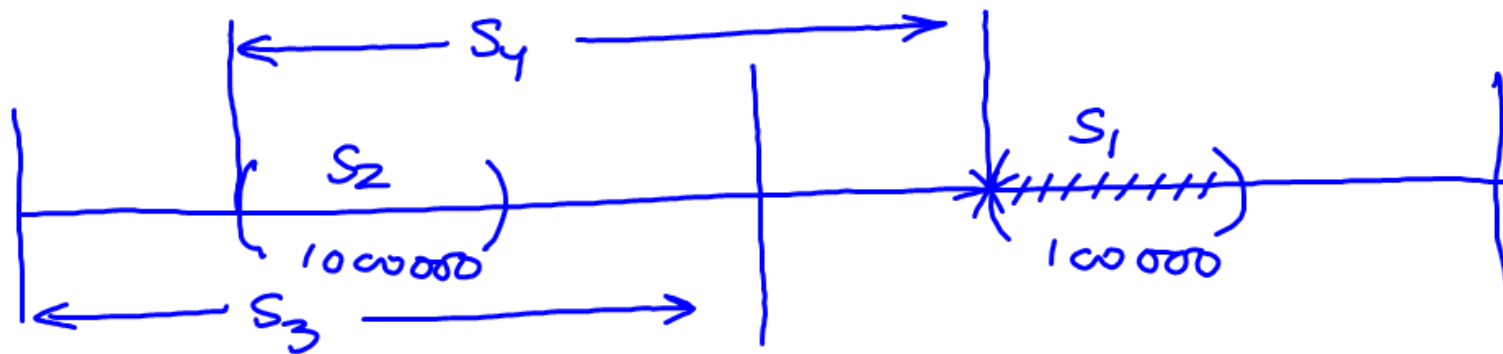


Loss of Profit Policy



$S_1 =$ Indemnity period Sale

$S_2 =$ Standard Turnover

$S_3 =$ Last yr Sales

$S_4 =$ Annual Turnover

✓ Step 1 : Find S_1, S_2, S_3, S_4 & Find adj S_2 & S_4 .

✓ Step 2 : Find Insured GP rate =
$$\frac{\text{Insured Standing charges} + \text{Net Profit}}{S_3} \times 100$$

Step 3: Find adj IGP on adj S_4

✓ Step 4: Find Short Sales = adj $S_2 - S_1$

Step 5: Find Loss of Profit = adj IGP rate \times Short Sales

Step 6: Add: allowance (whichever is less).

i) Expenses

ii) $\frac{\text{adj IGP on adj } S_4}{\text{adj IGP on adj } S_4 + \text{Uninsured Standing Charges}} \times \text{Expenses}$

iii) Loss of Sales avoided \times adj IGP

Step 7: Less: Saving in Standing charges

Step 8 claim = Loss of Profit + allowance - Saving

Step 9: Final claim = $\frac{\text{Policy}}{\text{adj IGP on adj Sy}} \times \text{claim}$

In indemnity period.

It is the period in which business recovers properly or the period specified in policy, whichever is less.

Policy

- ① Indemnity period
- ② FC
- ③ NP

| P&L alc. | |
|-------------------|----|
| VC | |
| Standings charges | |
| ↳ Insured ✓ | GP |
| ↳ Uninsured X | |
| NP. ✓ | |

$$GPR = \frac{GP}{S}$$

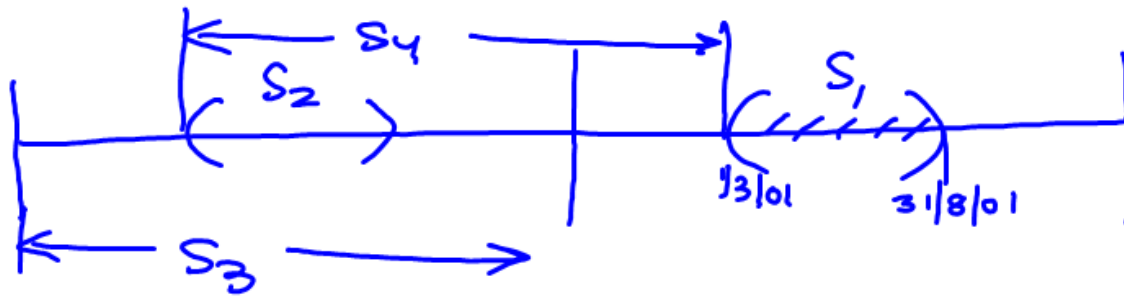
$$IGPR = \frac{NP + ISC}{S_g}$$

± trend^{GP}

Adj IGPR

| | Amit | SG. |
|--------------------|--------|--------|
| adj S ₂ | 264000 | 264000 |
| - S ₁ | 80000. | 0 |
| <hr/> | | |
| Short sales | 184000 | 264000 |
| LOP. | 55200 | 79200. |

