance:

It includes

a) Fire Insurance

b) Marine Insurance

c) Miscellaneous Insurance

i) Life Insurance : Life Insurers cando life Insurance business while general insurers can transact the rest of the business. It may be noted that no composites ase permitted under the law. In other words, a firm cannot Combine life Insurance business with general Insurance business.

The main players in the life Insurance business are as under

A) Life Insurers:

i) Life Insurance corporation of India (LIC): Established under the life Insurance companies of India Act, 1956 and wholly owned by the Government of India. It controls more than 90% of the life Insurance business in India.

ii) Several private players have come into being in life Insurance business since April 2000.

These private businesses are as under.

a) HDFC standard Life Insurance Co. Ltd.

b) Max Life Insurance company Ltd

c) ICICI Prudential Life Insurance Co. Ltd.

d) Birla sun-Life Insurance co. Ltd

e) SBI Life Insurance Co. Ltd

f) Bajaj Allianz Life Insurance co. ltd.

g) PNB Met Life India Insurance co. pvt.ltd.

h) Aviva Life Insurance co. India pvt.Ltd.

i) Exide Life Insurance

J) IDBI Federal Life Insurance

k) India first life Insurance company

l) peerless Group

m) Edelweiss Tokio Life Insurance

ii) General Insurance corporation of India Conducting general insurance business through its 4 subsidiaries.

a) oriented Insurance company Ltd.

b) The New India Assurance company Itd.

c) National Insurance Company Ltd. And

d) United India Insurance company Ltd. However, because of continued

Liberalization policy of the Government, the insurance business has now also been opened to the private sector. The Insurance Regulatory and Development Authority (IRDA) has been constituted under IRDA Act, 1999 passed by parliment to regulate the total insurance business in the country. As a corollary the Insurance Act 1938 has also been amended by the enactment of Insurance (Amendment Act, 2000. The Act was further amended by the Insurance Laws (Amendment) Act, 2015 effective from 26th Dec., 2014.

since April 2000, several private general insurers have also entered insurance business. They include the following:

a) Royal sundaram Alliance Insurance Co.Ltd

b) Reliance General Insurance Co. Ltd.

c) IFFCO Tokio General Insurance Co. Ltd.

d) Tata AIG General Insurance co.ltd.

e) Bajaj Allianz General Insurance co.Ltd.

f) ICICI Lombard General Insurance co. Ltd.

g) Cholamandalam General Insurance co.Ltd.

h) Export credit Guarantee corporation Ltd.

i) HDFC-ERGO General Insurance co.ltd.

j) Agriculture Insurance company of India

k) Apollo Munich Health Insurance

1) Bharti AXA General Insurance

m) Export credit Guarantee corporation of India

n) L&T General Insurance

o) Liberty Videocon General Insurance

p) Reliance General Insurance

q) star Health and Allied Insurance

r) Universal sompo General Insurance company, Insurance Repository

Insurance Repository :

on 16th september 2013, IRDA launched "Insurance repository" services in India. It is a unique concept and first to be introduced in India

Thus, system enables policy holders to buy and keep insurance policies in dematerialised or electronic Form. Policy holders can hold all their insurance policies in an electronic format in a single account called Electronic Insurance Account (EIA). Insurance Regulatory and Development Authority of India has issued licences to five entities to act as Insurance Repository: CDSL Insurance Repository Limited (CDSLIR), SHCIL projects Limited, karvy Insurance repository Limited. NSDL Database Management Limited, CAMS Repository services Itd.

Insurance Regulatory And Development Authority (IRDA)

IRDA has been established to regulate. and control insurance business.

Composition of IRDA :

IRDA has been established under the Insurance Regulatory and Development Authority Act passed by parliament in 1999. The composition OF IRDA as per section 4 of the IRDA Act is a under.

i) A Chairman

i) Not more than five whole-time members

iii) Not more than four part-time members.

All the above officials are appointed by the Government of India.

Legal Framework :

The Insurance is a Federal subject in India. The primary legislations which deal With various aspects. relating to accounts and audits of an insurance business are as under.

1) The Insurance Act, 1938 (including Insurance Rules, 1939)

2) The Insurance Regulatory and Development Authority Act, 1999.

3) The Insurance Regulatory and Development Authority Regulations 2002.

4) The companies Act, 2013 and

5) The General Insurance Business (Nationalization) Act, 1972

Financial statements of Insurance Business :

The following are some of the basic provisions relating to preparation of Financial Statements of Insurance companies.

Application of Accounting Standards:

Every Balance Sheet, Revenue Account, Receipt and payment Account and Policyholders Account) Receipt and payment Account (Cash Flow statement) and profit & Loss Account (Shareholder's Account) of the insurer shall be in conformity with the Accounting Standards (AS) issued by the ICAT, to the extent applicable to the instreaming on general insurance business except that

i) Accounting standard 3 (AS 3) - Cash flow Statement shall be prepared only under the Direct method.

ii) accounting standard 13 (AS13) - Accounting for Investments shall not be applicable.

iii) accounting standard 17 (AS17) - segment Reporting shall apply irrespective of whether the securities of the insurer are traded Publicity or not.

The ministry of corporate Affairs has notified Standard (IND ASs) For IFRS convergence In India. The Indian Ass are being gradually applied from 1st April, 2016. to companies incorporated in India. IRDA However, as regards insurance Companies Ltd. Accounting standards shall apply as when it is so notified by the Insurance Regulatory Development Authority (IRDA). Insurance company shall provide Ind As compliant financial statement data for the purposes of preparation of Consolidated Financial Statement by its parent or investor or venturer as required by the parent or investor or venturer to Comply with the requirements of these rules.

Progress - I Check Your progress :

A) Multiple choice questions.

Select the must relevant alternative to fill in the blanks.

1. Is a financial business service in which own provides protection against Financial losses.

   A. Hotel Business B. Insurance Business

   C. Tourism Business D. All Above

2. General Insurance corporation of India conducting general insurance business through its ..... subsidiaries .

   A) 3 B) 2

   C) 4 D) 5

3) Insurance Act was passed .....

   A) 1961 B.). 193

   C) 2014 D) 1999

4) ..... launched “Insurance repository” service In India.

   A). IDBI B) ICICI

   C) IRDA D) LIC

5) Insurance Business as a ..... mechanism.

A). Dynamic B). Process-oriented

c) Financial D) All Above

6) Insurance companies collects ..... from a large number of policyholder and create a Common Fund.

A) Bonus B). Premium

C) Share D) None Above

C) Match the pairs

'A' Group.	**'B' Group**
1. Insurance Act	A) 1972
2. IRDA	B) 2013
3. Companies Act	C) 1938
4. The General Insurance Business Act.	D) 1999

1.2.4 Fire Insurance :

Introduction:

Fire insurance coverage is a financial safeguard that protects homes, offices, factories, shops, and valuable assets against losses caused by fire and related risks. With India witnessing thousands of fire incidents every year, property protection has become more important than ever. Rapid urbanization and electrical overloads continue to increase fire risks in residential and commercial spaces. A well-chosen fire insurance policy can help reduce financial stress and support faster recovery after unexpected losses.

A fire insurance policy generally covers repair, replacement, or reconstruction expenses based on the policy terms and insured value. Depending on the insurer and plan selected, coverage may also extend to lightning, explosions, storms, and other related risks.

Meaning of Fire Insurance :

Fire insurance is a type of property insurance that compensates policyholders for damage or losses caused by fire and specified allied perils. It helps individuals and businesses

recover financially if insured property, equipment, furniture, stock, or valuables are damaged in a fire accident.

Definition of Fire Insurance :

Section 2(6) of the Fire Insurance Act, defines, "Fire insurance business means the business of affecting, otherwise than in evidently, to some other class of business, contracts of insurance against loss by or incidental to fire or other assurance customarily included among the risks insured against in fire insurance policies."

1.2.5 Nature of Fire Insurance :

1. It is a means of security against risk of fire on any material or property.
2. It is an indemnity contract.
3. The insurer undertakes to indemnity the insured against actual loss subject to the maximum limit of sum insured.
4. It is a contract of utmost good faith, the insurer and the insured must disclose all material facts relating to the subject matter of insurance.
5. A fire insurance policy is usually issued for one year only with the option to the parties to renew it for a further period on payment of stipulated premium.
6. If the property is insured with more than one insurer, and on loss by fire, all the insurers are called upon to contribute towards the claim.
7. The insurer is not liable for payment of any claim if the fire is caused deliberately.
8. In British Law, the fire insurance policies can be assigned only with prior permission of the insurer, but under Indian Law the consent of the insurer is not necessary to make valid assignment of policy, only a notice of information is sufficient.
9. On occurrence of fire a notice of fire should be given to the insurer so that the insurer may take prompt steps forthwith to safeguard his interests, in dealing with salvage and also judge the cause and nature of fire, and the extent of the loss.
10. It is the duty of the insured to act as a man of ordinary prudence to take necessary steps to save the property from loss of fire, as in the absence of any insurance against the property.

11. Sometimes, the insurer issues a 'Cover Note' or 'Interim Policy' to the insured. In the case of loss by fire before the Absolute Policy is issued, the claim is paid in view of 'Cover Note.'
12. The risk commences as soon as the insurer accepts the proposal, but the insurer has the right to fix the date of commencement of risk at a future date also.
13. The rate of premium varies according to the degree of hazard or risk involved.
14. It is becoming very common in fire insurance policies insert a condition called the 'average clause' by which the insured is called upon to bear a portion of the loss himself. The condition is called the pro-rata condition of average.
15. The insured must have insurable interest in the subject matter both at the time of affecting the policy and at the time of the loss.
16. The word fire refers to "loss by fire."
17. In consequential loss policy, the insured is indemnified for the loss of profits which he sustains through interruption or cessation of his business because of fire.
18. In case of loss by fire, is more than once, the indemnity can be claimed. However, the total claim shall not be more than the sum assured.
19. Fire insurance is also based upon certain principles, viz., insurable interest, utmost good faith, and principle of indemnity etc.
20. Fire Insurance is different from life insurance and marine insurance. It is an indemnity insurance whereas life insurance involved the elements of security and investment. In marine insurance, insurable interest must be present at time of loss, but in fire insurance- insurable interest must be present at the time of affecting the policy as well as of the time of loss.

1.2.6 Principles of Fire Insurance :

Principles of fire insurance are;

1. Insurable Interest in Fire Insurance.
2. The principle of Good Faith in Fire Insurance.

3. The principle of indemnity.

4. The doctrine of Subrogation.

5. Warranties in Fire Insurance.

Bases on the type of fire insurance policy these 6

principles of fire insurance policies apply.

Principles of insurance should be properly followed by

fire insurance to fulfill the objections.

1. Insurable Interest in Fire Insurance:

Insurable interest is the general principle of insurance without which an insurer cannot lawfully be enforced for insurance unsupported by an insurable interest would be a gambling transaction. Insurable interest will be there where the subject-matter should be in such a position that the insured may suffer loss at the time of damage and may gain by its protection. The insurable interest in fire insurance must be present at the time of contract continue throughout its currency and at the time of loss. The insurance contract will be invalid if the property is sold to another party. Similarly, if there is no insurable interest at the time of insurance, the contract will be invalid.

The following conditions must be fulfilled to constitute an insurable interest.

I) There should be a physical object capable of being damaged or destroyed by fire.

II) The object must be the subject matter of insurance.

III) The insured must stand in such a relationship as recognized by law where the insured is benefited by the safety of the subject-matter or be prejudiced by its loss.

The following persons have an insurable interest in the subject-matter concerned.

1. The owner of the property or asset whether fixed or current has as insurable interest whether he is the legal owner or the equitable owner. The owner may be a single or joint, holder. The partial owner can take a policy for full value as trustee of all the property. A Life tenant entitled to the use of the property during his lifetime only has an insurable interest.

2. An agent has an insurable interest in the property of his principal.

3. A partner has an equitable interest in the firm's property.

4. A creditor has an insurable interest in a property on which he has a lien for the debt.

5. An insurer has it in respect of risks underwritten by him for the purpose of reinsurance. Where the subject-matter is mortgaged, the mortgagor has an insurable interest in the full value thereof and the mortgagee has an insurable interest in respect of any sum due to become due under the mortgage.

6. A bailee can ensure any article or property bailed, He may be a gratuitous bailee or bailee for a reward.

7. A trustee has an insurable interest in the property put on trusteeship.

2. The principle of Good Faith in Fire Insurance :

The contract of fire insurance is one in which the observance of the utmost good faith (uberrima files) by both the parties are of vital significance.

The utmost good faith in fire insurance has two aspects first, the disclosure of material facts and second, preservation of the property insured. The insurer and the insured must furnish detailed information regarding the subject-matter to be injured. The insured, since he has more, information about the subject-matter, must disclose all the information asked truly and fully. The assured is also required to disclose all the material information which are known to him although it was not asked by the insurer; the material fact is one which influences the decisions of the insurance.

The decision may be pertaining to the acceptance or declination or determination of the premium. In the case of fire insurance, the examples of material facts are the construction of buildings. If the assured has not observed good faith, the contract can be avoided by other parties was immaterial to plead that the insured was unaware of the fact and could not disclose. In each circumstance, it is expected from the insured to know all the material facts. The insurer has also to disclose such material facts as are within his knowledge.

The second phase of good faith is the preservation of property. Thus; The observance of good faith is necessary not only during the negotiations of the contract but throughout the term of the policy and in making claims. Any change after the commencement of risk must

be communicated to the insurer. The insured or his agents, as well as the insurer, must take all such steps as may be reasonable for averting or minimizing loss. Since the insured is near to the property, he must act to prevent fire and if a fire occurred, he must do his utmost to extinguish it. In such cases, he must act as if he was not insured.

3. Principle of indemnity :

The doctrine of indemnity aims to compensate the insured for a loss sustained, and the compensation should be such as to place him as nearly as possible in the same pecuniary position after the loss as he occupied immediately before the occurrence.

The insured cannot claim anything more than the amount required to recoup tie actual loss sustained. The insurers undertake to make good the insured's loss by monetary payment or by reinstatement or replacement so that the insured shall be fully indemnified, but this is subject to the sum insured.

The law does not sanction any insurance which would enable the insured to profit from the destruction of the thing destroyed. It will check the temptation to destroy the property insured thereby to secure the money. The assured amount is not the measure of indemnity but it sets an upper limit up to which the loss can be indemnified. The actual amount of indemnity will be the market value of the subject- matter destroyed or damaged by fire at the time and place of the occurrence of fire. It will never exceed the assured amount.

When the actual loss is more than the assured amount then only the insured sum will be paid and nothing more is paid. But this principle does not hold well when the policy is valued policy. Here, the basis of indemnity will not be the actual cash value of the property at the time of loss but the insured value which is named in the policy when it was taken. In a valued policy, no consideration is given to the actual loss. Thus, the amount of claim may be greater or less than the actual loss at the time of the fire in case of valued policies.

4. Doctrine of Subrogation :

Subrogation means the right of one person to stand in the place of another and to avail himself of the latter's rights and remedies. The principle of subrogation is just a corollary to the principle of indemnity. The insured can realize only the actual value of the loss or damage to the property according to the principle of indemnity and it follows that if the damaged

property has any value left or the assured can recover the lost property or has any right against the third party regarding that property.

These must pass on to the insurer. If the assured is allowed to retain them, he shall have

realized more than the actual loss which is contrary to the indemnity principle. The assured can proceed against the third party, if he so, desires, and if lie recovers damage the insurer is relieved

of liability. If the insured has received the full amount of his loss any sums obtained from the third party belong to the insurer up to the amount of their disbursement. The right of subrogation is exercisable at common law after the insurer has paid the claim made against him.

5. Warranties in Fire Insurance:

The contents of the proposal form are expressly incorporated in the policy, which forms warranty. Warranty is that by which the assured undertakes that some thing shall or shall not be done, or that some conditions shall be fulfilled or whereby he affirms or negatives the existence of a particular state of facts. Warranties which are mentioned in the policy are called express warranties and those warranties which are not mentioned in the policy are called implied warranties.

The first implied warranty is that the property structure is not inferior e.g. kaccha house should not be made of wooden roof of thatched leaves grass, hay or bamboo cloths, etc.There is a second warranty that Fire Extinguishing Appliances should be fixed with the property.Annual maintenance is essential.There should not be the possibility of silent risks i.e. new construction addition. The special articles and property exposed to fire must be provided to the safety senders against fire.

The subject-matter of insurance must exist when the contract is affected and should be identified in the event of a loss.The identification is based on the locality, municipal number, surrounding and full description of the place, a breach of warranty enable the insurer to avoid the claim.Warranties must be complied with literally and the effect of a breach of warranty is to render void the relevant item of the policy, even if no increase in risk is involved.Every warranty to which the property insured or any item thereof is, or maybe, made subject, shall from the time the warranty attaches apply and continue to be in force during the whole

currency of the policies, and non-compliance with any such warranty, whether it increases the risk or not, shall be a bar to any claim in respect of such property or item.

The condition states that every warranty is attached during the whole currency of the policy and if during this period a warranty has not been complied with, the insured will not entertain any claim in respect of the property or item affected. However, if the policy is renewed and there was a breach of a warranty before the renewal date and not after it and a loss occur after the renewal is affected, in such a case the claim can be made.

1.2.7 Risks Covered under Fire Insurance :

Various Types of Policies under Fire Insurance explained as under.

1) Valued Policy :

Under this policy, the insurer assigns a predetermined value to an item or property. In other words, the insurer fixes the value in advance at the time of policy purchase. This fire insurance policy doesn't work on the indemnity principle. A valued policy is designed for properties whose actual value can't be decided after their loss or damage.

2) Specific Policy :

As the name suggests, this policy offers a fixed compensation amount. For instance, if the damages caused are worth Rs 3 lakhs and the policy's coverage is Rs 2 lakhs, you will receive only Rs 2 lakhs as compensation. That said, you will get full compensation if the loss amount is within the coverage amount.

3) Average Policy :

In an average fire insurance policy, the compensation amount is proportionately reduced if the policy's value is less than the property's value. For instance, if your property's value is Rs 10 lakhs and you set the insured value at Rs 5 lakhs, the compensation amount will not exceed Rs 5 lakhs.

4) Floating Policy :

Through this fire insurance policy, you can secure more than one property. If you own different properties in different cities, you can cover them all through a floating fire insurance plan. This type of policy is more suitable for business owners who own multiple properties.

5) Comprehensive Policy :

A comprehensive fire insurance policy offers extensive coverage. It not only covers damages caused by fire but also natural and man-made calamities such as explosions, lightning, riots, theft, etc. This policy covers multiple risks.

6) Consequential Loss Policy :

If vital business equipment or machinery is damaged in a fire, a consequential loss policy offers the required compensation. It ensures that production doesn't remain shut for an extensive period due to the loss of critical machinery.

7) Replacement Policy :

If your property is completely damaged by fire, this policy compensates you with the depreciated value or the property's actual value.

1.2.8 Risks Covered under Fire Insurance:

With help of scope risks cover under Fire Insurance.

The scope of fire insurance is much wider. This, can be understood from Section 2 of Indian Insurance Act, 1938. According to this provision, the scope of fire insurance involves the following types of risks:

1. The risks directly involved by fire.

2. The risks indirectly involved (that have been traditionally included within the fire insurance policy.)

For the convenience of study, the scope of fire insurance can be classified on the following basis:

I. Ordinary Scope,

II. Special Scope, and

III. Comprehensive Scope.

I. Ordinary Scope :

Before May, 2000 three types of fire insurance policies (A. B and C policies) were issued in India. Therefore, the scope of fire insurance policies are classified on these criteria.

only single type of fire insurance policy is issued in India by fire insurance companies, which is known as "Standard and Special Peril Policy." The policy covers the following types of risks/ perils: Risks/ Perils Covered under fire Insurance as under.

1. Loss caused by fire:

(a) Excluding loss, destruction or damage caused to the property insured by

(i) its own spontaneous fermentation of heating, or

(ii) it undergoing any heating or drying process.

(b) Burning of property insured by order of any Public Authority.

2. Lightening.

3. Explosion/Implosion: Excluding loss, destruction or damage caused to the property insured by bursting of boilers (other than domestic boilers), economizers or other vessels in which steam is generated, machinery or apparatus subject to centrifugal force.

4. Aircraft Damage: Loss, destruction or damage caused by aircraft, other aerial or space devices and articles dropped there from excluding those caused by pressure waves.

5. Riot Strike, Malicious and Terrorism: Visible physical loss, destruction or damage by external violent means caused to the property insured but excluding those caused by:

(1) Total or partial cessation of work or the retarding or interruption or cessation of any process or operations or omissions of any kind;

(2) Confiscation, commandeering, requisition or destruction by order of the Government or any lawfully constituted Authority;

(3) Permanent or temporary dispossess of any building or plant or unit or machinery resulting from the unlawful occupation by any person of such building or plant or unit or machinery or prevention of access to the same.

