



CMA INTERMEDIATE • PAPER 6 • FINANCIAL ACCOUNTING

Student Notes

Chapter 7 • Insurance Claim for Loss of Stock and Loss of Profit



3 Topics • 3 Examined • 32 Classified Questions

ICMAI Study Material, Syllabus 2022 • Shuchita Scanner, 2026 July Edition

How to use this booklet

For each topic, first read the Study Material paragraphs named in the “Read first” line. Then prepare level by level — each level tells you what kind of mastery the examiner expects, and lists the exact Scanner questions to practise at that level.

Question lines show: **label • source & exam • question reference • category • marks • Scanner page**, then the **category** again in the column beside it and the **difficulty** of the question.

The category — **OQ** objective, **SN** short note, **DB** distinguish between, **DESC** descriptive, **CSQ** case scenario — is the **Scanner’s own**, printed in the book. A **{C}** after the exam reference means the question was **compulsory** in that paper.

The heading above each group names the **skill the question calls for** — **OBJECTIVE, REMEMBERING, UNDERSTANDING, APPLYING, ANALYSING, EVALUATING, CREATING, and PRACTICE** for a model question set by the Scanner rather than taken from a past paper. It is assigned by the SITS rubric from the directive verb and the question type. **ICMAI publishes no skill-assessment grid** for the Intermediate papers, so no weighting is implied here on the Institute’s behalf.

STUDY PRIORITY GUIDE

Chapter 7 at a Glance

This chapter carries 32 classified Scanner questions across 3 declared topics, 3 of which the examiner has actually asked. The table below breaks the chapter down by the skill each question calls for, and by the marks that skill is worth.

SKILL REQUIRED Chapter 7 • share of the chapter's 182 marks

Recall — objective questions	2.5%	4 of 182 marks • 4 questions
Remembering	4.4%	8 of 182 marks • 3 questions
Understanding	4.4%	8 of 182 marks • 1 question
Applying	83.8%	153 of 182 marks • 22 questions
Evaluating	4.9%	9 of 182 marks • 2 questions

Recalling and explaining **11.2%** • applying, analysing and judging **88.8%** — this chapter reads **weighted towards application**

11% of this chapter's marks are earned by recalling and explaining, and 89% by applying, analysing and judging. Across Paper 6 as a whole the split is 42% and 58%. This chapter is examined harder than the paper as a whole. Reading it once will not earn the marks; the questions ask you to take the provision to a set of facts.

Every band is assigned by the SITS rubric v1-CMA and weighted on the marks printed in the Scanner. ICAI publishes no skill-assessment grid for the Intermediate papers, so the comparison is against this paper's own profile drawn from the Scanner, and no weighting is implied on the Institute's behalf.

SKILL REQUIRED	WHAT THE EXAMINER ASKS FOR	QUESTIONS
Recall — objective questions	recognise the right answer — Section A of the Scanner, 1 and 2 marks	4
Remembering	recall and reproduce	3
Understanding	explain with reasons	1
Applying	take the provision to the facts	22
Evaluating	judge and justify	2

The Scanner's own categories for this chapter: 26 practical, 4 objective, 1 short note, 1 descriptive.

The band on each question line is SITS-assigned by written rubric. ICAI publishes no skill-assessment grid for the Intermediate papers, so no institute weighting is implied. The category beside it — OQ, SN, DB, DESC, PRAC — is the Scanner's own: OQ, SN, DB and DESC are printed in the book, and PRAC marks a question the Scanner sets under PRACTICAL QUESTIONS.

CHAPTER 7

Insurance Claim for Loss of Stock and Loss of Profit

Topic 1: Insurance Claim for Loss of Stock

CMAL2P6-C7-T01

FREQUENCY TABLE CORRECTED — the Scanner's table at page 494 counts 18 against this topic; the book carries 19 appearances — the questions printed under it and the earlier sittings listed against them. These notes follow the book.