Q16 .



$$S_1 = 80000$$

$$S_2 = 240000$$

$$S_3 = 500000$$

$$S_4 = 600000$$

$$\text{adj } S_2 = 264000$$

$$\text{adj } S_4 = 660000$$

$$\text{IGP rate} = \frac{NP + \text{Inv. std chg}}{S_3}$$

$$= \frac{90000 + 60000}{500000} \times 100$$

$$= 30\%$$

$$\text{Adj IGP rate on adj } S_4 = 30\% / 660000$$

$$= 198000$$

$$\begin{aligned} \text{Short Sales} &= \text{adj } S_2 - S_1 \\ &= 264000 - 80000 = 184000 \end{aligned}$$

$$\text{Loss of Profit} = 30\% 184000 = 55200$$

add: allowance

$$\text{i) } 9300$$

$$\text{ii) } \frac{198000}{198000 + 5000} \times 9300 = 9071$$

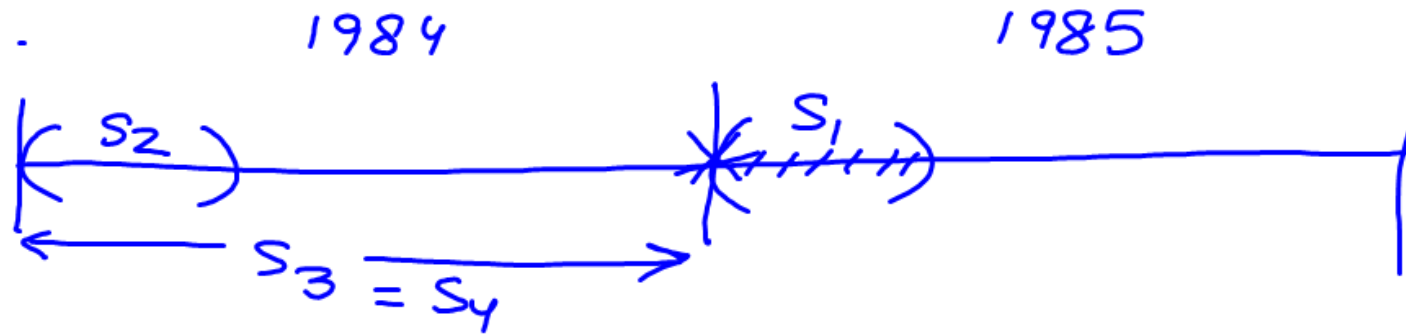
$$\text{iii) } (80000 - 55000) \times 30\% = \textcircled{7500}$$

$$\text{less: Saving in std charges} = 2700$$

$$\text{Claim} = 55200 + 7500 - 2700 = 60000$$

$$\begin{aligned}\text{Final claim} &= \frac{165000}{198000} \times 60000 \\ &= \text{Rs } \underline{50000/-}.\end{aligned}$$

Q17



$$S_1 = 11840$$

$$S_2 = 43200$$

$$S_3 = 172800$$

$$S_4 = 172800$$

$$\text{adj } S_2 = 43200 + 20\% = 51840$$

$$\text{adj } S_4 = 172800 + 20\% = 207360$$

Observing sales of past years, there is a trend of 20%.

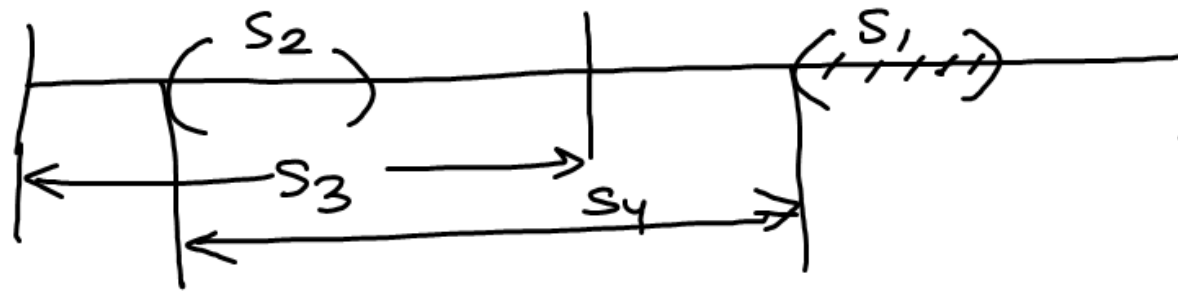
$$\text{IGPR} = \frac{10000 + 7280}{172800} \times 100 = 10\%$$

