SENGAMALA THAYAAR EDUCATIONAL TRUST WOMEN'S COLLEGE, MANNARGUDI

PG & RESEARCH DEPARTMENT OF COMMERCE

SUBJECT: BUSINESS ACCOUNTING

SUBJECT CODE:16CCCCM3

UNIT IV & V

STAFF NAME: G.BHUVANESHWARI

ASSISTANT PROFESSOR

FIRE INSURANCE CLAIM

- DOCUMENT RERUIRED FOR FIRE INSURANCE POLICY IN INDIA
- Claim from duly filled and signed
- Photographs
- Report of the policy along with the schedule
- Past claims experience

- A fire occurred in premises of ABC limited on 15/4/2001 all the stock with salvage value of Rs.13000 were destroyed by fire from the following ascertain the fire Insurance claim.
- Stock on 1/1/2000 Rs. 36,000
- Stock on 31/12/2000 Rs 66,000
- Purchases during the year 2000 RS.4,80,000
- Sales during the year 2000 Rs. 6,00,000

- Purchases during the year 2000 Rs.6,00,000
- Purchases up to the date of fire(15/4/2001) Rs,2,30,000
- Sales up to the date if fire Rs, 3,00,000
- The amount of the fire insurance policy was Rs. 40,000 and claim was subject to average clause.

MEMORANDUM TRADING ACCOUNT

Particulars	Amount	Particulars	Amount
To Opening stock	36,000	By Sales	6,00,000
To Purchases	4,80,000		
To Gross Profit	4,50,000	By Closing Stock	66,000
	6,66,000		6,66,000

- Calculation of Gross profit Ratio **=**

$$\frac{\text{Gross Profit X 100}}{\text{Sales}}$$

$$\frac{1,50,000 \text{X} 100}{6,00,000}$$

25%

MEMORANDUM TRADING ACCOUNT FOR THE YEAR 2001 UP TO THE DATE OF FIRE

Particulars	Amount	Particulars	Amount
To Opening Stock	66,000	By Sales	3,00,000
To Purchases	2,30,000		
To Gross profit	75,000	By Closing Stock	71,000
	3,71,000		3,71,000

- Calculation of Gross Profit for the year 2001 upto the date of fire(15/4/2001)

Sales X Gross profit Ratio

$$3{,}00{,}000 \times \frac{25}{100}$$

$$= \mathbf{75{,}000}$$

CALCULATION OF STOCK DESTROYED BY FIRE

Particulars	Amount
Estimated Value of Closing Stock as on the date of fire(15/4/2001)	71,000
Less: Salvage Value of stock	13,000
Estimated value of stock destroyed by fire	58,000

- Calculation of claim Amount
- Average clause=

Value of stock destroyed X Value of Insurance Police

Value of stock on date of fire

- 58,000 X 40,000

71,000

=32,676

FIRE INSURANCE COMPANIES OF INDIA

- The Popular fire insurance companies of India
- Reliance standard Fire and special perils Policy
- Iffco - tokio Standard Fire & Special Perils Insurance Policy
- HDFC-ERGO Fire & Allied Perils Policy
- Royal sundaram Fire Insurance

- Tangible property is exposed to numerous risks like
- fire, floods, explosions, earthquake, riot and war, etc. and insurance protection can be had against most of these risks severally or in combination.

MEANING OF INSOLVENCY

- When an individual or organization can no longer meet its financial obligations with its lender or lenders as debts become due. Insolvency can lead to insolvency proceedings, in which legal action will be taken against the insolvent entity, and assets may be liquidated to pay off outstanding debts.

ADVANTAGES

- They're a great tool for extending or reducing debts that cant be repaid.
- They can help return a business to profitability, holding the creditors back while management do what's needed to turn things around.
- All formal insolvency processes cause value to be lost, but CVAs lose less than others.
- Unlike other insolvency processes, you stay in control of the business.
- They're less visible – but not entirely invisible – than other insolvency processes.
- CVAs are an incredibly flexible solution, they can contain anything you and your creditors agree.