Read first Read §7.1 Insurance Claim for Loss of Stock, ICAI Study Material Module 7, pages 527 to 540 — the three factors that determine the claim, the proforma of the Memorandum Trading Account on page 527, the special situations and the valuation adjustments on page 528, and the average clause as it is worked through Illustrations 1 to 7.

NOTES

What the fire policy covers: stock is a **considerable portion of the working capital** of any business and especially of a trading concern, so a loss of stock **directly affects the solvency** of the business. A fire policy is usually taken to cover two losses — **loss of stock** and **loss of profits**. The insured computes the loss and files a claim; the insurance company appoints **loss assessors** to investigate the reasons and the extent of the loss, and the claim is met on their report.

The three factors that fix the amount of the claim: first, the **value of stock present at the time of the accident** — where the records and the stock are both destroyed it is estimated by drawing a **Memorandum Trading Account**; second, the **value of stock salvaged**, which is deducted from that value to give the **gross claim**; and third, the **contents of the insurance policy** — the **policy value**, being the maximum recoverable, and whether the **average clause** applies. **Note the misprint in the book:** the Study Material states this formula on page 528 with 'Net Claim' as the numerator and the value of stock lost as the denominator. Its own worked example on page 531 uses the gross claim and the value of stock on the date of the fire, and so does every answer the Scanner prints. Follow the worked example.

Dr. — Memorandum Trading Account, from the first day of the accounting period in which the accident occurred to the date of the accident	Cr.
To Opening Stock — the closing stock of the previous year, restated to cost	By Sales — to the date of the accident, less goods sold but not despatched
To Purchases — less goods in transit, goods on approval, samples and drawings; plus goods	By Closing Stock — the balancing figure, being the stock on the date of the accident

received but not yet invoiced	
To Gross Profit — sales × the gross profit rate, not a balancing figure	

The **Memorandum Trading Account** is a statement, not an account: it follows the proforma of a **Trading Account** and runs from the **first date of the accounting period in which the accident took place to the date of the accident**. Its **gross profit is not a balancing figure** — it is **sales × the gross profit rate** — and its **closing stock is the balancing figure**, and that closing stock is the value of stock on the date of the fire. Reverse those two and the answer collapses.

The gross profit rate: $GP \text{ rate} = (\text{gross profit} \div \text{sales}) \times 100$, where the **gross profit** and the **sales** are those of the **accounting period immediately preceding** the one in which the accident occurred. Where the rate is not given, prepare that year's **Trading Account** first and take the rate from it — that account is a step of the answer, not scratch work. Where the question supplies an **average rate of the past three years**, use it as given and say so.

The adjustments to be made before the rate is struck: **slow-moving items; abnormal or defective items not fetching the same rate of gross profit; goods distributed as samples; goods taken away by the proprietor; over-valuation or under-valuation of stock; and omission of recording of stock.** Each has to be put right in the preceding year's Trading Account, because a rate taken from an unadjusted account is wrong for every figure that follows it.

Abnormal items — the three-column technique: where part of the stock cannot earn the normal rate, both the Trading Account and the Memorandum Trading Account are drawn in **three columns — Normal, Abnormal and Total**. The **normal column alone** produces the gross profit rate. The abnormal line is carried across at its own figures, any **loss on its sale shown separately**, and the two closing stocks are added to give the value of stock on the date of the fire.

Under-valued or over-valued stock: where stock has been valued **above or below cost** it distorts the normal gross profit rate. **Under-valuation is added back** to the stock to arrive at cost and **over-valuation is deducted** — stock stated at **90% of cost** is grossed up by **100/90**, and stock valued at **cost plus 10%** is brought down by **100/110**. For the gross claim, the **unsold portion** of such under-valued or over-valued stock must also be taken at cost.

Adjustments to purchases and to sales: **goods in transit, or sent to a branch or a consignee** — deduct their **cost from purchases**, or credit it to the Trading Account. **Goods sold but not yet delivered** — deduct their **sale value from sales**. **Goods sent on approval** — deduct their **cost from purchases** and their **sale value from sales**. On the same principle, machinery wrongly included in purchases comes out, and goods received for which the invoice has not arrived go in.

