

Chapter 5

Financial Statements of Insurance Companies

Question 1

Domestic 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?

(2 Marks) (May, 2008)

Answer

	Rs.
Premium received in respect of new policies	5,90,000
Add: Renewal premium	<u>1,20,000</u>
	7,10,000
Add: Re-insurance premium accepted	<u>90,000</u>
	8,00,000
Less: Re-insurance ceded	<u>70,000</u>
Premium amount to be credited to Revenue A/c	<u>7,30,000</u>

Question 2

Prepare Revenue Account in proper form for the year ended 31st March, 2008, from the following particulars related to Krishna General Insurance Co. for the year ended 2007 – 2008:

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

- (i) Interest, dividend and rent received 30,000
Income-tax in respect of above 6,000
- (ii) Management expenses including Rs. 12,000 related to legal expenses regarding claims 1,32,000
- (iii) 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.
- (iv) The net premium income of the company during the year 2006 – 2007 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.

(8 Marks) (November, 2008)

Answer

FORM B – RA

Name of the Insurer : Krishna General Insurance Company

Registration no. and date of registration with IRDA :

Revenue Account for the year ended 31.3.2008

Particulars	Schedule	Amount (Rs.)
1. Premium earned (Net)	1	27,03,000
2. Profit/Loss on sales/Redemption of investment	-	-
3. Other	-	-
4. Interest, dividend & rent (Gross)	-	<u>30,000</u>
Total (A)		<u>27,33,000</u>
1. Claims incurred (Net)	2	19,44,000
2. Commission	3	68,400
3. Operating expenses related to insurance business	4	1,20,000
Total (B)		<u>21,32,400</u>
Operating profit/Loss from insurance business (C) = (A-B)		<u>6,00,600</u>

Appropriation:

Transfer to Shareholders account	-
Transfer to Catastrophe Reserve	-
Transfer to other reserves	<u>-</u>
Total (D)	<u>-</u>

Schedule – 1 Premium Earned (Net)

<i>Particulars</i>	<i>Rs.</i>
Premium received from direct business (W.N.1)	30,60,000
Add: Premium on reinsurance accepted (2,40,000 + 36,000 – 24,000)	<u>2,52,000</u>
	33,12,000
Less: Premium on reinsurance ceded (3,60,000 + 42,000 – 30,000)	<u>3,72,000</u>
Net Premium	29,40,000
Adjustment for change in reserve for unexpired risk (W.N.2)	<u>2,37,000</u>
Total premium earned (Net)	<u>27,03,000</u>

Schedule – 2 Claims Incurred (Net)

<i>Particulars</i>	<i>Rs.</i>
Claims paid (Direct)	18,00,000
Add: Legal expenses regarding claims	<u>12,000</u>
	18,12,000
Add: Reinsurance Accepted	<u>1,80,000</u>
	19,92,000
Less: Reinsurance ceded (1,20,000 + 12,000 – 18,000)	<u>1,14,000</u>
	18,78,000
Add: Claims outstanding at the end (1,20,000 + 18,000)	1,38,000
Less: Claims outstanding at the beginning (60,000 + 12,000)	<u>72,000</u>
Total claim incurred	<u>19,44,000</u>

Schedule –3 Commission

<i>Particulars</i>	<i>Rs.</i>
Commission paid Direct	72,000
Add: Re-insurance accepted	<u>10,800</u>
	82,800
Less: Re-insurance ceded	<u>(14,400)</u>
Net commission	<u>68,400</u>

Schedule – 4 Operating Expenses related to Insurance Business

<i>Particulars</i>	<i>Rs.</i>
Expenses of management (1,32,000 – 12,000)	<u>1,20,000</u>
	<u>1,20,000</u>

Working Notes:**1. Calculation of premium received from direct business**

	<i>Rs.</i>
Premium on direct business	30,00,000
Add: Premium outstanding at the end	<u>2,40,000</u>
	32,40,000
Less: Premium outstanding at the beginning	<u>1,80,000</u>
	30,60,000

2. Computation of change in reserve for unexpired risk

	<i>Rs.</i>
Reserve for unexpired risk for the year 2007-08 (29,40,000 x 50%)	14,70,000
Add: Additional reserve for unexpired risk for the year 2007-08 (29,40,000 x 5%)	<u>1,47,000</u>
	16,17,000
Less: Reserve for unexpired risk for the year 2006-07 (24,00,000 x 50%)	(12,00,000)
Additional reserve for unexpired risk for the year (24,00,000 x 7.5%)	<u>(1,80,000)</u>
	<u>2,37,000</u>

Question 3

The Revenue Account of a Life Insurance Company shows the Life Assurance Fund on 31st March, 2009 at Rs.62,21,310 before taking into account the following items:

- (i) Claims recovered under re-insurance Rs.12,000.
- (ii) Bonus utilized in reduction of Life Insurance premium of Rs.4,500.
- (iii) Interest accrued on securities Rs.8,260.
- (iv) Outstanding premium Rs.5,410.
- (v) Claims intimated but not admitted Rs.26,500.

Compute the Life Assurance Fund on 31st March, 2009, after taking into account the above omission.

(4 Marks) (June, 2009)

Answer

Statement showing Correct Life Assurance Fund*

			Rs.
	Balance of Life Assurance Fund		62,21,310
<i>Add:</i>	(i) Bonus utilized in reduction of premium	4,500	
	(ii) Interest on Securities	8,260	
	(iii) Outstanding premium	<u>5,410</u>	<u>18,170</u>
			62,39,480
<i>Less:</i>	(i) Claims intimated but not admitted	26,500	
	Less: Recovered under reinsurance	<u>12,000</u>	
		14,500	
	(ii) Bonus in reduction of premium	<u>4,500</u>	<u>19,000</u>
	Correct Balance of Life Assurance Fund		<u>62,20,480</u>

* This question is not in accordance with Insurance Regulatory Development Authority Regulations, 2002.