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PG AND RESEARCH DEPARTMENT OF COMMERCE

I B com.,

BUSINESS ACCOUNTING

SUBJECT CODE: 16CCCCM3

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Unit-V

INSURANCE CLAIMS:

Fire Insurance:

Fire Insurance is a device to compensate for the loss consequent upon destruction by fire.

fire Insurance contract:

fire Insurance contract may be defined as “ an agreement whereby one party in return for a consideration undertakes to indemnify the other party against financial loss which the latter may sustain by reason of certain defined subject matter being damaged or destroyed by fire or other defined peril up to an agreed amount”

fire insurance policy:

the document specifying the terms of fire insurance is called a fire insurance policy.

Types of fire insurance policies:

The fire insurance policies can be of various types , of which the following are important policies.

1. Specific policy
2. Floating policy
3. Average policy
4. Comprehensive policy
5. Loss of stock or loss of property policy
6. Loss of profit policy or consequential loss policy.

CLAIM:

A demand on the insure to fulfil its promise, as per the term and conditions of the policy is called claim.

NEEDS OF FIRE INSURANCE :

1. To renew the damaged property .
2. To overcome the loss due to short sales and loss of profit occurring out of fire .
3. To replace the destroyed asset
4. To purchase the destroyed stock.

MEMORANDUM OF TRADING ACC:

|  |  |  |  |
| --- | --- | --- | --- |
| PARTICULAR | Rs | PARTICULAR | Rs |
| To opening stock  To purchase less return  To direct tax  To Gross profit | XXX  XXX  XXX  XXX  XXXX | By sales less return  By closing stock or       stock on date of fire | XXX  XXX  XXX |

Actual loss of stock:

Value of stock on on date of fire xxx

Less salvaged stock, if any xxx

Actual loss of stock xxxx

Average clause:

The insurance company applies the average clause in case of under-insurance. If the value of insurance policy is less than the value of average stock in the godown. IT IS KNOWN AS “under-insurance”.

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

Loss of Profit Policy:

When fire occurs, it destroys not only the stock but also the earning capacity of the business. Hence there is a separate policy to cover this loss is known as loss of profit policy.

The various terms used in computation of loss of profit claim:

1. Indemnity period
2. Affected period
3. Turnover
4. Standing charges .
5. Short sales

A. Increased cost of working capital:

This expenditure is an additional expenditure incurred by the insurance in order to carry on the business during the indemnity period.

Savings in expenses:

Some of the fixed expenses need not be incurred by the firm by the due to fire accident . the total of such expenditure is called saving in standing charges.

INSOLVENCY

Who is an insolvency?

When a person is not able to pay his liabilities, he is said to be insolvent.

What is meant by insolvency of all partners?

When all partners are unable to pay their liabilities , they are said to be insolvent.

What are the procedure followed in this case:

1. Sundry assets are transferred to the debit side of realization acc as usual.
2. On realization of assets , realization account is credited,
3. For realization expenses , realization account is debited and cash account is credited ,
4. If any liability is secured is secured , then that liability will be paid on priority basis to the extent of realization of the assets kept as security.
5. Unsecured outside liability are not transferred to realization account but a separate account is prepared
6. Amount brought by any partner from his private estate is credited to his capital account and debited to cash account
7. Cash acc is prepared in order to calculate the amount available for payment to unsecured out side liabilities
8. Capital acc are closed by transferring their balance to deficiency account
9. Deficiency acc.if prepared, well tally.

Explain the content of statement of affairs.

1. List A-Unsecured creditors
2. List B Fully secured creditors
3. List C partly secured creditors
4. List D-Preferential Creditors
5. List E-Properties
6. List F- book debt
7. List G-Bill of exchange
8. List H-Deficiency acc

Preferential creditors:

Preferential creditors are those who are given preference in payment over all other unsecured creditors.

Deficiency account :

Deficiency acc is prepared by the insolvent debtors which explain as to how the deficiency shown in the statement of affairs has arisen.

The preferential creditors according to the presidency town insolvency Act and provincial Insolvency Act:

|  |  |  |
| --- | --- | --- |
| Creditors | Presidency towns Insolvency Act, 1909 | Provincial Insolvency Act,1920 |
| Amount due to government , state, central, local etc. | Fully preferential | Fully preferential |
| Salary | 4 month salary or Rs.300 whichever is less for each person is preferential | Rs .20 flat for each person is preferential. |
| Wages | 4 months wages or Rs 100 whichever is less for each person is preferential | Rs .20 flat for each person is preferential. |
| Rent payable to landlord | 0ne month’s rent whatever the amount is preferential. | Rent is not preferential. |

Deficiency account :

Deficiency account is prepared by the insolvent debtors which explains as to how the deficiency shown in the statement of affairs has arisen.

Difference between the statement of affairs and balance sheet.

|  |  |  |
| --- | --- | --- |
| S no | Statement of affairs | Balance sheet |
| 1 | It is prepared accounting to Insolvency | It is prepared for the sake of proprietor and other |
| 2 | It is prepared on the eve of liquidation of business | It is prepared on the last day of accounting year. |
| 3 | It is prepared to show the inability of the debtor to pay off the liability | It is prepared to show the financial position of the business |
| 4 | Intangible assets like goodwill, preliminary expenses are not presented. | They are presented. |
| 5 | It has various lists for placing assets and liabilities. | It has no list for the grouping of assets and liabilities. |
| 6 | It divides the creditors as fully secured , partly secured and preferential creditors. | It does not divide so |
| 7 | Personal assets and liabilities are included. | Personal assets and liabilities are not included. |
| 8 | Capital, interest on capital, drawings are not presented | These are presented. |