

UNIT – V

ACCOUNTS OF INSURANCE COMPANIES AND INSURANCE CLAIMS

Problems:

Life Insurance:

1. The following are the balances extracted from the books of New Bharat Life insurance co. Ltd., as on March 31st 2018. you are required to prepare its revenue account as on 31st March 2018.

	Rs. '000
Share capital of Rs. 10 paid up	250
Net liability in respect of life policies as on 31-3-2018	2250
Net liability in respect of life policies as on 31-3-2017	2000
Life fund as on 31-3-2017	2450
Premium less reinsurance	1380
Interest, dividend and rents	750
Commission	54
Surrenders	85
Surplus on revaluation of reversionaries	4
Reinsurance irrecoverable	1
Fines and fees	4
Income tax	118
Management expenses	175
Annuities paid	10
Claims less reinsurance claims	890
Considerations for annuities granted	45
Interim bonus paid	110

Transfer 20% of the surplus to shareholders

Allocate 10% of surplus to catastrophe reserve

Solution:

The New Bharat Life Insurance co. Ltd.

Revenue account for the year ending 31-3-2018

Particulars	Schedule No.	Amount (Rs. ' 000)
Premium earned (net)	1	1380
Income from investments		
Interest, Dividend and Rent		750
Other Income		
Surplus on revaluation of reversions		4
Fine and fees		4
Considerations for annuities granted		45
Total(A)		2183
Commission	2	54
Operating expenses related to insurance business	3	175
Reinsurance irrecoverable		1
Income tax		118
Total (B)		348
Benefits paid (net)	4	985
Interim bonus paid		110
Change in valuation of life policies:		
Net liability on 31-3-2018 : 2250		250
Net liability on 31-3-2017 : (2000)		
Total(C)		1345
Surplus D = A-B-C		490
Appropriations :		
Transfer to shareholders a/c (20% of 490)		98
Transfer to catastrophe reserve(10% of 490)		49
		<u>343</u>

Balance being funds for future appropriation		<u>490</u>
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Schedules forming part of financial statements:

Schedule 1 premium earned (net)

	Rs. '000
Premium less reinsurance	1380

Schedule 2 Commission

	Rs. '000
Commission	54

Schedule 3 Operating expenses related to insurance business

	Rs. '000
Management expenses	175

Schedule 4 Benefits paid (net)

	Rs. '000
Claims less reinsurance claims	890
Annuities paid	10
Surrenders	85
	985

2. Following trial balance was taken from the Bajaj life insurance corporation as on 31-3-2019.

	Debit (Rs.'000)	Credit (Rs.'000)
Life assurance fund as on 1 st April 2018		59,44,600
Claims by death and maturity	3,00,000	
Claims by Maturity	94,000	
Premium received		3,23,000

Commission paid	18,600	
Management expenses	64,600	
Consideration for annuities granted		25,000
Interest and dividend received		2,00,000
Income tax on Dividend and interest (gross)	5,000	
Fines		400
Surrenders	27,000	
Annuities	4,000	
Bonus paid in cash	64,000	
Bonus in redemption of premium	12,000	
Claims outstanding		3,000
Outstanding annuities		2,000
Agents balances	18,600	
Freehold premises	80,000	
Investments	46,10,000	
Loans on company policies	3,47,200	
Capital: 2,00,000 shares of Rs.10 each		2,00,000
Cash on deposits	54,000	
Cash in hand and current account	14,600	
Mortgages in India	9,84,400	
	66,98,000	66,98,000

Prepare a revenue account and balance sheet as on 31st March 2019 after taking into consideration the following information:

(Rs. '000)

Claims admitted but not paid 18,000

Management expenses due	400
Interest accrued	18,600
Premium outstanding	20,000
Bonus utilised in reduction of premium	4,000
Claims covered under reinsurance	4,600

Solution:

