

## **Quadrant II - Notes**

**Paper Code : COC 110**

**Module Name: Problems on Balance Sheet to be prepared under FORM B-BS**

**Module No. : 18**

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### **Preparation of Final Accounts of General Insurance:**

#### **General Insurance Revenue Account:**

The Revenue Account of a general insurance company reveals both the amount of reserve or provision to be carried forward and, at the same time, profit or loss for the year. The Revenue Account is credited with the reserve for unexpired risks at the beginning of the year along with the credit items of incomes and the said account is debited with debit items of expenses along with the reserve for unexpired risks at the end of the year.

Like Revenue Account of a Life Insurance company, the same is prepared also under mercantile system of accounting. Profit/Loss which is revealed by a Revenue Account is transferred to Profit and Loss A/c.

#### **Balance Sheet of a General Insurance Company:**

The Balance Sheet is prepared according to FORM B, although the form of Balance Sheet is similar to Life Insurance and General Insurance Business. The form of Balance Sheet of a Life Insurance business has already been shown earlier.

#### **Certain Special Terms:**

**Premiums:**

The amount which is payable to insurer by the insured in order to cover the risk of the latter for a consideration is known as premium. Premium is to be adjusted against reinsurance policies. In life policies, of course, premium is distinguished between first year's premium and renewal premium.

**Claims:**

It has been stated above that it is the duty of the insurer to cover the risk of the insured. Now, if the risk falls on the insured, he will make a claim on the insurance company. In short, in general insurance, claims arise only when the insured suffers from a loss against, say, fire, etc., i.e., on the happening of certain contingencies. On the other hand, in life policies, claims may arise only either by death or by maturity. Claims are shown after deducting the reinsurance claims including the adjustments of the debit side of Revenue Account.

**Reinsurance:**

Sometimes the insurer may take more liability on account of insured risks than he can bear. In such a case, he can transfer the excessive part of such risks to another insurer, i.e., he makes reinsurance a part of the risks with some other insurer. This is known as Reinsurance. In this case, the first insurer cannot retain all the premium for himself but he is to transfer the proportionate premium to the second insurer depending on the share of risks undertaken by the latter. Therefore, if the policy matures, claims are to be met by both of them in agreed ratio.

**Commission on reinsurance ceded/ accepted:**

The insurance company is to pay commission to its agents according to the terms of business. But when a company gets reinsurance business it has to pay commission to some other company which, in other words, is known as Commission of reinsurance accepted. The same is shown as an expense in the debit side of the Revenue Account. On the contrary, when a company transfers a part of the business to some other, the former gets commission from the latter, which is known as Commission on reinsurance ceded and the same is shown as an income in the credit side of the Revenue Account.