Gross claim: $\text{gross claim} = \text{value of stock on the date of the accident} - \text{value of stock salvaged}$. Where **fire-fighting expenses** have been incurred in saving the salvage they are added to the claim. This is the figure to which the average clause is then applied; it is not itself the claim unless

the policy value equals or exceeds the value of stock on the date of the fire, in which case the gross claim is paid in full.

Average clause: it is the insurer's tool to **discourage under-insurance**, and it makes the insured share the loss where the cover is inadequate. **Net claim = gross claim × policy value ÷ value of stock on the date of the fire.** It **does not apply** where the **policy value is greater than or equal to the value of stock on the date of the fire.** Where the loss itself exceeds the policy value, the claim is capped at the policy value, and you must say so.

Two accidents in one accounting year: where a claim has already been received and the **original policy was not restored**, the cover available against the second accident is reduced — **revised policy value = original policy value – compensation received on the first claim.** In the Study Material's illustration a ₹45,000 policy that has already paid ₹30,000 leaves **₹15,000** against the second fire, and it is that reduced figure the average clause is tested against.

OBJECTIVE recognise the right answer — Section A of the Scanner, 1 and 2 marks • 3 questions

- Three objectives. The main objective of the average clause is to **encourage full insurance and discourage under-insurance** — pick the option that names both, not the one that names only the second. And the statement that is **false** in the 2024 set is '**unusual items and defective items are separate under insurance claim**'; the Study Material's own exercise answers that one false.
- The 2025 half-mark statement — **a marine insurance policy is taken to cover the claim for loss** — is **false**, and the Study Material's exercise says so: loss of stock is covered by a **fire** policy. Two neighbouring exercise answers are worth carrying: **salvage of stock means stock saved during the accident** is true, and **defective items mean goods which cannot fetch the usual rate of gross profit** is true.
- The rest of this family is one line of arithmetic. The **difference between the value of stock on the date of the fire and the stock salvaged** is the claim for loss of stock; and where goods costing ₹1,00,000 are insured for ₹50,000 and **three-quarters** are destroyed, the average clause gives $₹75,000 \times 50,000 \div 1,00,000 = ₹37,500$.

OQ • PYQ 2016-Jun [1] (a) (ii) {C} • 1M • Pg 496

OQ
Objective

Easy

OQ • PYQ 2024-Jun [1] (xi) {C} • 2M • Pg 496

OQ
Objective

Easy

OQ • PYQ 2025-Jun [1] (xii) (b) {C} • 0.5M • Pg 496

OQ
Objective

Easy

REMEMBERING recall and reproduce • 1 question

- The single two-mark question asks how an entity accounts for plant carried at ₹2,00,000 that was destroyed by fire and **replaced by the insurer with new machines of fair value ₹20,00,000**, the old machines being taken over and no cash received. It is a treatment question, not a computation: say what is derecognised, what is recognised and at what amount, in three sentences.

- Note that the Scanner prints against this question an answer about **remodelling a store and AS 10**, which does not answer what was asked. Do not reproduce it. Answer from the principle you can defend and keep it short — the marks are for the treatment, not for a discussion of the insurer's policy.

PQ 1.11 • PYQ 2022-Dec [5] (b) (i) • 2M • Pg 512

PRAC
Practical**Easy****APPLYING** take the provision to the facts • 15 questions