Form A- RA

Revenue account of Bajaj Life Insurance Co.Ltd. For the year ended 31-3-2019

Particulars	Schedule No.	Amount (Rs. '000)
Premium earned (Net)	1	3,47,000
Income from Investments Interest, Dividend and rents (gross)		2,38,600
Other Income Consideration for annuities granted Fees		25,000 400
Total (A)		6,11,000
Commission	2	18,600
Operating expenses related to insurance business	3	65,000
Total (B)		83,600
Benefits Paid(Net)	4	5,18,400
Total (C)		5,18,400
Surplus (D) = (A)-(B)-(C)		9,000

Form A- BS

Balance sheet as on 31-3-2019

Particulars	Schedule No.	Amount (Rs. '000)
<u>Sources of funds</u>		
Share capital	5	2,00,000
Reserves and surplus	6	59,53,600

Borrowings	7	-
Total		61,53,600
<u>Application of funds</u>		
Investments	8	46,10,000
Loans	9	13,31,600
Fixed Assets	10	80,000
<u>Current Assets:</u>		
Cash and bank balance	68,600	11
Advances and other assets	<u>86,800</u>	12
Sub Total (A)	<u>1,55,400</u>	
Current liabilities	23,400	13
Provisions	-	14
Subtotal (B)	<u>23,400</u>	
Net current Assets (C)= (A)-(B)		1,32,000
Miscellaneous Expenditure	15	-
Total		61,53,600

Schedules forming part of financial statements

Schedule 1- Premium Earned		Amount (Rs.'000)
Premium	3,23,000	
Add: outstanding	20,000	
	3,43,000	
Add: bonus utilised in reduction of the premium	4,000	3,47,000

Schedule 2- Commission		Amount (Rs.'000)
Commission Paid	18,600	18,600

Schedule 3- Operating expenses related to insurance business		Amount (Rs.'000)
Expenses of Management	64,600	
Add: outstanding management exp.	400	65,000

Schedule 4- Benefits Paid		Amount (Rs.'000)
Claims by death	3,00,000	
Claims by Maturity	94,000	
Add: claims admitted but not paid	18,000	
	4,12,000	
Surrenders	27,000	
Annuities	4,000	
Bonus paid in cash	64,000	
Bonus in reduction of premium utilised	12,000	
Further bonus in reduction of premium	4,000	
	5,23,000	
Less: claims covered under reinsurance	(4,600)	5,18,400

Schedule 5- Share capital		Amount (Rs.'000)
2,00,000 shares of Rs. 10 each		2,00,000

Schedule 6- Reserves and surplus		Amount (Rs.'000)
Balance of life assurance fund	59,44,600	
Add: Surplus	9,000	59,53,600

Schedule 8- Investments		Amount (Rs.'000)
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Investments		46,10,000
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Schedule 9- Loans		Amount (Rs.'000)
Loans on company policies	3,47,200	
Mortgages in India	9,84,400	13,31,600

Schedule 10- Fixed Assets		Amount (Rs.'000)
Freehold premises		80,000

Schedule 11- Cash & Bank Balances		Amount (Rs.'000)
Cash in hand and current account	14,000	
Cash on deposits	54,000	68,600

Schedule 12- Advances and other assets		Amount (Rs.'000)
Interest accrued	38,600	
Agents balances	18,600	
Income tax on Interest and dividend	5,000	
Premium outstanding	20,000	
Claims covered under reinsurance	4,600	86,800

Schedule 13- Current liabilities		Amount (Rs.'000)
Claims unpaid	3,000	
Outstanding annuities	2,000	
Outstanding management expenses	400	
Claims admitted but not paid	18,000	23,400

3. From the following information you are required to calculate the claims to be debited to revenue account for the year ended 31st March 2019

Claims intimated in	2018	2019	2017	2017	2019	2019
Claims admitted in	2018	2019	2018	2018	2020	2019
Claims paid in	2019	2020	2018	2019	2020	2019
Amount (Rs.)	10,000	8,000	3,500	8,000	4,000	54,000

Solution:

Outstanding claims as on 31st March 2019:

All the claims paid after 2019 should be taken as outstanding claims i .e.=
 $8,000+4,000=12,000$

Claims charged to revenue account for the year 2019:

All claims intimated in 2019 should be charged to revenue account =
 $8,000+4,000+54,000=66,000$

