Chapter 6

Accounts of Insurance Companies

Solution 1

Form B – RA

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA: ……………..

Revenue Account for the year ended 31st March, 2008

Particulars	*Schedule*	*Current Year* (*Rs. in Lakhs*)	*Previous Year* (*Rs. in Lakhs*)
1. Premium earned (net)	1	60.00	
2. Profit/Loss on sale/redemption of investments		—	
3. Others		—	
4. Interest, Dividend & Rent-Gross (10+5-3)		12.00	
	Total (A)	72.00	
1. Claims Incurred (Net)	2	34.00	
2. Commission	3	3.75	
3. Operating expenses related to insurance business	4	16.25	
	Total (B)	54.00	
Operating Profit/(Loss) from Marine Business (C) = (A -B)		18.00	
Appropriations			
Transfer to Shareholder's Account		—	
Transfer to Catastrophe Reserve		—	
Transfer to other Reserves (to be specified)		—	
	Total (C)	18.00	

Form B – PL

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA: ……………..

Profit & Loss Account
for the year ended 31st March, 2008

Particulars		*Schedule*	*Current Year* (*Rs. In Lakhs*)	*Previous Year* (*Rs. In Lakhs*)
1.	Operating Profit from marine insurance		18.00	
2.	Income from investments		—	
3.	Other Income		—	
		Total (A)	18.00	
1.	Provision (other than taxation)			
	Diminution in the value of investment Appropriations		Nil	
	Balance of profit/loss bought forward from Last year		10.00	
	Balance carried forward to Balance Sheet		20.35	

Schedule 1

Premium Earned (Net)

Particulars	*Current Year* (*Rs. in Lakhs*)	*Previous Year* (*Rs. in Lakhs*)
Premium from direct business	50.00	
Add: Premium on re-insurance accepted	5.00	
	55.00	
Less: Premium on re-insurance ceded	10.00	
Net Premium	45.00	
Adjustment for change in reserve for unexpired risk [(opening) 60 – (Closing) 45]	15.00	
	60.00	

Schedule 2

Claims incurred (Net)

Particulars	*Current Year* (*Rs. in Lakhs*)	*Previous Year* (*Rs. in Lakhs*)
Claims paid		

Direct	25.00	
Add: Reinsurance accepted	4.00	
	29.00	

Particulars	*Current Year* (*Rs. in Lakhs*)	*Previous Year* (*Rs. in Lakhs*)
Less: Reinsurance ceded	5.00	
Net Claims paid	24.00	
Add: Claims outstanding at the end of the year	30.00	
	54.00	
Less: Claims outstanding at the beginning of the year	20.00	
Total claims incurred	34.00	

Schedule 3

Commission

Particulars	*Current Year* (*Rs. in Lakhs*)	*Previous Year* (*Rs. in Lakhs*)
Commission paid		
Direct	5.00	
Add: Re-insurance accepted	1.25	
	6.25	
Less: Commission on reinsurance ceded	2.50	
Net Commission	3.75	

Schedule 4

Operating Expenses

Particulars	*Current Year* (*Rs. In Lakhs*)	*Previous Year* (*Rs. In Lakhs*)
Expenses of Management	5.00	
Bad Debts	10.00	
Other expenses	1.25	
	16.25	

Working Note

Provision for income tax:	Rs. in lakhs
Income (excluding revaluation)	18.00
Add: Tax deducted at source	3.00

	21.00
Provision @ 65% of Rs. 21.00 lakhs	13.65
Less: Tax deducted at source	(3.00)
	10.65

Solution 2

Journal of Indian Insurance Co. Ltd.

			Dr. *Rs.*	*Cr.* *Rs.*
(i)	URR A/c	Dr.	40	
	To Premium			40
	(Being the difference between closing provision of 18.30 crores 918 + 7 - 6.7) and opening provision of Rs. 15 crores charged to marine revenue account)			
(ii)	Fire Revenue A/c	Dr.	21.85	
	To Unexpired Risks Reserve A/c			21.85
	(Being the difference between closing provision of Rs. 21.85 crores [(43 + 5 - 4.3)/2] and opening provision of Rs. 20 crores charged to fire revenue account)			
(iii)	Miscellaneous	Dr.	4.50	
	To URR			4.50
	(Being the excess of opening balance of Rs. 5 crores over the required closing balance of Rs. 4.5 crores [(12 + 4 - 7)/2] credited to miscellaneous revenue account)			
(iv)	Fire A/c	Dr.	21.85	
	To URR			21.85

