

CHAPTER 13: INSURANCE COMPANY FINAL ACCOUNTS

Q.1. From the following balances as at 31.3.2002 of General Insurance Co. Ltd prepare a Revenue Account in respect of Fire Insurance business carried on by them.

Particulars	Rs.
Claims	4,80,000
Claims Outstanding on April 1, 2002	40,000
Claims intimated and accepted but not paid on March 31, 2002	70,000
Premium Received	12,00,000
Re-insurance Premium Paid	1,20,000
Commission	2,00,000
Commission on re-insurance ceded	8,000
Commission on re-insurance accepted	4,000
Expenses of Management	3,02,000
Provision for unexpired risk on April 1	4,00,000
Additional provision for unexpired risk on April 1	20,600
Re-insurance recoveries of claims	8,000
Survey expenses regarding claims	5,000
Loss on sale of Motor Car	3,500
Bad debts	2,500
Interest on Income Tax Refund	4,500
Interest and Dividends	8,000
Income tax deducted 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 of Furniture	4,600

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

Q.2. From the following information as on 31st March 2003, prepare the Revenue Account of the Indian Marine Insurance Company Ltd.

Particulars	Direct Business	Reinsurance
I. Premium:		
Received	46,00,000	7,20,000
Receivable - 1 st April	2,48,000	27,000
- 31 st March	3,36,000	34,000
Paid		4,60,000
Payable - 1 st April		37,000
- 31 st March		62,000
II. Claims:		
Paid	23,50,000	3,00,000
Payable - 1 st April	1,66,000	39,000

- 31 st March	2,08,000	44,000
Received		1,70,000
Receivable - 1 st April		16,000
- 31 st March		23,000
III. Commission:		
On Insurance accepted		
On Re-insurance ceded	2,20,000	19,000
		26,000

IV. Other Expenses and Income:

Salaries – Rs.3,20,000, Rent Rates and Taxes Rs.29,000, Postage and Telegrams Rs.43,000, Indian Income Tax paid Rs.4,40,000, Interest, Dividend and Rent Received (net) Rs.1,37,500, Income Tax deducted at Source Rs.40,250, Legal Expenses (inclusive of Rs.40,000 in connection with settlement of claims) Rs.72,000.

V. Balance of Fund on 1st April, Rs.38,45,000 including Additional Reserve of Rs.4,45,000. Additional Reserve has to be maintained at 5% of the net premium of the year.

Q.3. From the following balances of Integrated Indian Insurance Company Ltd. prepare the necessary Revenue Accounts and the Profit and Loss Account in respect of the year 2002-03.

Particulars	Rs.	Particulars	Rs.
Bad debts (Fire)	5,000	Interest, Dividends etc. recd.	19,000
Bad debts (Marine)	10,000	Difference in Exchange (Cr.)	300
Auditors Fees	2,000	Profit on Sale of Land	60,000
Directors Fees	4,200	Fire Premium Less reinsurance	6,00,000
Share Transfer Fees	400	Marine premium less insurance	10,80,000
Miscellaneous Income	1,600	<u>Management Expenses:</u>	
Fire Fund (1.4.2002)	2,50,000	Fire	1,45,000
Marine Fund (1.4.2002)	8,20,000	Marine	4,02,000
Claims Paid (Fire)	1,40,000	Claims Outstanding on 1.4.02(Fire)	50,000
Claims Paid (Marine)	3,00,00	Claims Outstanding on 1.4.02(Marine)	60,000
Commission Paid (Fire)	90,000	<u>Commission earned on reinsurance</u>	
Commission Paid (Marine)	1,08,000	<u>ceded:</u>	
Additional Reserve on 1.4.2002 (Fire)	50,000	Fire	30,000
Depreciation.	35,000	Marine	60,000

- The normal reserve required is 50% of net premium for fire and 100% of net premium, for marine. In addition, for fire 15% of the net premium is to be provided as additional reserve
- The estimated liability in respect of outstanding claims due and intimated on 31.3. 2003 was as under:

Fire	1,00,000	Marine	1,40,000
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- The Management expenses stated above are the direct expenses for the respective departments. In addition common expenses of Rs.20,000 were incurred which must be charged to each of departments on a suitable basis.
- The following reinsurance premium in respect of business accepted and ceded respectively have not been included in the above figures.