General Insurance:

1. From the following particulars prepare Revenue account of ABC Fire insurance ltd.

Net premium earned	Rs. 2,40,000
Claims Paid	Rs. 1,00,000
Commission	Rs. 25,000
Operating expenses related to fire insurance business	Rs. 40,000
Refund of double taxation	Rs. 5,000
Interest, Dividend and Rent (gross)	Rs.
15,000	
Income tax on the above	Rs. 5,000

Solution:

Particulars	Schedule No.	Amount (Rs.)
Premium Earned	1	2,40,000
Profit/loss on		-

sale/redemption of investments		
Interest, dividend and Investments		15,000
Refund of double taxation		5,000
Total (A)		2,60,000
Claims incurred	2	1,00,000
Commission	3	25,000
Operating Expenses	4	40,000
Total (B)		1,65,000
Operating Profit/Loss(A-B)		95,000

1. From the following, prepare Schedule 1 Premium earned for a fire insurance company.

Premium received	3,00,000
Premium outstanding at the beginning of the year	25,000
Premium outstanding at the end of the year	37,500
Premium on reinsurance accepted	12,500
Premium on reinsurance ceded	5,000
Reserve for unexpired risk at the beginning of the year	1,25,000
Additional reserve at the beginning of the year	25,000

Additional reserve for unexpired risk @1%of the net premium in addition to opening balance is to be provided

Solution:

Particulars	Rs.	Rs.	Rs.
Premium received			3,00,000
Less: premium outstanding at the beginning of the year			(25,000)
Add: premium outstanding at the end of the year			37,500
Add: premium on reinsurance accepted			12,500
Less: Premium on reinsurance ceded			(5,000)
Net Premium			3,20,000
Less: Adjustment for			

change in reserve for unexpired risk			
Reserve for unexpired risk (50% of net premium)	1,60,000		
Additional reserve including 1% of net premium(25000+3200)	28200		
		188,200	
Less: Reserve for unexpired risk at the beginning of the year including additional reserve(1,25,000+25,000)		(1,50,000)	
			(38,200)
Premium earned			2,81,800

2. From the following information prepare Schedule 2 – Claims.

Particulars	Rs.
Claims paid during the year	6,20,000
Claims outstanding at the beginning of the year	20,000
Claims outstanding at the end of the year	60,000
Legal expenses relating to claims	5,000
Medical Expenses relating to claims	10,000
Claims on reinsurance ceded	15,000
Claims on reinsurance accepted	25,000

Solution:

Particulars	Rs.
Claims Paid	6,20,000
Add: Claims outstanding at the end of the year	60,000
Less: Claims outstanding at the beginning of the year	(20,000)
Add: Claims on reinsurance accepted	25,000
Less: claims on reinsurance ceded	(15,000)
Add: Expenses related to claims	
Legal expenses	5,000
Medical expenses	10,000
	6,85,000

3. From the following information prepare schedule 3 – commission

Commission paid	1,50,000
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Commission on reinsurance accepted	20,000
Commission on reinsurance ceded	12,000
Commission outstanding at the beginning	8000
Commission outstanding at the end	16,000

Solution:

Commission paid	1,50,000
Add: commission outstanding at the end	16,000
Less: Commission at the beginning	(8,000)
Add: Commission on reinsurance accepted	20,000
Less: Commission on reinsurance ceded	(12,000)
	1,66,000

4. From the following information prepare schedule 4 operating expenses

Particulars	Rs.
Salaries	25,000
Managerial remuneration	15,000
Rent, rates and taxes	6,000
Medical expenses	4,000
Legal expenses	5,000
Depreciation on fixed assets	2,000
Dividend paid	6,000
Commission paid to agents	2,000

Solution:

Particulars	Rs.
Salaries	25,000
Managerial remuneration	15,000
Rent, rates and taxes	6,000
Medical expenses	4,000
Legal expenses	5,000
Depreciation on fixed assets	2,000
	57,000

5. Prepare a revenue account in respect of fire Business from the following details for the year ended 2016-17.

	Rs.
Reserve for unexpired risk on 1-4-2016@50%	1,80,000
Additional reserve	36,000

