

SANDERFORD & ASSOCIATES, P.A.
Certified Public Accountants

NEWSLETTER

INTRODUCTION

Over the years we have received inquiries regarding topics pertaining to the calculation of various insurance related losses. As a result of these inquiries, we have decided to develop a quarterly newsletter. **Behind the Numbers** will discuss, among other things, various technical topics that we feel will be interesting and informative to individuals in the insurance industry. We hope that the information presented each quarter will be helpful to you.

Please let us know what you think of our newsletter and include your e-mail address for future mailings.

Thank you for your continued support.

OUR FIRM

Sanderford & Associates, P.A. was founded September 1996. Our accounting staff has over fifty years of combined forensic accounting experience. Our accounting staff is dedicated to thorough and accurate claim evaluations in a timely manner. We are committed to providing forensic accounting services to the insurance community. We limit our forensic accounting practice to insurance companies and insurance defense law firms. All assignments are handled with integrity and professionalism to meet our clients needs.

For more information on our firm please visit our web site at www.sanderfordcpa.com

BUSINESS INTERRUPTION / LOSS OF INCOME

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

1. SALES PROJECTION
2. COST OF SALES & GROSS PROFIT
3. EXPENSES & NET INCOME
4. CONTINUING & NON-CONTINUING EXPENSES
5. EXTRA EXPENSES
6. CO-INSURANCE FACTORS

The loss of income coverage is designed to place the insured back into the financial position that they would have been in, during the period of restoration, had the loss not occurred. The Business Interruption or Loss of Income calculation is a projection of the insured's net income or (loss) and the continuing expenses that are earned or incurred during the period of restoration.

It is important to obtain a general overview of the insured's business operations including accounting systems, procedures and method of accounting. This information, gives one an understanding of when income and expenses are earned or incurred and when they are recorded. This information also gives one an understanding of the types of documentation that are available to support the transactions and the loss of income calculation. Based on this information, one can develop a list of records from which to evaluate the insured's loss of income claim.

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Sales Analysis & Projection

The Loss of Income calculation begins with the projection of the insured's sales or revenues that would have been earned, during the period of restoration, had no loss occurred.

There are many ways to project sales or revenues: monthly averages, daily averages, week-day averages, trending, etc. One method that we utilize is the trending method. The trending method takes into account seasonality as well as growth or decline in the sales or revenues.

The trending method utilizes monthly sales or revenue data for a period of approximately 24 months prior to the date of loss. The sales information is analyzed to determine the sales trend of the business. The trend analysis will generally reveal whether the sales are increasing or decreasing and the seasonality of the business, if any. The increase or decrease in sales is expressed as a percentage relationship by com-

paring historical periods prior to the date of loss.

The insured's business cycle may include seasonal or industry trends that affect the projected sales and the insured's operations during the period of restoration. Industry information may reflect an economic increase or decrease prior to and during the period of restoration. If the insured has any seasonal, industry or economic trends, these trends should be considered when preparing the sales projection.

Once the insured's sales trend is established, one applies the percentage relationship to the prior years historical sales, during the respective months of the period of restoration. This calculation projects the sales that would have been earned had no loss occurred. Any actual sales earned during the period of restoration are subtracted from the projected sales to arrive at the insured's lost sales.

Other Factors—Sales Analysis & Projection

There are other more complex issues that could affect the sales projection. For example, just prior to the date of loss, one or more of the following changes took place:

- Installed a new piece of equipment.
- Opened a new office or plant.
- Increased a market territory.
- Hired additional personnel or added a new product line or service.
- Competitor has opened a new establishment nearby.
- The insured's major supplier goes out of business.

Any of the above changes could increase or decrease the insured's revenues and should be considered in the sales or revenue projection.

In summary, the sales projection is not always a straightforward calculation. There are many factors that can affect the sales projection and the loss of income calculation accordingly.

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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Company "Insider" Information—New Office Building Completed



OUR SERVICES

Business Interruption / Loss of Income

- Net Income & Continuing Expenses
- Gross Earnings Calculations
- Loss of Rental Income
- Loss of Individual Earnings
- Extra Expenses

Property Damage

- Direct / Consequential Damage
- Plant & Equipment Loss
- Values at Risk / Coinsurance Analysis

Inventory / Stock Loss

- In Sight / Out of Sight
- Obsolescence

Employee Dishonesty

- Fidelity Bond Loss

Fraud / Arson Loss

- Financial Motive
- Arson for Profit
- Concealment Analysis
- Analysis of Financial Conditions

Third Party Liability

- Personal Injury
- Loss of Income
- Wrongful Death

Environmental Claims

- Damage Measurement

Worker's Compensation

- Income Verification

Litigation Support Services

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