Unexpired Risks Reserve A/c

(*Rs. in crores*)

1997		*Marine* *Rs.*	*Fire* *Rs.*	*Miscellaneous* *Rs.*			*Marine* *Rs.*	*Fire* *Rs.*	*Miscellaneous* *Rs.*
Dec. 31	To P/Income	15.00	20.00	5.00	Jan 1	By Balance b/d	15.00	20.00	5.00
	To Balance c/d	18.30	21.85	4.50	Dec. 31	By Revenue A/c	18.30	21.85	4.50
		33.30	41.85	9.50			33.30	41.85	9.50

Note: Alternatively, the opening balances of unexpired risk reserves may be reserved in the beginning of year by transfer to Revenue account and fresh reserve of full required amount may be created at the end of the year which will be carried forward as closing balances.

Comments

Insurance Companies – Unexpired risks reserve: Some candidates created fresh reserve for the required (closing) amount of unexpired risks reserve without taking into account the opening balance.

Solution 3

Particulars	*Schedule*	*Marine*
Premium earned income from investment	(1)	25,21,750
— int. dividend & rent		1,15,500
— Profit on sale		12,000
Other income		
— Motor Car		5,000
	(A) Total	**26,54,250**
Claim	(2)	17,81,000
Commission	(3)	1,47,000
Operating expenses	(4)	5,86,000
	(B) Total	**25,14,000**
	Profit (A-B)	**1,40,250**

Particulars	*Schedule*	*Marine*
(-) Transfer to catastrophe Ac		50,000
(-) Share holders A/c		30,000
	Balance	**60,250**

Working Note 1

Calculation of Premium

Direct Premium	24,60,000
(+) Re-insurance	3,67,000
(-) paid	2,62,000
Net Premium	**25,65,000**
(+) Opening URR	26,50,000
(-) desij URR (105%)	28,93,250
Therefore Premium earned	**25,21,750**

Working Note 2

Calculation of claim's

Direct claim	17,30,000
(+) Reinsurance accepted	1,34,000
(-) Reinsurance ceeded	1,03,000
(+) Legal expenses	20,000
	17,81,000

Working Note 3

Calculation of Commission

Direct Commission	1,50,000
(+) Reinsurance accepted	11,000
(-) Reinsurance ceeded	14,000
	1,47,000

Working Note 4

Calculation of operating expenses

Salaries	2,60,000
Rent	18,000
Photostat	23,000
Tax paid	2,40,000
Legal exp.	40,000
Bad debts.	5,000
	5,86,000

Solution 4

Form B. R. A.

Premium	1	35,98,475
Income from investment (1,37,500 + 40,250)		1,77,750
Total A		**37,76,225**
Claims incurred	2	25,60,000
Commission	3	2,13,000
Operating express	4	4,24,000
Provision for Indian income-tax assumed		4,40,000

Total B		**36,37,000**
Operating surplus/Deficit	(A-B)	1,39,225

S – 1

Premium received	46,00,000	
+receivable at the end	3,36,000	
- Receivable in the beg.	2,48,000	46,88,000
+Re- insurance premium received	7,20,000	
+Receivable at the end	34,000	
-Receivable in the beg	27,000	7,27,000
-premium paid	4,60,000	
+payable at the end	62,000	
-payable in the beg	37,500	4,84,500
Net premium		49,30,500
+URR at the begin		38,45,000
- URR at the end		49,30,500
- Additional reserve (49,30,500 x 5%)		2,46,525
		35,98,475

S – 2

Claims paid (23,50,000 + 2,08,000 -1,66,000)	23,92,000
+ Re insurance claims paid(3,00,000 + 44,000 -39,000)	3,05,000
-claims receivable (1,70,000 + 23,000 – 16,000)	1,77,000
+ Legal expenses	40,000
	25,60,000

S – 3

Commission Paid (Direct)	2,20,000
Commission Paid on (Re-insurance)	19,000
(-) Commission of re-insurance business ceeded	(-) 26,000
	2,13,000

S – 4

Salaries		3,20,000
Rent, rates & taxes		29,000
Postage, telegram, stationery & printing		43,000
Legal expenses	(72,000-40,000)	32,000
		4,24,000

Solution 5

(i) Unexpired Risks Reserve: In regard to the preparation of final accounts of insurance companies; the need for unexpired risks reserve arises because not all risks under various policies expire at the year end. Many policies normally extended into the following year during which risks continue. In other words, at the closing date of the accounting period, there is unexpired liability under various policies which may occur during the remaining term of the policy beyond the year end. The effort involved in calculating the unexpired, portion of premium under each policy is very time consuming. Therefore a simple formula is adopted to derive a percentage of premium income to be allocateed to reserve for unexpired risks.