- Fifteen practical questions here, from two marks to ten, and fourteen of them share one spine: a **Trading Account for the preceding year** for the gross profit rate, a **Memorandum Trading Account** to the date of the fire for the stock, **less salvage** for the gross claim, then the **average clause**. The fifteenth, the 2024-Jun seven-marker, asks for a **consequential loss claim** and is worked by the Topic 2 method although it is printed under this topic.
- Most of the marks are lost at the second stage. Deduct from purchases the **cost of goods in transit, of goods on approval, of samples and of the proprietor's drawings**, and any **machinery wrongly included**; add **goods received but not yet invoiced**. Deduct from sales the **sale value of goods not yet despatched** and of **goods on approval not yet accepted**. Show every adjustment on the face of the account, never silently.
- Where the question mentions a **poor selling line, slow-moving or defective** stock, or an amount **written off** at the last balance sheet date, go to three columns — **Normal, Abnormal, Total** — in both accounts, take the rate from the **normal column only**, and carry the abnormal items across at their own figures. That is the shape of the 2015-Jun, 2016-Dec, 2019-Jun and 2023-Dec questions.
- Finish properly. State whether the average clause applies **before** you use it — it does not where the policy value is at least the value of stock on the date of the fire — and cap the claim at the policy value where the loss is larger. The 2021 six-mark question also asks for **building and equipment**: depreciate each to the date of the fire, then deduct its own salvage.

PQ 1.3 • PYQ 2015-Dec [1] (h) • 2M • Pg 500

PRAC
Practical**Medium**

PQ 1.5 • PYQ 2017-Jun [5] (b) • 7M • Pg 503

PRAC
Practical**Medium**

PQ 1.7 • PYQ 2018-Jun [5] (b) • 5M • Pg 506

PRAC
Practical**Medium**

PQ 1.8 • PYQ 2019-Jun [6] (a) • 7M • Pg 507

PRAC
Practical**Medium**

PQ 1.9 • PYQ 2019-Dec [5] (b) • 7M • Pg 508

PRAC
Practical**Medium**

PQ 1.10 • PYQ 2021-Dec [2] • 6M • Pg 510

PRAC
Practical**Medium**

PQ 1.12 • PYQ 2023-Dec [6] (b) • 7M • Pg 513

PRAC
Practical**Medium**

PQ 1.13 • PYQ 2024-Jun [6] (b) • 7M • Pg 514

PRAC
Practical**Medium**

PQ 1.14 • MQP 2024-Jun S1 [6] (b) • 7M • Pg 516	PRAC Practical	Medium
PQ 1.15 • PYQ 2024-Dec [6] (b) • 7M • Pg 518	PRAC Practical	Medium
PQ 1.17 • PYQ 2025-Jun [3] (a) • 7M • Pg 520	PRAC Practical	Medium
PQ 1.18 • PYQ 2026-Jun [6] (b) • 7M • Pg 523	PRAC Practical	Medium
PQ 1.2 • PYQ 2015-Jun [6] (b) • 8M • Pg 497	PRAC Practical	Hard
PQ 1.4 • PYQ 2016-Dec [3] (b) • 8M • Pg 501	PRAC Practical	Hard
PQ 1.6 • PYQ 2017-Dec [7] (a) • 10M • Pg 504	PRAC Practical	Hard

EVALUATING judge and justify • 2 questions

- Two questions ask you to **decide** or to **critically assess and advise** rather than merely to compute — the 2013 two-marker on the quantum of claim to be lodged, and the 2024-Dec model paper's 'critically assess the situation and advise the management'. The computation is unchanged; what is added is a **conclusion in words** naming the figure to be lodged and the reason the average clause bites.
- In the two-mark question, a loss of stock of ₹1,10,000 less salvage of ₹40,000 is a net loss of ₹70,000, and the ₹50,000 policy gives $\text{₹50,000} \times 70,000 \div 1,10,000 = \text{₹31,818}$. Watch the denominator: it is the **value of stock on the date of the fire**, not the net loss. Getting that denominator wrong is the commonest single error in the whole chapter.
- For the advisory question, close with two or three sentences: the claim as computed, the **extent of the under-insurance**, and a recommendation that the sum insured be raised so that the average clause does not bite next time. That closing paragraph is what makes it an evaluation answer rather than a sum with a total.