$$\text{Adj IGPR on adj } S_4 = 207360 \times 10\% = \textcircled{20736}$$

$$\begin{aligned} \text{Short Sale} &= \text{adj } S_2 - S_1 \\ &= 51840 - 11840 = 40000 \end{aligned}$$

$$\text{Loss of Profit} = 10\% \times 40000 = 4000 = \text{claim}$$

Q 18 .



$$S_1 = 800000$$

$$S_2 = 2000000 \quad \text{adj } S_2 = 2200000$$

$$S_3 = 4000000$$

$$S_4 = 4400000 \quad \text{adj } S_4 = 4840000$$

$$\text{IGPR} = \frac{\text{NP} + \text{Inv SC}}{S_3} = \frac{240000 + 480000}{4000000} = \frac{720000}{4000000} = 18\% + 2\% = 20\%$$

$$\text{adj IAP on adj } S_4 = 20\% \ 4840000 = 968000$$

$$\begin{aligned} \text{Short Sales} &= \text{adj } S_2 - S_1 \\ &= 2200000 - 800000 = 1400000 \end{aligned}$$

$$\text{LOP} = 20\% \ 1400000 = 280000$$

Add: allowance

i) Expense of 150000

$$\text{ii) } \frac{968000}{968000 + 800000} \times 150000 = 138550$$

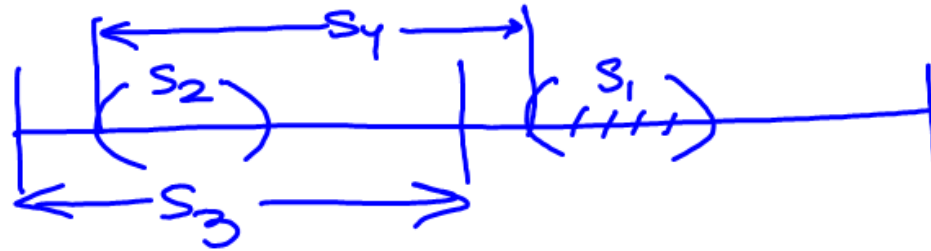
$$\text{iii) } 400000 \times 20\% = \boxed{80000}$$

less: Saving in FC = 30000

$$\begin{aligned} \text{Claim} &= 280000 + 80000 - 30000 \\ &= 330000 \end{aligned}$$

$$\begin{aligned} \text{Final claim} &= \frac{750000}{968000} \times 330000 \\ &= \text{Rs } 255682/- \end{aligned}$$

Q21.



$$S_1 = 75000$$

$$S_2 = 210000$$

$$S_3 = 420000$$

$$S_4 = 450000$$

$$\text{adj } S_2 = 241500$$

$$\text{adj } S_4 = 517500$$

$$\text{IGP} = \frac{\text{NP} + \text{ISC}}{S_3}$$

$$= \frac{70000 + 56000}{420000} = 30\%$$

$$\text{IGP on adj } S_4 = 30\% \cdot 517500$$

$$= 155250$$

$$\begin{aligned} \text{Short sales} &= \text{adj } S_2 - S_1 \\ &= 241500 - 75000 = 166500 \end{aligned}$$

$$\text{LOP} = 30\% \ 166500 = 49950$$

add

i) Expence = 6700

ii) $\frac{155250}{155250 + 8000} \times 6700 = 6372$

iii) $75000 \times 30\% = 22500$

$$\text{Saving in FC} = 2450$$

$$\begin{aligned}\text{Claim} &= 49950 + 6372 - 2450 \\ &= 53872\end{aligned}$$

$$\begin{aligned}\text{Final claim} &= \frac{124200}{155250} \times 53872 \\ &= \underline{\underline{Rs\ 43098/-}}\end{aligned}$$