According to the requirements of the Insurance Act, it is sufficient, if the provision is made for unexpired risks at 40% for Fire, Marine Cargo and Misc. business except for Marine hull which has to be 100%. How ever the Income Tax Authorities allow a provision of 50% of net premium in case of general insurance business.

(ii) Re-insurance

If an insurer does not wish to bear the whole risk of 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 company' and reinsurer whereby the former agreed to 'cede' and the latter agrees to accept a certain specified share of risk or liability upon tenns 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 emphasized that 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 contract, namely, facultative reinsurance and trl;aty 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 t'caty reinsurance a treaty agreement is entered into between ceding company and the reinsurer whereby the volume of the reinsurance transactions remail within the limits of the treaty.

(iii) Computation of premium income, claims expense and commission expense in the case of an insurance company:

Premium income: The payment made by the insured as consideration for the grant of, insurance is known as premium. The amount of premium income to be credited to revenue account for a year may be computed as:

	Rs.
Premium received on risks undertaken during the year (direct & re-insurance accepted)	
Add: Receivable at the end of year (direct & re-insurance accepted)	....
Less: Receivable at the beginning of year (direct & re-insurance accepted)	....
	....
Less: Premium on re-insurance ceded	
Paid during the year	....
Add: Payable at the end of year	....
Less: Payable auhe beginning of year	....
	....
Premium income	....

Claims expense: A claim occurs when a policy falls due for payment. In the case of life insurance business, it will arise either on death or maturity' of policy, that is, on the expiry of the specified term of years: In the case of general insurance business, a claim arises only when the loss occurs or the liability arises. The amount of claim to be charged to revenue account may be worked out as under:

	Rs.
Claims settled during the year direct & re-insurance accepted (including legal fees, survey charges etc.)	....
Add: Payments to co-insurers	....
Less: Received from co-insurers and re-insurers	....
Net payment	
Add: Estimated liability, at the end of the year	....
(after deducting recoverable from insurers and re-insurers)	....
Less: Estimated liability at the beginning of the year	
(after deducting recoverable from insurers' and re-insurers)	....
claim expense	....

Commission expense: Insurance Act regulates the commission payable on policies to agents. Commission expense to be charged to revenue account is computed as follows:

	Rs.
Commission paid (direct & re-insurance accepted)	....
Add: Commission payable at the end of year (direct, & re-insurance accepted)	....
Less: Commission payable at the beginning of the year (direct & re-insurance accepted)	....
Commission expense	....

Solution 7

A re-insurance business transaction may be defined as an agreement between a ceding company and re-insure whereby the former agrees to cede and the latter agrees to accept a certain specified share of risk or liability upon terms as set out in the agreement. The accounting entries pertaining to re-insurance business ceded to and by an insurance company may be explained with the help of an example given below.

X insurance company cedes re-insurance business to Y insurance company. Z insurance company further cedes re-insurance business to X insurance company. Accounting entries pertaining to re-insurance business ceded to and by X insurance company in the above example may be given as follows:

1. Re-insurance Premium (on re-insurance ceded) A/c DR.
   To Y Insurance Company
   (Being premium on re-insurance business ceded to Y insurance company recorded)
2. Z Insurance Company Dr.
   To re-insurance Premium (on re-insurance accepted) A/c
   (Being premium on business ceded by Z insurance company recorded)
3. Y Insurance Company Dr.
   To Claims (on re-insurance ceded) Account
   (Being claims receivable from Y Co. for part of insurance business ceded)
4. Claims (on re-insurance accepted) Account Dr.
   To Z Insurance Company
   (Being claims on re-insurance business accepted from Z company recorded)
5. Y Insurance Company Dr.
   To Commission (on re-insurance ceded) Account
   (Being commission due on re-insurance business ceded to Y insurance company recorded)
6. Commission (on re-insurance accepted) Account Dr.

