

Easychair Furniture Company

Answers to Questions

1. Are the declared property values OK?

No, the stock values are from 1995, calculated as follows :

Average Stock per month in the warehouse = 1,000 chairs. Price per chair = 1,000 EUR.
One month worth of finished products and one worth of raw materials make two months.

Stock = 1,000 x 1,000 x 2 = 2 million EUR.

The stock value of the off-site warehouse has been forgotten.

2. If no, what should they be?

Monthly value in off site warehouse is the highest predictable value :

Highest monthly value = 7,000 / 3 = 2,333 chairs.

Stock = 2 months x 1,000 chairs x 1,070 EUR/chair + value in off-site warehouse

Stock = 2,14 million + 2,333 x 1,070 = 4,64 million EUR

3. How should the warehouse values be reported? Should the net profit be included or not?

This can make a difference, because if the stock is declared at a cost, then a BI value is generally associated to it. It is preferred that the stock be estimated at sales value.

4. What is the BI value insured for 1998?

$(150+450) (2,600+4,400) + (140+400) (1,800+2,450) = \text{EUR } 6,495,000.$

5. What would be the BI sum insured for 1999?

$(140+400) (2,700+4,500) + (250+450) (3,000+4,000) = \text{EUR } 7,708,000.$

6. What is the PD-EML?

Have to determine a scenario, then make the calculation.

EML = 100% because no precise information is supplied about the fire barrier wall. But the building's value indicates that it is not a rated fire wall. The price of the fire wall would be equivalent to that of the entire building.

7. What is the BI-EML?

Have to determine the scenario, then make the calculation. BI EML is at least 100%. Woodworking is made of classical machinery. This is a small operation and probably does not have any expensive nor unique machinery.

8. What is the combined EML ?

In this case it is only the addition of the two EMLs.

9. If a loss occurred on 10 January 1999, how would the loss adjustment for BI be calculated ?

Assume that the growth in the furniture industry stays as low as the previous year (January 1998 to Jan 1999) and do not use the sales previsions for 1999, which are very optimistic compared to the previous years.