INSURANCE EXAM · IC-46

IC-46 General Insurance Accounts

Revision book

6	2	119
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 6

CHAPTER 1

Accounting Scope, Concepts, Principles And Standards

1.1 Unit 1: Meaning and scope
1.2 Books of accounts
1.3 Objectives and functions
1.4 Seven limitations
1.5 Unit 2: Nine concepts
1.6 Principles and assumptions
1.7 Unit 3: Standards
1.8 Unit 4: Accounting policies
1.9 Other AS rules in one line each

MUST KNOW

1. All transactions are events; not all events are transactions (a transaction has a money value).
2. Journal = prime entry, by date, not balanced. Ledger = final entry, by account, balanced. Cash book = both.
3. Co. Act **2013** s.128: accrual basis + double entry; books kept at least 8 financial years.
4. ASM (from Balance Sheet) vs RSM (from Revenue Accounts) = solvency ratio.
5. **Nine concepts:** entity, money measurement, going concern, period, cost, dual aspect, realisation, accrual, matching.
6. **Eight principles:** accrual, matching, realisation, continuity, periodicity, consistency, prudence, materiality.
7. Premium recognised on receipt (s.64VB, Insurance Act **1938**); insurers use Net Premium Earned and Incurred Claims.
8. ICAI issues AS. MCA notifies Ind AS, converged with IFRS. Law prevails over Ind AS.
9. Insurers now prepare statements under Ind AS from **1 April 2026** (**2026** amendment to the **2024** Regulations); Ind AS 117 = IFRS 17 match, replaces Ind AS 104.
10. **Old rule (2002 Regulations):** AS 3 direct method only; AS 13 not applied; AS 17 applied.

1.1 Unit 1: Meaning and scope

- Accounting = record, classify, summarise, analyse, interpret, communicate
- Single entry (incomplete; sole proprietor) vs double entry (almost universal)
- **Insurer follows:** Companies Act **2013** + IRDAI rules (now Actuarial, Finance and Investment Functions of Insurers Regs **2024**) + ICAI AS
- **Banks:** RBI rules + Banking Regulation Act **1949**; "Form Accounts" = regulator's format
- **Stakeholders:** policyholders, shareholders, financial institutions, reinsurers, co-insurers, regulators, Government, society
- **Municipal body:** sources = grants, taxes, funds from public/FIs; uses = roads, sanitation, upkeep, welfare, staff

TRAP

All events are transactions = WRONG. Only money-measurable events that change position.

1.2 Books of accounts

Point	Journal	Ledger
Entry	Prime (original)	Final
When	As transaction happens	After journal
Order	By date	By account
Debit/credit	Adjacent columns	Two accounts
Balanced	No	Yes
Final accounts	Not from it	Basis

- Trial balance = all ledger balances on one date
- Ledger shows opening balance, entries, closing balance for a period

FORMULA AND WORKED SUM

- **Fixed assets ledger:** 1,00,000 + 50,000 - 30,000 = 1,20,000

- **Journal entry sample:** Bank charges Dr 1,000; Bank A/c Cr 1,000
- **Operating-office registers:** Cash (Collection, Payments, Cheque Dishonoured, Petty Cash); Premium (Premium, Refund Premium, Cover Note Control, Co-insurance); Claims (Disbursement, Intimation, Outstanding, Recovery, Salvage); Ledgers (General, Sub-ledger, Assets, Policy Stamps, Revenue Stamps)

1.3 Objectives and functions

- **Two prime aims:** financial position; performance (profit)
- **Four objectives:** recording; ascertaining results (P&L + Balance Sheet); assessing financial health (ratio, fund flow, cash flow); communicating
- **Non-profit:** Income and Expenditure Account (surplus/deficit)
- **General insurer:** Revenue Accounts then P&L
- Solvency = pay liabilities and borrowings; Liquidity = meet commitments on time
- ASM = net worth (admissible assets less liabilities); RSM = nature, volume, incurred claims
- **Annual report:** financial statements, Directors' report, Management Report, audit reports
- **Six functions:** performance measurement; forecasting; decision data; evaluation; accounting control (Premium, Co-insurance, Claim, Advance registers); regulation and tax
- **Branches:** Financial, Managerial, Cost, Government

