10. INSURANCE COMPANY ACCOUNTS

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16
Model – 1	-	-	-	-	-	8	-	-	-	-	8
Model – 2	-	-	-	-	-	-	-	-	-	-	-
Model – 3	8	-	8	8	-	-	8	-	12	-	-
Model – 4	-	-	-	-	4	-	-	4	-	6	-

Model – 1 : Basics

Model – 2 : Financial Statements- Life Insurance

Model – 3 : Financial Statements- General Insurance

Model – 4 : Theory

THEORY

Various Types of Insurance: Insurance is basically of two types-life insurance and general insurance. Life insurance policy covers the life risk of the insured (or assured) up to the policy amount. General insurance means insurance other than life insurance and various types of it are fire, marine or miscellaneous insurance business. Some common types of miscellaneous insurance in India are: exchange risk insurance, motor vehicle insurance, credit insurance, workmen's compensation insurance, professional liability insurance, cash in transit insurance etc.

Distinction between Life Insurance and Other Forms of Insurance:

1. **Life insurance** is a contract under which, in consideration of premiums paid by the insured, the insurer agrees to pay a fixed sum of money either on the death of insured or on the lapse of a specified number of years. Example of LIC Companies are LIC, Prudential ICICI, Max New York Life Insurance etc.

   Fire, marine and miscellaneous insurance business represents the type of contract under which, in return for premiums paid by the insured, the insurer undertakes to reimburse the insured for any loss or liability he may incur on the happening of an uncertain event. There are several types of policies issued for each class of business.

2. **Maturity:** Since, in life insurance, the amount insured is payable on the happening of an event which is bound to occur, namely, the lapse of the period of time or the death of the insured, this form of insurance is frequently described as "assurance" business. Other forms of insurance provide only for the reimbursement of loss or liability incurred and, therefore, they are known as 'insurance' business.

3. **Insurance value:** Human life, being invaluable, may be insured for any amount depending upon the premiums the insured is willing to pay. Other forms of insurance are contracts of indemnity and, therefore, notwithstanding the amount of policy, the sum payable under it is limited to the amount of loss actually suffered or the liability incurred.

4. **Period of contract:** Life insurance contracts are long term contracts running over the number of years but general insurance contracts are only for one year though renewable year after year.

Terms used in Insurance Business:

Bonus: Policy holders of with profit policies are entitled to receive the bonus at the declared rate. Bonus is usually declared on sum assured and not on already accumulated bonus. For example, in case of LIC of India with profit policy holders are entitled to participate in 95% of profit (i.e., excess of Balance of Life Assurance Fund over Net Liability as per actuarial valuation). Such bonus may be paid.

1. in cash (i.e. Bonus in cash)
2. by reduction of future premiums (i.e., Bonus in reduction of premium).
3. on maturity of the policy. (i.e., Reversionary Bonus)

Interim Bonus: It is a bonus declared between dates of two valuation Balance Sheets. It is for a period for which valuation is not complete.

Surrender Value: In the case of a life insurance, the insured usually undertakes to pay premium for a very long time; and circumstances might arise when an insured ceases to pay further premium, then he has to surrender his policy and the value then paid by the insurer is called surrender value.

Re - Insurance: If an insurer does not wish to bear the whole of risk of a policy, he may reinsure a part of risk with other insurer. In such a case the insurer is said to have ceded a part of his business to other insurer. If, on the other hand, he insures the risk underwritten by another assurance company, he is said to have accepted reinsurance business. In such a case, on a claim arising, the claim will be shared between the two companies in the proportion they had agreed to underwrite the risk.

Consideration for Annuities Granted: It refers to the lump sum amount paid to the insurer as consideration for the payment of annuities. Consideration for annuities granted is a source of income of the life insurance business and as such it is shown on the credit side of its Revenue Account.

Co-Insurance: In cases of large risks the business is shared between more than one insurer under coinsurance arrangements at agreed percentages. The leading insurer issues the documents, collects premium and settles claims. Statements of accounts are rendered by the leading insurer to the other co-insurers.

Life Assurance Fund: It refers to the fund which is retained to meet the aggregate liability on all policies outstanding. Until the liability on all outstanding policies is computed, the amount of profit of the life business cannot be ascertained. A life business is said to have earned profit only if its Life Assurance Fund exceeds its net liability on all outstanding policies.

The computation of the net liability on all outstanding policies is a complicated mathematical process which can be done only experts in the field called **'Actuaries'.** This Computation is carried out by LIC, every two years. As such, the Life Insurance business cannot ascertain its profits every year.

Types of Life Insurance Policies:

There are various life insurance policies. The popular life insurance policies are discussed below:

1. **With Profit Policies** Holder is entitled to receive the bonus at the declared rate. Traditionally, bonus rate is expressed per thousand rupee of the sum assured. Bonus gets accumulated year after year but is paid at the time of maturity of the policy. Bonus is declared on sum assured and not on already accumulated bonus. For example, Mr. X takes with profit life insurance policy for a sum assured of Rs.1,00,000 for 5 years. If bonus is declared @ Rs.70, Rs.71, Rs.72, Rs.73 and Rs.74 for each of these 5 years. The amount to be received by Mr. X at the time of maturity of the policy will be calculated as under:

Particulars		Rs.
A. Sum assured		1,00,000
B. Add: Bonus		
1st year (Rs.70 x Rs.1,00,000 / 1,000)	7,000	
2nd year (Rs.71 x Rs.1,00,000 / 1,000)	7,100	
3rd year (Rs.72 x Rs.1,00,000 / 1,000)	7,200	
4th year (Rs.73 x Rs.1,00,000 / 1,000)	7,300	
5th year (Rs.74 x Rs.1,00,000 / 1,000)	7,400	36,000
C. Total Amount Receivable [A + B]		Rs.1,36,000

2. **Without Profit Policies** Holder of Policy is not entitled receive the bonus declared from time to time.
3. **With Accident Benefit Policies** On payment of some extra premium, the holder is entitled to claim the accidental benefit. Under life insurance policies with accidental benefit, on death of the insured due to accident either double or triple the sum assured is paid according to the type of policy taken.
4. **Without Accident Policy** Neither extra premium is charged not extra sum assured is paid.

Some of the popular life insurance policies are discussed below:

a) **Whole Life Policy** Under this policy, the sum assured along with the bonuses (in case of with profit policies) is payable on death of insured.

b) **Endowment Policy** Under this policy, the sum assured along with the bonuses (in case of with profit policies) is payable on the expiry of specified term of policy or death of insured whichever is earlier.

Unexpired Risks Reserve:

Meaning of Provision for Unexpired Risks Provision for Unexpired Risks is a provision created to meet the claims which may arise in respect of the policies which remain unexpired at the end of the year.

The minimum amount of such reserve to be kept according to the Executive Committee of the General Insurance Council is as under:

Types of General Insurance Business	% of Premium
I. Marine Insurance	100%
II. Other Insurance	50%

However, the income tax authorities allow 100% of the net premium in case of marine insurance and 50% of the net premium in case of other insurance.