PQ 1.1 • PYQ 2013-Dec [1] (iv) {C} • 2M • Pg 497	PRAC Practical	Hard
PQ 1.16 • MQP 2024-Dec S2 [6] (b) • 7M • Pg 519	PRAC Practical	Hard

Topic 2: Insurance Claim for Loss of Profit

CMAL2P6-C7-T02

FREQUENCY TABLE CORRECTED — the Scanner's table at page 494 counts 9 against this topic; the book carries 11 appearances — the questions printed under it and the earlier sittings listed against them. These notes follow the book.

Read first Read §7.2 Insurance Claim for Loss of Profit, ICAI Study Material Module 7, pages 541 to 547 — the four defined terms, the eight steps for computing the net claim on pages 541 to 542, and Illustrations 8 to 10, which work the trend adjustment, the least-of-three test on additional expenses

and the average clause in turn.

NOTES

What the policy is: an accident — fire, flood, a natural calamity — hampers the regular operations of the organisation and so hurts its profitability. A contract taken to cover that risk is a **Loss of Profit policy**, also called a **Consequential Loss policy**. It normally covers **loss of net profit, standing charges, and any increased cost of working**. It is a separate policy from, and additional to, the fire policy on stock.

The four defined terms: **indemnity period** — the period for which the normal activities of the business are interrupted. **Standard turnover** — the turnover of the **previous year corresponding to the period of indemnity**, after adjustment for the trend in turnover. **Adjusted annual turnover** — the turnover during the **12 months immediately preceding the date of the damage**, again taking the trend into consideration. **Standing charges** — **unavoidable fixed expenses which have to be paid even if there is a reduction in sales**.

Gross profit here is not the trading gross profit: where the preceding accounting period showed a **net profit**, **GP = net profit for the previous accounting period + insured standing charges** — the word that matters is **insured**. Where that period showed a **net loss**, **GP = insured standing charges – (net loss × insured standing charges ÷ all standing charges)**. **All standing charges = insured + uninsured**, and in the absence of information **assume that all standing charges are insured**.

Step	What it produces
1 — Gross profit of the preceding accounting period	Net profit + insured standing charges; or, on a net loss, insured standing charges – (net loss × insured ÷ all standing charges)
2 — Gross profit rate	GP rate = (gross profit ÷ sales of that period) × 100
3 — Short sales	Standard turnover – actual turnover for the indemnity period
4 — Gross profit lost	Short sales × GP rate
5 — Admissible additional expenses	The least of: actual additional expenses; sales due to them × GP rate; and actual additional expenses × (net profit + insured standing charges) ÷ (net profit + all standing charges)
6 — Gross claim	GP lost + admissible additional expenses – savings in insured standing charges

7 — Insurable value	Adjusted annual turnover × GP rate
8 — Net claim	Gross claim; or gross claim × policy value ÷ insurable value where the average clause applies

Short sales: short sales = standard turnover – actual turnover for the indemnity period, the standard turnover being the previous year's turnover of the **matching months** grossed up for the trend. Where sales of several past years are given you must **work the trend out yourself** — the model answer computes the year-on-year percentage change and finds a **10% upward trend** — and apply it. A **special circumstances clause** stating an increase of 20% is that trend handed to you.

Increased cost of working — the least of three: (i) the **actual additional expenditure**; (ii) **sales generated by that expenditure × GP rate**; and (iii) **actual additional expenditure × (net profit + insured standing charges) ÷ (net profit + all standing charges)**. Take the **smallest** of the three. Where the sales attributable to the extra spending are not stated, **assume the entire turnover of the indemnity period was attained because of it**.

Gross claim: gross claim = gross profit lost on short sales + admissible additional expenses – savings in insured standing charges. The savings are **deducted, never added**, and only **insured** standing charges saved are deducted. Where the question is silent about savings, still show the line, as **Nil**.

Insurable value and the average clause: insurable value = adjusted annual turnover × GP rate. Where the **policy value is less than the insurable value** there is under-insurance and the average clause applies, so **net claim = gross claim × policy value ÷ insurable value**. Where the policy value is not less, **net claim = gross claim**. State which of the two situations you are in before you compute.