IMPACT OF INSOLVENCY

- We have outlined below, the effects of insolvency on the directors, advisers, secured and unsecured creditors, but also what actions each of those parties are likely to take when they suspect they are dealing with an insolvent company.
- In the event of a company possibly being insolvent, each group of stakeholders should make themselves aware of some specific matters. These are outlined below.
- Directors
- Section 588 G-Directors may be personally liable for debts incurred by the
- company if it trades while insolvent.

- Section 588 V- A company may be liable for the debts of a subsidiary if it allows the subsidiary to trade while insolvent.
- We have outlined below, the effects of insolvency on the directors, advisers, secured and unsecured creditors, but also what actions each of those parties are likely to take when they suspect they are dealing with an insolvent company.
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❖Section 588 G-Directors may be personally liable for debts
❖incurred by the company if it trades while insolvent.

❖Section 588 V- A company may be liable for the debts of a subsidiary if it allows the subsidiary to trade while insolvent.

❖Section 222 Of the Income Tax Assessment Act- A director

❖may be held personally liable for unpaid taxes.
Secured lenders.

❖Insolvency is usually an event of default and may allow for the appointment of a receiver or voluntary administrator.
❖Be aware that the value of the security is at risk.

❖Security taken after a company is insolvent may be invalid, unless new monies are advanced.

❖Unsecured creditors

❖Section 588FA- Payment of accounts outside normal trading terms may be recovered as an unfair preference by a future liquidator if the liquidator can show that the creditor had a suspicion that the company was insolvent.

CONSEQENCES

- The principal focus of modern insolvency legislation and business debt restructuring practices no longer rests on the liquidation and elimination of insolvent entities but on the remodeling of the financial and organizational structure of debtors
- experiencing financial distress so as to permit the rehabilitation and continuation of their business. This is known as business turnaround or business recovery.

GOVERNMENT DEBT

- All governments would be in a state of insolvency unless they had assets equal to the debt they owed. If, for any reason, a government cannot meet its interest obligation, it is technically not insolvent but is "in default". As governments
- are sovereign entities, persons who hold debt of the government cannot seize the assets of the government to re-pay the debt. However, in most cases, debt in default is refinanced by further borrowing or monetized by issuing more currency.

