

Second, that part which *is* to be used as a basis for estimating the amount of Use and Occupancy insurance necessary to properly protect the earnings of the next fiscal year's operations (Step C). In detail, the steps are as follows:

**Step "A"—
Income**

A₁—The amount inserted here is the net income from Sales (or Service) after discounts, returns and allowances have been made.

A₂—In many businesses, there are certain items of income which are not derived from Sales, but nevertheless are from sources directly dependent on continued business operations for their existence. Usually, these are covered under a Use and Occupancy insurance policy and should be added to income from Net Sales (or Service) at this point. Do not include credit items such as interest earned on bank balances, or interest received on securities owned by the business or any similar item of income not directly connected with or produced through business operations, for its continuance.

A₃—The amount inserted here represents the total of Steps *A₁* and *A₂*, or in essence, the "Income from Operations."

**Step "B"—
Deductions**

That part of income which is disbursed for the purchase of raw stock, materials and supplies entering into the finished product of a manufacturing plant or for the purchase of stock and supplies to be sold by a mercantile establishment (or for the supplies of a "Service" organization) is not properly included in the amount to be used as a basis for Use and Occupancy insurance, and it must, therefore, be deducted. Then, too, there are certain other miscellaneous costs which should be deducted. Step B demonstrates, in a general way the procedure to be followed in determining the amount to be deducted from Operating Income of a past fiscal year to arrive at an actual basis for estimating future Use and Occupancy insurance requirements.

B₁—The amount entered here represents the inventory of all stock, materials and supplies on hand at the beginning of the fiscal year.

B₂—The amount entered here represents the net cost of purchases (including incoming freight) of stock (or raw stock) and materials and supplies, after discounts, returns, and allowances have been taken. This