

## INSURANCE COMPANY

- i) Financial statements of insurance company are prepared in accordance with insurance company regulatory and development authority Act 1951.
- ii) Financial statement consist of 15 schedule divided into following three parts:- a) revenue ( Schedule 1 to 4), b) Profit & loss account ( No Schedule) c) Balance Sheet (5 to 15 Schedules)
- iii) According to IRDA Act General Insurance have been divided into following three parts"- a) Fire, b) MARINE & d) Other.  
Revenue Account is prepared separately for all the three types of general Insurance where as profit/loss and Balance sheet is made common for entire organization.
- iv) Format of revenue account is as shown below:-

Revenue Account for the year ended \_\_\_\_\_

PARTICULARS	<u>FIRE</u>		<u>MARINE</u>		<u>OTHER INSURANCE</u>	
	C.Y.	P.Y.	C.Y.	P.Y.	C.Y.	P.Y.
<b>A) INCOME</b>						
Net premium earned		1				
Other income		x				
Changes in provision for unexpired Risk		x				
Interest, Dividend, rent		x				
<b>Total of A</b>						
<b>B) Expenditure</b>						
Claim Incurred		2				
Commission		3				
Operating Exp.		4				
<b>Total of B</b>						

v) Other income includes small income like share transfer fee, Bad debt Recovery. Minimum provision in case of fire/others for unexpired risk, will be 50% of net premium earned but in case of marine insurance it will be 100%.

Example:- From the following details of MA Ltd a fire insurance co. compute net premium earned, changes in provisions of unexpired risk( PFUR). Show journals relating to P.F.U.R.

Opening P.F.U.R. Rs 50 lakh.

<u>PARTICULARS</u>	<u>DIRECT BUSINESS</u>	<u>Re Insurance</u>
Premium Received	110	60
Opening Outstanding	10	5
Closing Outstanding	20	10
Premium Paid	---	20
Opening Outstanding	---	5
Closing Outstanding	---	1

Solution:-

- a) Direct Business (110-10+20) = 120      Change in P.F.U.R.
- b) Re insurance Accepted ( 60-5+10) = 65      Op. P.F.U.R.      50 lacs
- c) Re insurance      (20-5+10) = (25)      -- Cl. P.F.U.R.      (80) Lacs

Net Premium Earned    160      (160\*50/100)    (30)lacs

Journal Entries:- a) Opening P.F.U.R. written Back

P.F.U.R. A/c Dr	50
To Revenue (fire) A/C	50

b) Closing P.F.U.R. Created:-

Revenue ( Fire) A/C Dr	80
To P.F.U.R. A/c	80

- vi) Surveyor's Expenses and that part of legal expenses which are incurred for settlement of claimer recorded in schedule 2 remaining legalexpenses not related to claim recorded in schedule 4.
- vii) Those income and expenses which cannot be separately identify are recorded in profit & loss account. However if insurance company provides only one type of general insurance then it will be recorded account only.

Note:- claims, commission premium in case of re- insurance accepted are added and are deducted when ceded.