

CHAPTER 5

FINANCIAL STATEMENTS OF INSURANCE COMPANIES

BASIC CONCEPTS

- **Claims:** it refers to the amount payable by insurer to the insured when policy becomes due or the mishappening occurs.

Claim = Claim intimated + Survey fees + Medical expenses – Claims received on insurance.
- **Premium :** it refers to the considteration received by the insurance company to undertake the risk of the loss.it is always net of premium paid on reinsurance.
- **Annuity (LIC):** it is fixed annual payment received regularly till insured lives. This is in consideration of lumpsum money paid by him in the beginning of the policy.
- **Bonus:** the profit of LIC is distributed among the shareholders and policy holders. The policy holders get 95% of the profit of LIC by way of bonus. The bonus may be of following types:
 - *Cash Bonus:* paid on declaration of bonus in cash.
 - *Revisionary Bonus:* it is paid with the policy maturity instead of cash amount now. This bonus is added in the amount of claims.
 - *Bonus in reduction of Premium:* Bonus is not paid in cash but adjusted against the future premiums.
 - *Interim Bonus:* it refers to bonus paid on the maturity of policy in the year for which the profit has not yet been determined. Such a bonus is included in claims.
- **Reinsurance :** if an insurer is not willing to bear the whole of the risk, it reinsure itself. Some risk retains with some other insurer.
- **Commission on Reinsurance Accepted:** the reinsurer generally allows commission to reinsured on aprt of business ceded. This is treated as expense of the company.
- **Commission on Reinsurance ceded:** Reinsurance generally gets commission for giving the business under reinsurance contract. It appears as an income in revenue account.
- **Coinsurance:** when a large risk is offered to an insurance company, then that insurance company retains certain percentage of sum insured and contracts other insurance

company to underwriter the balance of risk. In this way, all the companies jointly bear the risk. One is called as the leader who issues the policy and acts on behalf of others.

➤ **Reserve for unexpired Risk:**

For Marine Business = 100% of net premium income

For others = 40% of net premium income

(Income tax authorities allow even a provision of 50% of net premium income from other sources)

Financial Statements

Life Insurance Business

The insurance company carrying life insurance business is required to prepare Balance sheet form A – BS Revenue account [Policy holders' account] Form A- RA Profit and loss account form A-PL. These forms have been given in the IRDA Regulations, 2002.

No form has been specified for cash flow statement.

General Insurance Business

The insurance company carrying on general insurance business is required to prepare Balance sheet form B – BS Revenue account [Policy holders' account] Form B- RA Profit and loss account form B-PL. These forms have been given in the IRDA Regulations, 2002.

No form has been specified for cash flow statement.

Question 1

Unexpired Risks Reserve

(November 1999 & November 2004)

Answer

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 risks under policies expire on that date. Many policies extend into the following year during which the risk continues. Therefore on the closing date, there is unexpired liability under various policies which may occur during the remaining term of the policy beyond the 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 based on the net premium income earned by the insurance company during the year

Question 2

Re-insurance.

(November, 2000)

Answer

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 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 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.

Question 3

Give accounting entries pertaining to re-insurance business ceded to and by an insurance company and also corresponding commission entries? (November, 1999 & November, 2002)

Answer

A re-insurance business transaction may be defined as an agreement between a ceding company and re-insurer, 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 and Z insurance company 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) Account Dr.
 To Y Insurance Company
(Being premium on re-insurance business ceded to Y
 insurance company recorded)

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

Question 4

Give computation of “premium income,” “claims expense” and “commission expense” in the case of an insurance company.

(May, 2000 & May, 2006)

Answer

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:

PREMIUM EARNED [NET]

	Particulars	Current Year	Previous Year
		(₹000)	(₹000)
	Premium from direct business written	-	-
	Add: Premium on reinsurance accepted	-	-
	Less : Premium on reinsurance ceded	-	-
	Net Premium	-	-
	Adjustment for change in reserve for unexpired risks	-	-
	Total Premium Earned (Net)	=	=

Note: Reinsurance premiums whether on business ceded or accepted are to be brought into account, before deducting commission, under the head of reinsurance premiums.