6. Storm, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood and Inundation.

7. Impact Damage: Impact by any rail/road vehicle or animal by direct contact not belonging or owned by

Fire Insurance.

(1) the insured or any occupier of the premises, or

(2) their employees while acting in the course of their employment.

8. Subsidence and Land slide including Rock slide: Loss, destruction or damage caused by subsidence of part of the site on which the property stands or land slide/rock slide excluding:

(1) the normal cracking, settlement or bedding down of new structures;

(2) the settlement or movement of made-up ground;

(3) coastal or river erosion;

(4) defective desing or workmanship or use of defective materials; and

(5) demolition, construction, structural alternations or repair of any property or ground works or excavations.

9. Bursting and/or overflowing of water tanks, apparatus and pipes.

10. Missile Testing operations.

11. Leakage from Automatic Sprinkler Installations: Excluding loss, destruction or damage caused by:

(1) repairs or alterations to the buildings or premises;

(2) repairs, removal or extension of the sprinkler installation; and

(3) defects in construction known to the Insured.

12. Bush Fire: Excluding loss, destruction or damage caused Sorest fire.

Conclusions

The general conclusions arrived from the above description are that the losses arising out of the following risks do not come under purview of the fire insurance:

1. Losses due to by the acts of the God/natural calamity.

2. Losses arising out of war attacks (declared war or otherwise)

3. Loss/damage out of poultry effects.

4. Damage to goods stored in cold storage due to fluctuations in temperature, etc.

II. Special Scope :

Certain special kind of risks are also included in the fire policy. By paying extra premium, the insured can include such special risks as given below within the scope of fire insurance policy:

1. The fees paid to the architect, surveyor or consultant engineer, if such fees exceed more than 3 per cent of the claim money.

2. The expenses incurred in connection with removal of wastages from the construction site, if that amount exceeds more than 1 per cent of the claim money.

3. Loss to the goods kept in the cold storage due to fluctuations in electricity/power but within the causes stated in the policy.

4. Loss arising out of earthquake, fire or combustion.

5. Forest Fire.

6. Loss due to falling the goods from fork lifts, or from own vehicle of the insured, etc.

7. Loss due to spontaneous combustion.

III. Comprehensive Scope :

Almost all the insurable risks are included in the comprehensive scope of fire insurance. It includes not only the ordinary and direct risks, but also the consequential losses. This way the following risks are included within the comprehensive scope:

1. Risks of standard policies.

2. Special risks which can be insured by paying extra rate of premium.

3. Excluded perils in the standard policy.

4. Consequential losses or risks arising consequent to fire.

The first three types of risks have been discussed in the ordinary scope of fire insurance and now the consequential losses/risks are discussed below:

Consequential losses: The consequential losses/risks are those lave been created by the fire. Such risks are also known as “Loss of Profit” loss. When fire takes place in a factory, not only its assets/properties (machine, raw material, finished goods, building, etc.) are

damaged or lost, but the production work in the factory also held up for a considerable time. Consequently, the profits from the factory Fire Insurance: Nature and Scope is stopped, but burden of fixed costs and additional expenses also are to be borne. Thus, the following types of losses are included in consequential losses:

(i) Loss of net profit.

(ii) Loss of fixed expenses, e.g., salaries to employees, building rent, interest on loans, etc.

(iii) Increased cost on account of problems arising out of fire.

(iv) Rent of the building taken on hire, till the time of getting the damaged building repaired or renovated, etc.

All these types of losses can be included in the Comprehensive Scope of fire insurance policy; the premiums of such policies are much higher than the ordinary policies. In this way above risks / Perils Covered under fire Insurance policy.

Check Your Progress- II

A) Multiple choice questions.

select the most relevant alternative to fill in the blanks.

1) ..... Coverage is a Financial Safeguard that protects homes, offices, factories & Valuable assets against losses Caused by Fire.

A) Marine Insurance B) Life Insurance

C) Fire Insurance D) Motor Insurance

2) ..... Fire Insurance policy offers extensive coverage & multiple rises.

A) Floating B) Comprehensive

C) Replacement D) Average

3) ..... Losses/risks are those have created by the fire. such risks are als known as “Loss of profit” Loss.

A) Excluded B) Consequential

C) Special D) None Above

4) Fire Insurance is Indemnity .....

A) contract B) Agreement

c) Combination D) All Above

5) ..... are general principles of fire Insurance.

A) Insurable Interest in fire Insurance

B) Good faith in fire Insurance

C) Principle of indemnity

D) All Above

6) ..... means the right of one person to stand in the place of another and-avail himself of the latter's rights & remedies.

A) subrogation B) Warranties

C) Indemnity D) Risk

7) If your property is completely damaged by fire, this policy compensates You with the depreciated value or the property's actual value this policy is .....

A) Comprehensive policy B) Replacement policy

C) Floating policy D) Average policy

8) ..... policy is usually issued for one year only with the option to the Parties to renew it for a further period on payment.

A) Fire Insurance B) Marine

C) Moter D) Life

B) State whether each of the following is 'True' or 'false'.

1) A Fire Insurance policy generally Covers repair, replacement or reconstruction expenses based on policy Terms.
2) Fire Insurance is different from life Insurance and Marine Insurance.
3) The doctrine of subrogation is not included in the principles of Fire insurance.
4) Under Floting policy you can secure more than one property.

5) Explosion/Implosion loss or damage Caused to the property insured by bursting of boilers covered under fire Insurance policy.

C) Match the pairs

'A' Group.	**'B' Group**
1) Insurable Interest	a) Perils (risks covered under fire. Insurance
2) Aircraft Damage	b) Fix Compensation Amount
3) Fire Insurance	c) Principle of Fire Insurance
4) specific policy	

1.3 Summary :

In this unit, an attempt has been made to update & inculcate knowledge of Students of Insurance Business, types, nature, Fire Insurance principles & Policies risks covered under Fire Insurance policy. because Insurance is an important financial tool that protects individuals and businesses against unexpected losses. fire insurance specifically safeguards property against Fire and related risks. this unit helps to student easily Understanding above concepts. specially this units helps students Understand how insurance provides financial security and supports and economic stability. These theoretical parts will also helpful Student's to understand Insurance Accounting after clearing these concepts students logically solve practical problems in Insurance Business Accounting.

1.4 Terms to Remember (Glossary) :

1. **Endowment policy -** A policy which matures on the policy-holder reaching a certain age or on his death, whichever is earlier.
2. **Insurance Policy -** A format written documents Containing the terms of contract of Insurance.
3. **Revenue Account:** An Account Showing a profit or loss made by an insurance business, during a particular period. A Seperate revenue account for each type of insurance business is prepared.
4. **Sprung -** To jump or move suddenly Corollary -A natural result or consequence of something, or a statement that follows logically from an already proven Fact.

5. **Reserve for unexpired Risk -** A reserve Created by a General Insurance company during an accounting year with respect to an insurance risk which may mature in the next Year with respect to the policies issued during the current year.

6. **Subrogation:** means the right of one person to stand in the place of another and to avail himself of latter's rights and remedies.

1.5 Answer to Check Your Progress

A) 1 - C, 2 - B, 3 - B, 4 - A, 5 - D, 6 - A ,7 - B, 8 - A

B) 1 - True, 2 - True, 3 - False 4 - True, 5 - True,

C) 1 - d, 2 - A, 3 - B 4 - C

1.6 Exercise :

1. Define fire Insurance & its nature briefly?
2. Explain various policies under fire Insurance briefly?
3. Explain principles of fire Insurance?
4. Define Fire Insurance & write risks covered under fire Insurance?
5 Define Insurance Business & types of Insurance Business briefly?
6 Write meaning of Insurance business-Explain its nature?
7 Write short notes on

A) Nature of Insurance Business

B) Fire Insurance policy

C) Types of Insurance Business

D) Risks covered under fire Insuran

E) Principles of fire Insurance

F) Nature of Fire Insurance

1.7 Reference for Further Study :

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Unit 2

Insurance Companies Account-II

Computation of Insurance Claims under Fire Insurance Policy for Loss of Stock, Assets and Property.

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2.0 Objectives

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2.2 Presentation of Subject Matter:

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2.6 Exercise

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2.0 Objectives :

After studying this unit, students will be able to

1. Calculate claims arising from loss of stock due to fire.
2. Determine the value of stock destroyed using the Gross Profit Percentage Method.
3. Compute claims under property and asset insurance policies.
4. Understand the application of average clause.

5. Prepare statements for insurance claim.

2.1 Introduction :

Business enterprises generally maintain insurance policies to protect their stock, asset and property against risks such as fire, theft, flood, and other unforeseen events. When stock is damaged or destroyed by fire, the insured is entitled to claim compensation from the insurance company for the loss suffered. However, the exact amount of loss cannot always be determined directly because the stock records may also be damaged in the accident.

The computation of claim for loss of stock is a systematic process used to ascertain the value of stock lost and the amount recoverable from the insurance company. This involves estimating the value of stock on the date of fire by preparing a Memorandum Trading Account and applying the gross profit rate based on past records. The value of any salvaged stock is deducted from the estimated stock to determine the actual loss. If the stock is not fully insured, the Average Clause may be applied to calculate the proportionate claim payable by the insurer.

Thus, the computation of claim for loss of stock is an important aspect of insurance accounting, helping businesses recover financial losses and ensuring fair settlement of insurance claims.

Following steps are followed to ascertain the stock on the date of fire:

1. Preparation of trading accounting for the last year or years to ascertain the gross profit.
2. Calculation of Gross profit percentage to sales which will be used as a base to find out stock on the date of fire.
3. Preparation of Memorandum Trading Account up to the date of fire to ascertain the stock on the date of fire by using the Gross profit percentage of previous year.

2.2 Presentation of Subject Matter:

2.2.1 Statement of claim :

A Statement of Claim is a formal statement prepared to determine the amount of compensation recoverable from the insurance company for the loss of stock caused by fire or other insured risks. It summarizes the estimated value of stock at the date of loss, the value of salvaged stock, and the amount of insurance coverage available. The statement helps in calculating the final claim amount payable by the insurer and serves as an important document for the settlement of insurance claims. It is prepared in the following manner.

Statement of Claim

Particulars	Amt.(₹)
Stock on the date fire	×××
Less: Stock Salvaged	×××
Loss of stock that claimed	×××

2.2.2 Average Clause :

The Average Clause is a provision in an insurance policy that applies when the insured value of stock is less than its actual value. It ensures that the insured bears a proportionate part of the loss resulting from underinsurance. Under this clause, the insurance company pays only that proportion of the loss which the policy amount bears to the actual value of the stock. The purpose of the Average Clause is to encourage adequate insurance coverage and prevent policyholders from insuring their stock for an amount lower than its actual value.

As per the Average clause

$$\text{Claim} = \frac{\text{Sum Assured}}{\text{Total stock on the date of fire}} \times \text{Actual Loss of stock}$$

Illustration-1 :

A fire occurred on the premises of a Merchant on 15th June, 2025, and a considerable part of the stock was destroyed. The value of the stock saved was Rs. 18,000.

The books disclosed that on 1st April, 2025, the stock was valued at Rs. 147000, purchases to the date of the fire amounted to Rs. 419760 and sales to Rs. 626000. On investigation, it was found that during the past five years the average gross profit on the sales was 36%.

You are required to prepare a statement showing the amount the merchant should claim from the insurance company in respect of stock destroyed by the fire.

Solution:

I. Preparation of Memorandum Trading Account to find out stock on the date of fire

Dr. **Memorandum Trading Account up to 15th June 2025** **Cr.**

Particulars	Amt.(₹)	Particulars	Amt.(₹)
To Opening Stock	147000	By Sales	626000
To Purchases	419760	By Stock	166120
To Gross Profit(36% on Sales)	225360		
Total	**792120**	**Total**	**792120**

II. Preparation of statement of claim

Statement of Claim

Particulars	Amt.(₹)
Stock on 15th June 2025	166120
Less: Stock Salvaged	18000
Amount of Claim	148120

Illustration -2 :

Fire occurred in the premises of Manish Company on 1st October 2025. From saved books and records following information obtained:

Purchases for the year ended 31st March 2025 Rs 30000

Sales for the year ended 31st March 2025 Rs 45000

Purchases from 1st April 25 to 1st October 2025 Rs18000

Sales from 1st April 2025 to 1st October 2025 Rs. 25000

Stock on 31st March 2025 Rs. 16000

Stock on 31st March 2025 Rs. 22000

The stock salvaged valued at Rs.2000. Insurance policy was Rs. 10500 with average clause.

Calculate the amount of claim for loss of stock policy.

Solution:

I. Preparation of trading account of previous year to find out Gross Profit :

Dr. Trading Account for the year ended 31st March 25 Cr.

Particulars	Amt.(₹)	Particulars	Amt.(₹)
To Opening Stock	22000	By Sales	45000
To Purchases	30000	By Stock	16000
To Gross Profit	9000		
Total	**61000**	**Total**	**61000**

II. Calculation of Gross Profit Ratio

$$\textit{Gross Profit ratio} = \frac{\textit{Gross Profit}}{\textit{Saltes}} \times 100$$

$$\textit{Gross Profit ratio} = \frac{9000}{45000} \times 100$$

$$\textit{Gross Profit ratio} = 20\%$$

III. Preparation of Memorandum Trading account up to the date of fire :

Dr. Memorandum Trading Account from 1st April 2025 to 1st October 2025 Cr.

Particulars	Amt.(₹)	Particulars	Amt.(₹)
To Opening Stock	16000	By Sales	25000
To Purchases	18000	By Stock	14000
To Gross Profit (36% on Sales)	5000		
Total	**39000**	**Total**	**39000**

IV. Preparation of statement of claim :

Statement of Claim

Particulars	**Amt.(₹)**
Stock on 1st October 2025 (On the date of fire)	14000
Less: Stock Salvaged	2000
Loss of stock	12000

As per the Average clause

$$\text{Claim} = \frac{\text{Sum Assured}}{\text{Total stock on the date of fire}} \times \text{Loss of stock}$$

$$\textit{Gross Profit ratio} = \frac{10500}{14000} \times 12000$$

$$\textit{Gross Profit ratio} = \textit{Rs. 9000}$$

Illustation-3 :

Karam Chand Stores closed their books every year on 31st March. On 30th April, 2025 their premises and stock were totally destroyed by fire. From the books of account 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	**2022-2023 Rs.**	**2023-2024 Rs**	**2024-2025 Rs.**	**2025 To 30/04/2025 Rs.**
Opening Stock as valued	135450	162000	180000	184500
Purchases Jess Returns	374500	400000	405000	30000
Sales less Returns	600000	660000	700000	60000

Wages	87000	95000	104500	10000
Closing Stock as valued	162000	180000	184500	

Prepare a statement of claim for loss of stock.

Solution :

Working Note:

As the stock has been valued at 10% less than cost

The cost price of the stock is,

Opening stock:

2022-23 - 90: 135450: 100 = 150500 (Similarly for 2023-24, 2024-25 and so on.)

Closing Stock :

Last year closing stock is opening stock of next year

I. Preparation of trading account of previous years to find out Gross profit

Trading Accounts for the years ended 31st March

Particulars	**2022-23**	**2023-24**	**2024-25**	**Particulars**	**2022-23**	**2023-24**	**2024-25**
To Opening Stock (at Cost)	150500	180000	200000	By Sales	600000	660000	700000
To Purchases	374500	400000	405000	By Closing Stock (at Cost)	180000	200000	205000
To Wages	87000	95000	104500				
To Gross Profit	168000	185000	195500				
Total	780000	860000	905000	**Total**	780000	860000	905000

II. Calculation of Gross Profit Ratio :

$$\textit{Gross Profit ratio} = \frac{\textit{Gross Profit}}{\textit{Saltes}} \times \textit{100}$$

$$\text{2022 - 23} : \frac{168000}{600000} \times 100 = 28\%$$

$$\text{2023 - 24} : \frac{168000}{600000} \times 100 = 28\% \text{ App.}$$

$$\text{2024 - 25} : \frac{168000}{600000} \times 100 = 28\% \text{ App.}$$

$$\text{2024 - 25} : \frac{28 + 28 + 28}{3} = 28\% \text{ App.}$$

III. Preparation of Memorandum Trading Account to find out stock on the date of fire:

Dr. Memorandum Trading Account from 1/04/2025 to 30/04/25 Cr.

Particulars	**Amt.(₹)**	**Particulars**	**Amt.(₹)**
To Opening Stock	205000	By Sales	60000
To Purchases	30000	By Stock	201800
To Wages	10000		
To Gross Profit (28% on Sales)	16800		
Total	**2,61,800**	**Total**	**2,61,800**

The Amount of claim is Rs. 201800.

Illustration-4 :

Fire occurred in the premises of Agni Co. on 1st September, 2025 and records were saved. The following information was obtained,

Purchases for the year ended 31st March, 2025 was Rs. 170000

Sales for the year ended 31st March, 2025 was Rs. 275000

Purchases from 1st April, 2025 to 1st September, 2025 was Rs 62500

Sales from 1st April, 2025 to 1st September, 2025 was Rs. 90000

Stock on 31st March, 2024 was Rs. 75000

Stock on 31st March, 2025 was Rs. 85000

Further information is also given that the stock on 31st March, 2025 was over-valued by Rs. 5000. Calculate the amount of the claim to be presented to the insurance company in respect of the loss of stock.

Solution:

I. Preparation of trading account of previous year to find out Gross Profit

Dr. Trading Account for the year ended 31st March 25 Cr.

Particulars	**Amt.(₹)**	**Particulars**		**Amt.(₹)**
To Opening Stock	75000	By Sales		275000
To Purchases	170000	By Stock	85000	
To Gross Profit	110000	Less: Overvaluation	5000	80000
Total	**3,55,000**		**Total**	**3,55,000**

II. Calculation of percentage of Gross Profit:

$$\textit{Gross Profit ratio} = \frac{\textit{Gross Profit}}{\textit{Saltes}} \times 100$$

$$\text{For the year 2024-25} : \frac{110000}{750000} \times 100 = 40\%$$

III. Preparation of Memorandum Trading account up to the date of fire :

Dr. Memorandum Trading Account from 1st April 2025 to 1st October 2025 Cr.

Particulars	Amt.(₹)	Particulars	Amt.(₹)
To Opening Stock	80000	By Sales	90000
To Purchases	62500	By Stock	88500
To Gross Profit (40% on Sales)	36000		
Total	**1,78,500**	**Total**	**1,78,500**

The Amount of claim is Rs. 88500.

Illustration -5 :

Water Fire Co. suffered loss of stock due to fire on August 16, 2025. From the following information, prepare statement showing the claim to be lodged.

Stock on 1st April, 2024	Rs. 7680
Purchases during the year ended 31st March, 2025	Rs. 32000
Sales during the year ended 31st March, 2025	Rs. 40520
Closing stock on 31st March, 2025	Rs. 6360
Purchases from 1st April, 2025 to August 16, 2025	Rs. 10800
Sales from 1st April, 2025 to August 16, 2025	Rs. 12280

An item of stock purchased in 2023 at a cost of Rs. 2000 was valued at Rs. 1200 on 31st March, 2024. Half of this stock was sold in July, 2024 for Rs. 520; the remaining was valued at Rs. 480 on 31st March, 2025. One-fourth of the original stock was sold in June, 2025 for Rs. 280. The remaining stock was considered to be worth 60% of the original cost. Salvage was Rs. 2400. The amount of the policy was Rs. 6000. There was an average clause in the policy.

Solution:

I. Preparation of trading account of previous year to find out Gross Profit

Dr. Trading A/c for the year ended 31st March 2025 Cr.

Particulars		Amt.(₹)	Particulars		Amt.(₹)
To Opening Stock	7680	6400	By Sales	40520	40000
Less Value of abnormal Stock	1200		Less: Sale of half of abnormal items	520	
To Purchases		32000	By Closing Stock	6360	5880
To Gross Profit		7400	Less: Value of remaining abnormal item	480	
Total		**45,880**	**Total**		**45,880**

II. Calculation of percentage of Gross Profit:

$$\textit{Gross Profit ratio} = \frac{\textit{Gross Profit}}{\textit{Saltes}} \times 100$$

$$= \frac{7400}{40000} \times 100$$

$$= 18.5\%$$

III. Preparation of Memorandum Trading account up to the date of fire :

Memorandum Trading Account up to 16th August 2025

Particulars	Amt.(₹)	Particulars		Amt.(₹)
To Opening Stock	5880	By Sales	12280	12000
		Less: Sale of abnormal abnormal items	520	
To Purchases	10800	By Closing Stock		6900
To Gross Profit (18.5% on sales)	2220	(on the date of fire)		
Total	**18,900**	**Total**		**18,900**

Statement of Claim

Particulars	Amt.(₹)
Stock on 15th June 2025 (Normal Stock)	6900
Less: Abnormal Stock	300
Total Stock	7200
Less: Stock Salvaged	2400
Loss of stock	**4800**

As per the Average clause

$$Claim = \frac{Sum\ Assured}{Total\ stock\ on\ the\ date\ of\ fire} \times Actual\ Loss\ of\ stock$$

$$= \frac{6000}{7200} \times 4800$$

= Rs. 4000

Illustration-6 :

Fire occurred in the premises of Fireagent Company on 1st October 2025. From saved books and records following information obtained:

Purchases for the year ended 31st March 2025 Rs 20000

Sales for the year ended 31st March 2025 Rs 27000

Purchases from 1st April 25 to 1st October 2025 Rs11900

Sales from1st April 2025 to 1st October 2025 Rs. 17000

Stock on 31st March 2025 Rs. 14550

Stock on 31st March 2024 Rs. 17500

The stock salvaged valued at Rs.2000. Insurance policy was Rs. 10500 with average clause.

