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Accounting Questions: Surplus of Balance-Sheet of Insurance Company

American Institute of Accountants. Bureau of Information

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ACCOUNTING QUESTIONS

[The questions and answers which appear in this department have been received from the bureau of information conducted by the American Institute of Accountants. The questions have been asked and answered by members of the Institute who are practising accountants and are published here for general information. The executive committee of the Institute, in authorizing the publication of this matter, distinctly disclaims any responsibility for the views expressed. The answers given by those who reply are purely personal opinions.—EDITOR.]

SURPLUS ON BALANCE-SHEET OF INSURANCE COMPANY

Question

Among our clients we have two or three insurance companies for whom we prepare balance-sheets presumably for policy holders rather than stockholders, and in going over the balance-sheets prepared by other firms of public accountants we find considerable variation in style.

Our particular problem just now has to do with the surplus. We note in some cases that the surplus is shown as a single net amount at the end of the year, but in other cases the surplus at the close of the previous year is picked up on the balance-sheet and the additions and deductions for the current year are shown, producing in this manner the balance at the end of the year.

This latter method is the one that we assume to be preferred, having in mind the requirements of the stockholders, but in this case there is some advantage in giving the net amount only and omitting the movement during the year, particularly because of the reduction in the cost of advertising.

Answer No. 1

When preparing a balance-sheet for an insurance company which they intend to use for advertising purposes, we only show the surplus at the end of the year. We do this because we believe that this complies with section 97 of the insurance law which provides that the figures shown in any advertisement must agree with the annual statement filed with the insurance department and as this annual statement form does not provide for an analysis of surplus changes on the balance-sheet, we have always followed the procedure as above stated.

However, in our report we always have an analysis of surplus account in one form or another.

Answer No. 2

Referring to your inquiry it will doubtless be admitted that the more nearly an insurance company statement follows the lines of a commercial statement the better. However, insurance companies have not an entirely free hand. They must file, with every state in which they do business, an annual statement in a prescribed form, and nothing published in the way of accounts may be in disagreement therewith.

The main question in your letter seems to be whether showing merely the surplus at the end of the year is sufficient or whether the movement for the year should be given. If this means simply showing in the balance-sheet the previous year's surplus, and the addition or deduction of the net result for the year, there seems to be no particular advantage in departing from the general practice of insurance companies of showing the surplus in one figure. If, however, the insurance company is willing to publish with the balance-sheet an income account sufficiently comprehensive to show the operations of the company for the year, then we should favor showing the net movement in surplus in the balance-sheet.

The publishing of an income statement on the lines comparable with one issued by a commercial company is certainly desirable, but the preparation of it requires some care, as it is by no means a condensation of the so-called "income" and "disbursement" pages of the statement officially filed, which is sometimes published.