To Z Insurance Company
(Being commission due on re-insurance business
ceded to Z Company debited)

Solution 8

General Insurance Company
Fire Revenue Account for the year ended 31st March, 1999
(Abstract showing the amount of claims)

	Rs '000	Rs. '000
To Claims *less* Re-insurance:		
Paid during the year	5,220	
Add: Outstanding claims at the end of the year	752	
		5,972
Less: Outstanding claims at the beginning of the year	785	5,187

Working Notes

		Rs. '000	*Rs. '000*
1.	Claims paid during the year		
	Direct business	4,670	
	Reinsurance	700	5,370
	Add: Surveyor's fee	35	
	Legal expenses	45	80
			5,450
	Less: Claims received from re-insurers		230
2.	Claims outstanding on 31st March, 1999	5,220	
	Direct business	812	
	Reinsurance	53	865
	Less: Claims receivable from re-insurers		113
			752
3.	Claims outstanding on 1st April, 1998		
	Direct business	763	
	Reinsurance	87	850
	Less: Claims receivable from re-insurers		65
			785

Comments:

Claims in the books of Insurance Company: In general, the performance was satisfactory. However, few candidates erred in treatment of expenses of management.

Solution 9

Form B- RA

Name of the Insure: **No Claim**

Registration No. and Date of Registration with the IRDA

Revenue Account for the year ended 31st March, 1999.

	Particulars	*Schedule*	*Amount*		
			Fire Insurance	*Marine Insurance*	*Miscellaneous Insurance*
1.	Premiums earned	1	12,15,375	1,84,000	17,34,000
	Total (A)		**12,15,375**	**1,84,000**	**17,34,000**
2.	Claims Incurred	2	3,51,500	47,300	99,200
3.	Commission	3	1,80,700	17,900	35,020
4.	Operating Expenses related to Insurance Business	4	3,24,600	37,400	67,300
5.	Other Expenses		—	—	—
	Total (B)		**8,56,800**	**1,02,600**	**2,01,520**
	Operating Profit/(Loss) from Fire/Marine/ Miscellaneous Business (A-B)		**3,58,575**	**81,400**	**(28,120)**

Form B - Profit Loss

Name of the Insure: **No Claim**

Registration No. and Date of Registration with the IRDA

Profit and Loss Account for the year ended 31st March, 1999

	Particulars	*Amount*
1.	Operating Profit/(Loss) from	
	(a) Fire Insurance	3,58,575
	(b) Marine Insurance	81,400
	(c) Miscellaneous Insurance	(28,120)

	Particulars		*Amount*
2.	Income from Investments		87,400
3.	Other Income		
	Rent Received		9400
	Miscellaneous Income	420	
	Share transfer fees	220	640
	Total (A)		**5,09,295**
4.	Other Expenses		16,270
	Total (B)		**16,270**
	Profit Before Tax (A - B)		4,93,025
	Less: Provision for Taxation		(2,00,000)
	Profit After Tax		2,93,025
Add: Brought forward Reserve/Surplus from the Balance Sheet			46,400
Less: Appropriations			
- transfer to General Reserve			(1,00,000)
- proposed dividend (12% of 8,00,000)			(96,000)
Balance			**1,43,425**

Form B - Balance Sheet

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

No Claim
Balance Sheet as at 31st March, 1999

Sources of Funds	*Schedule*	*Amount*
Share Capital	5	8,00,000
Reserves and Surplus	6	7,56,125
Borrowings (Investment Reserve)	7	_
	Total	15,56,125
Application of Funds		
Investments	8	20,52,500
Loans	9	4,24,000
Fixed Assets	10	1,57,280
Current Assets		
Cash and Bank Balances	11	1,88,040

Sources of Funds	*Schedule*	*Amount*
Advances and Other Assets	12	52,690
Less: Current Liabilities	13	(2,62,210)
Less: Provisions	14	(12,16,775)
Miscellaneous Expenditure	15	—
Total		**15,56,125**