Calculate the amount of claim for loss of stock policy.

Solution:

Dr. Trading Account for the year ended 31st March 25 Cr.

Particulars	Amt.(₹)	Particulars	Amt.(₹)
To Opening Stock	17500	By Sales	27000
To Purchases	20000	By Closing Stock	14550
To Gross Profit	4050		
Total	**41,550**	**Total**	**41,550**

Calculation of Gross Profit Percentage

$$\textit{Gross Profit ratio} = \frac{\textit{Gross Profit}}{\textit{Saltes}} \times \textit{100}$$

$$= \frac{4050}{27000} \times 100$$

$$= 15\%$$

Dr. Memorandum Trading Account from 1st April 2025 to 1st October 2025 Cr.

Particulars	Amt.(₹)	Particulars	Amt.(₹)
To Opening Stock	14550	By Sales	17000
To Purchases	11900	By Stock	12000
To Gross Profit (15 % on Sales)	2550		
Total	**29,000**	**Total**	**29,000**

Statement of Claim

Particulars	Amt.(₹)
Stock on 1st October 2025 (On the date of fire) Less: Stock Salvaged	12000 2000
Loss of stock	**10,000**

As per the Average clause

$$Claim = \frac{Sum\ Assured}{Total\ stock\ on\ the\ date\ of\ fire} \times Loss\ of\ stock$$

$$= \frac{10500}{12000} \times 10000$$

$$= \text{Rs. } 8750$$

Illustration-7 :

From the following particulars ascertain the value of stock on the date of fire and prepare a statement of claim assuming average clause in the policy.

Particulars	2023 Rs.	2024 Rs	2025 Rs.	Up to the date of fire Rs.
Opening Stock	60000	?	?	?
Purchases Jess Returns	200000	300000	360000	240000
Sales less Returns	240000	320000	520000	336000
Factory expenses	12000	20000	24000	16000
Closing Stock	80000	160000	200000	?

During the year 2025 closing stock included goods purchased but not recorded amounted to Rs. 20000. The salvage is Rs. 44000. It is the practice of the firm to insure goods at 85% of cost.

I. Preparation of trading account of previous years to find out Gross profit

Dr. **Trading Accounts for the years ended 31st March** **Cr.**

Particulars	**2023**	**2024**	**2025**	**Particulars**	**2023**	**2024**	**2025**
To Opening Stock	60000	80000	160000	By Sales	240000	320000	520000
To Purchases	200000	300000	380000	By Closing	80000	160000	200000
To Factory Expenses	12000	20000	24000	Stock			
To Gross Profit	480000	80000	156000				
Total	**320000**	**480000**	**720000**	**Total**	**320000**	**480000**	**720000**

II. Percentage of Gross Profit to sales :

$$\textit{Gross Profit ratio} = \frac{\textit{Gross Profit}}{\textit{Saltes}} \times 100$$

$$2023 = \frac{12000}{240000} \times 100 = 20\%$$

$$2024 = \frac{80000}{320000} \times 100 = 25\%$$

$$2025 = \frac{156000}{520000} \times 100 = 30\%$$

$$\text{The Average G. P. Percentage} = \frac{20 + 25 + 30}{520000} \times 100 = 30\%$$

III. Preparation of Memorandum Trading Account to find out stock on the date of fire :

Dr. Memorandum Trading Account up to the Date of Fire Cr.

Particulars	Amt.(₹)	Particulars	Amt.(₹)
To Opening Stock	200000	By Sales	336000
To Purchases	240000	By Stock	204000
To Factory Expenses	16000		
To Gross Profit(25% on Sales)	84000		
Total	**540000**	**Total**	**540000**

Statement of Claim

Particulars	Amt.(₹)
Stock on the date of fire	204000
Less: Stock Salvaged	44000
Loss of stock	160000

As per the Average clause

$$Claim = \frac{Sum\ Assured}{Total\ stock\ on\ the\ date\ of\ fire} \times Loss\ of\ stock$$

$$= \frac{173400\ (85\%\ of\ stok)}{204000} \times 160000$$

= Rs. 136000

OR

As per the Average Clause, 85% of Stock is insured,

Hence, Claim = 204000×85%=Rs. 136000

Note: Closing stock of last year is opening stock of next year.

Illustration -8 :

Aasha trader who had covered his stock by taking an insurance policy of Rs. 15000 had his stock partly destroyed by fire on June 18th, 2025. Ledgers were saved and the accounts disclosed:

Particulars	**Rs.**
Stock on 1st April, 2024	15650
Purchases during 2024-25	39025
Carriage paid on above	1850
Wages paid during 2025-26	19905
Sales during 2025-26	92655
Stock on 31-3-2025	15055
Purchases from 1-4-2025 to 18-6-2025	7500
Wages paid from 1-4-2025 to 18-6-2025	3830
Sales from 1-4-2025 to 18-6-2025	12000

Additional Information :

(i) Included in the stock on 1-4-2024 was the stock of stationery Rs. 250

(ii) Included in the stock at 31-3-2025 was the stock of stationery Rs. 310

(iii) Wages owing during 2024-25 Rs. 1250.

(iv) During 2024-25 plant purchased worth Rs. 1150 and it was wrongly included in purchases.

(v) Stock saved was Rs. 6000.

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

(vii) Goods sold of Rs. 200 wrongly included in stock on 31-3-2025.

Calculate loss of stock and claim on average basis.

Solution :

I. Preparation of trading account of previous years to find out Gross profit :

Dr. Trading Account for the year ended 31st March, 2025 Cr.

Particulars		Amt.(₹)	Particulars		Amt.(₹)
To Opening Stock	15650	15400	By Sale		92655
Less: Stationery Stock	250				
To Purchases	39025	37875	By Stock	15055	14545
Less: Plant Purchased	1150		Less: Sales	200	
			Less: Stationery Stock	310	
To Carriage Inwards		1890			
To Wages	19905	21155			
Add: Outstanding	1250				
To Gross Profit		30880			
	Total	**107200**		**Total**	**107200**

II. Percentage of Gross Profit to sales :

$$Gross\ Profit\ ratio = \frac{Gross\ Profit}{Saltes} \times 100$$

$$= \frac{30835}{92655} \times 100$$

$$= 33\ 1/3\%$$

III. Preparation of Memorandum Trading Account to find out stock on the date of fire

Dr. Memorandum Trading Account from 1-4-2025 to 18-6-2025 Cr.

Particulars	Amt.(₹)	Particulars	Amt.(₹)
To Stock	14545	By Sales	12000

To Purchases	7500	By Stock	17875
To Wages	3830		
To G.P. (@ 33 1/3%)	4000		
Total	**29875**	**Total**	**29875**

Statement of Claim

Particulars	**Amt.(₹)**
Stock on the date of fire	17875
Less: Stock Salvaged	6000
Loss of stock	11875

As per the Average clause

$$Claim = \frac{Sum\ Assured}{Total\ stock\ on\ the\ date\ of\ fire} \times Loss\ of\ stock$$

$$= \frac{15000}{17875} \times 11875$$

= Rs. 9965

Computation of claim for loss of property or building

Average Clause under loss of property/building

Illustration 1: When property is fully insured

A building is insured for ₹20,00,000. A fire causes damage to the building amounting to ₹ 6,00,000. You are required to calculate the amount of claim.

Solution :

Sum insured – ₹2000000

Loss of building – ₹600000

Since the sum insured is more than the loss of building, the insurance company will pay the actual loss.

Claim = ₹6,00,000

Illustration 2: When Average Clause is applicable

A factory building is worth ₹50,00,000 but insured for ₹40,00,000. A fire causes damage of ₹10,00,000. You are required to calculate the amount of claim.

Solution :

As per the Average clause

$$Claim = \frac{Sum\ Assured}{Total\ stock\ on\ the\ date\ of\ fire} \times Loss\ of\ stock$$

$$= \frac{4000000}{5000000} \times 1000000$$

= ₹ 800000

Illustration 3: When some part of property is salvaged.

A property valued at ₹15,00,000 is insured for ₹ 15,00,000. Fire causes damage of ₹5,00,000.

Salvage realized is ₹50,000. Calculate Claim.

Solution :

Statement of Claim

Particulars	**Amt.(₹)**
Loss of property due to the fire	500000
Less: Property Salvaged	50000
Actual Loss of Property	450000

Claim = ₹4,50,000

Illustration 4 : Under-insurance with Salvage

A property valued at ₹30,00,000 is insured for ₹24,00,000. Fire causes damage of [1] 9,00,000.

Salvage realized is ₹1,00,000. Calculate Claim.

Statement of Claim

Particulars	**Amt.(₹)**
Loss of property due to the fire	900000
Less: Property Salvaged	10000
Actual Loss of Property	450000

As per the Average clause

$$Claim = \frac{Sum\ Assured}{Total\ stock\ on\ the\ date\ of\ fire} \times Loss\ of\ stock$$

$$Claim = \frac{2400000}{3000000} \times 800000$$

Claim = ₹ 6,40,000

Illustration 5: Complete Destruction

A warehouse valued at ₹18,00,000 is insured for ₹15,00,000. The warehouse is completely destroyed by fire.

Solution :

Actual Value = ₹18,00,000

Sum Insured = ₹15,00,000

Insurance company cannot pay more than the sum insured.

Claim = ₹15,00,000

Illustration 6 :

A building was valued at ₹80,00,000 and insured for ₹ 60,00,000. Due to fire, damage amounted to ₹ 20,00,000. Salvage realized ₹ 2,00,000.

Statement of Claim

Particulars	**Amt.(₹)**
Loss of property due to the fire	2000000
Less: Property Salvaged	200000
Actual Loss of Property	1800000

As per the Average clause

$$Claim = \frac{Sum\ Assured}{Total\ stock\ on\ the\ date\ of\ fire} \times Loss\ of\ stock$$

$$\text{Claim} = \frac{6000000}{8000000} \times 1800000$$

Claim = ₹ 1350000

Check your progress:

A) Multiple Choice Questions (MCQs)

1. The value of stock on the date of fire is estimated by preparing:

   A) Balance Sheet B) Cash Book

   C) Memorandum Trading Account D) Journal

2. Gross Profit Rate is generally based on:

   A) Future estimates B) Previous year's results

   C) Cash balance D) Bank balance

3. The stock remaining after fire is known as:

A) Opening Stock B) Closing Stock

C) Salvaged Stock D) Damaged Stock

4. Loss of Stock is calculated as:

   A) Stock at Date of Fire + Salvaged Stock

   B) Stock at Date of Fire " Salvaged Stock

   C) Purchases – Sales

   D) Sales – Purchases

5. The Average Clause is applied when:

   A) Stock is overvalued B) Stock is fully insured

   C) Stock is underinsured D) There is no insurance

6. The purpose of the Average Clause is to:

   A) Increase claim amount B) Penalize overinsurance

   C) Prevent underinsurance D) Reduce premium

7. Under the Average Clause, the insurer pays:

   A) Full loss always B) Half the loss

   C) Proportionate loss D) No loss

8. If the actual value of stock is ₹1,00,000 and the policy amount is ₹80,000, the stock is:

   A) Fully insured B) Overinsured

   C) Underinsured D) Not insured

9. The formula for Gross Profit Percentage is:

   A) Gross Profit ÷ Sales × 100 B) Sales ÷ Gross Profit × 100

   C) Net Profit ÷ Sales × 100 D) Purchases ÷ Sales × 100

10. The balancing figure in a Memorandum Trading Account represents:

    A) Sales B) Purchases C) Stock at Date of Fire D) Cash

B) Match the Pair

I)

Column 'A'	Column 'B'
A. Memorandum Trading Account	1. Remaining stock after fire
B. Salvaged Stock	2. Compensation payable by insurer
C. Average Clause	3. Estimate stock on date of fire
D. Gross Profit Rate	4. Applied in case of underinsurance
E. Insurance Claim	5. Gross Profit ÷ Sales × 100

II)

Column 'A'	Column 'B'
A. Underinsurance	1. Principle of insurance
B. Stock Lost	2. Policy amount less than actual stock value
C. Indemnity	3. Stock at date of fire – Salvaged stock
D. Statement of Claim	4. Determines claim amount
E. Fire Insurance Policy	5. Protection against loss by fire

C) True or False

1. A Memorandum Trading Account is prepared to estimate the stock on the date of fire.
2. Salvaged stock is added to the stock at the date of fire to determine stock loss.
3. Gross Profit Rate is usually based on past trading results.
4. The Average Clause applies when the stock is fully insured.
5. Underinsurance means the policy amount is less than the actual value of stock.
6. The Statement of Claim is prepared to determine the amount recoverable from the insurer.
7. The value of salvaged stock is deducted from the stock at the date of fire.
8. The Average Clause encourages adequate insurance coverage.
9. If there is no underinsurance, the Average Clause does not affect the claim amount.

10. Fire insurance helps businesses recover losses caused by accidental fire.

2.3 Summary :

Computation of claim for loss of stock is an important aspect of fire insurance accounting. When stock is damaged or destroyed by fire, the insured business can claim compensation from the insurance company. Since physical stock records may be destroyed in the fire, the value of stock on the date of fire is estimated by preparing a Memorandum Trading Account using past gross profit rates. After deducting the value of salvaged stock from the estimated stock at the date of fire, the actual loss of stock is determined. If the stock is underinsured, the Average Clause is applied, and the insurer pays only a proportionate amount of the loss. The final claim amount is presented through a Statement of Claim and settled according to the terms of the insurance policy.

2.4 Glossary :

1. **Fire Insurance:** Insurance that provides protection against losses caused by fire.
2. **Claim:** The amount demanded from the insurance company for a loss suffered.
3. **Loss of Stock:** The value of stock destroyed or damaged due to fire.
4. **Average Clause:** A clause that reduces the claim proportionately when stock is underinsured.

2.5 Answers to check your progress :

Multiple Choice Questions (MCQs)

1-C, 2-B, 3-C, 4-B, 5-C, 6-C, 7-C, 8-C, 9-A, 10-C

Match the Pair

A-3 B-1 C-4 D-5 E-2

A-2 B-3 C-1 D-4 E-5

2.6 Exercise :

1. Write a short note on Average Clause
2. Explain the procedure for Computation of Claim for Loss of Stock.
3. What is Underinsurance? How does it affect the claim amount?

Practical Problems :

1. A fire occurred in the premises of a trader on 30th June, 2025, destroying the greater part of the stock. The following information was ascertained from the books which were saved.

Purchases from 1st January, 2025 to 30th June, 2025 Rs 45,500

Sales for the above period Rs. 56,600

Value of Stock as on 1st January 2025 Rs. 12,500

Purchases in 2024 Rs.1,50,000

Purchases in 2023 Rs. 1,40,000

Purchases in 2022 Rs.1,30,000

Sales in 2024 Rs.1,90,000

Sales in 2023 Rs.1,60,000

Sales in 2022 Rs. 2,50,000

Value of stock as on 1st January, 2024 Rs.33,500

Value of stock as on 1st January 2023 Rs.21,500

Value of stock as on 1st January 2022 Rs. 66,500

Value of Stock Salvaged from fire Rs. 2,500

You are required to prepare a statement showing the amount to be claimed from Insurance Company. (Ans.: Claim Rs. 10,220)

2. On 31st May, 2025, the premises and stock of a firm were totally destroyed by fire. The books of accounts, however, were saved. In order to make a claim on their fire policy, they asked your advice and you are able to obtain the following information. The stock on hand has always been valued at 5 per cent below cost.

Particulars	**2022**	**2023**	**2024**	**2025**
Opening Stock as Valued	22800	30400	36100	39900

Purchases Less Returns	91000	110000	120000	41000
Sales Less Returns	140000	170000	186000	75000
Wages	28400	31200	34200	12000
Closing Stock	30400	36100	39900	-

Prepare a statement for submission to the Insurance Company in support of your claim for loss of stock. (Ans.: Claim Rs. 35,000)

3. The premises of Mumbai Sports House caught fire on 1st Feb.2025 and its stock was damaged. The firm had made up accounts to 31st March each year. The following information is available.

	1st April, 2024 to 31st March, 2025	**1st April, 2025 to 1st Feb.2026**
Stock at commencement conventionally Valued at 10 per cent above cost	105754	145992
Purchases	452580	348270
Sales	520000	491700

In March, 2025 goods which can cost Rs. 10,000 were given away to Gymkhana Secretaries of various colleges for advertisement purpose; no entry was made in the books. During the same month salesman had misappropriated unrecorded cash sales of Rs. 4,000. The rate of gross profit is constant. From the above, make an estimate of stock on hand on the date of fire. (Ans. Stock Rs. 74,430)

4. Fire Caught in the premises of Sundar Company on 31st October 2025. From the following details prepare a claim to be made with insurance company.

Purchases for the year 2024- 2025 Rs 65000

Sales for the year 2024- 2025 Rs 95000

Purchases from 1st April 25 to 31st October 2025 Rs. 40000

Sales for same period Rs. 55000

Stock for the year ending 2025 Rs. 35800

Stock for the year ending 2024 Rs. 44000

It was practice of the company to value stock at 10% above cost. The stock salvaged valued at Rs. 9000. Company Insured for Rs. 25000 and there was average clause.

Calculate the amount of claim to be presented to the insurance company for loss of stock.

5. There was a fire in the godown of M/s. Fire Fighting Equipments Ltd. on 1st Oct., 2025. The entire stock was burnt with an exception of some goods costing Rs. 18,000. The following information could be gathered from the records saved.

(a) The Company's average gross profit arrived at in accordance with its method of valuation of stocks was 25% on sales.

(b) The stock as on 31st March, 2025, valued at 10% above cost as per the practice of the company, was Rs. 55,000.

(c) The purchases and sales from 1st April, 2025 to the date of fire were Rs. 75,000 and Rs. 170000 respectively.

(d) The wages for that period amounted to Rs. 36,000. Prepare a Statement of fire Insurance claim. (Ans.: Claim Rs. 17,000)

6. B & amp; Co. suffered loss of stock due to fire on May 16, 2025. From the following information prepare a statement showing the claim to be lodged.

Stock on 1-1-2024 Rs.38,400

Purchase during 2024 Rs. 1,60,000

Sales during 2024 Rs. 2,02,600

Closing Stock on 31 st Mar 2024 Rs.31,800

Purchases from 1 April 2024 to 15-5-2025 Rs. 54,000

Sales from 1 st April 2025 to 15-5-2025 Rs.61,400

An item of stock purchased in 2023 at a cost of Rs. 10,000 was valued at Rs. 6,000 on 31 st Mar 2024. Half of this stock was sold on 2024 for Rs. 2,600, the remaining was valued at Rs. 2,400 on 2025. One fourth of the original stock was sold in June, 2025 for Rs. 1,400 and the remaining stock was considered to be worth 60% of the original cost. Salvage was Rs. 12,000, the amount of the Policy was Rs. 30,000 and there was an Average clause in the policy. (S. U.) (Ans.: Claim Rs. 20,000)

7. A trader who had covered his stock by taking an insurance policy of Rs. 30000 had his stock partly destroyed by fire on June 18th, 2025. Ledgers were saved and the accounts disclosed:

Stock on 1st April, 2024 Rs. 31300

Purchases during 2024-25 Rs.78050

Carriage paid on above Rs.3700

Wages paid during 2025-26 Rs.39810

Sales during 2025-26 Rs.185310

Stock on 31-3-2025 Rs.30110

Purchases from 1-4-2025 to 18-6-2025 Rs.15000

Wages paid from 1-4-2025 to 18-6-2025 Rs.7660

Sales from 1-4-2025 to 18-6-2025 Rs.24000

Additional Information :

(i) Included in the stock on 1-4-2024 was the stock of stationery Rs. 500

(ii) Included in the stock at 31-3-2025 was the stock of stationery Rs. 620

(iii) Wages owing during 2024-25 Rs. 2500

(iv) During 2024-25 plant purchased worth Rs. 2300 and it was wrongly included in purchases.