Claims expenses: A claim occurs when a policy falls due for payment. In the case of a 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 :

CLAIMS INCURRED [NET]

	Particulars	Current Year	Previous Year
		(₹000)	(₹000)
	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	=	=

Notes:

- Incurred But Not Reported (IBNR), Incurred but not enough reported [IBNER] claims should be included in the amount for outstanding claims.*
- Claims includes specific claims settlement cost but not expenses of management*
- The surveyor fees, legal and other expenses shall also form part of claims cost.*

- (d) *Claims cost should be adjusted for estimated salvage value if there is a sufficient certainty of its realisation.*

Commission expenses: Insurance Regulatory and Development Authority Act, 1999 regulates the commission payable on policies to agents. Commission expense to be charged to revenue account is computed as follows:

COMMISSION

Particulars	Current Year	Previous Year
	(₹000)	(₹000)
Commission paid	-	-
Direct	-	-
Add: Re-insurance Accepted	-	-
Less: Commission on Re-insurance Ceded	-	-
Net Commission	=	=

Note: The profit/ commission, if any, are to be combined with the Re-insurance accepted or Re-insurance ceded figures.

Question 5

From the following figures appearing in the books of Fire Insurance division of a General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2011:

	Direct Business	Re-Insurance
	₹	₹
Claim paid during the year	46,70,000	7,00,000
Claim Payable — 1 st April, 2010	7,63,000	87,000
31 st March, 2011	8,12,000	53,000
Claims received	—	2,30,000
Claims Receivable — 1 st April, 2010	—	65,000
31 st March, 2011	—	1,13,000
Expenses of Management (includes ₹35,000 Surveyor's fee and ₹45,000 Legal expenses for settlement of claims)	2,30,000	—

(November, 2009)

Answer

General Insurance Company (Abstract showing the amount of claims)

Net Claims incurred

	₹
Claims paid on direct business (46,70,000 + 35,000 + 45,000)	47,50,000
Add: Re-insurance	7,00,000
Add: Outstanding as on 31.3.2011	53,000
Less: Outstanding as on 1.4.2010	<u>(87,000)</u>
	6,66,000
	54,16,000
Less : Claims received from re-insurance	2,30,000
Add: Outstanding as on 31.3.2011	1,13,000
Less: Outstanding as on 1.4.2010	<u>(65,000)</u>
	(2,78,000)
	51,38,000
Add : Outstanding direct claims at the end of the year	<u>8,12,000</u>
	59,50,000
Less : Outstanding claims at the beginning of the year	<u>(7,63,000)</u>
Net claims incurred	<u>51,87,000</u>

Question 6

From the following balances extracted from the books of Perfect General Insurance Company Limited as on 31.3.2011, you are required to prepare Revenue Accounts in respect of Fire and marine Insurance business for the year ended 31.3.2011 to and a Profit and Loss Account for the same period :

	₹		₹
Directors' Fees	80,000	Interest received	19,000
Dividend received	1,00,000	Fixed Assets (1.4.2010)	90,000
Provision for Taxation (as on 1.4. 2010)	85,000	Income-tax paid during the year	60,000
		Fire	Marine
		₹	₹
Outstanding Claims on 1.4.2010		28,000	7,000
Claims paid		1,00,000	80,000
Reserve for Unexpired Risk on 1.4.2010		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 :

- Depreciation on Fixed Assets to be provided at 10% p.a.
- Interest accrued on investments ₹ 10,000.
- Closing provision for taxation on 31.3.2011 to be maintained at ₹ 1,24,138
- Claims outstanding on 31.3.2011 were Fire Insurance ₹ 10,000; Marine Insurance ₹ 15,000.
- Premium outstanding on 31.3.2011 were Fire Insurance ₹ 30,000; Marine Insurance ₹ 20,000.
- Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire and Marine Insurance respectively.
- Expenses of management due on 31.3.2011 were ₹ 10,000 for Fire Insurance and ₹ 5,000 in respect of marine Insurance **(November, 2000)**

Answer

**Form B – RA (Prescribed by IRDA)
Perfect General Insurance Co. Ltd**

Revenue Account for the year ended 31st March, 2011

Fire and Marine Insurance Businesses

	Schedule	Fire Current Year	Marine Current Year
		₹	₹
Premiums earned (net)	1	4,27,500	1,40,000
Interest, Dividends and Rent – Gross		—	—
Double Income Tax refund		—	—
Profit on sale of motor car		—	—
Total (A)		<u>4,27,500</u>	<u>1,40,000</u>
Claims incurred (net)	2	82,000	88,000
Commission	3	40,000	20,000

Operating expenses related to Insurance business	4	70,000	50,000
Bad debts		—	—
Indian and Foreign taxes		—	—
Total (B)		<u>1,92,000</u>	<u>1,58,000</u>
Profit from Marine Insurance business (A-B)		2,35,500	(18,000)