Building the adjusted annual turnover out of quarterly figures: where sales are given quarter by quarter, take the **12 months immediately preceding the date of the fire** — the part-quarter running to the anniversary of the fire in the earlier year, the three full quarters between, and the part-quarter of the current year — and then add the trend. Illustration 10 does exactly this and reaches an insurable value of $₹5,44,000 \times 110\% \times 20\% = ₹1,19,680$.

Do not confuse the two turnovers: standard turnover drives the **claim** and is measured over the **indemnity period** only; adjusted annual turnover drives the **insurable value** and is measured over **12 months**. Both take the trend adjustment. Using the annual figure to compute short sales, or the indemnity-period figure to compute the insurable value, turns a correct method into a wrong answer.

Four standing assumptions: if the **sales due to the additional expenses** are not given, assume the **entire sale** of the period was attained by them; **all standing charges = insured standing charges + uninsured standing charges**; in the absence of specific information **assume all standing charges are insured**; and where sales for past years are given you must **determine the trend of sales** from

them rather than assume there is none.

OBJECTIVE recognise the right answer — Section A of the Scanner, 1 and 2 marks • 1 question

- One objective sits here and it is a fill-in-the-blank: **in the case of a Loss of Profit policy, gross profit is the sum of net profit plus insured standing charges**. The missing word is **insured** — not 'all', not 'unavoidable'. The Study Material's own exercise sets the same blank, so it is a sentence to hold word for word.
- Two more blanks in that exercise belong to the same family and are cheap marks: **standard turnover corresponds with the indemnity period**, and **under an insurance claim, 'standing charges' means insured standing charges only**. Both are the definitions of Step 1 and Step 3 restated as a gap.

OQ • PYQ 2019-Jun [1] (d) (iii) • 1M • Pg 496

OQ
Objective

Easy

REMEMBERING recall and reproduce • 2 questions

- The five-mark short note on the **Consequential Loss Policy** wants three things and should be written in three short paragraphs: what it is — a policy against the **loss of profit consequent on an event such as fire, flood, theft or earthquake**; that insurance is a **contract of indemnity**, so the claim is restricted to the actual loss; and what the policy covers — **loss of net profit, standing charges and any increased cost of working**.
- The one-mark question — **under loss of profit insurance, what is meant by gross profit?** — is answered in a single line: **net profit plus insured standing charges**. Do not open with gross profit in the trading sense; that is the other chapter's gross profit and it costs the mark outright.

TQ 2.2 • PYQ 2021-Dec [16] • 1M • Pg 524

DESC
Descriptive

Easy

TQ 2.1 • PYQ 2018-Dec [8] (ii) • 5M • Pg 523

SN
Short note

Medium

APPLYING take the provision to the facts • 7 questions

- Seven practical questions, six to eight marks. Answer each in the Study Material's eight steps, each step a headed working: **gross profit, gross profit rate, short sales, gross profit lost, admissible additional expenses, gross claim, insurable value, net claim**. The examiner is marking the workings, and a bare final figure earns almost nothing at this length.
- Short sales is where the trend goes in. Take the turnover of the **same months of the preceding year**, add the stated or computed trend, then deduct the **actual turnover of the indemnity period**. The 2025-Dec question adds **10%**; the 2014-Jun question's **special circumstances clause** adds **20% to turnover and 5 percentage points to the gross profit rate** — two adjustments, not one.
- Set out all three limbs of the **additional expenses** test and mark the least, even where one limb is obviously larger. Then apply the average clause against the **insurable value**, which is **adjusted annual**

turnover × GP rate — not against the policy value alone and not against the gross claim. The 2014-Dec and 2016-Jun questions both turn on getting that ratio the right way up.

- The 2018 seven-mark question runs the method **backwards** and asks what **policy amount** should be taken. Rebuild the previous year's Profit and Loss Account from the variable and fixed expenses given, take **gross profit = sales – variable expenses**, add the **expected 20% increase in turnover**, then add the **new standing charge** foreseen — the interest on the overdraft to be raised. The three together are the policy to be taken.

