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She is President of the Cleveland Chapter of the American Society of Women Accountants and is a newly elected director on the National Board of the American Woman's Society of Certified Public Accountants. She is also a member of the Cleveland Chapter of the Ohio Society of Certified Public Accountants, of the National Association of Cost Accountants, and of the Cleveland Chapter of the Zonta Club, which latter organization she is serving as Program Chairman.



## Accounting for the Insurance Man

MARION A. FRYE, C.P.A., Cleveland, Ohio

The insurance man may be a broker, operating a large agency, known to the home offices for whom he writes insurance as an "agent." He may be a solicitor acting in the capacity of a sub-contractor, industrially speaking, for an agent or broker. Both must be licensed by the state. The solicitor is a man in business for himself and should have, under the Revenue Code, records as complete as does the agent or broker. His records may necessitate more entries than an agency due to the fact that he may place business through more agencies than an agent places with insurance companies directly.

We are assuming, of course, that anyone receiving a commission for the writing or placing of insurance is a duly authorized agent, broker or solicitor, licensed by the state in which he resides, and that he has met the state laws governing that particular license. In the State of Ohio, a person cannot secure a license or may have a license revoked if a predominate percentage of the business he writes is for companies in which he has an individual interest. Let me clarify this point before we go further. A person may have the controlling interest in a corporation which operates real estate, which corpora-

tion has a name entirely foreign to his personal name. As an individual he may secure and proceed to write the insurance coverage of fire, public liability, property damage, etc. for the corporation in which he owns a controlling interest. If he places only a small percentage of other business, or none at all, in the final analysis his yearly volume of commissions earned is from himself.

Let us turn now to a very simple system which can be used both by the agent and broker, and also by the solicitor. In considering this set-up we must realize that there are three principal factors involved from the viewpoint of each,—amounts due from assured, amounts owed to the insurance companies or agencies, and commissions earned.

There are four books of record necessary in connection with insurance accounting. In this connection, I am writing about general insurance—not life insurance. These four books of record are a Policy Register, Cash Receipts Journal, Cash Disbursements Journal, and the General Ledger.

We shall consider the Policy Register first because, when a man goes into the business of writing insurance, his volume of business is reflected in the entries in the Policy Reg-

ister. Anyone familiar with the insurance business can appreciate the vast amount of detail which may be developed, and probably unknowingly duplicated, in the desire to secure information for various and sundry reasons. It is, therefore, recommended that when an insurance policy is issued (for simplicity, let us say it is a policy issued to cover fire hazards with a premium amounting to \$100.00) the agent immediately send an original invoice to the assured to show the assured his liability for coverage. This original invoice is generally attached to the policy issued by a fire insurance company.

The agent, broker or solicitor might retain a duplicate copy of the invoice for his Expiration File, as he does on all business written, so that thirty or sixty days before this coverage expires he can follow-up this item of business to keep it on his books for the ensuing period.

A second carbon copy of the invoice (and I might state here that it is advisable for each carbon to be of a different color for convenience of recognition and filing) can be used for a bookkeeper's copy, on the face of which the distribution can be made of the \$100.00 premium, for he knows that 65% of the premium goes to the company issuing the policy and becoming liable for any claims of loss suffered thereunder by the assured. He also knows that his agency or brokerage company has earned 35%, of which 15% goes to the solicitor bringing in the business. That is, of the \$35.00 commission on this premium, \$15.00 is due the solicitor and \$20.00 is retained for the operation of the agency.

Therefore, the Policy Register should be set up to show the date of the policy (which is also the date of the invoice) with a total due from the assured of \$100.00. The Register can also be set up to show the distribution of this \$100.00—\$20.00 to the agency, \$15.00 to the solicitor, and \$65.00 to the insurance company. Over a period of a month, the entries of these invoices can show the total volume of business written, total amount earned by the agency, total due solicitors, and total due the insurance companies. This data can be broken down according to solicitor and companies to any detail advisable for an accumulation of information for the use of management or the agency, as may be decided by them.

To the assured's detail ledger sheet (which accountants know as Accounts Receivable Record) may be posted the date, type of

coverage, amount of coverage, company with whom placed, policy number and the amount of the premium due from that assured. Thus, with a little interpretation, the Accounts Receivable Ledger sheets become line records of all types of insurance written for the individual assureds.