Particulars	Reinsurance accepted	Reinsurance ceded
Fire	25,000	20,000

Marine	60,000	45,000
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Q.4. The following figures are extracted from the books of Z Insurance Co. Ltd as at 31.3.2003:

	Rs. in lakhs
<u>Claims paid less re-insurance:</u>	
Fire	80,000
Marine	62,000
General Reserve	1,18,000
<u>Commission Paid:</u>	
Fire	48,000
Marine	39,000
Share Capital (20,000 shares of Rs.100 each)	20,00,000
<u>Expenses of Management:</u>	
Fire	53,000
Marine	36,000
<u>Reserves for unexpired risks:</u>	
Fire	2,04,000
Marine	1,23,000
<u>Investment at Cost:</u>	
Central Government Securities deposited with RBI	19,21,000
Other Central Government Securities	1,23,000
State Government Securities	2,22,000
Shares in Companies	2,49,000
Depreciation	21,000
<u>Additional Reserves:</u>	
Fire	1,32,000
Marine	16,000
Interest Accrued	25,000
Furniture (Cost Rs. 18,000)	12,000
Building (Cost Rs. 1,25,000)	87,000
Office Equipment (Cost Rs. 48,000)	30,000
Cash in Hand	56,000
Cash at Bank	1,04,000
<u>Premium Less re-insurance:</u>	
Fire	2,11,000
Marine	1,62,000
Tax deducted at source	9,000
<u>Premium Due:</u>	
Fire	28,000
Marine	20,000
<u>Claims Outstanding 1.4.2002:</u>	
Fire	14,000

Marine	2,000
Due from other insurers	27,000
Director's Fees	4,000
<u>Commission on re-insurance ceded:</u>	
Fire	23,000
Marine	2,000
Dividends	20,000
Interest of Investments	1,00,000
Dues to other insurers	43,000
Contingency Reserve	39,000
Investment fluctuation Reserve	47,000

The following further information is also given:

(1) Claims outstanding as on 31.3.2003 are

Fire	17,000
Marine	6,000

(2) Market Value of investments Rs.24,01,000

(3) Increase Additional Reserve by 10% of net premium for the year for fire.

(4) Maintain reserves for unexpired risks at 50% of premium for the year in case of fire insurance and 100% premium for the year in case of Marine insurance.

Prepare Revenue Account, Profit & Loss Account and Balance sheet.

Q.5. The following is the Trial Balance of Chetan Insurance Co. Ltd. as on 31st December, 1998.

Debit	Rs.	Credit	Rs.
<u>Expenses of Management:</u>		<u>Reserve for Unexpired Risk:</u>	
Fire	38,600	Fire	65,100
Marine	17,200	Marine	1,22,000
<u>Claims Paid:</u>		Premium Less Re-insurance	
Fire	56,000	Fire	1,65,300
Marine	53,700	Marine	1,11,800
<u>Commission:</u>		<u>Additional Reserves:</u>	
Fire	34,800	Fire	71,400
Marine	24,700	Marine	7,500
Income Tax on Interest	2,900	<u>Claims Outstanding at Start</u>	
Director fees and Travel Exps.	5,800	Fire	1,900
Depreciation on Furniture's	400	Marine	100
Contribution to Staff P.F	1,500	Interest on Investments	25,700
Securities Deposited with R.B.I	12,59,100	Miscellaneous Receipt	100
Co-op Land Mortgage Bank Debentures		Share Capital	14,00,000
Interest Accrued	2,93,500	(1,40,000 shares of Rs.10)	
State Government Loans	3,600	General Reserve	1,27,800
National Savings Certificates	1,52,000	Staff Security Deposit	7,200
Shares in Companies	90,000	Staff Provident Fund	7,000
<u>Premium Outstanding:</u>		Sundry Creditors	1,60,000

Fire	40,000	Contingency Reserve	20,000
Marine	70,400	Investment Fluctuation Reserve	14,000
Sundry Debtors	59,600		
Fixed Deposit (Staff Security)	19,300		
Fixed Deposit (Emp. P.F. Investments)	7,200 7,000		
Cash and Bank	65,400		
Furniture	3,200		
Library Book	1,000		
	23,06,900		23,06,900

Adjustments:

1. Estimated Liability regarding claims outstanding at close of the year are Fire Rs.2,600 and Marine Rs.9,400.
2. Provide Rs.10,000 for survey expenses for Marine Insurance claims and provide Rs.20,000 for taxation.
3. Provide Additional Reserve for unexpired risks of fire insurance at 10% of the net premium in addition to opening balance.
4. In respect of fire insurance, a re-insurance premium payable Rs.30,000 a claim of Rs.10,000 covered by reinsurance and commission at 5% on reinsurance ceded have not been recorded.
5. Market Value of the Investment Rs.18,25,500 and appropriate Reserve for unexpired risks at 50% for fire and 100% for marine business is necessary.

Prepare the Revenue Account, Profit and Loss Account in columnar form for the year ended 31.12.98 and Balance Sheet as on that date.