Since there is no bar on creating such reserve at a percentage higher than those laid down by the Executive Committee, the Company may maintain such reserve at a higher percentage. The excess reserve over the minimum reserve is termed as **'Additional Reserve'**

Accounting Treatment of Provision for Unexpired Risks:

1. The difference between the aggregate amount of minimum provision and additional provision in the beginning and aggregate amount there of at the end is disclosed as **'Changes in Provision for Unexpired Risks' in Revenue Account.**
2. Balance of Minimum provision and additional provision of unexpired risks is shown on the liabilities side of Balance Sheet.

PROBLEMS FOR CLASSROOM DISCUSSION

Problem 1: (PRINTED SOLUTION AVAILABLE) Treatment of Provision for Unexpired Risks: Indian Insurance Co. Ltd. furnishes you with the following information:

1. On 31.12.2011 it had reserve for unexpired risk to the tune of Rs.40 crores. It comprised of Rs.15 crores in respect of marine insurance business: Rs.20 crores in respect of fire insurance business and Rs.5 crores in respect of miscellaneous insurance business.
2. It is the practice of Indian Insurance Co. Ltd. to create reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.
3. During 2012, the following business was conducted:

Particulars	Marine	Fire	Miscellaneous (Rs. in crores)
Premium collected from:			
a. Insures in respect of policies issued	18	43	12
b. Other insurance companies in respect of risks undertaken	7	5	4
Premium paid / payable to other insurance companies on business ceded.	6.7	4.3	7

Indian Insurance Co. Ltd asks you to:

a) Pass Journal entries relating to "Unexpired risks reserve"

b) Show in columnar from "Unexpired risks reserve" A/c for 2012. **(SM, PM)**

Note: ____________________

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TOTAL DIVISION OF THE FORMAT

Schedule A: Format of the financial statements relating to Life insurance Companies.

Schedule B: Format of the financial statements relating to General Insurance Companies.

Schedule C: Relating to format of audit report.

Set of financial statements: Revenue A/c, Profit & Loss A/c, Balance sheet.

SCHEDULE –A (L.I.C)

Part–V, Form A-RA, Revenue A/c for the year ended DD-MM-YYYY

[Policy holders' A/c (Technical A/c)]

Particulars	Schedule No.	Current Year	Previous Year
1. Premiums Earned:			
a. Premium	1	XXX	XXX
b. Re-insurance ceded		XXX	XXX
c. Re-insurance accepted		XXX	XXX
2. Income from Investments:			
a. Interest, dividend & Rent (Gross) (*)		XXX	XXX
b. Profit on sales/redemption of investments		XXX	XXX
c. (Loss on sale/redemption of investments)		XXX	XXX
d. Transfer/Gain on revaluation/change in fair value		XXX	XXX
3. Other Income (to be specified):		XXX	XXX
TOTAL (A):		**XXX**	**XXX**
1. Commission	2	XXX	XXX
2. Operating expenses related to insurance business	3	XXX	XXX
3. Provision for doubtful debts		XXX	XXX
4. Bad debts written off		XXX	XXX
5. Provision for Tax		XXX	XXX
6. Provisions (other than taxation)		XXX	XXX
a) For diminution in the value of investments (Net)		XXX	XXX
b) Others (to be specified)		XXX	XXX
TOTAL (B):		**XXX**	**XXX**
1. Benefits paid (Net)		XXX	XXX
2. Interim bonus paid	4	XXX	XXX
3. Change in valuation of liability in respect of life policies		XXX	XXX
a) Gross**		XXX	XXX
b) Amount ceded in Reinsurance		XXX	XXX
c) Amount accepted in Reinsurance		XXX	XXX
TOTAL (C):		**XXX**	**XXX**
Surplus/Deficit: (A) –(B) –(C)=D:		**XXX**	**XXX**

Appropriations:			
1. Transfer to Shareholders A/c		XXX	XXX
2. Transfer to Other reserves (to be specified)		XXX	XXX
3. Balance being Funds for Future Appropriations		XXX	XXX
TOTAL (D):		**XXX**	**XXX**

Schedule 1 (Premium)

Particulars	Current	Previous
1. First year premiums **2.** Renewal Premiums **3.** Single Premiums		
Total Premium:		

Schedule 2 (Commission Expenses)

Particulars	Current	Previous
1. Commission paid Direct: First year premiums Renewal premiums Single premiums **Add:** Commission on reinsurance accepted: **Less:** Commission on reinsurance ceded:		
Net Commission:		

Schedule 3 (Operating Expenses Related to Insurance Business)

Particulars	Current	Previous
1. Employees remuneration & welfare benefits. **2.** Travel, conveyance and vehicle running expenses **3.** Training expenses **4.** Rents rate & taxes **5.** Repairs **6.** Printing & Stationary **7.** Communication expenses **8.** Legal & Professional charges **9.** Medical fees **10.** Auditor's fees, expenses etc., **a.** As auditor: **b.** As advisor or in any other capacity, in respect of: **i.** Taxation matters **ii.** Insurance matters **iii.** Management Services **c.** In any other capacity (details to be specified) **11.** Advertisement and publicity. **12.** Interest & Bank charges **13.** Others (to be specified) **14.** Depreciation.		
Total:		

The items of expenditure, which are in excess of 1% of net premium or 5 Lakhs which ever is higher, shall be shown as separate items.

Schedule 4 (Benefits Paid)

Particulars	Current	Previous
1. Insurance claims:		
a. Claims by death		
b. Claims by maturity		
c. Annuities/Pension payment,		
d. Other benefits, specify		
2. (Amount ceded in reinsurance):		
a. Claims by death		
b. Claims by maturity		
c. Annuities/Pension payment,		
d. Other benefits, specify		
3. Amount on re-insurance accepted:		
a, b, c, d - same as above		
Total:		

Note:

- Claims includes, fees, settlement cost, legal fees.

Form A-PL, Profit & Loss A/c for the year ending DD-MM-YYYY

[Shareholders A/c] (Non-technical A/c)

Particulars	Schedule	Current	Previous
Amounts transferred from/to the Policyholders A/c (Technical A/c)			
Income from Investments			
a) Interest, Dividends & Rent – Gross			
b) Profit on sale/redemption of investments			
c) (Loss on sale/ redemption of investments)			
Other Income (To be specified)			
TOTAL (A):			
1. Expenses other than those directly related to the insurance business			
2. Bad Debts written off			
3. Provisions (Other than taxation)			
a) For diminution in the value of investments (Net)			
b) Provision for doubtful debts			
c) Others (to be specified)			
TOTAL (B):			
1. Profit/(Loss) before tax			
2. Provision for Taxation			
3. Profit/(Loss) after tax			
Appropriations:			
1. Balance at the beginning of the year.			
2. Interim dividend paid during the year.			
3. Proposed final dividend.			
4. Dividend distribution tax.			
5. Transfer to Reserves/other accounts (to be specified)			
Profit carried ----------to the Balance Sheet			

Note: If investment is made out of Policyholders funds the income on such investments will be transferred to Revenue A/c otherwise to Profit & Loss A/c.