At the end of the month, if the duplicate carbons of invoices entered in that month are retained in one file, they may be sorted according to the type of insurance written and the management advised of the total amount of the various kinds of insurance written, such as Fire, Public Liability, Automobile (which may be broken down further according to liability, property damage, medical reimbursement, comprehensive, collision, etc.), Boiler, Robbery, Bonds, Marine, Accident and Health, or even a more detailed analysis of each sub-division as may prove usable. After this analysis is made and the total volume of insurance written according to premium reconciled with the amount due from assureds, the bookkeeping copy of the invoice may be filed according to the company to which the agency is responsible for the coverage written. This, of course, is reflected on the face of the invoice in that portion which shows amount due company. The invoices might be filed according to the name of the insurance company, with subdivisions for each month.

After the bookkeeping copies are properly filed, it is very easy to make up an Account Current on which is listed the number of the policy with the amount of the premium carried out into the column of the percentage earned; such as under Fire, which calls for—let us say—65%, all the total premiums of Fire policies would be listed; under Public Liability (the heading of which column would be 25%) all such premiums would be listed; etc. A total would be taken of each such column and the percentage taken. Thus, in this Account Current there is accumulated the total liability due monthly to the various insurance companies. In most cases, the Home Offices of the insurance companies prefer this type of statement covering the business written.

As the assureds pay their premiums, the amount is naturally entered in Cash Receipts as a charge to cash and a credit to accounts receivable. A further extension of the detail may be made as a memorandum, breaking down the amount of money received as to the amount due the agency, the amount due the solicitor, and the amount

due the insurance company, for it is the generally accepted practice that no agent or broker pays a solicitor a commission until such time as the assured makes full payment of the premium for which he is liable. With such a classification, it becomes a simple matter at the end of each month to refer to the Cash Receipts book and compile a detail statement for each solicitor of the commissions which he has earned. It also becomes a simple matter for the management to find out if it is paying out money for its assureds when paying its Account Current to the Home Office, for that is exactly what is done if a premium is not paid but the agency is required to pay the Home Office in order to keep the insurance in force. And a convenient method is provided for the management to get a quick picture of its operations on a cash as well as on an accrual basis.

Cash Disbursements records in an insurance office are handled very much the same as in any other business. Because of the type of expenses to which an agency is subject, there is very little reason for the use of a Purchase Journal, as most items are paid within thirty days of their consummation.

The posting to the General Ledger becomes a routine matter and after such postings are made it is comparatively simple to prepare a balance sheet and an income and expense statement. As accountants can appreciate, from the information as outlined above, the financial statements can be prepared on both a cash basis and on an accrual basis.

Some agencies prefer to have a third carbon copy of their invoices which is retained in their files under the names of their solicitors. When payment is made to a solicitor for commissions earned, this copy of the invoice is attached to a detail commission statement. The remaining carbon copies filed under his particular name reflect and can be reconciled to "Accrued Commissions Due Agents" which becomes a definite liability of "Commissions Due Agents" at the time that the premiums are paid in full by the assured.

The possibility of using invoices to serve many purposes in the insurance business is an item not to be overlooked in the accumulation of information necessary to the operation of a successful agency.

## The Consolidation of Foreign Subsidiaries

MARJORIE MITCHELL, *Detroit, Michigan*

For the past six or seven years an increasing number of companies have omitted their foreign subsidiary companies from consolidated statements. Foreign exchange restrictions, war conditions and the lack of power on the part of the parent company to initiate the declaration of dividends have all had a part in the decisions to omit a particular subsidiary from consolidation. *The American Institute of Accountants* and the *Securities and Exchange Commission* both supported this trend. The consensus of opinion has been that consolidation should be omitted where the parent company could no longer control the foreign subsidiary due to the war or to restrictions imposed by foreign governments. In addition reserves against the parent company's investment have been set up where it was believed that the assets of

the subsidiary were less than the value at which the investment was being carried.

With the end of the war, the probability that some of the restrictions on foreign exchange may be lifted, and the possibilities for the investment of new funds abroad, consolidations of foreign and domestic holdings will again increase. The present value of old holdings will have to be established and the study of the restrictions imposed on foreign parent companies undertaken to establish the policy with respect to each foreign subsidiary. In all probability many foreign governments will lift or lessen restrictions in order to attract badly needed capital. The entire problem of accounting for foreign investments requires a continuing study of the business regulations of the country in which the holdings are located. The question of