

SANDERFORD & ASSOCIATES, P.A.

Certified Public Accountants

www.sanderfordcpa.com

OUR FIRM

Sanderford & Associates, P.A. has been providing forensic accounting services to the insurance industry for nineteen years. We have assisted our clients with the verification of insurance claims, alternative measurement calculations, consulting and litigation matters throughout the Southeast. Mr. Sanderford is a Certified Public Accountant and a Certified Fraud Examiner and holds Certified Public Accounting licenses in the States of Florida, Georgia and Tennessee. Mr. Sanderford has testified in Florida, Georgia and Tennessee and has 30 years of forensic accounting experience.

INTRODUCTION

The technical topic of this issue is the second part of the ordinary payroll exclusion explanation as it relates to the loss of business income measurement during the period of restoration. This newsletter discusses calculating the noncontinuing ordinary payroll amounts when the business operations are ongoing during the period of restoration.

ORDINARY PAYROLL EXCLUSION

Ordinary payroll, as defined by most insurance policies, consists of payroll expenses for all of the employees except Officers, Executives, Department Managers, employees under contract and any other employee specifically excluded in the Declarations. Ordinary payroll expenses include Payroll, Employee Benefits directly related to payroll, FICA Payments, Union Dues and Workers' Compensation Premiums. The ordinary payroll exclusion begins after a period of time, as stated in the policy, usually sixty days after the date of loss. Therefore, ordinary payroll continues at the actual amount paid from the date of loss until the ordinary payroll exclusion begins. If the ordinary payroll is not incurred (paid) then the ordinary payroll would be noncontinuing prior to the time period excluded by the ordinary payroll exclusion. Once the ordinary payroll exclusion begins any employee that is not excluded by definition or excluded in the

Declarations is considered in the ordinary payroll group. The wages paid to these employees classified as ordinary payroll including the related payroll taxes, benefits, etc., are excluded from the continuing payroll expense. The noncontinuing ordinary payroll amounts are based on the projected ordinary payroll that would have been incurred if the loss had not occurred. The projected ordinary payroll and related taxes, benefits, etc. are usually based on historic amounts prior to the date of loss and the expected amounts during the period of restoration if the loss had not occurred.

The ordinary payroll that continues after the ordinary payroll exclusion begins is calculated as described above and is noncontinuing in the business interruption calculation at the projected amounts. However, most business interruption coverages allow for extra expenses during the period of restoration if they serve to reduce the loss. Therefore, one must look at the ongoing operations of the business to determine if the earnings generated by the business are greater than the actual ordinary payroll incurred during the respective time period. If the earnings of the business are greater than the actual ordinary payroll incurred then the actual ordinary payroll incurred should be considered an extra expense. Please note that the actual ordinary payroll incurred, during the period of restoration, can be greater than or less than the projected ordinary payroll.

The extra ordinary payroll expense would be added to the business interruption loss calculation to arrive at the insured's loss of income and extra expenses. If the business interruption reflects no actual loss sustained then the extra ordinary payroll expense would be netted against the no actual loss sustained amount. This is necessary to place the insured in the financial position that it would have been in had the event not occurred. The ordinary extra payroll expense could not be greater than the actual amount incurred (paid) during the ordinary payroll exclusion time period.

The above information is not intended to be all-inclusive and is presented as a learning tool and is general in nature.

PAST NEWSLETTERS

- **Loss of Income Sales Projection**
- **Loss of Income Cost of Sales**
- **Loss of Income Operating Expenses and Net Income or (Net Loss)**

- **Loss of Income Continuing and Noncontinuing Expenses**
- **Loss of Income Calculation**
- **Business Interruption / Extra Expense Analysis**
- **Business Interruption / Coinsurance Factors**
- **Inventory / Loss of Inventory Calculation**
- **Automatic Seasonal Increase Analysis**
- **Business Interruption Overview**
- **Damaged On Site Inventory**
- **Gulf Oil Spill & Upcoming Hurricane Season**
- **Business Interruption Loss Issues When You Have Overlapping Events**
- **Information Backup Business & Personal**
- **Extended Business Income AKA Extended Period of Indemnity**
- **Ordinary Payroll Exclusion - Part 1**

Our prior newsletters can be downloaded from our website at www.sanderfordcpa.com

OUR SERVICES

- **Business Interruption (Loss of Business Income and Loss of Rents (Time Element Losses)**
- **Extra Expense Analysis**
- **Values at Risk - Loss of Income, Real Property and Business Personal Property**
- **Coinsurance Analysis – Loss of Income, Real Property and Business Personal Property**
- **Employee Dishonesty Loss Measurement Verification**
- **Theft Losses, Cash and Inventory Verification**
- **Inventory Losses, In-Sight on Hand & Out-of-Sight Loss Measurements**
- **Inventory Measurement, Automatic Seasonal Increase**
- **Business Personal Property Verification – Existence and Values (ACV & RCV)**
- **Financial Condition Analysis, Motive for Arson & Fraud, Personal and Business**
- **Fraud and Concealment Analysis**
- **Third Party Liability Claims**
- **Personal Injury-Lost Earnings**
- **Wrongful Death Claims**
- **Business Valuations**
- **Earnings Verification, Disability, Worker's Compensation and Liability**
- **Environmental Claims ability to pay fines and Cleanup Costs**
- **Divorce Matters, Business Valuations, Asset Searches & Support Evaluations**

- Estate Valuations
- Ownership Analysis
- Expert Testimony on the above matters

Experience includes but is not limited to forecasting, projections, expert testimony, claim evaluations, cost analysis, development of analysis plans, financial statement analysis, analytical analysis, litigation consulting and appraiser in the aforementioned matters.

**Toll Free (877) 471-2912 * Tel (813) 920-1795 * Fax
(813) 920-1796**

www.sanderfordcpa.com

email: ron.sanderford@sanderfordcpa.com

Unsubscribe

Forward