Form A-BS, Balance Sheet as on “DD-MM-YYYY”

Particulars	Schedule	Current	Previous
Sources of funds:			
1. Share holders funds:	5		
a. Share capital	6		
b. Reserves & Surplus			
c. Credit/(Debit) fair value change A/c			
Sub-Total: (A)			
2. Borrowings **Sub-Total: (B)**	7		
3. Policy holders funds:			
Credit/(Debit) fair value change A/c			
Policy liabilities			
Provision for linked liabilities			
Sub-Total: (C)			
4. Funds for future appropriation:			
A + B + C = D			
Application of funds:			
1. Investments			
a. Share holders	8		
b. Policy holders	8A		
c. Assets held to cover linked liabilities	8B		
2. Loans	9		
3. Fixed Assets	10		
4. Current Assets			
a. Cash & Bank balances	11		
b. Advances & other current assets	12		
5. Current liabilities	13		
6. Provisions	14		
Net current Assets (4)- (5)			
Miscellaneous Expenditure (to the extent not written off or adjusted)	15		
Debit Balance in Profit & Loss A/c (Shareholders A/c)			
Contingent Liabilities:			
1. Partly paid-up investments			
2. Claims, other than against policies, not acknowledged as debts by the company			
3. Underwriting commitments outstanding (in respect of shares and securities)			
4. Guarantees given by or on behalf of the Company			
5. Statutory demands/ liabilities in dispute, not provided for Reinsurance obligations to the extent not provided for			
7. Others (to be specified)			
TOTAL:			

Schedule 5 (Share capital)

Particulars	Current	Previous
1. Authorised Capital:		
Equity shares of Rs…..each		
2. Issued Capital:		
Equity shares of Rs…..each		
3. Subscribed Capital		
Equity shares of Rs…..each		

4. Called-up Capital Equity shares of Rs…..each **Less:** Calls unpaid **Add:** Shares forfeited (Amount originally paid up) **Less:** Preliminary Expenses Expenses including commission or brokerage on Underwriting or subscription of shares		
Total:		

Schedule-6 (Reserves & Surplus)

Particulars	Current	Previous
1. Capital Reserve **2.** Capital Redemption Reserve **3.** Share Premium **4.** Revaluation Reserve **5.** General Reserve **Less:** Debit balance in Profit and Loss A/c, if any **Less:** Amount utilized for Buy-back **6.** Catastrophe Reserve **7.** Other Reserves (to be specified) **8.** Balance of profit in Profit and Loss A/c		
Total:		

Additions & deductions from the Reserves shall be disclosed under each of the specific heads

Schedule 7 (Borrowings)

Particulars	Current	Previous
1. Debentures **2.** Banks **3.** Financial Institutions **4.** Others (to be specified)		
Total:		

Note:

1. The extent to which the Borrowings are secured shall be separately disclosed stating the nature of the security under each sub-head.

Schedule 8 (Investments - Shareholders)

Particulars	Current	Previous
Long term investments: **1.** Govt. securities and Govt. guaranteed bonds including Treasury Bills **2.** Other Approved Securities **3.** Other Investments **a.** Shares **i.** Equity **ii.** Preference **b.** Mutual Funds **c.** Derivative Instruments **d.** Debentures/Bonds **e.** Other Securities (to be specified) **f.** Subsidiaries Investment Properties-Real Estate **4.** Investments in Infrastructure and Social Sector Other than Approved Investments		

SHORT TERM INVESTMENTS:		
1. Govt. securities and Govt. guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
a. Shares		
i. Equity		
ii. Preference		
b. Mutual Funds		
c. Derivative Instruments		
d. Debentures/Bonds		
e. Other Securities (to be specified)		
f. Subsidiaries		
g. Investment Properties-Real Estate		
4. Investments in Infrastructure and Social Sector		
5. Other than Approved Investments		
Total:		

Note: 1. Investments made out of Catastrophe Reserve shall be shown separately.

Schedule 8A (Investments Policy holders)

Schedule 8B (Assets held to cover linked liabilities)

Note: This is Similar to Schedule 8

Schedule 9 (Loans)

Particulars	Current	Previous
1. Security wise classification:		
A. Secured:		
a. On mortgage of property		
i. In India		
ii. Out side India		
b. On shares, Bonds, Govt. Securities, etc.,		
c. Loans against policies		
d. Others (to be specified)		
B. Unsecured:		
Total:		
2. Borrower wise classification:		
a. Central and State Government		
b. Banks and Financial Institutions		
c. Subsidiaries		
d. Companies		
e. Loans against policies		
f. Others (to be specified)		
Total:		
3. Performance wise classification:		
A. Loans classified as Standard:		
a. In India		
b. Out side India		
B. Non-standard loans less Provisions:		
a. In India		
b. Out side India		
Total:		
4. Maturity wise classification:		
a. Short Term		
b. Long Term		
Total:		

Schedule 10 (Fixed Assets)

Particulars	Cost/Gross Block				Depreciation				Net Block	
	Opening	Additions	Deductions	Closing	Up to last year	For the year	On sales/ Adjustments	To date	As at year end	Previous year
Goodwill Intangibles (Specify) Land Freehold Leasehold Property Buildings Furniture & Fittings I. T. Equipment Vehicles Office Equipment Others (Specify nature) **TOTAL:** Work in progress **Grand Total:** **Previous Year**										

Schedule 11 (Cash & Bank Balances)

Particulars	Current	Previous
1. Cash (including cheques, drafts and stamps) **2.** Bank Balances **a.** Deposit Accounts **i.** Short-term (due within 12 months of the date of Balance Sheet) **ii.** Others **b.** Current Accounts **c.** Others (to be specified) **3.** Money at Call and Short Notice **a.** With Banks **b.** With other Institutions **4.** Others (to be specified) **Total:** Balances with non-scheduled banks included in 2 and 3 above. **Cash & Bank Balances:** **1.** In India **2.** Outside India **Total:**		

Schedule 12 (Advances & Other Assets)

Particulars	Current	Previous
1. Advances (including advance tax & TDS) **i.** Reserve deposits with ceding companies **ii.** Application money for investments **iii.** Prepayments **iv.** Advances to Directors/Officers **v.** Advance tax paid and taxes deducted at source (Net of provision for taxation) **vi.** Others (to be specified) **Total (a):**		

2. Other assets **a.** Income accrued on interest **b.** Out standing premium **c.** Agents' balances. **d.** Foreign Agencies Balances **e.** Due from other entities carrying on insurance business (Including reinsures) **f.** Due from subsidiaries/Holding Company **g.** Deposits with R.B.I. [Pursuant to section 7 of Insurance Act, 1938] **h.** Others (details to be specified)		
Total (b):		
Grand Total (a + b):		

Schedule - 13 (Current Liabilities)

Particulars	Current	Previous
Agent's balances Balance due to other insurance Company's Deposits held on re-insurance Companies Premiums received in advance Unallocated premium Sundry Creditors Due to Subsidiaries/Holdings Company's Claims Outstanding Annuities due Due to Officers/Directors Others (to be specified)		
Total:		

Schedule 14 (Provisions)

Particulars	Current	Previous
For Taxation (less payment and taxes deducted at source) For Proposed Dividends For Dividend Distribution Tax Others (To be specified)		
Total:		

Schedule 15

(Miscellaneous Expenses to the extent not written off)

Particulars	Current	Previous
Discount Allowed in issue of shares/Debentures Others (to be specified)		
Total:		

Total No. of Schedules – 15

Relating to Revenue A/c 1 to 4	Relating to P&L A/c - Nil	Relating to Balance sheet 5 to 15

<u>Problem 2:</u> (PRINTED SOLUTION AVAILABLE) Life insurance companies-Basic Level: From the following balance as at 31st March, 2012 in the books on the National Life Assurance Co. Ltd., prepare Profit and Loss Account and Balance Sheet.

