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SANDERFORD & ASSOCIATES, P.A.
Certified Public Accountants

Newsletter

INTRODUCTION

This issue's technical topic continues with the business interruption explanation, Loss of Income Calculation.

Please send us your e-mail address so that we can provide you a copy of our newsletter in a more efficient manner.

Thank you for your support.

OUR FIRM

Sanderford & Associates, P.A. is dedicated to providing forensic accounting services to the insurance industry. Our clients consist of insurance companies and defense attorneys. We assist with the verification of insurance claims, alternative measurement calculations, consulting and litigation matters. For more information on our firm please visit our website at www.sanderfordcpa.com

BUSINESS INTERRUPTION / LOSS OF INCOME

We will present an explanation of the Business Interruption Calculation in seven articles:

1. SALES PROJECTION
2. COST OF SALES & GROSS PROFIT
3. OPERATING EXPENSES & NET INCOME (LOSS)
4. CONTINUING & NONCONTINUING EXPENSES
5. LOSS OF INCOME CALCULATION
6. EXTRA EXPENSE
7. CO-INSURANCE FACTORS

This article continues the business interruption explanation and discusses **Loss of Income Calculation**

Loss of Income Calculation

Business income in most policies is defined as: Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred and Continuing normal operating expenses incurred, including payroll. In the event of a partial business interruption, the earnings generated during the period of restoration will be considered in reducing the Net Income and Continuing normal operating expenses.

The loss of income coverage is intended to do for the business what the business could have done for itself had the loss not occurred. The loss of income calculation utilizes the Statement of Income and compares what should have occurred (projected) to what actually occurred (actual) during the period of restoration. This comparison is usually made on a line by line basis: revenues, cost of sales, individual operating expenses and net income or (loss). The differences between the projected amounts and the actual amounts should be analyzed to determine why they occurred. These differences can represent lost revenues, cost of sales related to the lost revenues, lost gross profit, timing differences in the expenses, one time expenses, noncontinuing expenses, etc. Each line item should be consider in context with the insured's Statement of Income and Policy of Insurance. If the differences are not related to the loss then they should be revised so that the insured is not penalized. Furthermore, revisions may also be necessary so that the insured does not profit from the loss as a result of these differences. These differences may include but are not limited to extra expenses, replacement of business personal property, debris removal, etc., included in the continuing expenses.

The insured's policy in effect at the time of the loss would dictate the actual definition of the insured's Business Income Loss.

Tax Tip

If you file an automatic extension you are required to pay the taxes owed BY April 17th. If you do not pay the taxes owed with your automatic extension you are subject to penalties and interest. The extension is good through August 15th. If you need an additional extension you must provide the IRS with an acceptable reason.

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Business Interruption / Loss of Income Calculation

Recap of previous news letters

In Volume 1, Issue 1, we discussed the general methodology of projecting sales. Volume 1, Issue 2, discussed the projection of cost of sales and gross profit for the loss of income calculation. In Volume 2, Issue 1, we discussed the operating expenses & net income. Volume 2, Issue 2, we discussed the continuing and non-continuing expenses.

LOSS OF INCOME CALCULATION

In our previous newsletters, as outlined in the preceding paragraph, we explained the methods used to calculate the projected sales, cost of sales and operating expenses to arrive at the projected net income (loss) during the period of restoration.

To arrive at the insured's loss of income we would add the actual normal continuing expenses to the projected net income (loss) to arrive at the projected net income (loss) and actual continuing expenses. We would then subtract the actual gross profit earned, during the period of restoration, from the projected net income (loss) and actual continuing expenses. This calculation results in the insured's loss of income before deductibles and 30-day limitations and policy limits.

SUMMARY

In summary, there are numerous factors that could affect the determination of the insured's loss of income. Therefore, it is important to investigate and identify all the areas.

The above information is not intended to be all-inclusive. Furthermore, the above information is presented as a learning tool and is general in nature. The insured's policy of insurance and all related coverage's should be considered when measuring a loss of income claim.

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