Schedules forming part of Revenue Account
Schedule –1

<i>Premiums earned (net)</i>		<i>Fire Current Year</i>	<i>Marine Current Year</i>
		₹	₹
Premiums from direct business written		4,80,000	3,50,000
Less: Premium on reinsurance ceded		<u>25,000</u>	<u>15,000</u>
Total Premium earned		<u>4,55,000</u>	3,35,000
Less: Change in provision for unexpired risk		<u>(27,500)</u>	<u>(1,95,000)</u>
		<u>4,27,500</u>	<u>1,40,000</u>
Schedule – 2			
Claims incurred (net)		<u>82,000</u>	88,000
Schedule – 4			
Operating expenses related to insurance business			
Expenses of Management		70,000	50,000

Form B-PL
Perfect General Insurance Co. Ltd.
Profit and Loss Account for the year 31st March, 2011

<i>Particulars</i>	<i>Sche dule</i>	<i>Current Year</i>	<i>Previous Year</i>
		₹	₹
Operating Profit/(Loss)			
(a) Fire Insurance		2,35,500	
(b) Marine Insurance		(18,000)	
(c) Miscellaneous Insurance		—	

Income From Investments		
(a) Interest, Dividend & Rent–Gross		1,29,000
(b) Profit on sale of investments		
Less : Loss on sale of investments		
Other Income (To be specified)		
Total (A)		<u>3,46,500</u>
Provisions (Other than taxation)		—
Depreciation		9,000
Other Expenses –Director's Fee		<u>80,000</u>
Total (B)		<u>89,000</u>
Profit Before Tax		2,57,500
Provision for Taxation		<u>99,138</u>
Profit After Tax		<u>1,58,362</u>

Working Notes:

		<i>Fire</i>	<i>Marine</i>
		₹	₹
1.	Claims under policies less reinsurance		
	Claims paid during the year	1,00,000	80,000
	Add: Outstanding on 31 st March, 2011	<u>10,000</u>	<u>15,000</u>
		1,10,000	95,000
	Less : Outstanding on 1 st April, 2010	<u>28,000</u>	<u>7,000</u>
		<u>82,000</u>	<u>88,000</u>
2.	Expenses of management		
	Expenses paid during the year	60,000	45,000
	Add: Outstanding on 31 st March, 2011	<u>10,000</u>	<u>5,000</u>
		<u>70,000</u>	<u>50,000</u>
3.	Premiums less reinsurance		
	Premiums received during the year	4,50,000	3,30,000
	Add: Outstanding on 31 st March, 2011	<u>30,000</u>	<u>20,000</u>
		4,80,000	3,50,000
	Less : Reinsurance premiums	<u>25,000</u>	<u>15,000</u>
		<u>4,55,000</u>	<u>3,35,000</u>

4. Reserve for unexpired risks is 50% of net premium for fire insurance and 100% of net premium for marine insurance.

5. Provision for taxation account

	₹		₹
31.3.2011 To Bank A/c (taxes paid)	60,000	1.4.2010 By Balance b/d	85,000
31.3.2011 To Balance c/d	1,24,138	31.3.2011 By P & L A/c	99,138
	1,84,138		1,84,138

Question 7

From the following information as on 31st March, 2011, prepare the Revenue Accounts of Sagar Bhima Co. Ltd. engaged in Marine Insurance Business:

	Particulars	Direct Business (₹)	Re-insurance (₹)
I.	Premium :		
	Received	24,00,000	3,60,000
	Receivable – 1 st April, 2010	1,20,000	21,000
	– 31 st March, 2011	1,80,000	28,000
	Premium paid	2,40,000	–
	Payable – 1 st April, 2010	–	20,000
	– 31 st March, 2011	–	42,000
II.	Claims :		
	Paid	16,50,000	1,25,000
	Payable – 1 st April, 2010	95,000	13,000
	– 31 st March, 2011	1,75,000	22,000
	Received	–	1,00,000
	Receivable – 1 st April, 2010	–	9,000
	– 31 st March, 2011	–	12,000
III.	Commission :		
	On Insurance accepted	1,50,000	11,000
	On Insurance ceded	–	14,000

Other expenses and income:

Salaries – ₹ 2,60,000; Rent, Rates and Taxes – ₹ 18,000; Printing and Stationery – ₹ 23,000; Indian Income Tax paid – ₹ 2,40,000; Interest, Dividend and Rent received (net) – ₹ 1,15,500; Income Tax deducted at source – ₹ 24,500; Legal Expenses (Inclusive of ₹ 20,000 in

connection with the settlement of claims) – ₹ 60,000; Bad Debts – ₹ 5,000; Double Income Tax refund – ₹ 12,000; Profit on Sale of Motor car ₹ 5,000.