Particulars	Rs. '000	Particulars	Rs. '000
Life Assurance Fund on 1st April, 2011	34,00,000	Agents' Balance (Dr.)	18,000
Annuities paid (In India 72,500)	81,750	Advances to ceding companies	47,000
General Reserve	2,25,000	Due from Re-insurers	38,500
Deposit with the Reserve Bank	2,10,000	Due to Re-insurers	47,500
Government Securities:		Sundry Creditors	1,800
Indian Government Securities	10,90,000	Premium: First year	5,90,000
Foreign Government Securities	75,000	Renewal	1,20,000
Loan on Company's Policies	2,10,000	Reinsurance accepted	50,000
Leasehold Buildings	63,300	Reinsurance ceded	70,000
Securities on which interest is guaranteed by Government	4,50,000	Interim Bonus to Policy-holders	22,500
Stocks of Shares of companies incorporated in India	14,50,000	**Commission:**	
Share Capital (20,000 shares @ **Rs.**100 each)	20,00,000	Direct : First year	40,500
Mortgages in India	14,32,500	Renewal	2,000
Cash with Bankers on Current Account	40,500	Re-insurance accepted	12,000
Cash with Bankers on Deposit (Short-term) Account	20,000	Reinsurance ceded	4,000
Cash in hand	7,000	**Claims**	
State Government Securities	7,25,000	- By Death (in India 1,30,000)	2,00,000
Furniture and Fixtures	39,000	- By Maturity (in India 1,40,000)	2,20,000
Outstanding Premiums	66,000	Bank Loan	21,750
		Salaries	30,400
		Auditors' Fees	5,400
		Law Charges	3,400
		Rent paid	3,600
		Other Expenses of Management	750
		Travelling Expenses	1,950
		Interest & Rents Received (Gross)	2,16,000

Transfer the surplus amount if any to Life Fund for the year ended 31st March, 2012 5% dividend is also proposed on share capital. **(SM)**

(Ans.: Surplus: Rs. 2,85,750; Profit: Rs.1,85,750; Total of Balance sheet Rs.58,80,000)

Note: ____

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Problem 3: Treatment for bonus utilised in reduction of premium: The under mentioned balances form part of the Trial Balance of the ING Vysya life insurance Company Ltd. as on 31st March, 2005: Amount of Life Assurance Fund at the beginning of the year-Rs.14,70,562; Claims by death: Rs.76,980; Claims by maturity: Rs.56,420; Premiums: Rs.2,10,572; Expenses of management: Rs.19,890; Commission: Rs.26,541; Consideration for annuities granted: Rs.10,620; Interest, dividends and rents: Rs.52,461; Income tax paid on profits: Rs.3,060; Fines: Rs.92; Surrenders: Rs.21,860; Annuities: Rs.29,420; Bonus paid in cash: Rs.9,450; Bonus paid in reduction of premium: Rs.2,500; Preliminary expenses balance: Rs.600; Claims admitted but not paid at the end of year: Rs.80,034; Annuities due but not paid: Rs.22,380; Capital paid up: Rs.4,00,000; Government securities: Rs.14,90,890; Sundry fixed Assets: Rs.5,09,110;

Prepare Revenue A/c, Profit & Loss A/c & Balance Sheet after taking into account the following:

1. Claims covered under reinsurance are Rs.10,000 (by death) & Further claims intimated Rs.8,000; (by death).
2. Further bonus utilised in reduction of premium is Rs.1,500.
3. Interest Accrued Rs.15,400 & Premiums Outstanding Rs.7,400.

(Ans.: Surplus: Rs. 52,424, total of balance sheet: Rs. 19,22,386)

Note: ______________________________

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Schedule - B (G.I.C.)

Part – V, Form B-RA, Revenue A/c for the year ended DD – MM – YYYY

Particulars	Schedule	Current	Previous
1. Premium earned	1		
2. Profit/Loss on sale/redemption of Investments			
3. Others (to be specified)			
4. Interest, Dividend & Rent - Gross			
Total(A):			
1. Claims Incurred (Net)	2		
2. Commission	3		
3. Operating expenses related to Insurance Business	4		
Total(B):			
Operating Profit/(Loss) from Fire/Marine/Miscellaneous Business			
C = (A – B):			
Appropriations:			
Transfer to Shareholders' A/c			
Transfer to Catastrophe Reserve			
Transfer to Other Reserves (to be specified)			
Total(C):			

Note:

1. Revenue A/c is separately prepared for each type of business (Fire, Marine, Miscellaneous)
2. In the absence of directions, additional reserve carried forward to the next year will be the same as in the beginning of the year.
3. Use columnar method for preparing one or more Revenue A/c's Or for preparing the Revenue A/c for more than 1 year.

Form B-PL, Profit & Loss A/c for the year ended DD-MM-YYYY

Particulars	Current	Previous
1. Operating Profit (Loss):		
a. Fire Insurance		
b. Marine Insurance		
c. Miscellaneous Insurance		
2. Income From Investments:		
a. Interest, Dividend & Rent – Gross		
b. Profit on sale of investments		
Less: Loss on sale of investments		
3. Other Income (to be specified):		
Total(A):		
4. Provisions (Other than taxation):		
a. For diminution in the value of investments		
b. For doubtful debts		
c. Others (to be specified)		

5. Other Expenses:		
a. Expenses other than those related to Insurance Business		
b. Bad debts written off		
c. Others (to be specified)		
Total (B):		
Profit before Tax		
Provision for Taxation		
Appropriations:		
a. Interim dividends paid during the year		
b. Proposed final dividend		
c. Dividend Distribution Tax		
d. Transfer to any Reserve or Other Accounts (to be specified)		
Balance of profit/loss brought forward from last year		
Balance carried forward to Balance Sheet:		

Form B-BS, Balance Sheet as on "DD-MM-YYYY"

Particulars	Schedule	Current	Previous
Sources of Funds:			
Share Capital	**5**		
Reserves & Surplus	**6**		
Fair value change A/c			
Borrowings	**7**		
Total:			
Application of Funds:			
Investments	**8**		
Loans	**9**		
Fixed Assets	**10**		
Current Assets:			
Cash and Bank Balances	**11**		
Advances and Other Assets	**12**		
Sub Total (A):			
Current Liabilities:	**13**		
Provisions	**14**		
Sub Total(B):			
Net Current Assets (C)=(A – B)			
Miscellaneous Expenditure (to the extent not written off or adjusted)	**15**		
Debit balance in Profit & Loss A/c			
Grand Total:			

Schedule 1 [Premium Earned (Net)]

Particulars	Current	Previous
Premium from Direct Business		
Add: Premium on reinsurance accepted		
Less: Premium on reinsurance ceded.		
Net Premium		
Adjustment for change in reserve for unexpired risks		
Total Premium earned (Net):		

Schedule 2 [Claims incurred (Net)]

Particulars	Current	Previous
Claims paid:		
Direct:		
Add: Re-insurance accepted		
Less: Re-insurance ceded.		