(v) Stock saved was Rs. 12000

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

(vii) Goods sold of Rs. 400 wrongly included in stock on 31-3-2025. Calculate loss of stock and claim on average basis. (Claim – 19930)

2.7 References :

1. Corporate Accounting - M. C. Shukla, T. S. Grewal, M. P. Gupta & B. M. Agarwal -S. Chand Publishing
2. Advanced Accountancy (Volume-II) -S. N. Maheshwari & S. K. Maheshwari - Vikas Publishing House
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Unit 3

Computation of Insurance Claim under Fire Consequential Loss Policy

Computation of Insurance Claim under fire consequential loss policy

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3.0 Objectives

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3.0 Objectives :

After Studying this Unit you will be able to –

1) Identity the major risks to which a business is exposed.

2) Compute the amount of loss recoverable from the insurance company against a policy for loss of profit.

3) To compensate for loss of profit suffered due to interruption of business following a fire or other insured peril.

4) To indemnify the insured for reduction in turnover (sales) caused by disruption of normal business operations.

5) To maintain the financial stability of the business during the indemnity period until normal operations are restored.

3.1 Introduction :

It is also called loss of profit insurance policy. The purpose of any business organization activity is to earn profit. When a fire occurs, it destroys not only the property of the firm such as buildings, machinery, stock etc. but is also destroys, or at least seriously affects, the capacity of the firm to do business till its properties are rebuilt. Inability to produce and sell naturally results in loss of profits that could have been earned, the loss of profits is increased by the fact that constant or standing charges cannot be recovered. In other words, in the event of fire, it not only destroys the properties but also affects the earning capacity of the business for some time due to decrease in the production rate, which leads to decrease in sales. Due to shortage of sales the profit that would have been earned is also affected and the reduction in profit is called loss of profit (consequential loss).

A loss of profit policy provides insurance coverage to the business against loss of profit and to cover the standing charges (fixed expenses) that the business wishes to insure in the event of disruption of business activity on account of fire or any other abnormal situations that may cause interruption in business. Hence, loss profit policy covers both the type of losses of standing charges due to its non-recovery of course, the losses are met by the company subject to an average clause. In addition, the business has to pay its regular standing charges (such as wages and salaries, rent and rates tec.) which cannot be recovered. Also, it may have to bear increased cost of working to avoid reduction in turnover (such as rent temporary premises hired). Thus, loss of profit by fire has three components viz.

a) Loss of profit due to reduction of turnover.
b) Loss due to standing charges un-recoverable.
c) Loss on account of increased cost of working.

A loss of profit policy covers all these three types of losses called 'Consequential Loss'. It is possible to take out a policy to cover such a loss arising out of a fire, the consequential loss policy can be taken only if there is policy for the loss of property by fire. An ordinary policy on the property or stocks will not cover loss of profits, a separate policy will be necessary and A special premium is charged for this policy. But no claim in respect of loss of profits is

admitted unless there is also an admission of liability for loss of property or stocks. However, the amount of the consequential loss may not depend on the value of the property destroyed – a small damage may give rise to a rather big consequential loss if the dislocation of the business is serious.

3.2 Presentation of Subject Matter

3.2.1 Important Terms

1) Indemnity Period –

The period during which the sales are expected to be affected due to fire is stated in the policy. This period is known as indemnity period. The period of time required to restore business operations to its normal condition (prevailing prior to fire) is called as indemnity period. This is also called as dislocation period or a period of claim. However, if the actual period required to restore the original position of the business is less than the indemnity period stated in the policy, the sales of actual period are considered to ascertain the loss of profit and not the indemnity period.

2) Standard Sale or Turnover –

It refers to the sales or turnover affected in the previous year corresponding or parallel to the indemnity period. Standard sales are defined as the sales during that period in 12 months immediately before the date of damage which corresponds which the indemnity period. E. g. Fire occurred on 15-04-2025 and indemnity period is 5 months (from 16-04-2025 to 16-09-2025). In this case standard turnover is the sales during 16-04-2024 to 16-09-2024.

3) Annual Turnover –

It is also termed as actual sales. It is the turnover during the 12 months immediately before the date of fire. E. g. Annual turnover will be the sales for the period form 15th April 2024 to 14th April 2025. If the indemnity period is 12 months, then the annual turnover and standard turnover will be the same.

4) Short Sales –

Short sales are also known as reduced sales, in order to ascertain the reduction in sales during the indemnity/ dislocation period. This is difference between Standard sales and the Actual sales. The following equation is used to calculate short sale -

Short sale = Standard sale – Sales during Actual indemnity period.

5) Standing Charges –

Standing charges it means fixed charges or constant expenses. Even business may have stopped for certain period of time but these expenses remain continue. Also they do not depend upon the volume of production or sale. Such expenses are generally Interest on Debentures or loan, Wages of Skilled Workers, Salary of Permanent Staff, Rent, Rates, insurance and Taxes (other than income tax), Directors fees, Audit fees, depreciation on fixed assets.

6) Net profit –

It is the net trading profit (exclusive of all capital receipts and accretions and all outlay properly chargeable to capital) resulting from the business after due provisions for all standing and other charges including depreciation.

7) Gross Profit –

The sum produced by adding to the Net Profit the amount of the Insured Standing Charges, or if there be no Net Profit the amount of the Insured Standing Charges less such a proportion of any net trading loss as the amount of the Insured Standing Charges bears to all the standing charges of the business.

8) Increased in Cost of working –

When fire breaks out in the business and displaces it, there may be additional expenditures incurred avoid further reduction in turnover of business. It is additional expenditure incurred during the indemnity period. It must not exceed the gross profit on increased sales resulted by this additional expenditure. Normally loss of profit policy contains a clause for indemnity to cover such increase in the insured standing charges.

9) Saving in expenses –

Any saving in expenses will have to be deducted before arriving the claim for loss of profit and increased working expenses.

10) Average Clause –

In order to discourage under insurance, fire insurance policies often include and average clause. The effect of this clause is that if the amount of the policy is less than the value of the

subject matter insured, the insurer will be liable only for that proportion of the loss which the amount of policy bears to the total value of the subject matter. Where the policy covers a portion of the loss, this is ascertained by then allowing the claim only proportionately.

$$\text{Loss of Profit} \times \frac{\text{Amount of policy}}{\text{Gross profit that would have been earned on sales for 12 months ending on the date of fire (adjusted)}}$$

Gross profit that would have been earned on sales for 12 months ending on the date of fire (adjusted)

Check your Progress

A) Fill in the blanks and complete the following statements

1. Amount expected sales during indemnity periods over actual sales is called as .....

   A. Gross Sales B. Net Sales

   C. Short Sales D. None of the above

2. The standing charges covered under insurance policy is known as .....

   A. Fixed Charges B. Fluctuating Charges

   C. Insured Standing Charges D. Miscellaneous Charges

3. Average clause is applied in case of .....

   A. Over Insurance B. Fair Insurance

   C. Under Insurance D. None of the above

4. The period during which business activities are disorganized resulting in lower sales is known as .....

   A. Short Sales B. Indemnity Period

   C. Locking Period D. Opening Period

5. The Fixed expenses incurred irrespective of the reduction in turnover are called as .....

A. Contingent Expenses B. Standing Charges

C. Fluctuating Charges D. All of the above

6. Which of the following is uninsured standing charge?

A. Wages of unskilled workers B. Salaries

C. Printing and Stationery D. None of the above

7. The turnover for the period corresponding with the indemnity period during the preceding accounting year is called as .....

A. Half yearly Turnover B. Standard Turnover

C. Annual Turnover D. None of the above

8. The difference between standard turnover and actual turnover during the dislocation period is .....

A. Standard Sales B. Actual Sales

C. Total Sales D. Short Sales

9. Standing charges specified in the policy in the case of an accident are called as .....

A. Insured Standing Charges B. Standard sales

C. Uninsured Standing Charges D. None of the above

10. Standing charges not specified in the policy in the case of an accident are called as .....

A. Insured Standing Charges B. Standard sales

C. Uninsured Standing Charges D. None of the above

11. Additional expenses incurred to avoid reduction in sales is known as .....

A. Increased cost of working B. Fixed Expenses

C. Variable expenses D. Saving in Standing Charges

12. Claim for Loss of Profit = Short Sales X .....

A. Gross Profit Ratio B. Indemnity Ratio

C. Lower of Gross Profit Ratio & Indemnity Ratio

D. Only Gross Profit Ratio

13. Saving in Insured standing charges are calculated for Indemnity period or dislocation period whichever is .....

A. Less B. More

C. Equal D. None of the above

14. .....Clause is applicable in case of under insurance

A. Average B. Normal

C. Short Sales D. Indemnity Period

15. .....policy cover loss of gross profit sustained as a consequence of business interruption.

A. Loss of Profit B. Loss of Stocks

C. Average Clause D. Loss of Fixed Assets

16. Insured standing charges are the .....

A. Fixed Charges B. Variable Charges

C. Fluctuating D. Current Charges

3.2.2 Computation of Insurance Claim Under Consequential Loss Policy: -

In preparing a claim for consequential loss, it is necessary to take following steps –

Steps I – Calculate Short Sale –

Standard Sale (Estimated or expected sales during the period of Indemnity Period)	xxx
Add / Less – Increase or Decrease in sale	xxx
	xxx
Less – Actual Sales during the indemnity period	xxx
Short Sale	xxxx

Steps II – Calculate Earning or Gross Profit Ratio –

a) In case of Net Profit –

$$\text{G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges (Last trading year)}}{\text{Sales for last trading year (Accounting year)}} \times 100$$

b) In case of Net Loss –

$$\text{G. P. Ratio} = \frac{\text{Insured Standing Charges (Last trading year)} - \text{Net Loss}}{\text{Sales for last trading year}} \times 100$$

Steps III – Calculate Indemnity Ratio –

$$\text{Indemnity Ratio} = \frac{\text{Policy Amount}}{\text{Sales of last 12 months ending on the date of fire}} \times 100$$

Steps IV – Calculate Loss of Profit –

Loss of Profit = Short sale × Lowest above two ratio

Steps V – Calculate Gross Claim –

Loss of Profit	xxx
Add – Expenses incurred to recovers the loss / Increase in working expenses	xxx
	xxx
Less – Saving the standing charges / fixed charges or Expenses	xxx
Gross Claim	xxxx

Steps VI – Calculate Net Claim –

$$\text{Net Claim} = \frac{\text{Gross Claim} \times \text{Policy Amount}}{\text{Gross profit in Standard Sale}}$$

Note :

1. "If adjustments regarding expenses and production are not given in the Illustration, then in that case, calculate the net claim instead of calculating the gross claim."
2. "If the gross claim has not been calculated in the Illustration, then in the net claim formula, the amount of loss of profit should be taken instead of the gross claim."
3. While computing gross profit on standard sales, calculate it on the sales figure that has been considered in the indemnity ratio based on the gross profit ratio."
4. Illustrations on ascertaining fire claim under Loss of Profit Policy -

3.2.3 Illustrations on ascertaining fire claim under Loss of Profit Policy

A fire occurred in factory premises of Mr. Jamnalal on 1st March,2025. The business was insured for the loss of profits, the period of indemnity being nine months.

The following details are available:-

Particulars	**Amt.(₹)**
Net profit (after deducting standing charges Rs. 10,000) for the year ended 31st Dec. 2024	50,000
Sales for the year ending on 28th feb. 2025	6,00,000
Sales the year ended 31st Dec. 2024	5,00,000
Sales for nine months after 1st March 2025	85,000
Sales from 1st March to 30th Nov. 2024	3,75,000
Amount of the policy for loss of profit	60,000

Calculate the amount of the claim.

Solution -

1. Short Sales = Estimated Sale During Indemnity Period

(01-03-2004 to 30-11-2004) 9 Months	375000
Less: Actual Sale indemnity period	85000
Short Sale	**290000**

$$\text{2. G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges (Last trading year)}}{\text{Sales for last trading year (Accounting year)}} \times 100$$

$$= \frac{50000 \times 10000}{500000} \times 100$$

$$= 12\ \%$$

3. Indemnity Ratio =

$$\text{Indemnity Ratio} = \frac{\text{Policy Amount}}{\text{Sales of last 12 months ending on the date of fire}} \times 100$$

$$= \frac{60000}{6000000} \times 100$$

$$= 12\ \%$$

4. Loss of Profit = Short Sale × Lowest of above two Ratio

$$= 290000 \times 10\%$$

$$= 29000$$

5. Net Claim =

$$\text{Net Claim} = \frac{\text{Loss of Profit} \times \text{Policy Amount}}{\text{Gross profit in Standard Sale}}$$

$$= \frac{29{,}000 \times 60{,}000}{6{,}00{,}000 \times 12\%}$$

$$= \frac{29{,}000 \times 60{,}000}{72{,}000}$$

$$= 24000$$

Illustration No. 2 :

Mr. Michel Jackson holds a loss of profit policy for Rs. 60,000, the indemnity period being six months. His sales for the year ended on 31st December, 2024 were Rs. 9, 60,000 and net profits Rs. 1, 70,400 after deducting standing charges Rs. 62,400

A Fire occurred on 20th January, 2025 and destroyed his premises. The following particulars are available from the books which were saved.

1. The sales during the period of dislocation were Rs. 69,600 and for the corresponding period in the preceding year were Rs. 2,13,600.
2. The expenses incurred to mitigate loss were Rs. 6,000.
3. The savings of the insured standing charges amounted to Rs. 3,600.
4. The sales for the 12 months before the fire were Rs. 3, 00,000.

- Prepare a claim for consequential loss.

Solution –

1. Short Sales	=	Estimated Sale During Indemnity Period	2,13,600
		Less: Actual Sale During the indemnity period	69,600
		Short Sale	**1,44,000**

$$\text{2. G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges (Last trading year)}}{\text{Sales for last trading year (Accounting year)}} \times 100$$

$$= \frac{170400 \times 62400}{960000} \times 100$$

$$= 24.25\%$$

3. Indemnity Ratio =

$$\text{Indemnity Ratio} = \frac{\text{Policy Amount}}{\text{Sales of last 12 months ending on the date of fire}} \times 100$$

$$= \frac{60000}{300000} \times 100$$

$$= 20\ \%$$

4. Loss of Profit = Short Sale × Lowest of above two Ratio

$$= \text{Short Sale} \times \text{Indemnity Ratio}$$

$$= 144000 \times 20\%$$

$$= \mathbf{28800}$$

5. Gross Claim =

Loss of Profit		28800
Add – Expenses incurred mitigate		6000
Less; Saving of Standing Charges		3600
	Gross Claim	31200

6. Net Claim =

$$\text{Net Claim} = \frac{\text{Gross Claim} \times \text{Policy Amount}}{\text{Gross profit in Standard Sale}}$$

$$= \frac{31{,}200 \times 60{,}000}{3{,}00{,}000 \times 24.25\%}$$

$$= \frac{31{,}200 \times 60{,}000}{72{,}750}$$

$$= \mathbf{25{,}732}$$

Illustration No. 3 :

On 1st November, 2025 a severe fire broke out in the premises of ILL LUCK Co. Ltd. The indemnity period lasted for four months during which the sales of the company were

reduced to Rs. 2, 00,000 only. The company closes its accounts on 30th June each year. The profit and loss A/C for the year ended 30th June, 2025 is given below:

Profit and loss Account

(For the year ended 30th June, 2024)

Particulars	(₹)	Particulars	(₹)
To opening stock	5, 00,000	By sales	47, 50,000
To purchase	30, 00,000	By closing stock	2, 50,000
To variable exp.	7, 87,500		
To standing charges	3, 62,500		
To net profits	3, 50,000		
Total	**50, 00,000**	**Total**	**50, 00,000**

The company took a loss of profit policy for a sum of Rs. 6, 00,000. The sales of the company for 12 months ending the date of fire were Rs. 50, 00,000 and for four months from 1st November, 2024 to the end of February, 2025 were Rs. 15, 00,000.

It was noted that sales for the first four months of the year under indemnity were 20% higher than the previous year.

- Compute the claim for loss of profit.

Solution :

1. Short Sales =	Estimated Sale During Indemnity Period (1st November 2024 to 28th February 2025)	15,00,600
	Add: 20% Income 150000 × 20%	3,00,000
		18,00,000
Less:	Actual Sale During the indemnity period	2,00,000
	Short Sale	**16,00,000**

$$\text{2. G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges (Last trading year)}}{\text{Sales for last trading year (Accounting year)}} \times 100$$

$$= \frac{3,50,000 \times 3,62400}{47,50,000} \times 100$$

$$= \mathbf{15\%}$$

3. Indemnity Ratio =

$$\text{Indemnity Ratio} = \frac{\text{Policy Amount}}{\text{Sales of last 12 months ending on the date of fire}} \times 100$$

$$= \frac{6,0,000}{50,00,000} \times 100$$

$$= \mathbf{12\ \%}$$

4. Loss of Profit = Short Sale × Lowest of above 2 Ratio

$$= \text{Short Sale} \times \text{Indemnity Ratio}$$

$$= 16,00,000 \times 12\%$$

$$= \mathbf{1,92,000}$$

5. Net Claim =

$$\text{Net Claim} = \frac{\text{Loss of Profit} \times \text{Policy Amount}}{\text{Gross profit in Standard Sale}}$$

$$= \frac{1,92,000 \times 6,00,000}{50,00,000 \times 15\%}$$

$$= \frac{1,92,000 \times 6,00,000}{7,50,000}$$

= **1,53,600**

Illustration No. 4 :

A fire occurred in the premises of darling co. ltd. On 1st June, 2025. The company has a loss of profit policy of Rs. 30,000. Sales from 1st June 2024 to 31st May 2025 were Rs. 2, 50,000. Similarly the sales from 1st June, 2024 to 30th Sept. 2024, being Rs. 75,000. During the indemnity period which lasted for 4 months, sales were Rs. 10,000. The company closed its accounts on 31st December. The profit and loss a/c for 2024 is given below:

Particulars	(₹)	Particulars	(₹)
To opening stock	25,000	By sales	2,37,500
To purchases	1,50,000	By closing Stock	12,500
To Manufacturing expenses	16,750		
To selling exp. (variable)	22,625		
To fixed expenses	18,125		
To net profits	17,500		
Total	**2,50,000**	**Total**	**2,50,000**

Comparing the sales of the first four months of 2025 with those of 2024, it was found that sales were 10% higher in 2025.

- Determine the loss of profit.

Solution :

1. Short Sales =	Estimated Sale During Indemnity Period (1st June 2024 to 30th September 2024)	75,000
	Add: 10% Income (75000)	7,500
		82,500
Less :	Actual Sale During the indemnity period	10,000
	Short Sale	**72,500**

$$\text{2. G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges (Last trading year)}}{\text{Sales for last trading year (Accounting year)}} \times 100$$

$$= \frac{1{,}75{,}400 \times 18{,}125}{2{,}37{,}500} \times 100$$

$$= \mathbf{15\%}$$

3. Indemnity Ratio =

$$\text{Indemnity Ratio} = \frac{\text{Policy Amount}}{\text{Sales of last 12 months ending on the date of fire}} \times 100$$

$$= \frac{30{,}000}{2{,}50{,}000} \times 100$$

$$= \mathbf{12\ \%}$$

4. Loss of Profit = Short Sale × Lowest of above 2 Ratio

$$= 72{,}500 \times 12\ \%$$

$$= \mathbf{8{,}700}$$

5. Net Claim =

$$\text{Net Claim} = \frac{\text{Loss of Profit} \times \text{Policy Amount}}{\text{Gross profit in Standard Sale}}$$

$$= \frac{8{,}700 \times 30{,}000}{2{,}50{,}000 \times 15\%}$$

$$= \frac{8{,}700 \times 30{,}000}{37{,}500}$$

$$= \mathbf{6{,}960}$$

Illustration No. 5 :

From the following particulars find out claim under the loss of profit policy.

2) Date of fire — 1st April, 2003

3) Policy Value — Rs. 40,000

4) Indemnity period — Four months.

5) Dislocation period upto 30.7.2003.

6) Sales for 2002 accounting year Rs. 1, 20,000. Net profit for 2002 Rs. 13,000. Standing charges (all insured) Rs. 17,000.

7) Sales from 1.4.2002 to 31.3.2003 — Rs. 1,60,000

8) Sales from 1.4.2003 to 30.9.2003 — Rs. 20,000

9) Sales from 1.4.2003 to 1.8.2003 — Rs. 15,000

10) Sales from 1.4.2002 to 30.9.2002 — Rs. 35,000

11) Sales from 1.4.2002 to 1.8.2002 — Rs. 50,000

- There is clear upward trend of 10% in the business.

