



**EXPLANATORY NOTES:**

1. **To obtain annual net sales value of production from Manufacturing Operations, the following procedure is recommended:**

Net sales of Insured's product during the year (i.e. gross sales less discounts granted, returns, allowances, bad debts, and prepaid freight, if included in sales figures) ..... \$ .....

DEDUCT - Inventory of FINISHED STOCK at beginning of year, priced at sales value..... \$.....

Balance.....\$.....

ADD - Inventory of FINISHED STOCK on hand at end of year, priced at sales value.....\$.....

TOTAL - Annual Net Sales Value of production during the year..... \$.....

2. **To obtain cost of raw stock, merchandise sold, or supplies consisting of materials consumed, the following procedure is recommended:**

Inventory at beginning of year..... \$.....

ADD - Net cost of raw stock, merchandise, or supplies consisting of materials purchased during the year (including cartage and transportation charges on said incoming purchases)..... \$.....

TOTAL.....\$.....

DEDUCT - Inventory at end of year.....\$.....

Amount for deductions 1, 2, and 3 of "D".....\$.....

**Note:** Adjust for any inventory increase or decrease caused by price fluctuations.

3. Under deduction 2 of "D", the words "supplies consisting of materials" are intended to refer only to tangible or physical supplies (i.e. materials), and the deduction of intangible supplies (such as heat and power) is not permitted nor shall intangible supplies which are not "materials" be deemed to be raw stock.