Net Claims paid		
Add: Claims Outstanding at the end of the year		
Less: Claims Outstanding at the beginning		
Total Claims Incurred:		

Note:

1. Expenses incurred for settlement of claims should be added to claims.

Schedule 3 (Commission)

Particulars	Current	Previous
Commission paid:		
Direct:		
Add: Re-Insurance accepted.		
Less: Re-Insurance ceded.		
Net Commission paid		
Add: Commission Outstanding at the end of the year		
Less: Commission Outstanding at the beginning		
Total Claims Incurred:		

Schedule 4 (Operating Expenses)

Note:

1. This is similar to Schedule – 3 of Life Insurance Company Accounts.

Schedule 5 to 15

Note:

1. Schedule – 5 to 15 similar to Schedule 5 to 15 of Life Insurance Company Accounts except that there will not be Schedule 8A and 8B here.

<u>Problem 4:</u> (PRINTED SOLUTION AVAILABLE) Net Premium and Net Claim: From the following information of XYZ Marine Insurance Ltd. for the year ending 31st March, 2014, find out the (i) Net Premium earned and (ii) Net Claims Incurred

Particulars	Direct Business (Rs.)	Re-insurance (Rs.)
Premium Received	92,00,000	7,86,000
Premium Receivable as on 01.04.2013	4,59,000	37,000
Premium Receivable as on 31.03.2014	3,94,000	33,000
Premium Paid		6,36,000
Premium Payable as on 01.04.2013		28,000
Premium payable as on 31.03.2014		20,000
Claims Paid	73,00,000	5,80,000
Claims payable as on 01.04.2013	94,000	16,000
Claims payable as on 31.03.2014	1,01,000	12,000
Claims received		2,10,000
Claims receivable as on 01.04.2013		42,000
Claims receivable as on 31.03.2014		39,000

(PM) ***(Ans: Premium earned-92,89,000; Claim incurred-76,76,000)***

(Solve problem no. 1,2 and 3 of assignment problems as rework)

Note: ____________________

Problem 5: Fire Insurance–Revenue A/c: Prepare the Fire Insurance Revenue A/c of Jasmine Fire Insurance Co. Ltd. as per IRDA regulations for the year ended 31st March, 2013 from the following details:

Particulars	Amount (Rs.)
Claims Paid	5,00,000
Legal Expenses regarding claims	10,000
Premiums received	12,50,000
Re-insurance premium paid	50,000
Commission	3,00,000
Expenses of Management	2,00,000
Provision against unexpired risk as on 1st April, 2012	5,75,000
Claims unpaid on 1st April, 2012	50,000
Claims unpaid on 31st March, 2013	80,000

Provide for unexpired risk @ 50% less reinsurance. **(PM)** ***(Ans: Operating Profit Rs.1,35,000)***

(Solve problem no. 4 of assignment problem as rework)

Note: ____

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Problem 6: General Insurance–Revenue A/c and unexpired risk reserve: Prepare Revenue Account in proper form for the year ended 31st March, 2012, from the following particulars related to Goma General Insurance Co. for the year 2011 – 2012:

Particulars	Related to Direct business (Rs.)	Related to Reinsurance business (Rs.)
Premiums:		
Amount received	30,00,000	2,40,000
Receivable at the beginning	1,80,000	24,000
Receivable at the end	2,40,000	36,000
Amount paid	--	3,60,000
Payable at the beginning	--	30,000
Payable at the end	--	42,000
Claims:		
Amount paid	18,00,000	1,80,000
Payable at the beginning	60,000	12,000
Payable at the end	1,20,000	18,000

Amount recovered	-	1,20,000
Receivable at the beginning	-	18,000
Receivable at the end	-	12,000
Commission:		
Amount paid	72,000	10,800
Amount received	-	14,400

Additional information:

1.	Interest, dividend and rent received	30,000
	Income-tax in respect of above	6,000
2.	Management expenses including Rs.12,000 related to legal expenses regarding claims	1,32,000

Provision for income tax existing at the beginning of the year was Rs.1,95,000, the income-tax actually paid during the year Rs.1,68,000 and the provision necessary at the year end Rs.2,07,000.

The net premium income of the company during the year 2010 – 2011 was Rs.24,00,000 on which reserve for unexpired risk @ 50% and additional reserve @ 7 ½ % was created. This year, the balance to be carried forward is 50% of net premium on reserve for unexpired risk and 5% on additional reserve. **(SM)** ***(Ans: Operating profit from Insurance Business Rs.6,00,600)***

(Solve problem no. 5 and 6 of assignment problems as rework)

Note: ____

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Problem 7: **(PRINTED SOLUTION AVAILABLE) Accounting treatment for creation of additional reserve in absence of directions not given. (Basic Level-2):** Following are the balances of United Insurance Co. Ltd as on 31-12-2004.

Particulars	**Rs.**	***Particulars***	**Rs.**
Claims paid:		Loss on sale of investment	8,000
Fire	1,00,000	Audit Fee	13,000
Marine	87,000	Directors remuneration	36,000
Premium less reinsurance		Int. & Dividends on investments	63,000
received		***Res. for u/r on 1.1.2004***	
Fire	3,74,000	Fire	2,10,000
Marine	2,97,000	Marine	2,40,000
Commission on reinsurance		***Additional reserve on 1.1.2004***	
ceded		Fire	60,000
Fire	13,000	Marine	10,000
Marine	----	***Claims o/s as on 1.1.2004***	
Commission paid:		Fire	24,000
Fire	62,000	Marine	11,000
Marine	51,000	***Premium o/s as on 1.1.2004***	
Expenses of management:		Fire	26,000
Fire	86,000	Marine	17,000
Marine	68,000		
Depreciation on assets	36,000		

Prepare Revenue A/c & P & L A/c for the year ended 31-12-2004 from the below information:

a. Premium O/s as on 31-12-2004; Fire: Rs.33,000, Marine: Rs.15,000. Claims outstanding as on 31-12-2004: Fire Rs.46,000; Marine Rs.17,000; Out of the above a fire claim amounting to Rs.11,000 was covered by reinsurance.

b. Reserve for u/r to be maintained at 50% of premium less reinsurance for fire & 100% - marine. Additional Reserve for fire is to be maintained at 20% of net premium.

c. Interest accrued on investments Rs.13,000.