Annexure

	Fire Insurance	*Marine Insurance*	*Miscellaneous Insurance*
Calculation of Premium earned			
Premium Received	12,56,750	1,87,000	2,10,800
(+) Opening URR	4,67,000	1,84,000	68,000
(+) Opening additional research	1,20,000	—	—
(-) Closing URR	6,28,375	1,87,000	1,05,400
	12,15,375	**1,84,000**	**1,73,400**
Claims Incurred (Schedule - 2)			
Claims paid	3,47,000	54,000	1,00,600
Less: Reinsurance Claims	(12,300)	(3,400)	(6,300)
Less: Opening outstanding claims	(38,600)	(16,000)	(14,500)
Add: Closing outstanding claims	55,400	12,700	19,400
	3,51,500	**47,300**	**99,200**
Commission (Schedule - 3)			
Commission on Direct Business	1,64,500	15,400	28,700
Add: on reinsurance accepted	48,600	8,700	9,450
Less: on reinsurance ceded	(32,400)	(6,200)	(3,130)
	1,80,700	**17,900**	**35,020**
Operating Expenses (Schedule 4)			
Expenses of Management	3,24,600	37,400	67,300

Share Capital (Schedule - 5)			**Fixed Capital (Schedule - 10)**	
Share Capital		8,00,000		
Reserve & Surplus (Schedule 6)			**Cash & Bank Balances (Schedule - 11)**	
General Reserve	3,00,000			
	1,00,000	4,00,000	Cash with Bank	1,86,400
Profit & Loss Account		(27,075)	Cash in Hand	1,640
		3,72,925		**1,88,040**

	Fire Insurance	*Marine Insurance*	*Miscellaneous Insurance*

Borrowings (Schedule - 7)		**Other Current Assets (Schedule - 12)**	
		Amount due from Re-insurers	9,600
		Interest and dividends O/s	5,400
		Income -tax on income from investment	22,940
		Agent Balances	78,640
		O/s Premiums	14,750
			1,31,330
Investments (Schedule - 8)		**Current Liabilities (Schedule - 13)**	
Stock and shares in companies	12,600		
Govt. Securities deposited with RBI	3,67,800	Sundry Creditors	12,870
		Outstanding Claims	87,500
Indian Government Securities	14,23,600	Due to re-insurers	
State Government Securities	2,48,500		12,300
	20,52,500		**1,12,670**
Loans (Schedule - 9)		**Provision (Schedule - 14)**	
Mortgages in India	4,24,000	Proposed dividend	96,000
		Provision for tax	2,00,000
		Unexpired Risk Reserve	8,81,575
		Additional Reserve	1,20,000
			12,97,575

Working Notes

1. Computation of change in Unexpired Risk Reserve

	Fire Insurance	*Marine Insurance*	*Miscellaneous Insurance*
Opening Balance	4,67,000	1,84,000	68,000
Closing Balance	(6,04,075)	(1,79,500)	(98,000)
	(1,37,075)	**4,500**	**(30,000)**

2. Expenses in profit & Loss Account

	Rs.
Miscellaneous expenses	5,670
Audit fees	4,000
Directors fees	3,000
Rates and taxes	3,600
Rents	9,400
	25,670

Solution 10

Calculation of claims

Claims paid	3,70,700
+Claims outstanding at the end of year	38,000
- Claims outstanding in the by of year	30,000
	3,78,700
- Claims received under re-insurance	37,000
+ Surveyors fees	15,000
	3,56,700

Solution 11

Form B – RA

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA: ……………..

Revenue Account for the year ended 31st March, 2008

	Particulars	*Schedule*	*Current Year (Rs. in Lakhs)*	*Previous Year (Rs. in Lakhs)*
1.	*Premium earned (net)*	*1*	*60.00*	
2.	*Profit/Loss on sale/redemption of investments*		—	
3.	*Others*		—	
4.	*Interest, Dividend & Rent-Gross (10+5-3)*		*12.00*	
	Total (A)		*72.00*	
1.	*Claims Incurred (Net)*	*2*	*34.00*	
2.	*Commission*	*3*	*3.75*	
3.	*Operating expenses related to insurance business*	*4*	*16.25*	
	Total (B)		*54.00*	
	Operating Profit/(Loss) from Marine Business (C)		*18.00*	

= (A-B) Appropriations	
Transfer to Shareholder's Account	—
Transfer to Catastrophe Reserve	—
Transfer to other Reserves (to be specified)	—
Total (C)	18.00

Form B – PL

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA: ……………..