Solution :

1.	Short Sales =	Estimated Sale During Indemnity Period (1st April 2002 to 1st August 2002)	50,000
		Add: 10% Income (50000 × 10%)	5,000
			55,000
	Less :	Actual Sale During the indemnity period	15,000
		Short Sale	**40,000**

$$2.\ \text{G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges (Last trading year)}}{\text{Sales for last trading year (Accounting year)}} \times 100$$

$$= \frac{13{,}000 \times 17{,}000}{1{,}20{,}000} \times 100$$

$$= \mathbf{25\%}$$

3. Indemnity Ratio =

$$\text{Indemnity Ratio} = \frac{\text{Policy Amount}}{\text{Sales of last 12 months ending on the date of fire}} \times 100$$

$$= \frac{40{,}000}{1{,}60{,}000} \times 100$$

$$= \mathbf{25\ \%}$$

4. Loss of Profit = Short Sale × Lowest of above 2 Ratio

$$= 40{,}000 \times 25\ \%$$

$$= \mathbf{10{,}000}$$

5. Net Claim =

$$\text{Net Claim} = \frac{\text{Loss of Profit} \times \text{Policy Amount}}{\text{Gross profit in Standard Sale}}$$

$$= \frac{10{,}00 \times 40{,}000}{1{,}60{,}000 \times 25\%}$$

$$= \frac{10{,}00 \times 40{,}000}{40{,}000}$$

$$= \mathbf{10{,}000}$$

Illustration No. 6 :

Mahesh has a loss of profit policy of Rs. 90,000 under which the period of indemnity is three months. His accounts for the year ended 31.3.2002 show the sales at Rs.7, 00,000 and a net profit of Rs.70, 000. The standing charges debited in the accounts to arrive at the profit figure amounted to Rs.3, 500.

On 1.7.2002 a fire occurred which resulted in part suspension of his business activities. He presents the following data regarding sales:

Year	July	August	September	October	November
2001 (Rs.)	65,000	70,000	68,000	72,000	80,000
2002 (Rs.)	15,000	25,000	30,000	45,000	60,000

The sales for the twelve months ended 30.6.2002 are Rs.7, 50,000. It is estimated that improved methods of production since April, 2002 would increase the profitability by 2.5% on sales.

- Find out the claim under the loss of profit policy.

Solution :

1. Short Sales	= Estimated Sale During Indemnity Period	2,03,000
	Less: Actual Sale During the indemnity period	70,000
	Short Sale	**1,33,000**

$$\text{2. G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges (Last trading year)}}{\text{Sales for last trading year (Accounting year)}} \times 100$$

$$= \frac{70{,}000 \times 3{,}500}{7{,}00{,}000} \times 100$$

= 10.5%

Add : Increase the profitability by 2.5% on Sale

= 10.5% + 2.5%

= 13%

3. Indemnity Ratio =

$$\text{Indemnity Ratio} = \frac{\text{Policy Amount}}{\text{Sales of last 12 months ending on the date of fire}} \times 100$$

$$= \frac{90,000}{7,50,000} \times 100$$

= 12 %

4. Loss of Profit = Short Sale × Lowest of above 2 Ratio

= 1,33,000 × 12 %

= 15,960

5. Net Claim =

$$\text{Net Claim} = \frac{\text{Loss of Profit} \times \text{Policy Amount}}{\text{Gross profit in Standard Sale}}$$

$$= \frac{15,960 \times 90,000}{7,50,000 \times 13\%}$$

$$= \frac{15,960 \times 90,000}{97,500}$$

= 14,732.30

Illustration No. 7 :

From the following information, calculate the amount of claim under loss of profit policy.

1. Date of fire 1st April, 2010.
2. Period of indemnity: 4 months.
3. Policy amount Rs. 3, 00,000.
4. Sales from 1.1.2009 to 31.12.2009 Rs. 18, 00,000.
5. Sales from 1.4.2009 to 31.3.2010 Rs. 20, 00,000.
6. Net profit for the year ended 31.12.2010 Rs. 2, 00,000 and standing charges Rs. 2, 00,000. (out of which Rs. 40.000 were uninsured)

7. Sales during the dislocation period Rs. 2, 00,000. And during the corresponding period in the last year Rs. 6, 00,000.

Solution :

1. Short Sales =	Estimated Sale During Indemnity Period	6,00,000
	Less: Actual Sale During the indemnity period	2,00,000
	Short Sale	**4,00,000**

$$\text{2. G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges (Last trading year)}}{\text{Sales for last trading year (Accounting year)}} \times 100$$

$$= \frac{2,00,000 \times 1,60,00}{18,00,000} \times 100$$

= 20%

3. Indemnity Ratio =

$$\text{Indemnity Ratio} = \frac{\text{Policy Amount}}{\text{Sales of last 12 months ending on the date of fire}} \times 100$$

$$= \frac{3.00,000}{20,00,000} \times 100$$

= 15 %

4. Loss of Profit = Short Sale × Lowest of above 2 Ratio

= 4,00,000 × 15%

= 60,000

5. Net Claim =

$$\text{Net Claim} = \frac{\text{Loss of Profit} \times \text{Policy Amount}}{\text{Gross profit in Standard Sale}}$$

$$= \frac{60,000 \times 3,00,000}{20,00,000 \times 20\%}$$

$$= \frac{60,000 \times 3,00,000}{4,00,000}$$

= 45,000

Illustration No. 8 :

Mr. Sanjay holds a loss of profit policy. From the following information calculate the amount of claim under loss of profit policy.

1. The accounts are prepared annually on 31st December.
2. The net profit plus insured standing charges for the year ended 31st December, 2000 amounted to Rs.50,000.
3. A fire occurred on 30th April, 2001 the period of indemnity is 6 months.
4. The sales for the year ended 30th April, 2001 were Rs. 1, 40,000. And for the year ended 31st December were Rs. 1, 25,000.
5. The sales during the period of dislocation were Rs. 20,000. And for the corresponding period in the preceding year were Rs.45, 000.
6. The expenses incurred to mitigate loss were Rs. 2,000.
7. The saving in insured standing charges due to fire amounted to Rs. 500.
8. The amount of policy was Rs.40, 000.

Solution :

1. Short Sales	= Estimated Sale During Indemnity Period	45,000
	Less: Actual Sale During the indemnity period	20,000
	Short Sale	**25,000**

$$\text{2. G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges (Last trading year)}}{\text{Sales for last trading year (Accounting year)}} \times 100$$

$$= \frac{50,000}{1,25,000} \times 100$$

= 40%

3. Indemnity Ratio =

$$\text{Indemnity Ratio} = \frac{\text{Policy Amount}}{\text{Sales of last 12 months ending on the date of fire}} \times 100$$

$$= \frac{40000}{1,40,000} \times 100$$

= 28.57 %

4. Loss of Profit = Short Sale × Lowest of above two Ratio

= Short Sale × Indemnity Ratio

= 25,000 × 28.57%

= 7,142.5

5. Gross Claim =

Loss of Profit		7,142.5
Add – Expenses incurred mitigate		2000
	Gross Claim	**8,642.5**

6. Net Claim =

$$\text{Net Claim} = \frac{\text{Gross Claim} \times \text{Policy Amount}}{\text{Gross profit in Standard Sale}}$$

$$= \frac{8,642.5 \times 40,000}{1,40,000 \times 40\%}$$

$$= \frac{8{,}642.5 \times 40{,}000}{56{,}000}$$

$$= \mathbf{6{,}173.21}$$

Illustration No. 09 :

Form the following particulars of Dada Company, Kolhapur find out under the loss of profit policy:

Date of fire	:	1st April,2021
Policy amount	:	Rs. 4,000.
Indemnity Period	:	Four Months
Dislocation Period	:	From 1st April, 2021 to 30-09-2021

Net profit for the year ended on 31st March, 2021 was Rs. 33,000: sanding charges (all insured) Rs. 22,000.

Sales from 1-4-2020 to 31-3-2021	1,76,000
Sales from 1-4-2019 to 31-3-2020	1,60,000
Sales from 1-4-2021 to 30-9-2021	20,000
Sales from 1-4-2021 to 31-7-2021	15,000
Sales from 1-4-2020 to 30-9-2020	35,000
Sales from 1-4-2020 to 31-7-2020	50,000

There is clear upward trend of 10% in the business.

Solution :

1.	Standard Sale (Sales from 1-4-2020 to 31-7-2020	50,000
	Add: 10% increase in Business (50000 × 10%)	5,000
	Adjusted Standard Sale	**55,000**
	Less : Sale During indemnity period	15,000
	Short Sale	**40,000**

2. Calculation of Gross Profit Ratio $= \frac{\text{Net Profit + Insured Standing Charges}}{\text{Sales for last Financial year}} \times 100$

$= \frac{33,000 \times 22,000}{1,76,000} \times 100$

= 31.25%

3. Loss of Profit = Short Sale × G. P. Ratio

= 40,000 × 31.25 %

= Rs.12,000

4. Net Claim =

$$\text{Net Claim} = \frac{\text{Loss of Profit} \times \text{Policy Amount}}{\text{Gross profit in Standard Sale}}$$

$= \frac{12,500 \times 40,000}{1,76,000 \times 31.25\%}$

$= \frac{12,500 \times 40,000}{55,000}$

= 9,091

Illustration No. 10 :

Form the following information, find the claim under a Loss of Profit Policy:

Particulars	(₹)	Particulars	(₹)
Sales in 2020	1,00,000	Net Profit in 2023	10,000
Sales in 2021	1,20,000	Date of Dislocation	1-1-2024

Sales in 2022	1,44,000	Period of Dislocation	3 Months
Sales in 2023	1,72,800	Indemnity Period	9 Months
Policy Value	50,000		

All (Insured) Standing Charges in 2023 = Rs. 7,280.

Sale from 1-1-2023 to 31-3-2023 = Rs. 43,200

Sales from 1-1-2024 to 31-3-2024 = Rs. 11,840

The was no reduction in Standing Charges during the dislocation period, nor were there may additional costs.

Solution :

1. Sales during period of dislocation i.e. form 1-1-2024 to 31-3-2024 = Rs. 11,840
2. Standard Sales i.e. Sales from 1-1-2023 to 31-3-2023 = Rs. 43,200

3. Trend of increase in Sales per annum:

2020 : 1,00,000

2021 : 1,20,000 = Rs. (1,00,000 + 20,000) = 100% + 20%

2022 : 1,44,000 = Rs. (1,20,000 + 24,000) = 120% + 20%

Thus from 2020 to 2022 there is clear increase of 20% on the sales of immediate previous year.

4. Adjusted Standard Sales:

= Rs. 43,200 + 20%

= Rs. 43,200 + 8,640

= 51,840

5. Short Sales =

Adjusted Standard Sales		51,840
Less -	Sales during dislocation	11,840
	Short Sales	**= 40,000**

6. Gross Profit for Claim Purpose:

$$= \frac{\text{Net Profit + Insured Standing Charges}}{\text{Sales of Previous Financial Year}} \times 100$$

$$= \mathbf{10\%}$$

7. Amount of Claim :

= Rate of Gross × Profit Short Sales

= 10% x Rs. 40,000

= **Rs. 4,000**

Check your Progress :

B) Fill in the blanks and complete the following statements.

1. If the indemnity period is 12 months, Standard Sale is Rs. 50,000, Sales during indemnity period is Rs. 10,000, then Short Sales amount will be_____

   A. Rs.50,000 B. Rs.40,000

   C. Rs.30,000 D. Rs.42,000

2. If the indemnity period is 6 months, a standard sale is Rs.5,00,000, an Actual sale during indemnity period is Rs.2,00,000 then short sales amount will be_____

   A. 3,00,000 B. 4,00,000

   C. 4,20,000 D. 3,00,000

3. Standard sales is 50,000, Upward trend is 5,000, Actual sales during indemnity period is 15,000, then short sales amount will be_____

   A. 20,000 B. 40,000

   C. 50,000 D. 70,000

4. Standard sales is 15,00,000, Upward trend is 3,00,000, Actual sales during indemnity period is 2,00,000, then short sales amount will be_____

   A. 22,20,000 B. 42,00,000

C. 16,00,000 D. 20,00,000

5. Under loss of profit method, for calculating gross claim how much will be saving in insured standing charges, if the yearly saving in insured standing charges are Rs.2,100 and period of Indemnity is 4 months?

   A. Rs.300 B. Rs.400

   C. Rs.700 D. Rs.800

6. Under loss of profit method, for calculating gross claim how much will be saving in insured standing charges, if the yearly saving in insured standing charges are Rs. 9,000 and period of Indemnity is 4 months?

   A. Rs.9,000 B. Rs.6,000

   C. Rs.3,000 D. Rs.4,500

7. If Sales of last year is Rs. 6,00,000 and sales of corresponding current year is Rs.2,00,000 then Short sales will be ……

   A. 4,00,000 B. 5,00,000

   C. 2,50,000 D. 2,56,000

8. If Net Profit is Rs. 2,00,000

   Insured Standing Charges is Rs. 1,60,000

   Sales of The Previous year is Rs. 18,00,000

   Gross Profit Rate will be……

   A. 20% B. 30%

   C. 40% D. 45%

9. If Net Profit is Rs. 4,00,000

   Insured Standing Charges is Rs. 3,20,000

   Sales of The Previous year is Rs. 36,00,000

   Gross Profit Rate will be……

   A. 20% B. 30%

C. 50% D. 65%

10. If Gross profit rate is 20% and Short Sales is Rs. 8,00,000, then Loss of Profit on Sales will be ……..

    A. Rs. 1,60,000 B. Rs. 1,00,000

    C. Rs. 80,000 D. None of the above

11. If Gross profit rate is 25% and Short Sales is Rs. 4,00,000, then Loss of Profit on Sales will be ……..

    A. Rs. 1,00,000 B. Rs. 2,00,000

    C. Rs. 1,50,000 D. None of the above

12. If Sales of last year is Rs. 5,00,000 and Sales of corresponding current year is Rs.1,00,000 then Short sales will be ……

    A. Rs.4,00,000 B. Rs.5,00,000

    C. Rs.3,00,00 D. None of the above

C) State whether each of the following statement isTrue or False.

1) An ordinary fire insurance policy covers loss of profits automatically.
2) The main purpose of a Loss of Profit Policy is to compensate for business interruption losses.
3) Standing charges are also known as fixed or constant expenses.
4) Rent and salaries are examples of standing charges.
5) The indemnity period is the period required to restore the business to its normal condition.
6) Short sales are calculated by subtracting actual sales from standard sales.
7) Standard turnover refers to sales made after the date of fire.
8) Annual turnover means the turnover during the 12 months immediately before the date of fire.
9) Increased cost of working is never covered under a Loss of Profit Policy.

10) Saving in expenses is added while calculating the insurance claim.

11) Gross Profit in a Loss of Profit Policy includes net profit and insured standing charges.

12) A Loss of Profit Policy can be taken without a Fire Insurance Policy.

13) The Average Clause discourages under-insurance.

14) A separate premium is charged for a Loss of Profit Policy.

15) Loss of profit due to reduction in turnover is covered under the policy.

16) Directors' fees and audit fees are examples of standing charges.

17) The amount of consequential loss always depends only on the value of the property destroyed.

18) Gross Claim is calculated after deducting savings in standing charges from the total loss and increased cost of working.

19) The policy compensates only for damage to property and not for business interruption.

20) Loss of Profit Policy is also known as Consequential Loss Policy.

3.3 Summary :

Consequential Loss Policy, also known as Loss of Profit Insurance Policy, protects a business against financial losses arising from interruption of business due to fire or other insured events. Fire may damage buildings, machinery and stock and also reduce the firm's capacity to produce and sell goods, resulting in loss of profit. The policy generally covers three major components: (a) loss of profit due to reduction in turnover, (b) loss arising from unrecovered insured standing charges, and (c) increased cost of working incurred to maintain sales. Important terms include Indemnity Period, Standard Turnover, Actual/Annual Turnover, Short Sales, Standing Charges, Gross Profit, Increased Cost of Working, Saving in Expenses, and Average Clause. The Average Clause applies when the business is under-insured, and the consequential loss policy is generally taken along with a policy covering physical loss or damage by fire.

3.4 Terms to Rember :

1. **Indemnity Period** : The period required to restore the business to its normal position after the fire.
2. **Standard Turnover** : The turnover of the corresponding period of the previous year during the indemnity period.
3. **Actual Turnover** : The actual sales achieved during the period of business interruption.
4. **Short Sales** : The difference between adjusted standard turnover and actual turnover.
5. **Standing Charges** : Fixed expenses that continue even when business operations are reduced or stopped.
6. **Insured Standing Charges** : Standing charges specifically covered under the insurance policy.
7. **Gross Profit Ratio** : The percentage of gross profit to sales used for calculating loss of profit.
8. **Increased Cost of Working** : Additional expenses incurred to prevent or reduce the fall in turnover.
9. **Average Clause** : A clause applied in cases of under-insurance, reducing the claim proportionately.
10. **Loss of Profit** : The profit lost because of reduced turnover during the indemnity period; generally calculated as Short Sales × lower of Gross Profit Ratio and Indemnity Ratio.

3.5 Answer to check your progress :

A) 1) Short Sales, 2) Insured Standing Charges, 3) Under Insurance, 4) Indemnity Period 5) Standing Charges, 6) Wages of unskilled workers, 7) Standard Turnover, 8) Short Sales, 9) Insured Standing Charges, 10) Uninsured Standing Charges, 11) Increased cost of working, 12) Lower of Gross Profit Ratio & Indemnity Ratio, 13) Less, 14) Average, 15) Loss of Profit, 16) Fixed Charges.

B) 1) Rs.40,000, 2) Rs.4,00,000, 3) Rs. 40,000, 4) Rs. 16,00,000, 5) Rs.700, 6) Rs.3,000, 7) Rs.4,00,000, 8) 20%, 9) 20%, 10) Rs. 1,60,000, 11) Rs. 1,00,000, 12) Rs.4,00,000

C) 1) False, 2) True, 3) True, 4) True, 5) True, 6) True, 7) False, 8) True, 9) False, 10) False, 11) True, 12) False, 13) True, 14) True, 15) True, 16) True, 17) False, 18) True, 19) False, 20) True

3.6 Exercises for Self-Study :

3.6.1 Short Notes –

1. Short Sales
2. Indemnity Ratio.
3. Average Clause
4. Standard Sales
5. Consequential Loss Policy or Loss of Profit Policy
6. Dislocation Period
7. Standard Charges

3.6.2 Short Answer Question –

1. Explain the necessity of Loss of Profit Policy?
2. How to calculate claims under Loss of Profit Policy?
3. Explain the steps involved in calculation of claims under Loss of Profit Policy.

3.6.3 Exercise - Practical Illustrations for self-study –

Illustration No. 1

Mr. Shrinath had taken a loss of profit policy for Rs. 60,000 the period of indemnity being six months after the fire. On the 16th May, 2005, his office premises were destroyed by the fire. The following information is available from his books:

Particulars	**Amt.(₹)**
Net profit for 2022	36,000
Standing charges for 2022	12,000
Turnover for 2022	7,20,000
Turnover from the year ending on 15th May, 2023	7,50,000
Turnover from 16th May to 15th Nov. 2022	4,50,000
Turnover from 16th May, 2005 to 15th Nov. 2023	1,50,000

- Calculate the amount recoverable from the insurance company.

Illustration No. 2 :

Mr. Arnold holds a loss of profit policy for Rs. 50,000, the indemnity period being six months. His sales for the year ended on 31st December, 2024 were Rs. 8, 00,000 and net profit Rs. 1, 42,000 after deducting standing charges Rs. 52,000.

A fire occurred on 20th April, 2025 and destroyed his premises. The following particulars are available from the books which are saved.

1. The sales during the period of dislocation were Rs. 58,000 and for the corresponding period in the preceding year were Rs. 1, 78,000.
2. The expenses incurred to mitigate the loss were Rs. 5,000.
3. The saving of the insured standing charges amounted to Rs. 3,000.
4. The sales for twelve months before fire were Rs. 2, 50,000.

- Prepare a claim for consequential loss.

Illustration No. 3

A business holds a loss of profit policy. From the following information prepare a claim for consequential loss:

1. The accounts are prepared annually to 31st December. The net profit plus insured standing charges for the year ended 31st December, 2024 amounted to Rs. 2, 00,000.
2. A fire occurred on 30th April, 2025. The period of indemnity six months.
3. The sales for the year ended 30th April, 2025 were Rs. 5, 24,000 and for the year ended 31st December, 2024 were Rs. 5, 00,000.
4. The sales during the period of dislocation were Rs. 80,000 and corresponding period in the preceding year were Rs. 1, 80,000.
5. The expenses incurred to mitigate loss were Rs. 8,000.
6. The saving on insured standing charges due to fire amounted to Rs. 2,000.

