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# ACCOUNTING FOR INSURANCE COVERAGE

By NELLIE E. CLARK, CPA

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Very little has been written about this phase of accounting. Perhaps because, from an accounting standpoint, the records can be checked by audit of invoices with little effort.

In a small business, insurance is usually carried on a one-year basis, except for insurance on buildings which is usually on a three-year basis. Fire, Compensation and Liability, and, in some states Disability Insurance, are the principal coverages. Each year, therefore, has one year's premium charged to expense, and the Compensation insurance by yearly audit is also charged within the year. When the period is longer, the unexpired portion can be figured from the invoices at the end of the year.

As a business grows, there are generally additional types of insurance added, which require more detailed records. The more common types are Use & Occupancy or Business Interruption, Plate Glass, Boiler & Machinery, Bonds, Inventory coverage, and if Automobiles are owned, Automobile Fire, Theft and Collision, Public Liability and Property damage. All these require more careful consideration from the accounting standpoint. In large concerns most coverages are carried on a three or five year basis, which necessarily would throw expenses out of line if all expense were charged in the period paid.

The accepted method is to set up a scheduled showing the following information:

Policy Number  
Name of Insurance Company  
Name of Agent

Description  
Term  
Date of Policy  
Expiration Date  
Amount of Coverage  
Rate  
Premium  
Remarks

Unexpired Insurance at end of period.

A columnar sheet may be used for this purpose. A companion sheet is used showing the monthly charge to expense (determined by dividing the premium paid by the number of months the insurance is in force), so that the insurance cost is spread evenly over the year. From this sheet a monthly charge in total can be entered on the general books, so that no one month is charged with too large a proportion of the insurance.

The routine of accounting for insurance is the same as that of any other invoice record. All rates should be checked with the policies to see that the billing is correct, and extensions proved. A memorandum record is kept of all the changes ordered on policies for follow-up for riders to be attached to policies and for additional premiums or credits. All audits should be checked with the accounting record before being approved for payment. Policies should be kept in a Policy File, arranged in such order as to be readily found. One method is to file them by types of insurance. Other methods may be used to suit the particular business.

The accounting problem does not end,

however, with the mere keeping of records. Schedules must be prepared from time to time for various types of coverage. For instance, schedules of building values plus improvements should be kept so that adequate fire coverage is assured. Inventories and Machinery and Equipment fluctuate with purchases which increase inventory or add to Machinery and Equipment values. These can be kept monthly or quarterly unless some extensive addition is made so that they are available for management periodically for review of insurance coverage.

Insurance to cover inventories in various locations away from main plant or warehouse is written on a General Cover policy, which is a reporting form. Schedules must be made monthly reporting inventories at all outside locations, paying particular attention to exact address since insurance is covered by location. This policy carries a limit for each location, as well as an overall limit, and should be watched carefully to see that limits are sufficient.

Group Insurance in a Company plan requires a very detailed record, usually setting up an individual record for each employee showing name, address, age, effective date of insurance, and amount and type of coverage. Periodic reports are made to management from this record. The same sort of record is kept when the Group Insurance is carried with an insurance company on what is called "Simplified Accounting." In this case reports of amount and kind of coverage are made monthly to the insurance company, and premiums are figured at a rate set up at the beginning of the policy year. Each year an age distribution is required by the insurance company from which the premiums for the renewal is determined.

Disability Insurance is compulsory in four States at the present time—New York, New Jersey, California and Rhode Island. In New York and California, this coverage may be carried in a voluntary plan or in the State plan. Reports under the State plan and most voluntary plans are simple, using the information as reported for Unemployment Insurance as a basis for premiums paid. Some private plans have special report forms for the Insurance carrier, showing actual number of employees covered and amount of benefits in force, from which the premiums are figured on rates set up at the beginning of the policy.

Compensation Insurance is based on dif-

ferent classifications of labor for each type of business. The accountant must determine by conference with the insurance agent or by terms of the policy the class to which each employee belongs in order to set up the proper charge for the cost of the insurance. A monthly schedule is prepared showing the payroll by classifications for compensation purposes and figured at the rates for each class.

Schedules of Automobiles owned are prepared at the anniversary of the policy showing the make, type, date purchased, cost and other information. This schedule should be kept current by adding new purchases, and cancelling automobiles sold or traded in, showing the dates of purchase or cancellation.

An Employee Position Bond requires a schedule of employees by occupation if a blanket bond covering all employees. Individual bond coverage necessitates individual application, and the only accounting problem involved is in the determination of the amount to be covered, based on the amount of money handled or the responsibility of the position involved.

One of the most important responsibilities of the accountant is the preparation of figures of a claim in the event of a loss. Claims for losses are dependent on the loss schedule made up by the accountant. In the event of a loss, a claim is prepared showing the loss as determined by the cost records of the company and any other available information. Losses are generally based on replacement value less depreciation rather than actual cost, which requires more consideration than simply taking book figures. Losses on Burglary or Theft are usually settled for the amount claimed since they are for actual money loss. Automobile losses are substantiated by cost of car if total loss, and by repair bills. After the claim is prepared there is usually a conference between adjusters and management, with the accountant sitting in on the discussion. The adjustment may or may not be according to an original claim but something agreed upon by the adjuster and management. All factors must be considered in making up a claim to be sure it reflects the actual loss to the company.