Estimated liability for claims intimated on 1-4-2016	31,000
On 31-3-2017	42,000
Claims paid	3,65,000
Legal expenses	6,000
Medical expenses	4,000
Reinsurance recoveries	32,000
Premium recovered	4,86,000
Premium on reinsurance accepted	32,000
Premium on reinsurance ceded	43,000
Commission on direct business	48,600
Commission on reinsurance accepted	1,600
Commission on reinsurance ceded	2,150
Expenses of management	90,000
Interest, Dividend and rent	24,000
Profit on sale of investments	3,000
Bad debts	800

Create reserve on 31st March 2017 to the same extent as on 1-4-2016.

Solution:

Revenue account for the year ended 31-3-2017

Particulars	Schedule No.	Amount (rs.)
Premium earned	1	4,06,000
Profit on sale of investments		3,000
Interest, Dividend and Rent		24,000
Total (A)		4,33,000
Claims Incurred	2	3,44,000
Commission	3	48,050
Operating expenses related to insurance business	4	1,00,800
Total (B)		4,92,850
Operating Profit (A-B)		59,850

Working Notes:

Schedule -1 : Premium Earned (net)

Premium recovered		4,86,000
Add: Premium received on reinsurance accepted		32,000
Less: Premium on reinsurance ceded		(43,000)
Net premium		4,75,000
Less: Adjustment for changes in reserve for unexpired risk		
(a) Reserve for unexpired risk 50% of net premium	2,37,500	

(b) Additional reserve 20% of 2,37,500	47,500		
		2,85,000	
Less: Reserve for unexpired risk at the beginning of the year including additional reserve(1,80,000+36,000)		(2,16,000)	
			(69,000)
			4,06,000

Schedule 2 – Claims Incurred (Net)

Claims paid	3,65,000
Less: Reinsurance Claim	(32,000)
Add: Outstanding at the end of the year	42,000
Less: Outstanding at the beginning of the year	(31,000)
	3,44,000

Schedule 3 – Commission

Commission paid on direct business	48,600
Add: commission on reinsurance accepted	1600
Less: Commission on reinsurance ceded	(2150)
	48,050

Schedule – 4 Operating expenses related to insurance business

Management expenses	90,000
Legal charges	6,000
Medical expenses	4,000
Bad debts	800
	1,00,800

6. From the following balances as at March 31st 2017 in the books of General Insurance Co. Ltd., Prepare a Revenue account in respect of fire insurance business carried on by them:

Claims paid	4,80,000
Claims outstanding on 1-4-2016	40,000
Claims intimated and accepted but not paid on 31-3-2017	70,000
Premium received	12,12,000
Reinsurance premium paid	1,20,000

Commission	2,00,000
Commission on reinsurance ceded	8,000
Reserve for unexpired risks on 1-4-2016	4,00,000
Additional reserve for unexpired risks on 1-4-2016	20,000
Commission on reinsurance accepted	4,000
Expenses of management	3,14,000
Reinsurance recoveries of claims	8,000
Survey expenses regarding claims	5,000
Loss on sale of motor car	3,500
Bad debts	2,500
Refund of double taxation	4,500
Interest and dividends	8,000
Income tax deduction thereon	1,500
Legal expenses regarding claims	4,000
Profit on sale of investments	3,500
Rent of staff quarters deducted from salaries	2,400
Depreciation on furniture	4,600

You are required to provide for additional reserve for unexpired risk at 1% on the net premium in addition to the opening balance of additional reserve.