7. The amount insured was Rs. 1, 57,000.

Illustration No. 4 :

On 1st October, 2025 a severe fire broke out in the business of Mr. Unlucky Ltd. The indemnity period lasted for four months during which the sales of the co. were reduced to Rs. 2, 40,000. The company closes its books on 31st June every year. The profit and loss accounts for the year ended 30th June, 2025 is as under.

Particulars	(₹)	Particulars	(₹)
To opening stock	6,00,000	By sales	57,00,000
To purchases	36,00,000	By closing Stock	3,00,000
To variable expenses	9,45,000		
To fixed expenses	4,35,000		
To net profits	4,20,000		
Total	**60,00,000**	**Total**	**60,00,000**

The company took a loss of profit for a sum of Rs. 7, 20,000. The sales of the company for the 12 months ending the date of fire were Rs. 60, 00,000 and for the four months from the 1st October, 2024 to the end of January, 2025 were Rs. 18, 00,000.

It was noted that the sales for the first four months for the year under indemnity were 20% higher than the previous year.

- Compute the claim for loss of profit…..

Illustration No. 5 :

Mr. Jayantilal was insured under a loss of profit for Rs. 42,000. He closes his books of accounts on 31st December every year. A considerable damage was caused to his premises on 1st July, 2000. The following further information is available to you from his records

Particulars	Amt.(₹)
1) Turnover from 1.7. 2000 to 30. 9. 2000	20,000
2) Turnover in the corresponding period of 1999	1,20,000
3) Turnover during the year ending 31. 12. 1999	4,00,000
4) Turnover during the year ending 30th June 2000	4,80,000
5) Standing charges during the year ending 31. 12. 1999	24,000
6) Net Profit during the year ending 31. 12. 1999	16,000

It has been ascertained that the business of Mr. Jayantilal has consistently shown an increase of 25% in the turnover in the months preceding the fire over the corresponding period of the previous year.

- Show amount of claim…..

Illustration No. 6 :

From the following particulars find out the amount of claim for loss of profit:

Date of fire	30, 06, 2000
Period of indemnity	six months
Amount of policy	Rs. 40, 000
Net profit for the accounting year ended 31st march, 2000	Rs. 12, 500
Sales for the year ended 30.6.2000	Rs. 2, 00,000
Standing charges for the accounting year ended 31.3.2000	Rs. 28, 500
Turnover for the year ending 31.3.2000	Rs.1, 98,000
Turnover for the indemnity period from 1.7.2000 to 31.12.2000	Rs.56, 000
Turnover for the period from 1.7.1999 to 31.12.1999	Rs.1, 10,000

The turnover for the year 2000.2001 had shown a tendency of increase of 10% over the turnover of the preceding year.

Illustration No. 7 :

Mr. Shastri had taken a loss of profit policy for Rs.1, 20,000. The period of indemnity being 6 months after the fire. On 16th May 2018 his office premises were destroyed by fire. The following information is available from his books.

Net profit for the year ended 2017	72,000
Standing charges for the year ended 2017	24,000
Sales for the year ended 2017	14, 40,000
Sales from the year ending on 15th may 2018	15, 00,000
Sales from 16th may to 15th nov. 2017	9, 00,000
Sales from 16th may to 15th nov. 2018	3, 00,000

- Calculate the amount of fire claim.

Illustration No. 8 :

A businessman took out a loss of profit policy for Rs.90, 000 with an indemnity period of six months. His net profit for the last financial year was Rs. 56,000 after deducting standing charges of Rs. 14,000 and the sales for that period was 2, 80,000.

A fire occurred on 31st march, 2019. His turnover for six months immediately following the fire was Rs. 1, 80,000. As compared with the turnover of corresponding months in the previous year, it was short by Rs. 3, 20,000. His turnover for 12 month's immediately preceding fire was Rs. 4, 50,000.

- Calculate the amount of claim lodged with insurance company.

Illustration No. 9 :

Mr. Patil Traders are insured under loss of profit policy for Rs. 1, 26,000. Their books of accounts are closed on 31st December each year. The fire occurred in the premises of the business on 1.7.2018. The record saved disclosed the following information:

Particulars	**Amt.(₹)**
Sales during the year ended 30.6.2018	14,40,000

Sales during the year ended 31.12.2017	12,00,000
Sales from 1.7.2018 to 30.9.2018	60,000
Sales in the corresponding period from 1.7.2017 to 30.9.2017	3,60,000
Standing charges for the year ending 31.12.2017	72,000
Net profit for the year ending 31.12.2017	48,000
Period of indemnity	3 months

It has been ascertained that the business has consistently an increase of 25% in sales in the month preceding the fire over corresponding period of the previous year.

- Calculate the amount of claim.

Illustration No. 10 :

The fire occurred on the premises of Haaland ltd. on 1st June 2025 and the business was disorganized up to 30th November, 2025. Following information was extracted from the books of accounts.

Actual turnover from 1st July, 2025 to November, 2025	30,000
Turnover from 1st July to 30th November, 2024	1,00,000
Net Profit for the last financial year	45,000
Insured Standing Charges for the last financial year	30,000
Turnover for the last financial year	2,50,000
Turnover for the year ending on 30th June, 2025	2,75,000
Total standing Charges for the year	36,000

The company holds a Loss of Profit policy for Rs. 1,65,000 having an indemnity period of 6 months.

The company incurred additional expenses amounting Rs. 9,000; which reduced the loss of turnover. There was also a saving, during the indemnity period, of Rs. 2,486. There

has been a considerable increase in trade and it has been agreed that an adjustment of 20% is to be made in respect of upward trend in turnover.

Compute claim under Loss of Profit Insurance.

3.7 References for further study :

- Advanced Accounts / Corporate Accounting – *M. C. Shukla, T. S. Grewal, M. P. Gupta & B. M. Agarwal* – S. Chand Publishing
- Advanced Accountancy – *S. N. Maheshwari & S. K. Maheshwari* – Vikas Publishing House
- Advanced Accountancy – *R. L. Gupta & M. Radhaswamy* – S. Chand & Sons
- Advanced Accountancy – *S. P. Jain & K. L. Narang* – Kalyani Publishers

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Unit 4

Insurance Companies Account

Final Accounts of General Insurance Companies Regulatory framework and the preparation of specific financial statements, set by IRDAI (Insurance Regulatory and Development Authority of India)

Index -

4.0 Objectives

4.1 Introduction

4.2 Presentation of Subject Matter:

- 4.2.1 Important Basic Terminologies
- 4.2.2 General Insurance
- 4.2.3 Types of General Insurance
- 4.2.4 Final Accounts of General Insurance
- 4.2.5 Important point while preparing annual accounts of General Insurance Companies
- 4.2.6 Practical problems

4.3 Summary

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4.7 References to Further Study

4.0 Objectives :

After studying this unit you will be able to understand Final accounts of general insurance companies and regulatory framework and the preparation of specific financial statements set by IRDA.

4.1 Introduction :

IIn the previous three units, we gained a comprehensive understanding of the general insurance business and the methods of calculating insurance claims. Unit I introduced the concept of insurance, explaining its meaning, nature, principles, and various types of insurance, with particular emphasis on fire insurance. Unit II focused on the computation of insurance claims under fire insurance policies for loss of stock and loss of assets and properties, enabling students to understand the practical methods of claim settlement. Unit III extended this knowledge by explaining the computation of insurance claims under fire consequential loss (loss of profit) policies, Building upon this foundation, Unit IV shifts the focus from insurance operations and claim calculations to the financial reporting and accounting practices of general insurance companies. Every general insurance company is required to prepare its financial statements in accordance with the Insurance Act, 1938, the Insurance Regulatory and Development Authority of India (IRDAI) Act, 1999, and the regulations issued by the Insurance Regulatory and Development Authority of India (IRDAI). These regulatory provisions ensure uniformity, transparency, accountability, and financial discipline in the insurance sector.

This unit explains the regulatory framework governing the preparation of final accounts of general insurance companies and introduces the specific financial statements prescribed by IRDAI. Unlike ordinary business organizations, general insurance companies prepare specialized financial statements such as the Revenue Account, Profit and Loss Account, Balance Sheet, and accompanying schedules in the prescribed format. These statements provide information regarding underwriting performance, investment income, reserves, liabilities, assets, and the overall financial position of the insurer.

A sound understanding of these financial statements is essential for students of commerce, accounting, and insurance because they reflect the financial health, solvency, and operational efficiency of insurance companies. By studying this unit, students will be able to understand the legal requirements, accounting procedures, and reporting standards applicable to general insurance companies and appreciate the significance of financial reporting in maintaining public confidence and regulatory compliance.

4.2 Presentation of Subject Matter :

This topic contains the various terminologies related to General insurance business, various types of insurance, insurance provisions according to the Insurance Act 1938, 1999,

2002 and Insurance (Amendment) Act 2015. It also presents the accounting treatment for general insurance business etc.

4.2 Presentation of Subject Matter

4.2.1 Important Basic Terminologies:

The following are some of the basic terminologies which help in insurance business.

1. Revenue Account: The Revenue account has to be prepared in all types of insurance business in the form prescribed by IRDA. This account discloses the profit or loss made by an insurance business during a particular period.

2. Reserve for unexpired Risk: Every year Insurance companies close their books of accounts on 31st March but the risks under varied policies expire on that date is not closed. As a result, unexpired liability may occur during the remaining term of the policy, therefore a provision for unexpired risks is made. As per the Insurance Act, the provision for unexpired risks at 50% for fire, marine cargo & miscellaneous busiess except marine Hull is at 100%.

According to the section 44 of Rule 5 of the first schedule (6E), the insurance companies are allowed a deduction of 50% of net premium income in case of Fire & 183 Miscellaneous and 100% of the net premium income relating to the Marine Insurance business. The reserves are created under the Income Tax Act.

3. Additional Reserve for Unexpired Risk: This additional provision is shown separately as Additional Reserve. It shows when:

1. This type of reserve for unexpired risk is only provided if the management may feel. It is debited to the Revenue A/c.
2. In case of normal reserve for unexpired risk, the balance will be shown in the balance sheet while it will be transferred to the credit side of Revenue A/c in the next years.

4. Claim : In case of General Insurance, the claim arises only when the loss occurs as stated events in the policy. The calculation of claim or claim due/outstanding at the end is calculated in following situations:

a) Claim intimated and accepted but not paid

b) Claim intimated but not accepted and paid.

Claim = Claim intimated + Survey Fees + Medical Expenses – Claims received on insurance.

5. Bonus in Reduction of Premium: Generally in case of general insurance most of the policies are taken for one year and after the maturity it is renewed with the same company or may be fresh policy by other company. It is the practice of insurance company that the company grants a reduction in premium at the prescribed rate if the insured or the policyholder does not claim about policy. This rate of reduction gets increased every year usually for three years is the policyholder fails to make any claim year after year.

The General Insurance Company of India allows the following rates of reduction for a Motorbike; which is bonus in reduction in premium :

1st Year - 15%
2nd Year - 25%
3rd Year - 30%

6. Re-insurance: If the insurer is unable to bear the whole risk of a policy, it will reinsurance a part of risk with some other insurer. In this case the insurer is said to have ceded a part of its business to other insurer. It means the risk of the insurance is being underwritten by another insurance company. Reinsurance business is an agreement between the ceding company and the Reinsurer. It involves to cede (give) and to accept. Therefore, the other company accepts the risk against the share of premium. At the time of claim, it is divided into two companies (insurers) in the agreed proportion of the risk. It is nothing but the passing of some risk to the other insurer if it is not borne by the earlier insurer fully. It helps in reducing the risk of the insurer itself.

a) Coinsurance: It is the concept of division of large risk between the insurers. One insurance company offers the contract with the other company to the certain percentage of sum insured and transfer some risk. It reduces the burden of risk of one insurer and they can bear the risk together. The first insurer serves as a leader and acts on behalf of the others.

b) Ceding Company: The 'Ceding Company' is an insurance company which shifts part or all of the risk to another insurance company.

c) Reinsurer: The ceding company shares the premium that has received to cover the risk with another insurer called 'Reinsurer'. In such as case, in return Reinsurance company pays commission to the ceding company for giving a business.

d) Commission on Re-insurance accepted / ceded: Commission on Reinsurance accepted is needed to be paid and as such it is added in commission which paid and debited to Revenue A/c. Commission on Reinsurance ceded is received and it is credited to Revenue A/c.

7. Insurance Regulatory and Development Authority (IRDA) Regulations, 2002 : IRDA, after consultation with the Insurance Advisory Committee, in exercise of the powers conferred by Sec. 114 A of the Insurance Act 1938 (4 of 1938) published the Insurance Regulatory and Development Authority (Preparation of financial Statements and Auditors report guidelines are revised and new guidelines are set for vide notification dated 30th March, 2002. As per IRDA guidelines, the insurance business shall comply with the requirements given in schedule 'A' for Life Insurance Business and Schedule 'B' for General Insurance Business. The report of the auditors shall be in conformity with the requirements of schedule 'C'.

8. Structure of Schedule B and C : The following are the structure of schedule B given under IRDA Act, Regulations. 2002

Schedule B : For General Insurance Business :

Schedule C : (See Regulation 3) : Auditors Report :

Here we are going to study about only Schedule no. B

Schedule B : For General Insurance Business :

Part I : Accounting Principles for preparation of financial statements. Part II :

Disclosures forming part of financial statements

Part III : General Instructions for preparation of financial statements. Part IV :

Contents of Management Report

Part V : Preparation of Financial Statements

Form B – RA : Revenue Account (Policyholders A/c.) Form B – PL : Profit and Loss A/c

Form B - BS : Balance Sheet and 15 Schedules forming part of financial statements.

9. Contents of the IRDA Regulations, 2002 : 1. Preparation of financial statements, management report and auditors report :

a) An insurer carrying on Life Insurance Business, after the commencement of these regulations, shall comply with the requirements of Schedule A.

b) An insurer carrying on General insurance business, after the commencement of these regulations, shall comply with the requirements of Schedule B. Provided that this sub regulation shall apply, mutatis mutandis, to reinsurers until separate regulations are made for them.

c) The report of the auditors on the financial statements of every insurer and reinsurer shall be in conformity with the requirements of Schedule 'C' or as near thereto as the circumstances permit.

Schedule C : (See Regulation 3) : Auditors Report : The auditors shall express their opinion about whether the balance sheet, Revenue Act, Profit and Loss A/c, Receipt and Payment A/c, true and fair for the financial year. The auditor should comply other provisions as stated in IRDA 2002, regulations. (Refer Annexure I for details about Insurance Companies Regulation, 2002)

10. Provisions of the Insurance Act, 1938 and Insurance (Amendment) Act 2015:

The General Insurance Business is governed in India by the Insurance Act 1938; which is related to British Insurance Act. On May, 1971 the government nationalized the General Insurance business by an ordinance and passed the General Insurance

(Nationalisation) Act, 1972. There were 63 domestic and 44 foreign insurance

companies operating in India. General Insurance Companies is a holding company and having subsidiaries in all four zones of country i.e. the Oriental Fire and General Insurance Company Ltd., The New India Assurance Co. Ltd., the National Insurance

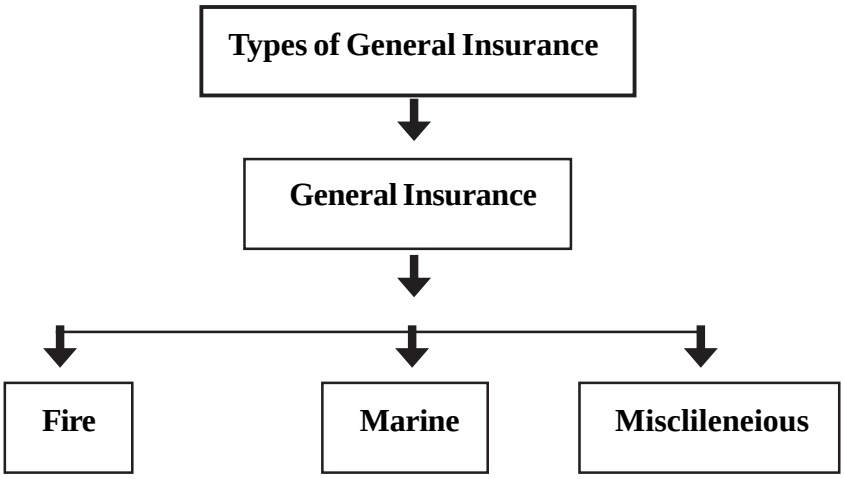
Company Ltd. (Oriental Insurance Co.) and the United India Insurance Company.

4.2.2 General Insurance :

A general insurance company is a business that provides protection against financial losses arising from risks such as fire, theft, accident, marine loss, burglary, and other unforeseen events. It helps individuals and organizations transfer risk to the insurance company in exchange for a premium, so that they can recover from unexpected losses more easily. General insurance mainly covers property, liability, health, travel, motor, and commercial risks. Unlike life insurance, it does not relate to human life protection for a long period, but it offers compensation for specific losses that may happen during the policy period.

In simple words, a general insurance company works as a financial safeguard for people and businesses. It collects premiums from policyholders, creates reserves for future claims, and settles genuine claims according to the terms and conditions of the policy.

4.2.3 Types of General Insurance: General Insurance is classified as:



Fire Insurance: Fire insurance policy is to be taken for the safety against the risk of loss of property due to the fire broke out in the business by the uncertain causes. Fire insurance is an agreement between the two parties that one party undertakes to indemnify the other party for a consideration and agreed amount against the financial loss of property or good in further period due to fire.

Marine Insurance: Marine insurance is taken by the ship or cargo owners against risk such as sinking of ship/cargo, loss by stealing etc. There are three types of marine insurance as follows: Cargo Insurance, Hull Insurance and Freight Insurance. The persons who insure cargo, hull or freight are known as underwriters. Marine losses are classified into total loss and partial loss. Total loss is divided into actual total loss and constructive total loss, while partial loss is divided into general average loss and particular average loss.

Miscellaneous Insurance: Miscellaneous Insurance policies are included the following various types of policies: miscellaneous insurance relates to motor vehicle, fidelity, credit, burglary, loss of profit, workmen's compensation etc to be considered.

Check your progress -1

A) Multiple Choice Questions:

i) The General Insurance Business is governed in India by the Insurance Act .....

a) 1972 b) 1938

c) 2015 d) 2002

ii) Schedule ..... is related to General Insurance Business.

a) A b) B

c) C d) None of these

iii) The '..... Company' is an insurance company which shifts part or all of the risk to another insurance company.

a) Ceding b) general

c) life d) Marine

iv) Miscellaneous Insurance policies are include……..

a) Motor vehicle b) loss of profit

c) burglary d) All of the above

v) General Insurance Companies is a…… company

a) Holding b) Liquidator

c) National d) None of these

B) State whether True or False:

i) Fire insurance policy is to be taken for the safety against the risk of loss of property due to the fire broke out in the business by the uncertain causes.

ii) General Insurance Companies is a holding company and having subsidiaries in all four zones of country

iii) Balance Sheet and 15 Schedules forming part of financial statements.

iv) As per the Insurance Act, the provision for unexpired risks at 25% for fire, marine cargo & miscellaneous business.

v) The Revenue account has to be prepared only General insurance business.

4.2.4 Final Accounts of General Insurance Companies :

Forms/Financial statements of General Insurance Business

The following are the forms of financial statements of General Insurance Business

FORM B-RA

Name of the Insurer…….

Registration No and Date of Registration with the IRDA…..

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20__ .

	Particulars	Schedule	Current Year ('000)	Previous Year ('000)
1.	Premium earned (Net)	1		
2.	Profit/Loss on sale/Redemption of Investment			

3.	Others (to be specified)			
4.	Interest, Dividend & Rent Gross			
	TOTAL (A)			
1.	Claims Incurred (Net)	**2**		
2.	Commission	**3**		
3.	Operating Expenses related to insurance Business	**4**		
	TOTAL (B)			
	Operating Profit/(Loss) from fire/Marine/ Miscellaneous Business C= (A - B)			
	APPROPRIATIONS			
	Transfer to Shareholders' Account			
	Transfer to Catastrophe Reserve			
	Transfer to Other Reserves (to be specified)			
	TOTAL (C)			

Note: See Notes appended at the end of Form B-PL

FORM B-PL

Name of the Insurer…….

Registration No and Date of Registration with the IRDA….

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20__.

	Particulars	**Schedule**	**Current Year ('000)**	**Previous Year ('000)**
1	OPERATING PROFIT/(LOSS)			

	(a) Fire Insurance (b) Marine Insurance (c) Miscellaneous Insurance			
2.	INCOME FROM INVESTMENTS (a) Interest, Dividend & Rent – Gross (b) Profit on sale of investments Less: Loss on sale of investments			
3.	OTHER INCOME (To be specified)			
	TOTAL (A)			
4	PROVISIONS (Other than taxation) (a) For diminution in the value of investments (b) For doubtful debts (c) Others (to be specified)			
5.	OTHER EXPENSES (a) Expenses other than those related to Insurance Business (b) Bad debts written off (c) Others (To be specified)			
	TOTAL (B)			
	Profit Before Tax Provision for Taxation **APPROPRIATIONS** (a) Interim dividends paid during the year (b) Proposed final dividend (c) Dividend distribution tax (d) Transfer to any Reserves or Other Accounts (to be specified)			

	Balance of profit/ loss brought forward from last year Balance carried forward to Balance Sheet			

Notes: to Form B-RA and B- PL

(a) Premium income received from business concluded in and outside India shall be separately disclosed.