Balance of Fund on 1st April, 2010 was ₹ 26,50,000 including Additional Reserve of ₹ 3,25,000. Additional Reserve has to be maintained at 5% of the net premium of the year.

(November, 2002)

Answer

In exercise of the powers conferred by Section 114A of the Insurance Act, 1938 (4 of 1938), the Insurance Regulatory and Development Authority in consultation with the Insurance Advisory Committee prescribed the new formats for the financial statements of Insurance Companies i.e. preparation of Financial Statements and Auditor's Report of Insurance Companies Regulations, 2000. Therefore, the above revenue account can be prepared as:

**Form B – RA (Prescribed by IRDA)
Revenue Account for the year ended 31st March, 2011
Marine Insurance Business**

	<i>Schedule</i>	<i>Current Year</i>	<i>Previous Year</i>
		₹	₹
Premiums earned (net)	1	25,21,750	
Interest, Dividends and Rent – Gross		1,15,500	
Double Income Tax refund		12,000	
Profit on sale of motor car		<u>5,000</u>	
Total (A)		<u>26,54,250</u>	
Claims incurred (net)	2	17,81,000	
Commission	3	1,47,000	
Operating expenses related to Insurance business	4	3,41,000	
Bad debts		5,000	
Indian and Foreign taxes		<u>2,40,000</u>	
Total (B)		<u>25,14,000</u>	
Profit from Marine Insurance business (A-B)		1,40,250	

Schedules forming part of Revenue Account

		<i>Current Year</i>	<i>Previous Year</i>
		₹	₹
Schedule –1			
Premium earned (net)			
Premiums from direct business written		28,27,000	

Less: Premium on reinsurance ceded	<u>2,62,000</u>
Total Premium earned (net)	25,65,000
Change in provision for unexpired risk (₹ 26,93,250 – ₹ 26,50,000)	<u>(43,250)</u>
Net Premium earned	<u>25,21,750</u>
Schedule – 2	
Claims incurred (net)	<u>17,81,000</u>
Schedule – 3	
Commission paid	
Direct	1,50,000
Add: Re-insurance accepted	11,000
Less: reinsurance ceded	<u>14,000</u>
	<u>1,47,000</u>
Schedule – 4	
Operating expenses related to insurance business	
Employees' remuneration and welfare benefits	2,60,000
Rent, Rates and Taxes	18,000
Printing and Stationery	23,000
Legal and Professional charges	<u>40,000</u>
	<u>3,41,000</u>

Working Notes:

1.	Total Premium Income	Direct	Re-insurance
		₹	₹
	Received	24,00,000	3,60,000
	Add: Receivable on 31 st March, 2011	<u>1,80,000</u>	<u>28,000</u>
		25,80,000	3,88,000
	Less: Receivable on 1 st April, .2010	<u>1,20,000</u>	<u>21,000</u>
		<u>24,60,000</u>	<u>3,67,000</u>

Total premium income 24,60,000 + 3,67,000 = 28,27,000

2.	Premium Paid	₹
	Paid	2,40,000
	Add: Payable on 31 st March, 2011	<u>42,000</u>

		2,82,000
	Less: Payable on 1 st April, 2010	<u>20,000</u>
		<u>2,62,000</u>
3.	Claims Paid	
	Direct Business	16,50,000
	Re-insurance	1,25,000
	Legal Expenses	<u>20,000</u>
		17,95,000
	Less: Re-insurance claims received	<u>1,00,000</u>
		<u>16,95,000</u>
4.	Claims outstanding as on 31st March, 2011	
	Direct	1,75,000
	Re-insurance	<u>22,000</u>
		1,97,000
	Less: Recoverable from Re-insurers on 31 st March, 2011	<u>12,000</u>
		<u>1,85,000</u>
5.	Claims outstanding as on 1st April, 2010	
	Direct	95,000
	Re-insurance	<u>13,000</u>
		1,08,000
	Less: Recoverable from Re-insurers on 1 st April, 2010	<u>9,000</u>
		<u>99,000</u>
6.	Expenses of Management	
	Salaries	2,60,000
	Rent, Rates and taxes	18,000
	Printing and Stationery	23,000
	Legal Expenses	<u>40,000</u>
		<u>3,41,000</u>

Question 8

X Fire Insurance Co. Ltd. commenced its business on 1.4.2010. It submits you the following information for the year ended 31.3.2011:

	₹
Premiums received	15,00,000
Re-insurance premiums paid	1,00,000
Claims paid	7,00,000
Expenses of Management	3,00,000

Commission paid	50,000
Claims outstanding on 31.3.2011	1,00,000
Create reserve for unexpired risk @40%	
Prepare Revenue account for the year ended 31.3.2011.	