Profit & Loss Account for the year ended 31st March, 2008

	Particulars	Schedule	Current Year (Rs. In Lakhs)	Previous Year (Rs. In Lakhs)
1.	Operating Profit from marine insurance		18.00	
2.	Income from investments		-	
3.	Other Income		-	
	Total (A)		18.00	
4.	Provision (other than taxation)			
	Diminution in the value of investment in shares		2.00	
	Less: increment in the value of			
	investment in govt. securities	(5.00)	(3.00)	
5.	Other expenses		-	
	Total (B)		(3.00)	
	Profit before tax A-B [i.e. 18 – (-3)]		21.00	
	Less: Provision for taxation		(10.65)	
	Total		10.35	
	Appropriations		Nil	
	Balance of profit/loss bought forward from last year		10.00	
	Balance carried forward to Balance Sheet		20.35	

Schedule 1

Premium Earned (Net)

Particulars	Current Year (Rs. in Lakhs)	Previous Year (Rs. in Lakhs)
Premium from direct business	50.00	
Add: Premium on re-insurance accepted	5.00	

	55.00	
Less: Premium on re-insurance ceded	*10.00*	
Net Premium	*45.00*	
Adjustment for change in reserve for unexpired risk [(opening) 60 – (Closing) 45]	*15.00*	
	60.00	

Schedule 2

Claims incurred (Net)

Particulars	*Current Year (Rs. in Lakhs)*	*Previous Year (Rs. in Lakhs)*
Claims paid		
Direct	*25.00*	
Add: Reinsurance accepted	*4.00*	
	29.00	
Less: Reinsurance ceded	*5.00*	
Net Claims paid	*24.00*	
Add: Claims outstanding at the end of the year	*30.00*	
	54.00	
Less: Claims outstanding at the beginning of the year	*20.00*	
Total claims incurred	*34.00*	

Schedule 3

Commission

Particulars	*Current Year (Rs. in Lakhs)*	*Previous Year (Rs. in Lakhs)*
Commission paid		
Direct	*5.00*	
Add: Re-insurance accepted	*1.25*	
	6.25	
Less: Commission on reinsurance ceded	*2.50*	
Net Commission	*3.75*	

Schedule 4

Operating Expenses

Particulars	*Current Year (Rs. in Lakhs)*	*Previous Year (Rs. in Lakhs)*
Expenses of Management	*5.00*	

Bad Debts	*10.00*
Other expenses	*1.25*
	16.25

Working Note

Provision for income tax:	*Rs. in lakhs*
Income (excluding revaluation)	*18.00*
Add: Tax deducted at source	*3.00*
	21.00
Provision @ 65% of Rs. 21.00 lakhs	*13.65*
Less: Tax deducted at source	*(3.00)*
	10.65

Solution 12

Revenue Account (31-12-92)

		Fire	*Marine*
Premium Income	1	3,91,320	2,50,000
	(A)	3,91,320	2,50,000
Claims	2	1,11,000	93,000
Commission	3	49,000	51,000
Opening expenses	4	86,000	68,000
	(B)	2,57,000	2,12,000
Profit after Tax		1,45,320	38,000
Transfer to shareholders' account			

Profit & Loss Account (31-12-92)

Operating Profit –	Fire		1,45,320
	Marine		38,000
Interest, dividends, Rents on investments	63,000		
	+ used	13,000	76,000
(-) L/ Sale on Realization of Investments		8,000	
		A	**2,51,320**
Depreciation on assets			36,000
Audit Fees			13,000
Directors' Remuneration		36,000	
		B	**85,000**
	Profit before Tax		**1,66,320**

Schedule –1 Premium Income

		Fire	*Marine*
Received		3,74,000	2,97,000
(-) o/s opening		2,600	17,000
(+) o/s Closing		33,000	15,000
	A	**4,04,400**	**2,95,000**
(+) URR –Opening		2,10,000	2,40,000
(+) Addnl Res – Opening		60,000	10,000
(-) URR- Closing		2,02,200	2,95,000
(-) Addnl res –opening	**B**	80,880	
	(A-B)	**3,91,320**	**2,50,000**

Schedule –2 Claims Incurred

	Fire	*Marine*
Paid	1,00,000	87,000
(-) O/s 1-1-92	24,000	11,000
(+) O/s 31-12-92	46,000	17,000
(-) Covered by re-insurance	11,000	—
	1,11,000	**1,11,000**

Schedule-3

	Fire	*Marine*
Commission Paid	62,000	51,000
(-) R/ Business ceded	13,000	—
	49,000	51,000

Solution 13

Revenue Account

Premiums Income (9,40,000 × 50%)	1	4,70,000
	(A)	4,70,000
Commission	3	80,000
Claims	2	2,50,000
Operating Expenses	4	3,20,000