(Ans.: Surplus – Fire: Rs.1,38,300; Marine: Rs. 28,000; profit after tax: Rs. 1,49,300)

(Solve problem no.7 of assignment problems as rework)

Note: ____

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Problem 8: **General Insurance – Revenue and P & L A/c:** The following figures have been extracted from the books of New India Insurance Company Ltd. in respect of their Marine Business for 2011-2012: **(Rs. in lakhs)**

Particulars	**Rs.**	**Particulars**	**Rs.**
Direct Business Income Received	50.00	Commission paid on Direct Business	5.00
Reserve for unexpired risks as on 1.4.2011	60.00	Expenses of Management	5.00

Claims outstanding as on 1.4.11 (Net)	20.00	Income tax deducted at source	3.00
Bad Debts	10.00	**Profit and Loss Account:**	
Income from investment and dividends (gross)	10.00	(Cr.) balance as on 1.4.2011	10.00
Rent received from properties	5.00	Other expenses	1.25
Investment in government securities as on 01.04.2011	100.00	Reinsurance premium receipts	5.00
Investment in shares as on 1.4.11	20.00	Outstanding claims as on 31.3.2012 (net)	30.00
		Direct claims paid (gross)	25.00
		Reinsurance claims paid	4.00

Prepare a Revenue Account and Profit and Loss Account for the year taking into account the following further information:

1. All direct risks are reinsured for 20% of the risk.

2. Claim a Commission of 25% on reinsurance ceded.

3. Provide 25% Commission on reinsurance accepted

4. Market value of investments as on 31st March, 2012 is as follows:

(a) Government Securities Rs.105 lakhs.

(b) Shares Rs.18 lakhs

Adjust separately for each of these two categories of investments.

5. Provide 65% for Income tax. **(SM)** *(Ans.: Surplus: Rs. 21L; Profit after tax: Rs. 10.35L)*

Note: ____

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Problem 9: Fire, Marine and Misc. business- Revenue and P&I A/c: The following are the Balances of Hercules Insurance Co. Ltd. as on 31st March, 2013:

Particulars		Rs. in '000
Capital		320,00
Balances of Funds as on 01.04.2012		
Fire Insurance		800,00
Marine Insurance		950,00
Miscellaneous Insurance		218,65
Unclaimed Dividends		8,50
Amount Due to Other Insurance Companies		34,50
Sundry Creditors		72,50
Deposit and Suspense Account (Cr.)		22,80
Profit and Loss Account (Cr.)		80,40
Agents Balance (Dr.)		135,10
Interest accrued but not due (Dr.)		22,50
Due from other insurance Companies		64,50
Cash in Hand		3,50
Balance in Current Account with Bank		74,80
Furniture and Fixtures WDV (cost 100,00)		58,00
Stationery Stock		1,40
Expenses of Management		
Fire Insurance	280,00	
Marine Insurance	160,00	
Miscellaneous Insurance	40,00	
Others	30,00	510,00
Foreign Taxes – Marine		8,00
Outstanding Premium		82,00

Donation Paid (No 80 G Benefit)		10,00
Transfer Fees		1,00
Reserve for Bad Debts		11,70
Income Tax Paid		120,00
Mortgage Loan (Dr.)		975,00
Sundry Debtors		25,00
Government Securities Deposited with RBI		37,00
Government Securities (1020,00)		1020,00
Debentures		465,50
Equity Shares of Joint Stock Companies		225,00
Claims Less Re-insurance		
Fire	450,00	
Marine	358,90	
Miscellaneous	68,00	876,90
Premium Less Re-insurance		
Fire	1762,50	
Marine	10,22,50	
Miscellaneous	262,25	3047,25
Interest and Dividends Received on Investments (NET)		4680
Tax Deducted at Source		11,70
Commission		
Fire	500,00	
Marine	350,00	
Miscellaneous	80,00	930,00

You are required to make the following provisions:

Depreciation on Furniture – 10% of Original Cost

Depreciation on investments of Joint Stock Companies Shares 10,00

Transfer to General Reserve 10,00

Outstanding claims as on 31.03.2013

Fire 200,00; Marine 50,00 ; Miscellaneous 32,50

Provision for tax @ 50%. Proposed dividends @ 20%. Provision for the unexpired risks is to be made as follows:

a) On Marine Policies 100% Premium less reinsurance

b) On Other Policies 50% Premium less reinsurance.

You are required to prepare the revenue and profit and loss account for the year ended 31.03.2013 of the company. **(SM)** ***(Ans.: Profit from Fire Rs. 251,25 and Marine Rs.23,10)***

(Solve problem no. 8 and 9 of assignment problems as rework)

Note: ____

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Problem 10: Fire insurance–Revenue A/c: From the following information prepare the Revenue Account of Anmol Fire Insurance Company Ltd. for the year ended 31st March, 2012:

1. Premium, Claims and Commission:

Particulars	On Direct Business (Rs.)	On Re-Insurance ceded (Rs.)	On Re-insurance accepted (Rs.)
(a) Total Premium	30,00,000	10,00,000	20,00,000
In India	80%	80%	80%
(b) Total Claims	6,00,000	2,00,000	4,00,000
Outside India	20%	20%	20%
(c) Commission	3,00,000	1,00,000	2,00,000

2. Expenses:

	Particulars	Amount
1.	Employees' remuneration and welfare benefits	2,31,000
2.	Managerial Remuneration	3,00,000
3.	Travel, conveyance and vehicle running expenses	59,000
4.	Rents, rates and taxes	30,000
5.	Repairs	20,000
6.	Printing and Stationery	10,000
7.	Communication expenses	5,000
8.	Legal and Professional charges	6,000
9.	Medical fees	7,000
10.	Auditor's fees, expenses etc.	8,000
11.	Advertisement and publicity	6,000
12.	Interest and Bank Charges	5,000
13.	Policy Stamps	3,000

3. Others:

Particulars	Amount
Furniture and fixture (cost Rs.1,00,000)	58,000
Rate of Depreciation on furniture – 10% on original cost	
Interest, Dividend and Rent Received	90,000
Income Tax deducted at source thereon	10,000
Profit and Sale of Motor Car	5,000
Double Income Tax Refund	15,000
Provision of Unexpired Risks (as on 1.4.2011)	10,00,000
Additional Provision for Risks (as on 1.4.2011)	1,00,000
Accounting Policy Regarding Additional Provision in Fire- 5% of net premium of the year	

(SM) *(Ans: Operating profit from Insurance Business Rs.1,120)*

(Solve problem no. 10 of assignment problem as rework)

Note: ____________________

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ASSIGNMENT PROBLEMS

Problem 1: From the following, you are required to calculate the loss on account of claim to be shown in the revenue account for the year ending 31st December, 2011:

Claim intimated in the year	Claim admitted in the year	Claim paid in the year	Rs.
2010	2010	2011	15,000
2011	2011	2012	10,000
2009	2010	2010	5,000
2009	2010	2011	12,000
2011	2012	2012	8,000
2011	2011	2011	1,02,000

Claim on account of Re-insurance was Rs. 25,000. **(SM)**

Problem 2: Janani Assurance Co. Ltd. received Rs. 5,90,000 as premium on new policies and Rs. 1,20,000 as renewal premium. The company received Rs. 90,000 towards reinsurance accepted and paid Rs. 70,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium? **(SM)**