(May, 2000)**Answer****Form B – RA (Prescribed by IRDA)****Name of the Insurer:** X Fire Insurance Co. Ltd.**Registration No. and Date of registration with the IRDA:****Revenue Account for the year ended 31st March, 2011**

	Particulars	Schedule	Current year ended on 31 st March, 2011
			₹
1.	Premiums earned (Net)	1	14,00,000
2.	Change in provision for unexpired risk (NIL–5,60,000)	2	<u>(5,60,000)</u>
	Total (A)		<u>8,40,000</u>
1.	Claims incurred (Net)	3	8,00,000
2.	Commission		50,000
3.	Operating Expenses	4	<u>3,00,000</u>
	Total (B)		<u>11,50,000</u>
	Operating Profit/(Loss) from Fire Insurance Business [C = (A – B)]		(3,10,000)

Schedule 1**Premiums earned (Net)**

	₹
Premium received	15,00,000
Less: Premium on re-insurance paid	<u>1,00,000</u>
	<u>14,00,000</u>

Schedule 2

Reserve for unexpired risk @ 40% on net premium

$$₹ 14,00,000 \times \frac{40}{100} = ₹ 5,60,000$$

Schedule 3**Claims**

	₹
Claims paid	7,00,000
Add: Claims outstanding on 31.3.2011	1,00,000
	8,00,000

Schedule 4**Operating expenses**

	₹
Expenses of Management	3,00,000

Question 9

Prepare the Fire Insurance Revenue A/c as per IRDA regulations for the year ended 31st March, 2011 from the following details:

	₹
Claims paid	4,90,000
Legal expenses regarding claims	10,000
Premiums received	13,00,000
Re-insurance premium paid	1,00,000
Commission	3,00,000
Expenses of management	2,00,000
Provision against unexpired risk on 1 st April, 2010	5,50,000
Claims unpaid on 1 st April, 2010	50,000
Claims unpaid on 31 st March, 2011	80,000

(May, 2008)

Answer**FORM B - RA**

Name of the Insurer:

Registration No. and Date of Registration with the IRDA:

Fire Insurance Revenue Account for the year ended 31st March, 2011

	Particulars	Schedule	Amount (₹)
(1)	Premium earned	1	11,50,000
(2)	Other income		-

(3)	Interest, dividend and rent		<u>-</u>
	Total (A)		<u>11,50,000</u>
(4)	Claims incurred	2	5,30,000
(5)	Commission	3	3,00,000
(6)	Operating expenses related to Insurance business	4	<u>2,00,000</u>
	Total (B)		<u>10,30,000</u>
	Operating Profit (A)- (B)		<u>1,20,000</u>

Schedule 1 : Premium earned (net)	₹
Premium received	13,00,000
Less: Re-insurance premium	<u>1,00,000</u>
Net premium	12,00,000
Adjustment for change in reserve for unexpired risks (Refer W.N.)	<u>50,000</u>
	<u>11,50,000</u>
Schedule 2 : Claims Incurred	₹
Claims paid including legal expenses (4,90,000 + 10,000)	5,00,000
Add : Claims outstanding at the end of the year	80,000
Less : Claims outstanding at the beginning of the year	<u>(50,000)</u>
Total claims incurred	<u>5,30,000</u>
Schedule 3 : Commission	₹
Commission paid	<u>3,00,000</u>
	<u>3,00,000</u>
Schedule 4: Operating expenses	₹
Expenses of management	<u>2,00,000</u>
	<u>2,00,000</u>

Working Note:

Change in the provision for unexpired risk	₹
Unexpired risk reserve on 31 st March, 2011 =50% of net premium i.e. 50% of ₹ 12,00,000 (See Schedule 1)	6,00,000
Less : Unexpired risk reserve as on 1 st April 2010	<u>5,50,000</u>
Change in the provision for unexpired risk	<u>50,000</u>

Question 10

Sunlife General Insurance Company submits the following information for the year ended 31st March 2010:

