

# SANDERFORD & ASSOCIATES, P.A.

Certified Public Accountants

Certified Fraud Examiners

Forensic Accounting & Loss Measurement  
Consulting

## **INTRODUCTION**

The topic of this newsletter is on Extended Business Income aka Extended Period of Indemnity. Our past newsletters include but are not limited to Business Interruption Calculations can be downloaded or viewed from our website at [www.sanderfordcpa.com](http://www.sanderfordcpa.com).

## **EXTENDED BUSINESS INCOME AKA EXTENDED PERIOD OF INDEMNITY**

Business loss of income occurs when there is a suspension / interruption of the business as a result of direct physical damage to the insured location resulting from a covered loss. The loss of income is covered during the period of restoration or the time limit listed on the policy. There is an additional coverage on some policies for Extended Business Income or Extended Period of Indemnity.

The purpose of extended business income is to allow time for the insured's operations to return to the same level that would have existed if the loss had not occurred. Typically the extended period of indemnity ends when the business has returned to normal or ends based on the maximum time period listed in the policy. The maximum time period listed in the policy can range from 30 days to 90 days but can be longer depending on the policy language.

Extended Business Income begins when the period of restoration ends. As you know, the period of restoration ends the date the property is repaired, rebuilt or replaced or the date that the property should have been repaired, rebuilt, or replaced. The Extended Business Income coverage usually begins the day after the period of restoration ends. The extended coverage ends when the insured's sales have returned to normal, the date you could restore your operations with reasonable speed to the level which existed prior to the date of loss or the time period specified in the policy has elapsed, whichever comes first. In the event that

the period of restoration ends and the business has not resumed operations then the Extended Business Income is delayed and actually begins when the business resumes operations.

An important consideration when calculating the extended business income is that the loss of income attributed to a negative business climate (unfavorable business conditions) caused by the impact of the loss is not covered. The following example illustrates this point. The insured operates a fast food restaurant and suffers damage as a result of a hurricane. The insured reopens the business after a couple of months. The area surrounding the insured's restaurant is still devastated and the local residents have not returned. The insured sales are below what they were prior to the date of loss but this decrease is a result of the negative business climate in the area and is not a covered loss. However, measuring the damages as a result of the loss during the extended period of indemnity and the damages related to a negative business climate can be challenging at best.

The Extended Business Income aka Extended Period of Indemnity does not include extra expenses. The policy language generally states that extra expenses are those expenses incurred during the period of restoration. Based upon this policy language, extra expenses would not be covered under the Extended Business Income time period as the period of restoration has ended.

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.

## **OUR FIRM**

Sanderford & Associates, P.A. is celebrating fourteen years of doing business in the Tampa Bay area. Our practice is limited to forensic accounting services for the insurance industry including but not limited to the verification of insurance claims, loss measurement calculations and expert testimony. Additional information is available at [www.sanderfordcpa.com](http://www.sanderfordcpa.com)

## **OUR SERVICES**

### **Business Income Loss**

- Net Income or (Loss) & Continuing Expenses
- Gross Earnings less Noncontinuing Expenses
  - Loss of Rental Income
  - Extra Expenses Verification
  - Coinsurance Analysis

## **Property Damage**

- Business Personal Property

## **Inventory / Stock Loss**

- Out of Sight Inventory Measurements
- Price Testing Verification & Obsolescence Analysis
  - Physical Inventory Counts
- Automatic Seasonal Increase Analysis

## **Employee Dishonesty**

## **Litigation Consulting**

## **Expert Testimony**

## **Business Valuation**

## **Fraud / Arson**

- Financial Motive Analysis
- Arson for Profit Analysis
  - Concealment Analysis
- Financial Condition Analysis