Solution:

General Insurance co. ltd. Fire Revenue account for the year ending 31-3-2017

Particulars	Schedule No.	Amount Rs.
Premium earned (net)	1	9,35,080
Profit on sale of investments		3,500
Refund of double taxation		4,500
Rent of staff quarters		2,400
Interest and dividend(gross)		8,000
Total (A)		9,53,480
Claims incurred	2	5,11,000
Commission	3	1,96,000
Operating expenses relating to insurance business	4	3,24,600
Total (B)		10,31,600
Operating Loss from Fire business(A-B)		78,120

Working Notes:

Schedule 1 Premium earned

Premium received			12,12,000
Less: reinsurance premium received			(1,20,000)
			10,92,000
Less: Adjustment for change in reserve for unexpired risk:			
Reserve for unexpired risk (50% of net premium)	5,46,000		
Additional reserve including 1% of net premium(20,000+10,920)	30,920		
		5,76,920	
Less: Reserve for unexpired risk at the beginning of the year including additional reserve(4,00,000+20,000)		(4,20,000)	
			(1,56,920)
Premium earned (net)			9,35,080

Schedule 2 Claims incurred

Claims paid	4,80,000
Add: expenses related to insurance business(5,000+4,000)	9,000
Less: reinsurance recoveries	(8,000)
Add: claims outstanding at the end of the year	70,000
Less: claims at the beginning of the year	40,000
	5,11,000

Schedule 3 – Commission

Commission paid	2,00,000
Add: Commission on reinsurance accepted	4,000
Less: Commission on reinsurance ceded	(8,000)
	1,96,000

Schedule 4 – Operating expenses related to insurance business

Expenses of management	3,14,000
Bad debts	2,500

Loss on sale of motor car	3,500
Depreciation on furniture	4,600
	3,24,600

Insurance Claims:

1. There was a fire in the godown of sparks & fog Ltd., on 1-7-2019, stock salvaged was Rs.32,000. The goods were insured and fully covered:

a. Gross profit is 20% of sales

b. Stock was valued at 10% above the cost

c. Purchases till date of fire were Rs. 2,50,000 and sales amounted to Rs. 5,00,000 for the first 6 months. Stock on 1-1-2019 amounted to Rs.1,35,000. wages amounted to Rs. 1,00,000. find out the cost of stock burnt.

Solution:

Sparks & Fog Ltd.

Memorandum trading account till date of fire 1-7-2019

Dr

Cr

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To opening stock	1,35,000	By sales	5,00,000
To purchases	2,50,000	By closing stock (Bal. Fig.)	85,000
To wages	1,00,000		
To gross profit c/d(5,00,000@20%)	1,00,000		
	5,85,000		5,85,000

Computation of amount of claim from the insurance company:

Closing stock	Rs.85,000
(-) stock salvaged	<u>Rs.32,000</u>
Claim amount	<u>Rs.53,000</u>

2. The godown of Indigo ltd., caught fire on 20th July 2018. Information from the records saved were as follows.

	Amount (Rs.)		Amount (Rs.)
Stock at cost on 1-1-2017	80,000	Purchases less returns (1-1-2018 to 20-7-2018)	1,80,000
Stock at cost on 1-1-2018	1,00,000	Sales till date of fire	3,26,000
Purchases less returns (2017)	3,08,000	Sales till date of fire	15,400
For the year 2017			
Wages	40,000		
Sales	4,00,000		

Gross profit remained at uniform level, the stock salvaged was Rs.7,500 and was retained by the company. The godown was insured, show the amount of claim.

Solution:

Trading account for the year ended 31-12-2017

Dr

Cr

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To opening stock	80,000	By sales	4,00,000
To purchases	3,08,000	By closing stock (Bal.Fig)	1,00,000
To wages	40,000		
To gross profit c/d	72,000		
	5,00,000		5,00,000

Indigo Ltd., memorandum trading account up to 20-7-2018

Dr

Cr

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To opening stock	1,00,000	By sales	3,26,000
To Purchases	1,80,000	By closing stock (bal.fig)	28,080
To wages	15,400		
To gross profit c/d @ 18% on sales	58,680		
	3,54,080		3,54,080

Working notes:

Calculation of rate of gross profit:

When sales were Rs 4,00,000 in 2017, the gross profit was Rs.72,000

To calculate the percentage of gross profit:

Assume sales as 100. therefore, the gross profit rate will be $72000/4,00,000 \times 100 = 18\%$

Amount to be claimed:

Closing stock	Rs.28,080
(-) Stock salvaged	<u>Rs. 7,500</u>
Claim amount	<u>Rs. 20,580</u>