Problem 3: Net Premium and Net Claim From the following information of Reliable Marine Insurance Ltd. for the year ending 31st March, 2013 find out the

i) Net premiums earned

ii) Net claims incurred

Particulars	Direct Business (Rs.)	Re-insurance (Rs.)
Premium Received	88,00,000	7,52,000
Premium Receivable as on 01.04.2012	4,39,000	36,000
Premium Receivable as on 31.03.2013	3,77,000	32,000
Premium Paid	6,09,000	
Premium Payable as on 01.04.2012		27,000
Premium payable as on 31.03.2013		18,000
Claims Paid	69,00,000	5,54,000
Claims payable as on 01.04.2012	89,000	15,000
Claims payable as on 31.03.2013	95,000	12,000
Claims received		2,01,000
Claims receivable as on 01.04.2012		40,000
Claims receivable as on 31.03.2013		38,000

(PM) ***(Ans: (i) Net Premium earned 88,86,000, (ii) Net claims incurred 72,58,000)***

Problem 4: Fire Insurance – Revenue A/c: From the following information as on 31st March, 2013 of Bachao Insurance Co. Ltd. engaged in fire insurance business, prepare the Revenue Account, reserving 40% of the net premiums for unexpired risks and an additional reserve of Rs. 3,50,000:

Particulars	Amount Rs.
Reserve for unexpired risk on 31st March, 2012	7,50,000
Additional reserve on 31st March, 2012	1,50,000
Claims paid	9,60,000
Estimated liability in respect of outstanding claims on 31st March, 2012	97,500
Estimated liability in respect of outstanding claims on 31st March, 2013	1,35,000
Expenses of management (including Rs. 45,000 in connection with claims)	4,20,000
Re-insurance premium paid	1,12,500
Re-insurance recoveries	30,000
Premiums	16,80,000
Interest and dividend	75,000
Profit on sale of investments	15,000
Commission	1,75,000

(PM) ***(Ans: Operating profit from insurance business Rs.18,000)***

Problem 5: General Insurance–Revenue A/c and unexpired risk reserve: Sunlife General Insurance Company submits the following information for the year ended 31st March 2013:

Particulars	Direct Business Rs.	Reinsurance Rs.
Premium received	65,75,000	9,50,000
Premium paid	---	4,75,000
Claims paid during the year	42,50,000	5,00,000
Claims payable 1st April, 2012	6,25,000	87,000

31st March, 2013	7,18,000	60,000
Claims received	---	3,25,000
Claims receivable 1st April, 2012		65,000
31st March, 2013		1,10,000
Expenses of management	2,30,000	
Commission		
On insurance accepted	1,50,000	11,000
On insurance ceded		14,000

The following additional information is also available:

1. Expenses of management include Rs. 35,000 surveyor's fee and Rs. 45,000 legal expenses for settlement of claims.
2. Reserve for unexpired risk is to be maintained @ 40%. The balance of reserve for unexpired risk as on 1.4.12 was Rs.24,50,000.

You are required to prepare the Revenue Account for the year ended 31st March, 2013.

(PM) ***(Ans: Operating profit from insurance business Rs 18,57,000)***

Problem 6: The following particulars are presented to you by Good luck General Insurance Company regarding its fire insurance business for the year ended 31st March, 2011:

Particulars	**Rs.**	**Rs.**
Reserve for unexpired risk on 31st March, 2010		
(i) 50% of net premium income for 2009-2010	5,00,000	
(ii) Additional reserve on 31st March, 2010	1,00,000	6,00,000
Claims paid		2,80,000
Commission paid		80,000
Bad debts		10,000
Expenses of management		2,90,000
Premiums received less reinsurances		12,10,000
Claims outstanding on 31st March, 2010		1,00,000
Commission earned on reinsurance ceded		59,000
Estimated liability on 31st March, 2011 in respect of claims due or intimated		2,00,000

Prepare the Fire Revenue Account for the year ended 31st March, 2011 in the proper form and with necessary schedules. On 31st March, 2011 the company decides to keep total additional reserve for unexpired risk equal to 15% of the net premium income for the year.

(RTP - Nov 2011, Nov 2013) ***(Ans.: Operating profit from General Insurance business Rs.3,32,500)***

Problem 7: Accounting treatment for bonus utilized in reduction of premium in preparation of Revenue A/c: (Moderate level): From the following balances as at 31.12.2004 in the books of General Insurance Co. Ltd., Prepare a Revenue A/c in respect of Fire Insurance business carried on by them:

Particulars	Rs.	Particulars	Rs.
Claims paid	4,80,000	Bonus utilised in reduction of premium	12,000
Claims outstanding on 1st Jan, 2004	40,000	Re-insurance recoveries of claim	8,000
Claims intimated & accepted, but not paid on 31st Dec, 2004	70,000	Medical expenses of claims	5,000
Premiums received	12,00,000	Loss on sale of Motor Car	3,500
Re-insurance Premium paid	1,20,000	Bad debts	2,500
Commission	2,00,000	Refund on Double Taxation	4,500
Commission on re-insurance ceded	8,000	Interest & Dividends	8,000

Commission on re-insurance accepted	4,000	Income-tax deducted thereon	1,500
Expenses of Management	3,02,000	Legal expenses regarding claims	4,000
Provision for un expired risk on 1.1.04	4,00,000	Profit on sale of investments	3,500
Additional provision for un expired risk on 1st Jan, 2004	20,000	Rent of Staff quarters deducted from salaries	2,400
		Depreciation of Furniture	4,600

You are required to provide for additional reserve for unexpired risk at 1 % of the net Premium in addition to the opening balance of Additional Reserve. ***(Ans.: Surplus: Rs. 11,600)***

Problem 8: Fire, Marine and Misc. business- Revenue and Profit & Loss A/c: From the following balances extracted from the books of Perfect General Insurance Company Limited as on 31.3.2013, you are required to prepare Revenue Accounts in respect of Fire and marine Insurance business for the year ended 31.3.2013 to and a Profit and Loss Account for the same period:

Particulars	Rs.	Particulars	Rs.
Directors' Fees	80,000	Interest received	19,000
Dividend received	1,00,000	Fixed Assets (1.4.2012)	90,000
Provision for Taxation (as on 1.4. 2012)	85,000	Income-tax paid during the year	60,000

Particulars	Fire (Rs.)	Marine (Rs.)
Outstanding Claims on 1.4.2012	28,000	7,000
Claims paid	1,00,000	80,000
Reserve for Unexpired Risk on 1.4.2012	2,00,000	1,40,000
Premiums Received	4,50,000	3,30,000
Agent's Commission	40,000	20,000
Expenses of Management	60,000	45,000
Re-insurance Premium (Dr.)	25,000	15,000

The following additional points are also to be taken into account :

1. Depreciation on Fixed Assets to be provided at 10% p.a.
2. Interest accrued on investments Rs.10,000.
3. Closing provision for taxation on 31.3.2013 to be maintained at Rs.1,24,138
4. Claims outstanding on 31.3.13 were Fire Insurance Rs.10,000; Marine Insurance Rs.15,000.
5. Premium outstanding on 31.3.2013 were Fire Insurance Rs.30,000; Marine Insurance Rs.20,000.
6. Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire and Marine Insurance respectively.
7. Expenses of management due on 31.3.2013 were Rs.10,000 for Fire Insurance and Rs.5,000 in respect of marine Insurance. **(PM)**