PQ 2.1 • PYQ 2013-Dec [8] (b) • 6M • Pg 524	PRAC Practical	Medium
PQ 2.5 • PYQ 2018-Dec [6] (a) • 7M • Pg 531	PRAC Practical	Medium
PQ 2.6 • MQP 2024-Dec S1 [6] (b) • 7M • Pg 532	PRAC Practical	Medium
PQ 2.7 • PYQ 2025-Dec [6] (b) • 7M • Pg 535	PRAC Practical	Medium
PQ 2.2 • PYQ 2014-Jun [7] (a) • 8M • Pg 525	PRAC Practical	Hard
PQ 2.3 • PYQ 2014-Dec [6] (b) • 8M • Pg 527	PRAC Practical	Hard
PQ 2.4 • PYQ 2016-Jun [4] (b) • 8M • Pg 529	PRAC Practical	Hard

Topic 3: Comprehensive Questions

CMAL2P6-C7-T03

Read first Read §7.1 and §7.2 side by side, ICMAI Study Material Module 7, pages 527 to 547 — a comprehensive question runs a single fire through a stock policy and a loss of profit policy on one set of accounts, so the two units have to be held in mind together.

NOTES

What a comprehensive question is: one accident, two policies. The Study Material keeps **7.1** and **7.2** as separate units, but the Scanner's comprehensive question gives a **single summarised Profit and Loss Account** and asks for the **claim for loss of stock** and the **claim for loss of profit** out of it, with a **period of indemnity** stated for the second. The two claims share the same trading figures, but they do not share a gross profit.

The two gross profits: for the **stock** claim, gross profit is the **trading gross profit** — sales less cost of goods sold — expressed as a rate on sales. For the **loss of profit** claim it is **net profit plus insured standing charges**, again expressed as a rate on sales. On the same set of accounts these are different percentages, and each belongs to its own half of the answer. Label each rate where it is computed.

The order of work: (1) the preceding year's **Trading Account**, for the gross profit rate; (2) the **Memorandum Trading Account** to the date of the fire, for the value of stock; (3) **less salvage**, then the **average clause**, for the stock claim; (4) **gross profit on the loss-of-profit definition** and its rate; (5) **short sales** over the indemnity period; and (6) the **gross claim**, then the **average clause against the insurable value**. Head each of the six.

Every adjustment from the stock unit still applies: goods in transit and goods on approval come out of **purchases**; goods sold but not despatched come out of **sales**; under-valued or over-valued stock is restored to **cost**; and abnormal or defective lines go into a **separate column**. The comprehensive question plants these in the same paragraph as the loss-of-profit data, so read the paragraph twice and tag each item to the claim it affects.

Salvage and the two policies: salvage reduces the stock claim only — it has nothing to do with the loss of profit claim, where the corresponding deduction is **savings in insured standing charges**. Likewise the **average clause** is applied to the stock claim against the **value of stock on the date of the fire** and to the profit claim against the **insurable value**. The two denominators are different.

UNDERSTANDING explain with reasons • 1 question

- One eight-mark question, from June 2023. It gives a single summarised Profit and Loss Account, a **stock policy of ₹6,00,000**, a **loss of profit policy including standing charges of ₹3,75,000** and a **six-month indemnity period**, and asks for both claims. Budget the marks roughly five to the stock claim and three to the profit claim, and do them in that order.
- It withholds the **purchases to the date of the fire**. Build them out of the **Trade Creditors Account** — opening balance, less payments made, plus purchases as the balancing figure, equals the closing balance — and show that account as a working note. Candidates who guess the purchases lose the Memorandum Trading Account and everything that depends on it.
- The band is understanding, so say what you are doing at each stage. A line such as 'the average clause does not apply here because the policy value exceeds the value of stock on the date of the fire' earns more than the arithmetic beside it. Close with the two claim figures stated separately and clearly labelled.