<i>Particulars</i>	<i>Direct Business</i> ₹	<i>Reinsurance</i> ₹
<i>Premium received</i>	65,75,000	9,50,000
<i>Premium paid</i>	---	4,75,000
<i>Claims paid during the year</i>	42,50,000	5,00,000
<i>Claims payable</i> 1 st April, 2009	6,25,000	87,000
31 st March, 2010	7,18,000	60,000
<i>Claims received</i>	---	3,25,000
<i>Claims receivable</i> 1 st April, 2009		65,000
31 st March, 2010		1,10,000
<i>Expenses of management</i>	2,30,000	
<i>Commission</i>		
<i>On insurance accepted</i>	1,50,000	11,000
<i>On insurance ceded</i>		14,000

The following additional information is also available:

- (1) Expenses of management include ₹ 35,000 surveyor's fee and ₹ 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 1.4.09 was ₹ 24,50,000.*

You are required to prepare the Revenue Account for the year ended 31st March, 2010.

(November, 2010)

Answer

Form B-RA (Prescribed by IRDA)

Sunlife General Insurance Company

Revenue Account for the year ended 31st March, 2010

<i>Particulars</i>	<i>Schedule</i>	<i>Amount (₹)</i>
Premium earned (net)	1	66,80,000
Interest, dividend and rent		--
Other income		_____

Total (A)		<u>66,80,000</u>
Claims incurred (Net)	2	45,26,000
Commission	3	1,47,000
Operating expenses related to insurance business	4	1,50,000
Bad debts		-
Total (B)		<u>48,23,000</u>
Operating profit from insurance business (A-B)		<u>18,57,000</u>

Schedules forming part of revenue account**Schedule 1 : Premium Earned (Net)**

<i>Particulars</i>	<i>₹</i>
Premium from direct business	65,75,000
Add: Premium on reinsurance accepted	9,50,000
Less: Premium on reinsurance ceded	<u>(4,75,000)</u>
Net premium	70,50,000
Adjustment for change in reserve for unexpired risks (W.N.2)	<u>(3,70,000)</u>
Total premium earned (net)	<u>66,80,000</u>

Schedule 2 : Claims Incurred (Net)

<i>Particulars</i>	<i>₹</i>
Claims paid on direct business (W.N.1)	43,30,000
Add: Re-insurance accepted (W.N.1)	4,73,000
Less: Re-insurance ceded (W.N.1)	<u>(3,70,000)</u>
Net claims paid	44,33,000
Add: Claims outstanding at the end of the year	7,18,000
Less: Claims outstanding at the beginning of the year	<u>(6,25,000)</u>
Total claims incurred	<u>45,26,000</u>

Schedule 3 : Commission

<i>Particulars</i>	<i>₹</i>
Commission paid on direct business	1,50,000
Add: Commission on reinsurance accepted	11,000
Less: Commission on reinsurance ceded	<u>(14,000)</u>
	<u>1,47,000</u>

Schedule 4 : Operating Expenses related to Insurance Business

Particulars	₹
Expenses of management (2,30,000 – 35,000 – 45,000)	<u>1,50,000</u>
	<u>1,50,000</u>

Working Notes:

1. Claims incurred

Particulars	Direct business (₹)	Re-insurance accepted (₹)	Re-insurance ceded (₹)
Paid/received	42,50,000	5,00,000	3,25,000
Add: Outstanding at the end of the year		60,000	1,10,000
Expenses in connection with settlement of claim (35,000 + 45,000)	80,000		
Less: Outstanding at the beginning of the year		(87,000)	(65,000)
	<u>43,30,000</u>	<u>4,73,000</u>	<u>3,70,000</u>

2. Change in reserve for unexpired risk

	₹
Opening reserve as on 31 st March, 2009	24,50,000
Less: Closing reserve as on 31 st March, 2010 (₹ 70,50,000 x 40%)	<u>(28,20,000)</u>
	<u>(3,70,000)</u>

Question 11

On 31st March, 2011 the books of Zee Insurance Company Limited, contained the following particulars in respect of fire insurance:

Particulars	Amount (₹)
Reserve for unexpired risks on March 31, 2010	5,00,000
Additional reserve for unexpired risks on March 31, 2010	1,00,000
Premiums	11,20,000
Claims paid	6,40,000
Estimated liability in respect of outstanding claims:	
On March 31, 2010	65,000
On March 31, 2011	90,000

Expenses of management (including ₹ 30,000 legal expenses paid in connection with the claims)	2,80,000
Interest and dividend	64,250
Income tax on the above	6,520
Profit on sale of investment	11,000
Commission paid	1,52,000

On 31st March, 2011 provide ₹ 5,60,000 as unexpired risk reserve and ₹ 75,000 as Additional reserve.