(b) Reinsurance premiums whether on business ceded or accepted are to be brought into account gross (i.e. before deducting commissions) under the head reinsurance premiums.

(c) Claims incurred shall comprise claims paid, specific claims settlement cost wherever applicable and change in the outstanding provision for claims at the year-end.

(d) Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or Rs.5,00,000 whichever is higher, shall be shown as a separate line item.

(e) Fees and expenses connected with claims shall be included in claims.

(f) Under the sub-head "Others" shall be included items like foreign exchange gains or losses and other items.

(g) Interest, dividends and rentals receivable in connection with an investment should be stated as gross amount, the amount of income tax deducted at source being included under ''advance taxes paid and taxes deducted at source"..

(h) Income from rent shall include only the realised rent. It shall not include any notional rent.

FORM B-BS

Name of the Insurer……

Registration No and Date of Registration with the IRDA….

BALANCE SHEET AS AT 31ST MARCH, 20__ .

	Particulars	Schedule	Current Year (’000)	Previous Year (’000)
	Sources of Funds			
	Share Capital	**5**		
	Reserves And Surplus	**6**		
	Fair Value Change Account			
	Borrowings	**7**		
	Total			
	Application of Funds			
	Investments	**8**		
	Loans	**9**		
	Fixed Assets	**10**		
	Current Assets	**11**		
	Cash and Bank Balances			
	Advances and Other Assets	**12**		
	Sub-Total (A)			
	Current Liabilities	**13**		
	Provisions	**14**		
	Sub-Total (B)			
	Net Current Assets (C) = (A - B)			

	Miscellaneous Expenditure (To The Extent Not Written off Or adjusted) Debit Balance in Profit and Loss Account	**15**		
	TOTAL			

CONTINGENT LIABILITIES

	Particulars	**Current Year ('000)**	**Previous Year ('000)**
1.	Partly paid-up investments		
2.	Claims, other than against policies, not acknowledged as debts by the company		
3.	Underwriting commitments Outstanding (in respectof shares and securities)		
4.	Guarantees given by or on behalf of the Company		
5.	Statutory demands/liabilities in dispute, notprovided for		
6.	Reinsurance obligations to the extent notprovided for in accounts		
7.	Others (to be specified)		
	Total		

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE – 1 PREMIUM EARNED [NET]

	Particulars	**Current Year ('000)**	**Previous Year ('000)**
	Premium from direct business written		

	Add: Premium on reinsurance accepted Less : Premium on reinsurance ceded Net Premium Adjustment for change in reserve for unexpired risks		
	Total Premium Earned (Net)		

Note: Reinsurance premiums whether on business ceded or accepted are to be brought into account, before deducting commission, under the head of reinsurance premiums.

SCHEDULE – 2 CLAIMS INCURRED [NET]

Sr. No.	Particulars	Current Year ('000)	Previous Year ('000)
	Claims paid		
	DirectAdd : Re-insurance accepted Less :Re-insurance Ceded Net Claims paid Add :Claims Outstanding at the end of theYear Less :Claims Outstanding at the beginning		
	Total Claims Incurred		

Notes:

a) Incurred But Not Reported (IBNR), Incurred but not enough reported [IBNER] claims should be included in the amount for outstanding claims.

b) Claims includes specific claims settlement cost but not expenses of management

c) The surveyor fees, legal and other expenses shall also form part of claims cost.

d) Claims cost should be adjusted for estimated salvage value if there is a sufficient certainty of its realisation.

SCHEDULE- 3 COMMISSIONS

	Particulars	Current Year ('000)	Previous Year ('000)
	Commission paid DirectAdd: Re-insurance Accepted Less: Commission on Re-insurance Ceded Net Commission		

Note: The profit/ commission, if any, are to be combined with the Re-insurance accepted or Re-insurance ceded figures.

SCHEDULE – 4 OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

	Particulars	Current Year ('000)	Previous Year ('000)
1.	Employees' remuneration & welfare benefits		
2.	Travel, conveyance and vehicle running Expenses		
3.	Training expenses		
4.	Rents, rates & taxes		
5.	Repairs		
6.	Printing & stationery		
7.	Communication		
8.	Legal & professional charges		
9.	Auditors' fees, expenses etc		

	(a) as auditor (b) as adviser or in any other capacity , in respect of (i) Taxation matters (ii) Insurance matters (iii) Management services; and (c) in any other capacity		
10.	Advertisement and publicity		
11.	Interest & Bank Charges		
12.	Others (to be specified)		
13.	Depreciation		
	TOTAL		

Note: Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or 5,00,000 whichever is higher, shall be shown as a separate line item.

SCHEDULE – 5 SHARE CAPITAL

	Particulars	**Current Year ('000)**	**Previous Year ('000)**
1.	Authorised CapitalEquity Shares of Rs ..... each		
2.	Issued CapitalEquity Shares of ..... each		
3.	Subscribed Capital Equity Shares of ..... each		
4.	Called-up Capital Equity Shares of ..... each Less : Calls unpaid Add : Equity Shares forfeited (Amountoriginally		

	paid up) Less : Par Value of Equity Shares bought back Less : Preliminary Expenses Expenses including commission or brokerage on Underwriting or subscription of shares		
	TOTAL		

Notes:

(a) Particulars of the different classes of capital should be separately stated.

(b) The amount capitalised on account of issue of bonus shares should be disclosed.

(c) In case any part of the capital is held by a holding company, the same should be separately disclosed.

SCHEDULE – 5 A SHARE CAPITAL PATTERN OF SHAREHOLDING

[As certified by the Management]

	Shareholder	**Current Year**		**Previous Year**	
		Number of Shares	% of Holding	Number of Shares	% of Holding
	Promoters Indian Foreign Others				
	TOTAL				

SCHEDULE – 6 RESERVES AND SURPLUS

	Particulars	Current Year ('000)	Previous Year ('000)
1.	Capital Reserve		
2.	Capital Redemption Reserve		
3.	Share Premium		
4.	General Reserves		
	Less: Debit balance in Profit and Loss Account		
	Less: Amount utilized for Buy-back		
5.	Catastrophe Reserve		
6.	Other Reserves (to be specified)		
7.	Balance of Profit in Profit & Loss Account		
	TOTAL		

Note: Additions to and deductions from the reserves should be disclosed under each of the specified heads.

SCHEDULE – 7 BORROWINGS

	Particulars	Current Year ('000)	Previous Year ('000)
1.	Debentures/ Bonds		
2.	Banks		
3.	Financial Institutions		
4.	Others (to be specified)		
	TOTAL		

Notes: The extent to which the borrowings are secured shall be separately disclosed stating the nature of the security under each sub-head.

a) Amounts due within 12 months from the date of Balance Sheet should be shown separately

SCHEDULE – 8 INVESTMENTS

	Particulars	**Current Year ('000)**	**Previous Year ('000)**
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares		
	i) Equity		
	ii) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/ Bonds		
	(e) Other Securities (to be specified)		
	(f) Subsidiaries		
	(g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		

2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares		
	i) Equity		
	ii) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/ Bonds		
	(e) Other Securities (to be specified)		
	(f) Subsidiaries		
	(g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	TOTAL		

Notes:

(a) Investments in subsidiary/holding companies, joint ventures and associates shall be separately disclosed, at cost.

(i) Holding company and subsidiary shall be construed as defined in the Companies Act, 1956:

(ii) Joint Venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

(ii) Joint control - is the contractually agreed sharing of power to govern the financial and operating policies of an economic activity to obtain benefits from it.

(iii) Associate - is an enterprise in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company.

(iv) Significant influence (for the purpose of this schedule) - means participation in the financial and operating policy decisions of a company, but not control of those

policies. Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policymaking process, material inter-company transactions, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiaries, 20 percent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20 percent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence is clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

(b) Aggregate amount of company's investments other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.

(c) Investments made out of Catastrophe reserve should be shown separately.

(d) Debt securities will be considered as "held to maturity" securities and will be measured at historical cost subject to amortisation.

(e) Investment Property means a property [land or building or part of a building or both] held to earn rental income or for capital appreciation or for both, rather than for use in services or for administrative purposes.

(f) Investments maturing within twelve months from balance sheet date and investments made with the specific intention to dispose of within twelve months from balance sheet date shall be classified as short-term investments

SCHEDULE – 9 LOANS

	Particulars	**Current Year ('000)**	**Previous Year ('000)**
1.	SECURITY-WISE CLASSIFICATION		
	Secured		

	(a) On mortgage of property i) In India ii) Outside India (b) On Shares, Bonds, Govt. Securities (c) Others (to be specified)		
	Unsecured		
	TOTAL		
2.	**BORROWER-WISE CLASSIFICATION**		
	(a) Central and State Governments (b) Banks and Financial Institutions (c) Subsidiaries (d) Industrial Undertakings (e) Others (to be specified)		
	TOTAL		
3.	PERFORMANCE-WISECLASSIFICATION		
	(a) Loans classified as standard i) In India ii) Outside India (b) Non-performing loans less provisions i) In India ii) Outside India		
	TOTAL		
4.	MATURITY-WISE CLASSIFICATION		
	(a) Short Term (b) Long Term		
	TOTAL		

Notes:

(a) Short-term loans shall include those, which are repayable within 12 months from

the date of balance sheet. Long term loans shall be the loans other than short-term loans.

(b) Provisions against non-performing loans shall be shown separately.

(c) The nature of the security in case of all long term secured loans shall be specified in each case. Secured loans for the purposes of this schedule, means loans secured wholly or partly against an asset of the company.

(d) Loans considered doubtful and the amount of provision created against such loans shall be disclosed.

SCHEDULE – 10 FIXED ASSETS

Particular	**Cost/Gross Block**				**Depreciation Net Block**					
	Opening	Additions	Deductions	Closing	Upt o Last Year	For The Year	On Sales/ Adjustments	To Date	As at year end	Previous Year
Goodwill Intangibles (specify) Land-Freehold Leasehold Property Buildings Furniture & Fittings Information Technology Equipment										

Vehicles Office Equipment Others (Specify nature)										
TOTAL										
Work in progress **Grand Total**										
PREVIOUS YEAR										

Note: Assets included in land, building and property above exclude Investment Properties as defined in note (e) to Schedule 8.

SCHEDULE- 11 CASH AND BANK BALANCES

	Particulars	**Current Year ('000)**	**Previous Year ('000)**
1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
	(a) Deposit Accounts		
	i) Short-term (due within 12 months)		
	ii) Others		
	(b) Current Accounts		
	(c) Others (to be specified)		
3.	Money at Call and Short Notice		

	(a) With Banks (b) With other Institutions		
4	Others (to be specified)		
	TOTAL		
	Balances with non-scheduled banks included in 2and 3 above		

Note : Bank balance may include remittances in transit. If so, the nature and amount should be separately stated.

SCHEDULE – 12 ADVANCES AND OTHER ASSETS

	Particulars	**Current Year ('000)**	**Previous Year ('000)**
	ADVANCES		
1.	Reserve deposits with ceding companies		
2.	Application money for investments		
3.	Prepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net of provision for taxation)		
6.	Others (to be specified)		
	TOTAL (A)		
	OTHER ASSETS		
1.	Income accrued on investments		
2.	Outstanding Premiums		

3.	Agents' Balances		
4.	Foreign Agencies Balances		
5.	Due from other entities carrying oninsurance business (including reinsurers)		
6.	Due from subsidiaries/ holding		
7.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act,1938]		
8.	Others (to be specified)		
	TOTAL (B)		
	TOTAL (A+B)		

Notes:

(a) The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.

(b) The term 'officer' should conform to the definition of that term as given under the Companies Act, 1956.

(c) Sundry Debtors will be shown under item 9 (others)

SCHEDULE – 13 CURRENT LIABILITIES

	Particulars	**Current Year ('000)**	**Previous Year ('000)**
1.	Agents' Balances		
2.	Balances due to other insurance companies		
3.	Deposits held on re-insurance ceded		
4.	Premiums received in advance		

5.	Unallocated Premium		
6.	Sundry creditors		
7.	Due to subsidiaries/ holding company		
8.	Claims Outstanding		
9.	Due to Officers/ Directors		
10.	Others (to be specified)		
	TOTAL		

SCHEDULE – 14 PROVISIONS

	Particulars	**Current Year ('000)**	**Previous Year ('000)**
1.	Reserve for Unexpired Risk		
2.	For taxation (less advance tax paid and taxes deducted at source)		
3.	For proposed dividends		
4.	For dividend distribution tax		
5.	Others (to be specified)		
	TOTAL		

SCHEDULE – 15 MISCELLANEOUS EXPENDITURE

(To the extent not written off or adjusted)

	Particulars	**Current Year ('000)**	**Previous Year ('000)**
1.	Discount Allowed in issue of shares/Debentures		

2.	Others (to be specified)		
	TOTAL		

Notes:

(a) No item shall be included under the head "Miscellaneous Expenditure" and carried forward unless:

1. some benefit from the expenditure can reasonably be expected to be received in future, and

2. the amount of such benefit is reasonably determinable.

(b) The amount to be carried forward in respect of any item included under the head "Miscellaneous Expenditure" shall not exceed the expected future revenue/other benefits related to the expenditure.

4.2.5 Important point while preparing annual accounts of General Insurance Companies:

1. A general insurance company may engage itself in more than one insurance business, e.g. fire; marine, miscellaneous etc. for each type of business, a separate revenue account, at the end of each calendar year will have to be prepared in the form "B-P&L" as prescribed by IRDA.

2. Reserve for unexpired risks is to create at 50% of the net premium income in case of fire and other insurance businesses and at 100% of the net premium income in case of marine insurance business. A prudent insurance company may make additional reserve in case of fire and miscellaneous insurance business, if it considers it necessary.

3. A Profit and Loss account, incorporating appropriating also, is prepared at the end of each period in the prescribed form "B-P&L" as discuss earlier. A combined balance sheet is also prepared in the form "B-BS" as prescribed by IRDA.

4. Commission on polices effected through insurance agents cannot exceed 5% of the premium in respect of fire and marine business and 10% in case of miscellaneous business. In case of policies effected through principal agent the maximum limits are 20% for fire and marine policies and 15 % in case of miscellaneous business less any commission payable to

an insurance agent with respect to the policy concerned. Certain concessions are available in the respect to principal agents having a foreign domicile.

4.2.6 Practical problem :

Illustration No. 1 :

From the following particulars of Ocean Marine Insurance Limited for the year ending 31st March 2024, find out the :

i) Net premium earned

ii) Net Claims incurred

Particulars	Direct Business	Re-Insurance
Premium:		
Received	440000	376000
Receivable 01/04/2023	220000	18000
Receivable 01/04/2024	189000	16000
Paid		305000
Payable 01/04/2023		14000
Payable 01/04/2024		9000
Claims :		
Paid	345000	277000
Payable 01/04/2023	45000	8000
Payable 01/04/2024	48000	6000
Received		101000
Receivable 01/04/2023		20000
Receivable 01/04/2024		19000

Solution:

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE – 1 PREMIUM EARNED [NET]

	Particulars	Current Year ('000)	
	Premium from direct business	440000	
	Add: Receivable as 31.3.2024	189000	
	Less : Receivables as 01.04.2023	220000	409000
	Add: Premium on reinsurance accepted	376000	
	Add: Receivables as 31.3.2024	160000	
	Less : Receivables as 01.04.2023	18000	518000
	Less: Premium on reinsurance ceded	305000	
	Add: Payable as 31.3.2024	9000	
	Less : Payable as 01.04.2023	14000	300000
	Total Premium Earned (Net)		**6,27,000**

SCHEDULE – 2 CLAIMS INCURRED [NET]

	Particulars	Current Year ('000)	Previous Year ('000)
	Claims paid		345000
	DirectAdd :	277000	
	Re-insurance outstanding as 31.3.2024	6000	
	Less :Re-insurance outstanding as 31.3.2023	8000	275000

	Less : Claims Received from re-insurance Add: Receivables as 31.3.2024 Less : Receivables as 01.04.2023	101000 19000 20000	 100000 520000
	Add : Outstanding direct claims at the end of year Less : Outstanding direct claims at the beginning of the year		48000 568000 45000
	Net Claims Incurred		**5,23,000**

Illustration No. 2 :

From the following information of Fire Insurance division of a General Insurance Company, calculate the amount of claim to show in the Revenue Account for the year ended 31st March, 2025

Particulars	**Direct Business**	**Re-Insurance**
Claim paid during the year	23,35,000	350,000
Claim Payable — 1st April, 2024	3,81,500	43,500
31st March, 2025	4,06,000	26,500
Claims received	-	1,15,000
Claims Receivable— 1st April, 2024	-	32500
31st March, 2025	-	56,500
Expenses of Management	1,15,000	-
(includes Rs.17,500 Surveyor's fee and Rs.22500 Legal expenses for settlement of claims)		

Solution :

General Insurance Company Amount of Claim

Particulars	Amt.(₹)
Claims paid - Direct (23,35,000 + 17500 + 22500)	23,75,000
Add: Re-insurance accepted (3,50,000 + 26500 - 43,500)	333000
Total	2708000
Less : Re-insurance ceded (1,15,000 + 56,500 - 32,500)	139000
Total	2569000
Add : Claims outstanding at the end of the year	4,06,000
Total	29,75,000
Less : Claims outstanding at the beginning of the year	3,81,500
Total claims incurred	**25,93,500**

Note: "claims incurred during the year" includes expenses incurred on settlement of claim- surveyor's fee (17,500) and legal expenses (22,500).

Illustration No. 3 :

A Fire Insurance Co. Ltd. commenced its business on 1.4.2023. It submits you the following information for the year ended 31.3.2024:

Particulars	Amt.(₹)
Premiums received	60,00,000
Re-insurance premiums paid	4,00,000
Claims paid	28,00,000
Operating Expenses	4,00,000
Commission paid	200,000
Claims outstanding on 31.3.2024	4,00,000
Create reserve for unexpired risk @50%	

Prepare Revenue account for the year ended 31.3.2024.

Solution:

Form B – RA

Name of the Insurer: A Fire Insurance Co. Ltd.

Registration No. and Date of registration with the IRDA:……..

Revenue Account for the year ended 31st March, 2024

	Particulars	Schedule	Current Year ended 31st March 2024
1.	Premium earned (Net)	**1**	28,00,000
	Total (A)		**28,00,000**
	Claims incurred (Net)	**2**	24,00,000
	Commission	**3**	2,00,000
	Operating Expenses related to insurance business	**4**	4,00,000
	Total (B)		**30,00,000**
	Operating Profit/(Loss) from Fire Insurance Business [C =(A – B)]		**(2,00,000)**

Schedule 1

Premium earned (Net)

Particulars	Amt.(₹)
	60,00,000
Premium received from direct business written	4,00,000
Less: Premium on re-insurance ceded	56,00,000
Adjustment for change in reserve for unexpired risk Net Premium Earned	28,00,000

Schedule 2

Claims incurred (Net)

Particulars	**Amt.(₹)**
Claims paid – Direct	28,00,000
Add: Claims outstanding on 31.3.2015	4,00,000
Total claims incurred	24,00,000

Schedule 3

Commission

Particulars	**Amt.(₹)**
Commission paid	2,00,000
Net commission	2,00,000

Illustration No. 4

From the following figures app earing in the books of fire insurance division of a General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March 2025.

	Direct Business	**Re-insurance**
Claim paid during the year	9340000	1400000
Claim Payable 1st April 2024	1526000	174000
31st march 2025	1624000	106000
Claims Received		460000
Claims Receivable- 1st April 2024	-	130000
31st march 2025	-	226000
Expenses of Management	460000	

(Includes Rs. 70000 Surveyors fee and Rs. 45000 legal expenses of claims)

Solution :

General Insurance Company

Fire Revenue Account (Extracts)

For the year ended 31st March 2025

	Particulars	Schedule	Current Year ('000)	Previous Year ('000)
	Claims Incurred (Net)	**2**	**10374000**	**NIL**

SCHEDULE – 2 CLAIMS INCURRED [NET]

	Particulars	Current Year ('000)	Previous Year ('000)
	Claims paid		
	Direct Business	9340000	
	Add :Re-insurance accepted	1400000	
	Add: Surveyor fee	70000	
	Legal Expenses	90000	
	Less :Re-insurance	460000	
	Net Claims paid	10440000	
	Add :Claims Outstanding at the end of the Year	1504000	
		11944000	
	Less : Outstanding claim at the beginning of the year	1570000	
	Total Claims Incurred	**10374000**	

Working

Claims outstanding at 31at March 2025	
Direct Business	1624000
Re-insurance	106000
	1730000
Less : claim received from re-insurance	226000
	1504000
Outstanding claim at 1st April 2024	
Direct Business	1526000
Re-insurance	174000
	1700000
Less : claim received from re-insurance	130000
	1570000

Illustration No. 5 :

From the following information prepare the revenue account of Fire Insurance company ltd. for the year 31st March 2024.

