

# NEWSLETTER

## INTRODUCTION

**HURRICANE SEASON IS UPON US ONCE AGAIN.** It has been a busy year and most of us are still wrapping up the 2004 Hurricane Season. Our last newsletter was dated March 16, 2004. All of our newsletters are available on our web site at [www.Sanderfordcpa.com](http://www.Sanderfordcpa.com)

This issue's technical topic continues with the business interruption explanation, Continuing and Non-continuing Expenses.

**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. was founded by Ron Sanderford in September 1996. Sanderford & Associates limits its practice to forensic accounting for insurance companies and defense attorneys. We are committed to providing forensic accounting services to the insurance industry.

**We are pleased to offer our new Document Imaging service. This service is offered through Sanderford & Associates d/b/a Scan Tech. Document imaging has many advantages. Please see the enclosed Scan Tech brochure.**

## BUSINESS INTERRUPTION / LOSS OF INCOME

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

1. SALES PROJECTION
2. COST OF SALES & GROSS PROFIT
3. OPERATING EXPENSES & NET INCOME (LOSS)
4. CONTINUING & NONCONTINUING EXPENSES
5. LOSS OF INCOME CALCULATIONS
6. EXTRA EXPENSES
7. COINSURANCE FACTORS

In our previous newsletters we discussed the general methodology of projecting sales, projecting cost of sales projecting gross profit, projecting operating expenses and projecting net income or (loss) for the loss income calculation. This article continues the business interruption explanation and discusses **Continuing & Noncontinuing Expenses.**

### **Continuing & Noncontinuing Expenses**

**Continuing and Noncontinuing Expenses** must be evaluated in order to calculate the loss of income in accordance with the policy definition. Therefore, each expense category must be analyzed to determine whether the expense continues at a normal rate, continues at a reduced rate or ceases during the restoration period.

In our previous newsletter, we discussed Fixed and Variable Expenses. In general all or a portion of each variable expense (those that fluctuate with sales) discontinue in proportion to the lost sales. The noncontinuing portion is usually calculated by multiplying the variable percentage (calculated by dividing the historic expenses by the historic sales) times the lost sales. Some of the fixed expenses may also be noncontinuing based on the type of expense, the industry and the business.

## Continuing & Noncontinuing Expenses

Fixed expenses may continue at their normal rate, at a reduced rate or cease during the restoration period. Some fixed expenses may be noncontinuing based on the type of expenses, the industry, the business operation or by contract.

There are other issues that could affect the determination of continuing and noncontinuing expense categorizing.

Some of the actual expenses incurred during the restoration period could include extra expense items such as, but not limited to, start-up advertising, temporary rent, temporary leasing of furniture and equipment, temporary telephone expenses, relocation expenses, repairs and maintenance, installation charges and replacement of business personal property. Also, the actual expenses incurred during the restoration period could include but are not limited to items relating to building, valuable papers, debris removal, etc.

Any amounts relating to the items above, would be removed from the respective expense categories so that the actual normal continuing expenses are reflected accordingly. These issues if present should be analyzed to determine how the revisions affect the loss of income calculation.

### SUMMARY

**In summary, there are several factors that could affect the determination of whether expenses are continuing or noncontinuing. Therefore, it is important to identify and analyze these 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 should be considered when measuring a loss of income claim.**

## OUR SERVICES

### Business Interruption

- Net Income (Loss) & Continuing Expenses
- Gross Earnings Calculations
- Loss of Rental Income
- Loss of Individual Earnings
- Extra Expenses
- Coinsurance Analysis / Values at Risk

### Property Damage

- Business Personal Property
- Building Loss
- Values at Risk / Coinsurance

### 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 Condition

### Third Party Liability

- Personal Injury
- Loss of Income
- Wrongful Death

### Environmental Claims

- Damage Measurement

### Worker's Compensation

- Income Verification

### Litigation Support Services

- Expert Testimony
- Consulting

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