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## Records for Insurance Policies

BY B. L. ENLOE

The purposes of most records for insurance policies are to list the policies in force, to register the expiration dates for convenience in renewing the policies, and to summarize the premiums in such a manner that the total expense may be ascertained and written off in monthly instalments. These essentials should be retained, but it is possible to reduce the amount of work incident to keeping the records.

The principal disadvantages of most existing insurance records are:

1. A second entry must be made for each policy maturing beyond the end of the current year;
2. Details of expired policies must remain in the record until the end of the current year;
3. The premium for each policy must be separately distributed to the monthly write-off columns;
4. Credits for rebates and cancellations have to be distributed individually. The columns then include items which are deductions from as well as those which are additions to the totals;
5. It is a voluminous and difficult task to find the balance of unexpired premiums.

To eliminate these disadvantages it is proposed to record the policies in groups on loose cards, using one card for each expiration month, regardless of the dates of the policies or the period covered by them. The back of the card provides for listing the individual policies. The total of the premiums paid is summarized on the face of the card, from which the proportion of the premiums to be written off in each month may be readily obtained.

The back of the card is for the most part self-explanatory. Provision is made for the data obtained from the policy itself, commonly found in insurance records. Inasmuch as the card indicates the month and year of expiration of all policies listed on it, it is necessary to enter only the date of expiration within the month. The amount of the premium and the month when it is charged to the prepaid-insurance account are entered in the spaces provided for them. At the end of the month, the total of the premiums so recorded is debited on the face of the card.

Having accumulated the premiums by expiration months, it is necessary to determine the amount to be written off in each month. It is assumed that no part of the premium will be charged off in the month in which the policy is dated, as that month will be charged with a full month's proportion of the premium for a policy which expires during that month. The only objection which might be raised to this procedure is the effect on the amount of the prepaid-insurance account. Inasmuch as a balance-sheet can not be more than an intelligent approximation of the financial position of a company, a slight overstatement of the prepaid-insurance account is unimportant. Alternatively, all policies expiring in any month might be regarded as expiring in the middle of the month and a half month's premium might be calculated as falling in that month.

The amount of the premium to be written off from each card in any month is the balance at the beginning of the month, divided by the number of months to and including the month of expiration. If the policies expire twelve months hence, one-twelfth of the balance is written off, and the following month one-eleventh of the then balance is written off, and so on. The result is exactly the same as that obtained by distributing the premium on each policy to monthly columns. If no new premiums are paid or no credits are made for rebates, the amount of the monthly write-off is unchanged, although it may be proved by an independent calculation. Premiums for subsequent policies having the same expiration do not alter the method of calculation, as they are written off over a shorter period and in the same proportion as the balance on the card at the time of their entry. In this way, the premiums are apportioned to the months between the dates and the expirations of the policies they cover.

Details of credits because of cancellations, rebates, etc. are entered in red on the back of the card. The total premium refund is transferred to the face of the card and deducted from the balance, thus automatically reducing the amount of future write-offs.

To obtain the total monthly insurance expense, for which a credit is made to prepaid-insurance account, the amounts determined on each card are totaled.

As all entries in the prepaid insurance account must be entered in detail on the card record, the general ledger account provides a control over the record of premiums. A summary by plants,

buildings, stock, etc., should be prepared as a control for the coverage as shown on the back of the cards and as a guide in maintaining adequate insurance. This summary does not require revision for the renewal of policies.

It is often desirable to distribute the insurance expense to several plants or to several departments. For this purpose, it is a simple matter to have separate sets of cards for each plant or department, the total to agree with the prepaid-insurance account. The total expense may likewise be apportioned in any other manner required by the company's cost department.

For comparison of present methods with the methods proposed here, let us assume that the insurance on a stock of merchandise was covered by two policies dated in January, 1931, and expiring in January, 1932. In July, 1931, the insurance was increased by an additional policy which was written to expire in January, 1932. Under the present methods, the premiums would be distributed somewhat as follows:

Date of policy	Months to run	Premium	Distribution of premiums												Balance 12-31-31	
			Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.		
Jan. 1931..	12	\$96	—	8	8	8	8	8	8	8	8	8	8	8	8	8
Jan. 1931..	12	72	—	6	6	6	6	6	6	6	6	6	6	6	6	6
July 1931..	6	54	—	—	—	—	—	—	—	—	9	9	9	9	9	9
		\$222	—	14	14	14	14	14	14	14	23	23	23	23	23	23

The distribution of premiums by the proposed method follows:

Month	Face of card Year 1931			Bal.	Monthly write-off represents fraction of balance at beginning of month
	Dr.	Cr.			
Jan.....	\$168	\$—		\$168	—
Feb.....	—	14		154	1/12
Mar.....	—	14		140	1/11
Apr.....	—	14		126	1/10
May.....	—	14		112	1/9
June.....	—	14		98	1/8
July.....	54	14		138	1/7
Aug.....	—	23		115	1/6
Sept.....	—	23		92	1/5
Oct.....	—	23		69	1/4
Nov.....	—	23		46	1/3
Dec.....	—	23		23	1/2