1.4 Seven limitations

No	Limitation	Key point
1	Alternative treatment	FIFO, LIFO, weighted avg; AS 2 allows FIFO and weighted average only
2	Personal judgment	Outstanding claim estimates; objectivity weak
3	Non-money facts ignored	Staff efficiency, R&D
4	Not timely	Past data only
5	No technical detail	Miscellaneous account covers 100+ products
6	No present value	Historical cost, going concern
7	No cost classification	Only capital vs revenue

- **Fix:** Management Accounting. Statements cover one year, audited; listed cos limited review each quarter

1.5 Unit 2: Nine concepts

- **Business entity:** owner separate; capital = liability; withdrawals = drawings, not expense
- **Money measurement:** only money items; premium recorded, not number of policies; director's health, honesty not recorded
- **Going concern:** indefinite life; asset cost charged as depreciation

FORMULA AND WORKED SUM

- 50 crore computers, 5 years, 20% = 10 crore depreciation; 40 crore stays as asset

- **Accounting period:** one year; India April-March; quarterly, half-yearly, annual for insurers
- **Accounting cost:** cost = price + transport + installation; goodwill only if bought

FORMULA AND WORKED SUM

- Building 50 + 5 + 5 = 60 lakh recorded (market 70 lakh ignored)

- **Dual aspect:** every transaction two effects

FORMULA AND WORKED SUM

- Assets = Liabilities + Capital

- **Four effects:** asset up/asset down; liability up/liability down; asset up/liability up; asset down/liability down

FORMULA AND WORKED SUM

- **Claim 100 paid:** total 11,500 becomes 11,400; O/S claims 4,200 to 4,100

- **Realisation:** legal right to receive money; proposal not a transaction

FORMULA AND WORKED SUM

- Fire proposal accepted 30 Mar 2021, cheque 6 Apr 2021: recorded and cover from 6 Apr

- **Trader:** goods delivered March, paid April = March revenue
- **Accrual:** revenue when receivable, expense when payable; claims on intimation; no accrual for premium (s.64VB); provision for unexpired risk

TRAP

Accrual is NOT cash basis

- **Matching:** same-period revenue and expenses; follows accrual

FORMULA AND WORKED SUM

- Sales 10,000; expenses incurred 5,000 + 3,000 + 500 = 8,500; profit 1,500 (paid basis 2,000 is wrong)

- **Insurer:** Reserve for Unearned Premium for later-period part

1.6 Principles and assumptions

- GAAP = concepts + principles + conventions; made by AICPA (US), ICAEW (UK), ICAI (India)
- **Consistency:** same method; change disclosed with need and impact
- **Prudence:** all anticipated losses at once; profit only when realised; stock at lower of cost and NRV; contingent liabilities disclosed, contingent assets not
- **Materiality:** relative importance; reasonably prudent investor test; not for cash transactions

FORMULA AND WORKED SUM

- Rs 100 lost on debtors 9,50,000 = not material

- **Five assumptions:** economic entity, going concern, accrual, consistency, money measurement; assumed if not stated
- **Statements:** Balance Sheet, P&L, Notes (policies), Receipts and Payments (cash flow)
- **Insurer:** Balance Sheet, Revenue Accounts (Fire, Marine, Miscellaneous), P&L, Receipts and Payments

Element	Meaning
Asset	Resource controlled, future benefit
Liability	Obligation
Equity	Residual after liabilities = net worth
Revenue	Rise in economic benefit (not owners' money)
Expense	Fall in economic benefit

- **Disclosure:** full, fair, final; policies in Notes

1.7 Unit 3: Standards

- Standards give transparency, consistency, comparability
- **AS:** ICAI (ASB formed April **1977**); MCA notifies the Companies (Accounting Standards) Rules
- **Ind AS:** MCA, IFRS-converged; notification **16 Feb 2015**; voluntary **2015**-16, mandatory from **2016**-17; cannot revert
- **India:** convergence, not adoption
- Insurers apply Ind AS from **1 April 2026** (one-year forbearance possible; AS-based statements also published for two years); Ind AS 117 and 109 are key

TODAY'S RULE

Statute prevails over Ind AS.