You are required to prepare the Fire Insurance Revenue account as per the regulations of IRDA, for the year ended 31st March, 2011. **(November, 2009)**

Answer**FORM B- RA**

Name of the Insurer: Zee Insurance Company Limited

Registration No. and Date of registration with IRDA:

Revenue Account for the year ended 31st March, 2011

Particulars	Schedule	Amount (₹)
Premium earned (net)	1	10,85,000
Profit or loss on sale/redemption of investment		11,000
Others		—
Interest, dividend & rent (gross)		64,250
Total (A)		11,60,250
Claims incurred (Net)	2	6,95,000
Commission	3	1,52,000
Operating expenses related to insurance	4	2,50,000
Total (B)		10,97,000
Operating profit/loss from insurance business (B) – (A)		63,250

Schedule –1 Premium earned (net)

	₹
Premium received	11,20,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	35,000
Total premium earned	10,85,000

Schedule -2 Claims incurred (net)

	₹
Claims paid	6,40,000
Add: Legal expenses regarding claims	30,000
	6,70,000
Add: Claims outstanding as on 31 st March, 2011	90,000
	7,60,000
Less: Claims outstanding as on 31 st March, 2010	65,000
	6,95,000

Schedule -3 Commission

	₹
Commission paid	1,52,000
Schedule-4 Operating expenses related to Insurance Business	
Expenses of management (₹ 2,80,000 – ₹ 30,000)	2,50,000

Working Note:**Calculation for change in Reserve for Unexpired risk:**

		₹
Reserve for Unexpired Risk as on 31 st March, 2011	5,60,000	
Additional Reserve as on 31 st March, 2011	75,000	6,35,000
Less: Reserve for Unexpired Risk as on 31 st March, 2010	5,00,000	
Additional Reserve as on 31 st March, 2010	1,00,000	(6,00,000)
		35,000

Note: Interest and dividends are shown at gross value in Revenue account. Income tax on it will not be included in the Revenue account as it is the part of Profit and Loss account of an insurance company.

Question 12

From the following information furnished to you by Ayushman Insurance Co. Ltd., you are required to pass Journal entries relating to unexpired risk reserve and show in columnar form "Unexpired Risks Reserve Account" for 2009.

- (a) On 31.12.2008, it had reserve for unexpired risks amounting to ₹ 40 crores. It comprised of ₹ 15 crores in respect of marine insurance business, ₹ 20 crores in respect of fire insurance business and ₹ 5 crores in respect of miscellaneous insurance business.

- (b) *Ayushman Insurance Co. Ltd. creates 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.*
- (c) *During 2009, the following business was conducted:*

	Marine	₹ in crores	
		Fire	Miscellaneous
<i>Premium collected from:</i>			
(a) <i>Insured in respect of policies issued</i>	18.00	43.00	12.00
(b) <i>Other insurance companies in respect of risks undertaken</i>	7.00	5.00	4.00
<i>Premium paid/payable to other insurance companies on business ceded</i>	6.70	4.30	7.00

Answer
In the books of Ayushman Insurance Co. Ltd.
Journal Entries

Date	Particulars		₹ in crores	
			Dr.	Cr.
1.1.2009	Unexpired Risk Reserve (Fire) A/c	Dr.	20.00	
	Unexpired Risk Reserve (Marine) A/c	Dr.	15.00	
	Unexpired Risk Reserve (Miscellaneous) A/c	Dr.	5.00	
	To Fire Revenue Account			20.00
	To Marine Revenue Account			15.00
	To Miscellaneous Revenue Account			5.00
	(Being unexpired risk reserve brought forward from last year)			
31.12.2009	Marine Revenue A/c	Dr.	18.30	
	To Unexpired Risk Reserve A/c			18.30
	(Being closing reserve for unexpired risk created at 100% of net premium income amounting to ₹18.3 crores i.e.18+7-6.70)			
	Fire Revenue A/c	Dr.	21.85	
	To Unexpired Risk Reserve A/c			21.85
	(Being closing reserve for unexpired risk created at 50% of net premium income of ₹ 43.7 crores i.e.43+5-4.30)			