(Ans.: Profit from Marine Insurance business fire Rs.2,35,500. Marine (18,000))

Problem 9: From the following details, prepare the Revenue Account, Profit and Loss Account and the Balance Sheet of Moonshine Insurance Co. Ltd., carrying on Marine Insurance Business for year ended 31st March, 2005:

Particulars	Rs.	Particulars	Rs.
Equity Share Capital (Rs.10)	15,00,000	Donations Paid	8,600
Balance of Marine Fund as on		Advance Tax Payments	62,000
1.4.04	7,60,000	Sundry Debtors	9,200
Unclaimed Dividends	2,400	Government of India	
Profit and Loss Account (Cr.)	2,40,000	Securities	9,20,000
Sundry Creditors	12,600	Debentures of Public Bodies	1,80,000
Agents' Balances (Dr.)	1,46,400	Shares in Limited	
Interest Accrued but not due	8,200	Companies	3,60,000
Due to Re-insurers	60,000	State Government Securities	8,80,000
Furniture & Fixtures (Cost		Claims Less Reinsurance	10,60,000
Rs.12,600)	8,400	Premium Less Re insurance	12,40,000
Stock of Stationary	2,500	Commission Paid	62,400
Expenses of Management	2,20,000	Interest and Dividends	2,40,000
Foreign Taxes and Insurance	12,300	Transfer. Fees Received	600
Outstanding Premium	21,200	Cash and Bank Balances	94,400

Outstanding claims on 31.3.2005 was Rs.1,40,000. Depreciation on Furniture should be provided Rs.2,100. *(Ans: Balance carried forward to balance sheet (2,64,800), Total of balance sheet is 15,00,000)*

Problem 10: Fire insurance – Revenue A/c: From the following information as on 31st March, 2013, prepare the Revenue Accounts of Sagar Bhima Co. Ltd. engaged in Marine Insurance Business:

Particulars	Rs.	Rs.
I. Premium :		
Received	24,00,000	3,60,000
Receivable – 1st April, 2012	1,20,000	21,000
– 31st March, 2013	1,80,000	28,000
Premium paid	2,40,000	–
Payable – 1st April, 2012	–	20,000
– 31st March, 2013	–	42,000
II. Claims :		
Paid	16,50,000	1,25,000
Payable – 1st April, 2012	95,000	13,000
– 31st March, 2013	1,75,000	22,000
Received	–	1,00,000
Receivable – 1st April, 2012	–	9,000
– 31st March, 2013	–	12,000
III. Commission :		
On Insurance accepted	1,50,000	11,000
On Insurance ceded	–	14,000

Other expenses and income: Salaries–Rs.2,60,000; Rent, Rates and Taxes – Rs.18,000; Printing and Stationery –Rs.23,000; Indian Income Tax paid – Rs.2,40,000; Interest, Dividend and Rent received (net) – Rs.1,15,500; Income Tax deducted at source – Rs.24,500; Legal Expenses (Inclusive of Rs.20,000 in connection with the settlement of claims) – Rs.60,000; Bad Debts – Rs.5,000; Double Income Tax refund – Rs.12,000; Profit on Sale of Motor car Rs.5,000. Balance of Fund on 1st April, 2012 was Rs.26,50,000 including Additional Reserve of Rs.3,25,000. Additional Reserve has to be maintained at 5% of the net premium of the year.

(PM, RTP May 2010, N0v 2012)

(Ans.: Profit from Marine Insurance business Rs.3,92,750)

THEORY QUESTIONS

1. Explain in short, the following principles and term of insurance business:

i) Principle of Indemnity;

ii) (ii) Insurable interest;

iii) (iii) Principle of "UBERRIMAE FIDEI".

iv) (iv) Catastrophic Loss **(PM) (May - 2016)**

Answer

i) Principle of indemnity: Insurance is a contract of indemnity. The insurer is called indemnifier and the insured is the indemnified. In a contract of indemnity, only those who suffer loss are compensated to the extent of actual loss suffered by them. One cannot make profit by insuring his risks.

ii) Insurable **interest:** All and sundry cannot enter into contracts of insurance. For example, A cannot insure the life of B who is a total stranger. But if B. happens to be his wife or his debtor or business manager, A has insurable interest i.e. vested interest and therefore he can insure the life of B. For every type of policy insurable interest is insisted upon. In the absence of such interest the contract will amount to a wagering contract.

iii) Principle **of UBERRIMAE FIDEI:** Under ordinary law of contract there is no positive duty to tell the whole truth in relation to the subject-matter of the contract. There is only the negative obligation to tell nothing but the truth. In a contract of insurance, however there is an implied condition that each party must disclose every material fact known to him. All contracts of insurance are contracts of uberrima fidei, i.e., contracts of utmost good faith.

This is because the assessment of the risk and the determination of the premium by the insurer depend on the full and frank disclosure of all material facts in the proposal form.

iv) Catastrophic **Loss:** A loss (or related losses) which is unbearable i.e. it causes severe consequences such as bankruptcy to a family, organization, or insurer.

2.

i) Write short note on Unexpired Risks Reserve

ii) Write short note on Re-insurance. **(PM)**

Answer

i) In most cases policies are renewed annually except in some cases where policies are issued for a shorter period. Since insurers close their accounts on a particular date, not all policies expire on that date. Many policies extend into the following year based on the date on which they were taken and as such the risk continues beyond the date of closing of books for the insurer. Therefore on the closing date, there is unexpired liability under various policies which may occur during the remaining term of the policy beyond the financial year and therefore, a provision for unexpired risks is made at normally 50% in case of Fire Insurance and 100% of in case of Marine Insurance. This reserve is calculated on the net premium income earned by the insurance company during the year.

ii) If an insurer does not wish to undertake the whole risk under a policy written by him, he may reinsure a part of the risk with some other insurer. In such a case the insurer is said to have ceded a part of his business to other insurer. The reinsurance transaction may thus be defined as an agreement between a 'ceding insurance company' and another insurance company called the 'reinsurer' whereby the former agrees to 'cede' and the latter agrees to accept a certain specified share of risk or liability under a insurance policy upon terms as set out in the agreement. A 'ceding company' is the original insurance company which has accepted the risk and has agreed to 'cede' or pass on that risk to another insurance company or a reinsurance company. It may however be emphasised that the agreement of reinsurance is purely an arrangement between two insurance companies and the original insured does not acquire any right under a reinsurance contract against the reinsurer. In the event of loss, therefore, the insured's claim for full amount is against the original insurer. The original insurer has to claim the proportionate amount from the reinsurer. There are two types of reinsurance contracts, namely, facultative reinsurance and treaty reinsurance. Under facultative reinsurance each transaction has to be negotiated individually and each party to the transaction has a free choice, i.e., for the ceding company to offer and the reinsurer to accept. Under treaty reinsurance a treaty agreement is entered into between ceding company and the reinsurer whereby the volume of the reinsurance transactions remain within the limits of the treaty.

ABC ANALYSIS

	A Category	B Category	C Category
Class Room Problems	1, 4, 7, 8, 10	3, 5, 6, 9	2
Assignment Problems	3, 5, 6, 8	1, 2, 4, 7,10	9

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THE END