- **Old rule:** AS 3 Cash Flow (insurers: direct method only); AS 13 Investments (own regulation, not applied)

AS	Title
1	Accounting Policies disclosure
2	Inventories
3	Cash Flow
4	Contingencies, events after BS date
5	Net profit/loss, prior items, policy changes
7	Construction Contracts
9	Revenue Recognition
10	PPE
11	Foreign exchange
12	Government Grants
13	Investments
14	Amalgamations
15	Employee Benefits
16	Borrowing Costs
17	Segment Reporting
18	Related Parties
19	Leases
20	EPS
21	Consolidated FS
22	Taxes on Income
23	Associates
24	Discontinuing Ops
25	Interim Reporting
26	Intangibles
27	Joint Ventures
28	Impairment
29	Provisions, Contingents

- **AS 21, 23, 27:** companies giving consolidated statements

Area	IFRS	AS
Style	Judgment, substance	Rule-based
Basis	Investor focus	Law overrides
Presentation	IAS 1	AS 1 no form
Extraordinary items	Not allowed	AS 5 separate
Statements	5 (Ind AS 1)	Schedule III format: balance sheet, P&L, notes, cash flow as AS 3 asks (old 3-statement Schedule VI gone)
Revenue	IFRS 15 control passes (replaced IAS 18)	AS 9 proportionate/completed
Depreciation	IAS 16 useful life	Schedule II useful lives (old Schedule XIV rates gone)

- **Ind AS:** 101 First-time, 102 Share-based, 103 Business Combinations, 104 Insurance Contracts (replaced by 117), 117 Insurance Contracts, 105 Held for Sale, 106 Mineral Exploration, 107 FI Disclosures, 108 Operating Segments, 109 Financial Instruments, 110 Consolidated, 111 Joint Arrangements, 112 Interests Disclosure, 113 Fair Value, 114 Regulatory Deferral, 115 Revenue, 116 Leases
- Ind AS 1 Presentation, 2 Inventories, 7 Cash Flows, 8 Policies/Estimates/Errors, 10 Events after Period, 12 Income Taxes, 16 PPE, 19 Employee Benefits, 20 Govt Grants, 21 Foreign Exchange, 23 Borrowing Costs, 24 Related Parties, 27 Separate FS, 28 Associates/JVs, 29 Hyperinflation, 32 FI Presentation, 33 EPS, 34 Interim, 36 Impairment, 37 Provisions, 38 Intangibles, 40 Investment Property, 41 Agriculture
- All Ind AS deal with recognition, measurement, presentation/disclosure

> **TRAP**
> Ind AS 19 employee benefits; 33 EPS; 21 foreign exchange; 20 grants

1.8 Unit 4: Accounting policies

- Policies = specific methods used to prepare statements; rest on concepts, principles, assumptions
- **Differ:** insurer vs bank; life vs non-life; domestic vs multinational
- **Differ in:** inventory valuation, depreciation, investments, fixed assets, goodwill, income and expense recognition
- **Five objectives:** quality; reliability; consistency; comparability (inter and intra); full, fair, adequate disclosure
- **Change only in exceptional cases:** to follow standard; to follow law; truer and fairer view; or reliable, more relevant information
- Disclose nature and effect in Notes (AS 1); policies are integral part of statements
- **Non-integral foreign operation:** closing rate. Deferred tax: all timing differences, enacted rates
- **24 heads:** convention; premium and commission; estimates; reinsurance; premium in advance; unexpired risk; premium deficiency; acquisition costs; incurred claims; IBNR; salvage and recoveries; provisions; loans and investments; foreign currency; fixed assets; depreciation; intangibles; employee benefits; expenses of management; policyholders/shareholders funds; investment income; interest, dividend, rent; impairment and amortisation; taxation
- **Non-life:** s.11(1) Insurance Act (**2015** amendment); historical cost, accrual

1.9 Other AS rules in one line each

- **AS 2:** LIFO not allowed; FIFO or weighted average; stock at lower of cost and NRV
- **AS 4 (revised):** proposed dividend not a liability until shareholders approve; shown in notes; paid within **30 days**
- **AS 5:** extraordinary items shown separately; policy change disclosed with impact

- **AS 6:** depreciation on cost (or revalued amount), useful life, residual value; method change recalculated from date of use
- **AS 11:** foreign branch accounts converted to rupees, then merged with Indian accounts
- **AS 13:** investment cost = price + brokerage + fees; cost on share issue = fair value of securities
- **AS 15:** gratuity, pension, leave encashment provided on actuarial basis at head office
- **AS 17:** segment reporting modified for insurers: separate revenue accounts for fire, marine, miscellaneous
- **AS 22:** deferred tax on timing differences