

Newsletter

INTRODUCTION

This issue's technical topic continues with the business interruption explanation, Extra Expense Analysis. Our past newsletters can be downloaded from our website at www.sanderfordcpa.com

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 continued support.

OUR FIRM

Sanderford & Associates, P.A. is celebrating its tenth year of providing forensic accounting services to the insurance industry. We have assisted our clients with the verification of insurance claims, alternative measurement calculations, consulting and litigation matters throughout the Southeast. For more information on our firm please visit our website at www.sanderfordcpa.com

BUSINESS INTERRUPTION / EXTRA EXPENSE ANALYSIS

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 Extra Expense Analysis.

Extra Expense Analysis

Extra expense in most business operations policies is defined as: any additional operating expenses incurred throughout the period of restoration that the insured would not have incurred had there been no direct physical loss or damage to the property. Extra expense must serve to mitigate the insured's loss.

The insured may claim a variety of extra expense items such as but not limited to purchasing generators, cost to equip a temporary facility, moving expenses, overtime wages, etc. The extra expense claim should be evaluated on a line by line basis. Some of the concerns that should be considered while evaluating the extra expense claim are as follows: are the claimed extra expenses included in the insured's actual results of operations, do the extra expenses mitigate the insured's loss of income and have the claimed extra expenses been considered in another area of coverage such as business personal property. Ideally, the claimed extra expenses should not be included in the insured's income statements. When extra expenses are included in the income statements (loss of income continuing expenses), revisions should be made to the actual results of operations to prevent the insured from collecting the expense twice, extra expense and continuing expense. An examination of the general ledger, a comparison of the operating expenses on the income statement to the average historical expenses, comparison of the current expenses to prior year expenses and / or a discussion with the insured will help the examiner determine whether or not the extra expenses have been →

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

www.sanderfordcpa.com * email: ron@sanderfordcpa.com

Business Interruption / Extra Expense Analysis

Extra Expense Continued

recorded in the insured’s actual results of operations and included in the loss of income calculations. If the extra expense claim is large in monetary value, it may be necessary to perform an alternative loss of income calculation to determine the loss of income that would have been incurred if the insured’s operations were entirely shut down. Did the extra expenses serve to reduce the loss? Furthermore, claimed extra expenses may belong in another coverage such as business personal property.

SUMMARY

In summary, it is important to evaluate the insured’s extra expense claim on a line by line basis. The examiner needs to be certain that the claims are valid and that the insured does not profit from the loss by being paid for the same expense twice, continuing expense and extra expense.

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 coverages should be considered when performing an extra expense analysis.

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SEMINAR INFORMATION

Ron Sanderford, CPA, CFE & Melissa Grant, CFE will be presenting a workshop on Financial Motive at the Annual Florida Advisory Committee on Arson Prevention Conference November 15th through the 17th at the Florida State Fire College. For additional information visit www.FACAP.org

OUR SERVICES

Business Income Loss

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

Property Damage

- Business Personal Property
- Coinsurance Analysis

Inventory / Stock Loss

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

Employee Dishonesty

Computer Data Recovery

Litigation Expert Services & Consulting

Third Party Liability

- Personal Injury
- Wrongful Death
- Loss of Income / Earnings Verification

Environmental Claims

- Measurement & Verification

Arson & Fraud

- Financial Conditional Analysis (Motive)
- Concealment Analysis

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