	B	6,50,000
Loss (B-A)		1,80,000

Solution 16

Calculation of Claim

1.	Claims paid upon death	40,000	
2.	Claims paid upon maturity	80,000	
	+ Claims outstanding attend	10,000	
	- Claims outstanding in the beg	5,000	85,000
3.	Re-insurance claims received	40,000	
	+ Re-insurance claims received go.	5,000	
	- Re-insurance claims receivable at the end of last year	2,000	43,000
	Claims		82,000
	+ Surveyors expenses paid		2,000
	+ Reversionary bonus		8,000
Claims			92,000

Solution 17

Valuation Balance Sheet

	Rs.		*Rs.*
To Valuation Liabilities	44,00,000	By Life Assurance Fund	55,00,000
To Surplus	11,00,000		
	55,00,000		**55,00,000**

Calculation of Net Profit		
Surplus	11,00,000	
+ Interim Bonus	1,00,000	
- Investment written down	50,000	
- Provision for Tax	1,00,000	
	10,50,000	
Profit for Shareholders (10,00,000×5%)	50,000	
Profit for Policyholders [(10,00,000×5%)-1,00,000]	8,50,000	
Bonus in cash (9,00,00,000×1/3×6/1000)	1,80,000	
Bonus in Value (9,00,00,000×2/3×15/1000)	9,00,000	
Bonus paid in cash		
Bonus Accounts	Dr. 1,80,000	
To Cash Account		1,80,000
(Being bonus paid in cash)		

Solution 18

In the Books of Hindustan Life Insurance Co. Ltd.
Valuation Balance Sheet as on 31st March, 1997

	Rs.		*Rs.*
To Net Liability	28,80,000	By Life Insurance Fund	34,00,000
To Profit	5,20,000		
	34,00,000		34,00,000

	Rs.	*Rs.*
Net profit for the two years period		
Profit as per valuation Balance Sheet	5,20,000	
Add: Interim Bonus paid during the previous two years	40,000	
Net Profit		**5,60,000**
Distribution of the profits		
Net Profit	5,60,000	
Less: Amount proposed to be carried forward	1,10,000	
Balance		4,50,000
Share of Policyholders (95% of Rs. 4,50,000)	4,27,500	
Less: Interim Bonus paid	40,000	
Amount due to Policyholders		3,87,500
Share of Shareholders (5% of Rs. 4,50,000)		22,500

Comments

Most of the candidates made the Valuation Balance Sheet correctly but failed to show the distribution of the profits.

Solution 19

In the Books of AB Life insurance Corporation
Valuation Balance Sheet

	Rs. in lacs		*Rs. in lacs*
To Net Liability	1200	By Life Assurance Fund	1600
To Profit	400		
	1600		1600

Profit as per Valuation Statement	400
Add: Interim Bonus	150

		550
Policyholders share (95% of thereof)	522.50	
Less: Interim Bonus paid	150.00	
Amount Due to Policyholders	372.50	

Comments

***Insurance companies* –** Many candidates could not prepare the distribution statement correctly.

Solution 20

Claims- direct	1,00,000
— annuity	5,00,000
Surrenders	25,000
	6,25,000

Solution 21

Revenue Account

Premium	1	3,550
Interest dividends and rents		100
		3,650
Commission	2	150
Operating expenses	3	750
Provision for decline in investment		40
		940
Benefits paid	4	2,000
Interim bonus paid		180
Change in value of liability		(20)
		2,160
Surplus (A-B-C)		550
Transfer to Share Holder A/c (1550+180)		36.5
Transfer to Balance sheet		**513.5**

Working Note 1

Premium Income

Premium earned	2,800
+ Consideration for annuities	750
	3,550

Working Note 4

Benefits paid

Claims	1,200
Annuities paid	400
+ Surrenders – (return of policy)	400
	2,000

Q 22. The life fund of Well-Life Assurance Co. was Rs. 90,00,000 as on 31st December, 2005. The interim bonus paid during the valuation period was Rs. 1,50,000. The periodical actuarial valuation determined the net liability at Rs. 75,00,000. Surplus brought forward from the previous valuation was Rs. 9,00,000. The directors of the company proposed to carry forward Rs. 10,00,000 and to divide the balance between the shareholders and the policy holders. You are required to show:

(i) The valuation Balance Sheet.

(ii) The Net Profit for the valuation period.

(iii) The distribution of the surplus. (*Nov – 2006; 8 Marks*)

Ans. *Profit Rs 16,50,000.*