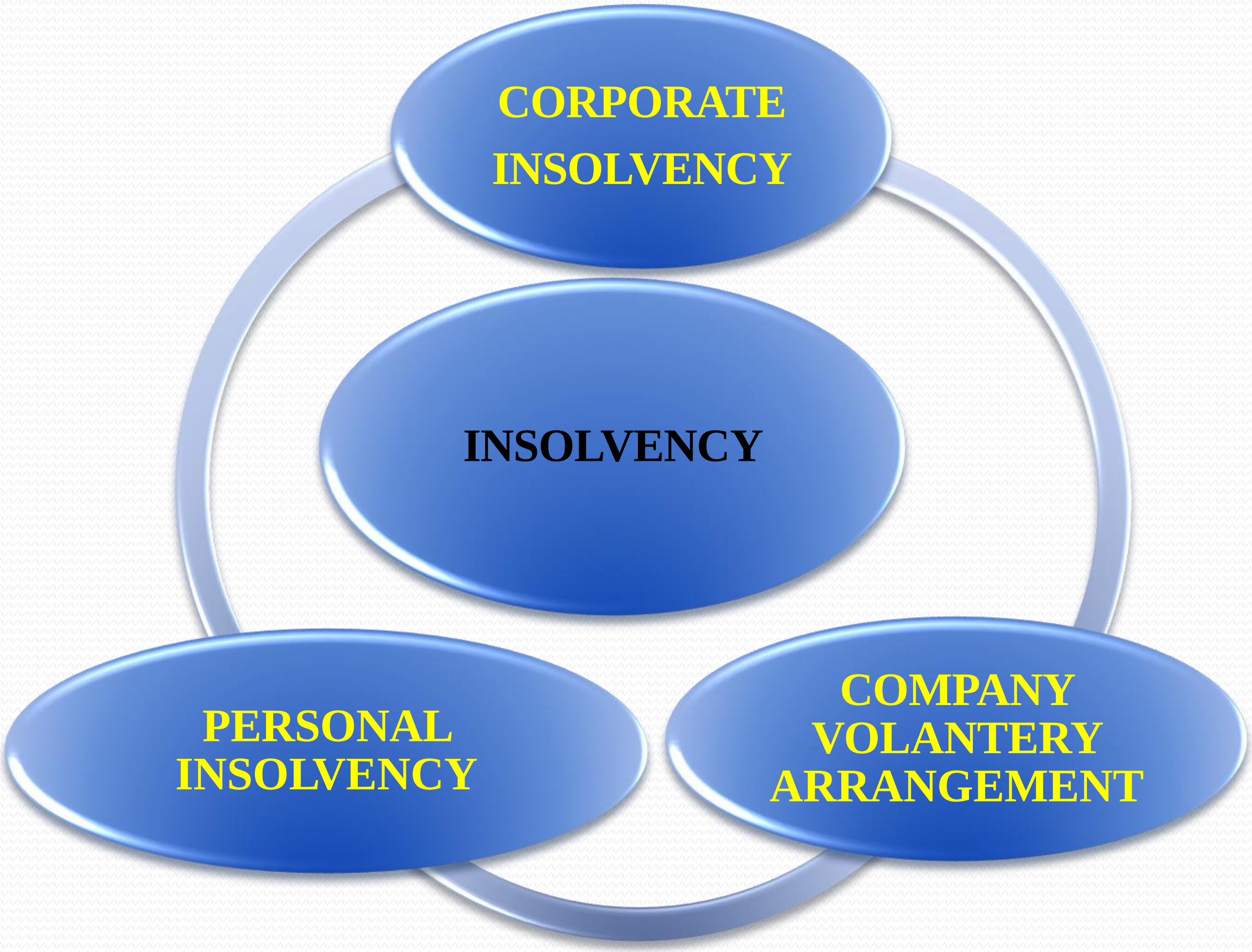
DEBT RESTRUCTING

- Debt restructuring is a process that allows a private or public company - or a sovereign entity - facing cash flow problems and financial distress, to reduce and renegotiate its delinquent debts in order to improve or restore liquidity and rehabilitate so that it can continue its operations.

LAWS

❖Insolvency regimes around the world have evolved in very different ways, with laws focusing on different strategies for dealing with the insolvent corporate. The outcome of an insolvent restructuring can be very different depending on the laws of the state in which the insolvency proceeding is run, and in may cases different stakeholders in a company may hold the advantage in different jurisdictions.

TYPES OF INSOLVENCY



PERSONAL INSOLVENCY

BANKRUPTCY

- Bankruptcy can be achieved on a debtor or creditor's petition. Bankruptcy precludes an individual from being a director of a company. It also imposes certain restrictions on the bankrupt, not least the ability to obtain credit over £500.00 without first informing the supplier of that credit that the person is an undercharged bankrupt.
- Bankruptcy remains very much the last resort on the basis that the bankrupt's estate vests in their Trustee in Bankruptcy on his/her appointment, this vesting includes any interest the bankrupt has in their matrimonial home.

- **Individual Voluntary Arrangement ("IVA")**

  This is a contractual relationship under which a "Proposal" sets out what creditors will receive, i.e. a percentage of their debt over a period of time, in full and final settlement of their claim. In essence, it "ring fences" historical creditors and saves the individual from bankruptcy, unless the IVA fails.

- **Informal Agreement**

  An informal agreement with creditors - is exactly as it sounds, creditors are approached and asked to agree a repayment plan spread over a period of time. The danger, of course, is that those creditors are not bound and can petition for bankruptcy at any time

CORPORATE

- **LIQUIDATION**

  This can be a debtor driven Liquidation (Creditors Voluntary Liquidation) or a creditor driven Liquidation (Compulsory). A director's executive authority within the company is lost in liquidation, the Official Receiver or Liquidator is tasked with gathering in all the assets of the company and then paying a dividend to the creditors from those realizations.

❖ADMINISTRATION

The popularity of the Administration process has arisen as a direct result of the Enterprise Act. It is appropriate where one or more of the following three purposes are achievable:

rescuing the company as a going concern,

achieving a better result for the company's creditors as a whole than if the company was wound up, and realizing property in order to make a distribution to normal, secured or preferred creditors.

COMPANY VOLANTERY ARRANGEMENTS

❖ This is a contractual relationship between the company and its creditors under which the company "ring fences" those historical creditors and undertakes to pay them a percentage of their debt over a period of time, in a similar way to the IVA.