Miscellaneous Revenue A/c	Dr.	4.50	
To Unexpired Risk Reserve A/c			4.50
(Being closing reserve for unexpired risk created at 50% net premium income of ₹ 9 crores i.e. 12+4-7)			

Unexpired Risk Reserve Account

Date	Particulars	Marine (₹)	Fire (₹)	Misc. (₹)	Date	Particulars	Marine (₹)	Fire (₹)	Misc. (₹)
1.1.2009	To Revenue A/c	15.00	20.00	5.00	1.1.2009	By Balance b/d	15.00	20.00	5.00
31.12.2009	To Balance c/d	<u>18.30</u>	<u>21.85</u>	<u>4.50</u>	31.12.2009	By Revenue A/c	<u>18.30</u>	<u>21.85</u>	<u>4.50</u>
		<u>33.30</u>	<u>41.85</u>	<u>9.50</u>			<u>33.30</u>	<u>41.85</u>	<u>9.50</u>

Question 13

From the following information of Reliable Marine Insurance Ltd. for the year ending 31st March, 2010 find out the

- (i) Net premiums earned
- (ii) Net claims incurred

	(₹) <i>Direct Business</i>	(₹) <i>Re-insurance</i>
<i>Premium:</i>		
<i>Received</i>	88,00,000	7,52,000
<i>Receivable – 01.04.2009</i>	4,39,000	36,000
<i>Receivable – 31.03.2010</i>	3,77,000	32,000
<i>Paid</i>	6,09,000	
<i>Payable – 01.04.2009</i>		27,000
<i>Payable – 31.03.2010</i>		18,000
<i>Claims:</i>		
<i>Paid</i>	69,00,000	5,54,000
<i>Payable – 01.04.2009</i>	89,000	15,000
<i>Payable – 31.03.2010</i>	95,000	12,000
<i>Received</i>		2,01,000
<i>Receivable – 01.04.2009</i>		40,000
<i>Receivable – 31.03.2010</i>		38,000

(May, 2010)

Answer

(i) Net Premium earned

		₹
Premium from direct business received	88,00,000	
Add : Receivable as 31.03.2010	3,77,000	
Less : Receivable as on 01.04.2009	<u>(4,39,000)</u>	87,38,000
Add : Premium on re-insurance accepted	7,52,000	
Add : Receivable as on 31.03.2010	32,000	
Less : Receivable as on 01.04.2009	<u>(36,000)</u>	<u>7,48,000</u>
		94,86,000
Less : Premium on re-insurance ceded	6,09,000	
Add : Payable as on 31.03.2010	18,000	
Less : Payable as on 01.04.2009	<u>(27,000)</u>	<u>(6,00,000)</u>
Net Premium earned		<u>88,86,000</u>

(ii) Net Claims incurred

		₹
Claims paid on direct business		69,00,000
Add: Re-insurance	5,54,000	
Add: Outstanding as on 31.3.2010	12,000	
Less: Outstanding as on 1.4.2009	<u>(15,000)</u>	<u>5,51,000</u>
		74,51,000
Less : Claims received from re-insurance	2,01,000	
Add: Outstanding as on 31.3.2010	38,000	
Less: Outstanding as on 1.4.2009	<u>(40,000)</u>	<u>(1,99,000)</u>
		72,52,000
Add : Outstanding direct claims at the end of the year		<u>95,000</u>
		73,47,000
Less : Outstanding claims at the beginning of the year		<u>(89,000)</u>
Net claims incurred		<u>72,58,000</u>

EXERCISES

1. The following are the Balances of Hercules Insurance Co. Ltd. as on 31st March, 2011:

		(₹ in '000)
Capital		320,00
Balances of Funds as on 1.4.2010		
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 Balances (Dr.)		135,00
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	<u>30,00</u>	510,00
Foreign Taxes—Marine		8,00
Outstanding premium		82,00
Donation Paid (No 80G 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	<u>68,00</u>	876,90
Premium Less Re-insurance		
Fire	1762,50	

Marine	1022,50	
Miscellaneous	<u>262,25</u>	3047,25
Interest and Dividends Received on Investments	58,50	
Tax Deducted at Source	11,70	
Commission		
Fire	500,00	
Marine	350,00	
Miscellaneous	<u>80,00</u>	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 31.3.2011

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 31.3.2011 of the company.

(Hints: Profit from Insurance business -Fire ₹ 251,25, Marine ₹ 23,10, Misc. ₹ 129,27. Balance profit carried forward to Balance Sheet ₹ 202,96)