Q.6.The following data is extracted from the books of Linken Fire Insurance Co. Ltd as on 31st Dec,1996

Particulars	Rs.	Particulars	Rs.
Fire Fund	6,20,000	Outstanding Premium	14,865
General Reserve	3,00,000	Claims intimated but not paid (1.1.96)	40,000
Investments	20,00,000	Expenses of Management	2,87,965
Premiums	18,01,022	Audit fees	12,000
Claims Paid	4,01,877	Rates and Taxes	12,000
Share Capital	6,00,000	Directors Fees	3,869
Additional Reserve	2,20,000	Rents	45,000
Profit and Loss Account	50,000	Income From Investments	1,00,000
Re-insurance Premium	75,017	Share Transfer Fees	2,000
Claims recovered from re-insurers	14,079	Loans (Dr.)	4,00,000
Commission on re-insurance ceded	32,011	Sundry Creditors	15,000
Commission on Direct Business	1,99,777	Agents Balance (Cr.)	1,80,000
Commission on re-insurance accepted	40,100	Cash in Hand	20,155
		U.T.I Bank Balance	1,01,487

From the above you are required to prepare: Fire Revenue Account, Profit and Loss Account, Profit and Loss Appropriation Account and Balance Sheet of the Company after considering the following:

- 1) Create Reserve for unexpired Risk @ 40%
- 2) Provide for Income Tax Rs.2,50,000
- 3) Dividend is proposed @ 12%

4) Claims Intimated but not paid as on 31.12.96 amounted to Rs.60,800.

Q.7 The following Trial Balance is prepared from the books of Safety Insurance Limited as on 31st Dec., 1999:

Debit Balance	Rs.	Credit Balance	Rs.
Agents Balance	13,50,000	Share Capital	30,00,000
Interest Accrued but not due	2,25,000	Reserve for Doubtful Debts	2,00,000
Dues from Insurers	6,45,000	<u>Balance of Funds on 1.1.99</u>	
Cash in Hand	35,000	Fire	85,41,000
Balance with Bank	7,48,000	Marine	95,00,000
Furniture (Cost Rs.8,40,000)	5,80,000	Unclaimed Dividends	85,000
Stationery Stock	14,000	Due to Insurance	
<u>Expenses of Management</u>		Companies	3,45,000
Fire Insurance	28,00,000	Sundry Creditors	7,25,000
Marine Insurance	16,00,000	Deposits and Suspense A/c	2,28,000
General		P & L A/c as on 1.1.99	8,04,000
Outstanding Premiums	3,00,000	Refund of Income Tax	3,00,000
Foreign Taxes	8,20,000	Transfer Fees	10,000
Marine Insurance	80,000	<u>Premium Less</u>	
Donation Paid	1,00,000	<u>Re-insurance</u>	
Income Tax Paid	12,00,000	Fire	1,76,25,000
Sundry Debtors	2,50,000	Marine	1,02,25,000
Mortgage Loans	73,26,000	<u>Interest &</u>	
Govt. Securities with RBI	3,70,000	<u>Dividend Received</u>	
Indian Govt. Securities	1,02,00,000	Fire	2,98,000
Debentures of Public Bonds	46,55,000	Marine	1,00,000
Equity Shares of Companies	22,50,000	General	3,05,000
<u>Claims Less Re-insurance:</u>			
Fire	64,000		
Marine	25,000		
General	65,000		
<u>Commission:</u>			
Marine	50,00,000		
Fire	35,00,000		
	5,22,91,000		5,22,91,000

Following further information should be taken into consideration:

- (1) Depreciation of Furniture Rs.2,00,0000
- (2) Transfer to General Reserve Rs.10,00,000
- (3) Transfer to Investment Reserve Rs.10,00,000
- (4) Provision for Tax 50%
- (5) Outstanding Claims on 31.12.1999 was Fire Rs.20,00,000 and Marine Rs.5,00,000
- (6) The funds (reserved for unexpired risk) are to be provided on the basis of 50% of the premium income of the year for Fire Insurance and 100% for Marine Insurance.

(7) There is an uncalled liability of Rs.7,500 in respect of partly paid equity shares of companies held by Safety Insurance Company Limited.

Prepare Revenue Account and Profit and Loss Account and Profit and Loss Appropriation Account for the year ended 31.12.1999 and Balance Sheet of Safety Insurance Company Limited as on 31st Dec, 1999.

Q.8.The Life Assurance Fund of an Insurance Company on 31.3.2003 showed balance of Rs 87,76,500. It was later found that the following were not taken into account.

I. Dividend from Investments	4,80,000
II. Income tax on above	48,000
III. Bonus in reduction of premium	8,77,500
IV. Claims covered under re-insurance	4,23,000
V. Claims intimated but not paid by company	7,62,000

Ascertain correct Balance of the fund

Q.9. The Life Fund of a life assurance Company was Rs 86,48,000 as on 31st March, 2003. The interim bonus paid during the intervaluation period was Rs 1,48,000. The periodical actuarial valuation determined the net liability at Rs 74,25,000. surplus brought forward from the previous valuation was Rs.8, 50,000. The Directors of the company proposed to carry forward Rs 9,31,000 and to divide the shareholder and the policy holder in ratio of 1:19. Show

- I. Valuation Balance Sheet
- II. Net profit for Intervaluation period
- III. Distribution of Surplus.