	Particulars	On Direct Business	On Reinsurance Ceded	On Reinsurance Accepted
a)	Total Premium	1500000	500000	1000000
	In India	80%	80%	80%
b)	Total claim	300000	100000	200000
	Outside India	20%	20%	20%
c)	Commission	150000	50000	100000

d) Expencess & Others :

Particulars	Amt.(₹)
Employees remuneration & welfare benefits	115500
Managerial Remuneration	100000
Travel conveyance	29500
Rent & Rates	15000
Policy Stamp	1500
Medical fees	3500
Printing & Stationery	5000
Repairs	10000
Interest & Bank charges	2500
Audit fees	4000
Legal & Professional charges	3000
Communication Exp.	2500
Advertisement	3000
Furniture & Fixture (cost Rs. 50000)	29000
Depreciation on furniture 10% on original cost	
Provision for unexpired risk (1.4.2023)	500000
Additional provision for risk (1.4.2023)	50000
Bad debts	2500
Indian & foreign taxes	47500
Interest & Dividend received	45000
TDS	5000
Profit on sale of motor car	2500
Income tax refund	7500

Accounting policy regarding additional unexpired risk: 50% of net premium and 5% additional unexpired risk of the year.

Solution :

FORM B-RA

Name of the Insurer Fire Insurance Company Ltd.

Registration No and Date of Registration with the IRDA…..

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2024

Sr. No.	Particulars	Schedule	Current Year ('000)	Previous Year ('000)
1.	Premium earned (Net)	**1**	2000000	
2.	Profit/Loss on sale/Redemption of Investmenta)			
	a) Profit on sale of motor ca		2500	
	b) Income tax refund		7500	
3.	Others (to be specified)			
	Provision for unexpired risk (500000+50000)		550000	
4.	Interest, Dividend & Rent Gross		50000	
	TOTAL (A)		**15,10,000**	
1.	Claims Incurred (Net)	**2**	400000	
2.	Commission	**3**	200000	
3.	Operating Expenses related to insurance Business	**4**	300000	
4.	Other expenses			

	Bad debts Indian & foreign taxes		2500 47500	
	TOTAL (B)		**950000**	
	Operating Profit/(Loss) from fire/Marine/ Miscellaneous Business C= (A - B) **APPROPRIATIONS** Transfer to Shareholders' Account Transfer to Catastrophe Reserve Transfer to Other Reserves (to be specified)		**560000**	
	TOTAL (C)			

SCHEDULE – 1 PREMIUM EARNED [NET]

Sr. No.	Particulars	Current Year ('000)	Previous Year ('000)
	Premium from direct business written	1500000	
	Add: Premium on reinsurance accepted	1000000	
	Less : Premium on reinsurance ceded	500000	
	Net Premium	**2000000**	
	Premium income from business affected in india 80% on 2000000	1600000	
	20% Outside india	400000	
	Total Premium Earned (Net)	**20,00,000**	

SCHEDULE – 2 CLAIMS INCURRED [NET]

Sr. No.	Particulars	Current Year ('000)	Previous Year ('000)
	Claims paid		
	Direct	300000	
	Add :Re-insurance accepted	200000	
	Less :Re-insurance Ceded	100000	
	Net Claims paid	**400000**	
	Claim paid to claimant		
	In India 80 % on 400000	320000	
	In Outside india 20%	80000	
	Total Claims Incurred	**4,00,000**	

SCHEDULE- 3 COMMISSION

Sr. No.	Particulars	Current Year ('000)	Previous Year ('000)
	Commission paid		
	Direct	150000	
	Add: Re-insurance Accepted	100000	
	Less: Commission on Re-insurance Ceded	50000	
	Net Commission	**2,00,000**	

SCHEDULE – 4 OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

Sr. No.	Particulars	Current Year ('000)	Previous Year ('000)
	Employees' remuneration & welfare benefits	115000	
	Managerial remuneration	100000	
	Travel, conveyance and vehicle running Expenses	29500	
	Policy stamp	1500	
	Medical fee	3500	
	Rents, rates & taxes	15000	
	Repairs	10000	
	Printing & stationery	5000	
	Communication	2500	
	Legal & professional charges	3000	
	Auditors' fees, expenses etc	4000	
	Advertisement and publicity	3000	
	Interest & Bank Charges	2500	
	Depreciation	5000	
	TOTAL	**3,00,000**	

Working note :

Changes in Provision for unexpired Risks

No.	Particulars	Rs.	Rs.
	1. Minimum provision @50 % on 2000000		1000000
	2. Add: Additional provision @5% on 2000000		100000
		1100000	
	Less Opening balance of provision		
	Minimum provision	500000	
	Additional provision for unexpired risk	50000	550000
	Changes in Provision for unexpired Risks		**550000**

Illustration No. 6 :

Following information are provided by the National Beema Company for the year ended 31st March 2025.

I) On 1st April 2024, the unexpired risks reserve was in respect of marine insurance business Rs. 52.50 crore in respect of the fire insurance business Rs. 55 crore in respect of miscellaneous insurance business Rs. 12.50 crore.

II) It is the practice of the company to create reserve at 100% of net premium income in respect of marine insurance policies and at 50% of net premium in respect of fire and miscellaneous insurance policies.

III) During the year 2024-25 the following business was conducted.

(Rs. in crore)

No.	Particulars	Marine	Fire	Miscellaneous
	Premium collected from:			
1.	Insurance in respect of policies issued	57	125	30
2.	Other insurance companies in respect of risks undertaken	17.5	12.5	10
	Premium paid/payable to other insurance companies on business ceded.	21.50	16.50	8.50

You are required :

i) Pass Necessary journal entries relating to unexpired risks reserve.

ii) Show unexpired risks reserve account for the year ended 31st march 2025

Solution :

National Beema Company

Journal (₹ in crore)

Date	Particular	Dr. ₹	Cr.₹
31.03.2025	Marine Revenue A/c ……Dr	0.50	
	To Unexpired risk Reserve A/c		0.50
	(Being provision made for unexpired risks reserve on marine business is (53-52.50)		
31.03.2025	Fire Revenue A/c ……Dr	5.50	
	To Unexpired risk Reserve A/c		5.50
	Being provision made for unexpired risks reserve on fire business is (60.5-55)		
31.03.2025	Miscellaneous Revenue A/c ……Dr	3.25	
	To Unexpired risk Reserve A/c		3.25
	(Being provision made for unexpired risks reserve on fire business is (15.75-12.50)		

Unexpired risk Reserve A/c

(₹ in crore)

Date	Particular	Marine	Fire	Misc.	Date	Particular	Marine	Fire	Misc.
01.04.24	To Revenue A/c	52.50	55.00	12.50	01.04.24	To Bal.b/d	52.50	55.00	12.50

31.3.25	To Bal.c/d	53.00	60.50	15.75	31.03.25	By Revenue A/c	53.00	60.50	15.75
	Total	**105.50**	**115.50**	**28.25**			**105.50**	**115.50**	**28.25**

Working Notes :

Computation of Account of unexpired Risks Reserve as on 31.03.2025

Particulars	**Marine Rs. Marine Rs.**	**Fire Rs. Fire Rs.**	**Misc. Rs. Misc. Rs.**
Premium collected from policyholders	57	125	30
Add: Premium collected from other insurance company	17.5	12.5	10
Total	74.5	137.5	40
Less: Premium collected from other insurance company	21.5	16.5	8.5
Net Premium	53	121	31.5
Required % to create reserve	100	50%	50%
Amount of reserve will be on 31.03.2025	53	60.5	15.75
Less: Opening Balance of Reserve on 01.04.2024	52.5	33	12.50
Additional Reserve to be made	0.50	5.50	3.25

Illustration No. 7 :

The following figures have been extracted from the books of Ideal Insurance Company Ltd. in respect of their Marine Business for the year 2022-23

Particulars	Amt.(₹)
Direct Business Income received	25,00,000
Reserve for unexpired risks as on 1.4.2022	30,00,000
Claims outstanding as on 1.4.2022 (net)	10,00,000
Bad debts	5,00,000
Commission paid on Direct Business	2,50,000
Expenses of Management	2,50,000
Income tax deducted at source	1,50,000
Income from investments & dividends (Gross)	5,00,000
Rent received from propert	2,50,00
Investment in Government Securities as on 1.4.2022	50,00,000
Investment in Shares as on 1.4.2022	20,00,000
Profit & Loss Account (Cr) balance as on 1.4.2022	5,00,000
Other expenses	62,500
Reinsurance premium receipts	2,50,000
Outstanding claims as on 31.3.2023 (net)	15,00,000
Direct claims paid (Gross)	12,50,000
Reinsurance claims paid	2,00,000

Prepare a Revenue Account and Profit & Loss A/C for the year after taking into account the following further information

i) Market Value of investments as on 31st March, 2023 is as follows :

a) Government securities 52,50,000 , b) Shares 9,00,000

ii) All direct risks are reinsured for 20% of the risk.

iii) Provide 25% commission on reinsurance accepted.

iv) Provide 65% for Income tax

v) Claim a commission of 25% on reinsurance ceded.

Solution :

Form B – Revenue Account

Revenue Account for the year ended 31st March, 2023

Sr. No.	Particulars	Schedule	Current Year	Previous Year
1.	Premium earned (net)	1	30,00,000	
2	Profit / Loss on Sale / redemptionof investment		-	
3.	Other		-	
4	Interest, Dividend & Rent (Gross) (5,00,000 + 2,50,000)		7,50,000	
	Total (A)		**37,50,000**	
	Claims incurred (Net)	2	17,00,000	
	Commission 3	3	1,87,500	
	Operating expenses related toinsurance business	4	8,12,500	
	Total (B)		**27,00,000**	
	Operating Profit / Loss fromMarine Business = A – B		10,50,000	
	Appropriations -			
	Transfer to shareholders A/c	-	-	
	Transfer to Catastrophe Reserve		-	
	Transfer to other Reserves		-	
	Total (C)		**10,50,000**	

Form B – Profit & Loss A/c

For the year ended 31st March, 2023

Sr. No.	Particulars	Schedule	Current Year	Previous Year
1.	Operating Profit from MarineInsurance		10,50,000	
2.	Income from investments -			
3.	Other Income			
	Total A		**10,50,000**	
4.	Provision (other than taxation)Diminution in the value of investmentin shares	100000		
	Less : investment in the value of Govt. Securities	250000	(150000)	
5.	Other expenses			
	Total (B)		(1,50,000)	
	Profit before tax (A – B) i.e. [10,50,000 – (-1,50,000)]		12,00,000	
	Less : Provision for taxation(10,50,000 × 65%		(6,82,500)	
			5,17,500	
5.	Appropriations			
	Balance of profit / Loss broughtforward from last year		5,00,000	
	Total		**10,17,500**	

Schedule 1. Premium earned (Net)

Particulars	Current Year	Previous Year
Premium from direct business	25,00,000	
Add : Premium on reinsurance Accepted	2,50,000	
	27,50,000	
Less : Premium on reinsurance ceded	(5,00,000)	
Net Premium	22,50,000	
Adjusted for change in reserve for unexpired risk [opening – closing][30,00,000 – 22,50,000]	7,50,000	
Premium Earned (Net)	30,00,000	

Schedule 2. Claims incurred (Net)

Particulars	Current Year	Previous Year
Claims paid Direct	12,50,000	
Add : Reinsurance accepted	2,00,000	
	14,50,000	
Less : Reinsurance Ceded	(2,50,000)	
Net claims paid	12,00,000	
Add : Claims outstanding at the end of the year	15,00,000	
	27,00,000	
Less : Claims outstanding of thebeginning of the year	(10,00,000)	
Total claims incurred	17,00,000	

Schedule 3. Commission

Particulars	Current Year	Previous Year
Commission paid : Direct	2,50,000	
Add : Reinsurance accepted	62,500	
	3,12,500	
Less : Commission on reinsurance Ceded	(1,25,000)	
Net Commission	**1,87,500**	

Schedule 4. Operating Expenses

Particulars	Current Year	Previous Year
Expenses & Management	2,50,000	
Bad debts	5,00,000	
Other expenses	62,500	
Total	**8,12,500**	

W. Notes : Provision for income tax :

Income (excluding revaluation)	9,00,000
Add : Tax deducted at source	1,50,000
	10,50,000
Provision @ 65% of 10,50,000	6,87,500
Less : Tax deducted of source	1,50,000
	5,37,500

Check in Progress 2 :

Q. 1. A) Multiple choice questions

1. A general insurance company may engage itself in more than one insurance business……

   A) fire B) marine

   C) miscellaneous D) All of the above

2. Which regulatory authority prescribes the format of financial statements for General Insurance Companies in India?

   A) Reserve Bank of India (RBI)

   B) Securities and Exchange Board of India (SEBI)

   C) Insurance Regulatory and Development Authority of India (IRDAI)

   D) Ministry of Corporate Affairs (MCA)

3. Which of the following is NOT a financial statement prepared by a General Insurance Company?

   A) Revenue Account B) Profit and Loss Account

   C) Balance Sheet D) Trading Account

4. The Revenue Account of a General Insurance Company is prepared separately for:

   A) Each branch office B) Each class of insurance business

   C) Each financial year only D) Shareholders only

5. Which of the following appears on the liabilities side of the Balance Sheet of a General Insurance Company?

   A) Investments B) Cash and Bank Balance

   C) Outstanding Claims D) Furniture and Fixtures

B) State whether true or false

1. Premium earned (net) is one of the major income items shown in the Revenue Account of a General Insurance Company.

2. Claims incurred (net) are treated as an expense in the Revenue Account of a General Insurance Company.

3. The Balance Sheet of a General Insurance Company shows both shareholders' funds and policyholders' liabilities.

4. The Profit and Loss Account of a General Insurance Company is prepared before the Revenue Account.

5. Expenses of management are recorded as operating expenses in the final accounts of a General Insurance Company.

4.3 Summary:

The final accounts of a General Insurance Company are prepared at the end of every financial year to show the company's financial performance and financial position. These accounts are prepared according to the rules of the Insurance Regulatory and Development Authority of India (IRDAI), the Insurance Act, 1938, and the Companies Act, 2013. The main financial statements include the Revenue Account, Profit and Loss Account, and Balance Sheet. A separate Revenue Account is prepared for each type of insurance business, such as fire, marine, and miscellaneous insurance. It records income from premiums and investment income, as well as expenses like claims, commission, and management expenses. The Profit and Loss Account shows the overall profit or loss of the company for the year. The Balance Sheet presents the company's assets, liabilities, shareholders' funds, reserves, investments, cash balance, and outstanding claims. These financial statements help the company measure its profitability, financial strength, and ability to meet future claims. They also provide useful information to shareholders, policyholders, investors, and government authorities. Therefore, the preparation of final accounts is essential for maintaining transparency, legal compliance, and sound financial management in a General Insurance Company.

4.4 Glossary :

IMPORTANT TERMS

1. Revenue account :

The revenue account has to be prepared in all types of insurance business in the form specified by IRDA. The account discloses the profit and loss made by an insurance business

during a particular period of course, in the case of life insurance business, the situation is different since the profit or loss is ascertained only every alternate year. The excess of the revenue income over the revenue expenditure is not profit, but only a reserve termed as the "life assurance fund", to be carried forward for comparing with the net liability as per actuarial valuation for ascertaining the profit or loss made by the life insurance business.

2. Reserve for Unexpired Risks or Insurance Fund:

Every year Insurance companies close their books of accounts on 31st March but the risks under varied policies expire on that date is not closed. As a result, unexpired liability may occur during the remaining term of the policy, therefore a provision for unexpired risks is made. As per the Insurance Act, the provision for unexpired risks at 50% for fire, marine cargo & miscellaneous business except marine Hull is at 100%. According to the section 44 of Rule 5 of the first schedule (6E), the insurance companies are allowed a deduction of 50% of net premium income in case of Fire & 183 Miscellaneous and 100% of the net premium income relating to the Marine Insurance business. The reserves are created under the Income Tax Act.

3. Additional Reserve for Unexpired Risk :

This additional provision is shown separately as Additional Reserve. It shows when:

1. This type of reserve for unexpired risk is only provided if the management may feel. It is debited to the Revenue A/c.
2. In case of normal reserve for unexpired risk, the balance will be shown in the balance sheet while it will be transferred to the credit side of Revenue A/c in the next years.

4. Catastrophe Reserve

Such a reserve is created to meet any loss due to natural calamity. It is to be created in accordance with the norm, of any prescribed by the IRDA. Investment of funds out of catastrophe reserve shall be made in accordance with the prescription of the authority.

4.5 Answer to Check your Progress :

Check your Progress-1

Q.1 A) i) b ii) c iii) a iv) d v)a

B) i) True ii) True iii) True iv) False v) True

Check your Progress-2

Q.1 A) 1) D 2) C 3) D 4) B 5)C

B) 1) True 2) True 3) True iv) False v)True

4.6 Exercises :

A) Write Short Notes

1) Marine Insurance
2) Fire Insurance
3) Miscellaneous Insurance
4) IRDA act
5) Types of general insurance
6) Revenue account
7) Unexpired risk reserve
8) Provision under insurance act

B) Problems for practice

1. From the following figures app earing in the books of fire insurance division of a ABC Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March 2026.

	Direct Business	**Re-insurance**
Claim paid during the year	2335000	350000
Claim Payable 1st April 2025	381500	43500
31st march 2026	406000	26500
Claims Received	-	115000
Claims Receivable- 1st April 2025	-	32500
31st march 2026	-	56500
Expenses of Management	115000	
(Includes Rs. 17500 Surveyors fee and Rs. 11250 legal expenses of claims)		

2. From the following information prepare the revenue account of Fire Insurance company ltd. for the year 31st March 2025.

Particulars	**On Direct Business**	**On Reinsurance Ceded**	**On Reinsurance Accepted**
a) Total Premium In India	3000000 80%	1000000 80%	2000000 80%
b) Total claim Outside India	600000 20%	200000 20%	400000 20%
c) Commission	300000	100000	200000

d) Expenses & Others:

Particulars	**Amt.(₹)**
Employees remuneration & welfare benefits	231000
Managerial Remuneration	200000
Travel conveyance	59000
Rent & Rates	30000
Policy Stamp	3000
Medical fees	7000
Printing & Stationery	10000
Repairs	20000
Interest & Bank charges	5000
Audit fees	8000
Legal & Professional charges	6000

Communication Exp.	5000
Advertisement	6000
Furniture & Fixture	58000
Depreciation on furniture 10% on original cost	
Provision for unexpired risk (1.4.2024)	1000000
Additional provision for risk (1.4.2024)	100000
Bad debts	5000
Indian & foreign taxes	95000
Interest & Dividend received	90000
TDS	10000
Profit on sale of motor car	5000
Income tax refund	15000

3. From the following particulars of Ocean Marine Insurance Limited for the year ending 31st March 2026, find out the :

i) Net premium earned

ii) Net Claims incurred

Particulars	**Direct Business**	**Re-Insurance**
Premium:		
Received	880000	752000
Receivable 01/04/2025	440000	36000
Receivable 01/04/2026	378000	32000
Paid		610000
Payable 01/04/2025		28000
Payable 01/04/2026		18000

Claims :		
Paid	690000	554000
Payable 01/04/2025	90000	16000
Payable 01/04/2026	96000	12000
Received		202000
Receivable 01/04/2025		40000
Receivable 01/04/2026		38000

4. Prepare Revenue Account and Profit & Loss A/C for Fire Insurance business for the year ended 31st March, 2023 from the following.

Profit & Loss A/C bal. 1.4.2022 1,	25,000
Reserve for unexpired risk 1.4.2022	82,500
Fire Insurance premium	2,00,000
Interest & dividend (Cr) [Fire Insurance Fund)	5,000
Sunday general expenses	6,000
Interest & Dividend Less income tax (Cr)	12,500
Dividend to Shareholders	25,000
Transfer fees	15
Fire Insurance claim paid & outstanding	1,05,000
Fire Insurance commission 4,000	
Fire Insurance expenses of management	42,500
Fire Insurance contribution to fire brigades	1,400
Additional fire insurance reserve 1.4.2022	77,500

The provision for unexpired risk on the basis of 50% of the fire premium income & carry forward the additional reserve.

4.7 Reference for Further Study :

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