

POLITEKNIK
Jabatan Pengajian Politeknik

EXAMINATION AND EVALUATION DIVISION
DEPARTMENT OF POLYTECHNIC EDUCATION
(MINISTRY OF HIGHER EDUCATION)

COMMERCE DEPARTMENT

FINAL EXAMINATION
DECEMBER 2011 SESSION

P4311 : ACCOUNTING FOR INSURANCE

DATE : 03.05.2012 (KHAMIS)
DURATION : 2 HOURS (08:30AM – 10:30AM)

This paper consists of **EIGHT (8)** pages including the front page.
Section A: Essay (4 questions – answer ALL)

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CHIEF INVIGILATOR

SECTION A**STRUCTURES (100 marks)**

Instruction: This section consists of **four (4)** structures questions. Answer all questions.

QUESTION 1

(a) Differentiate the various investment options below:

i. Bond (3 marks)

ii. Share (3 marks)

iii. Treasury Bills (3 marks)

(b) Calculate and prepare the journal entries to record the following transactions for an insurer.

i. En. Zaki paid the premium RM1,500 for the month of January to June on 1st January. (3 marks)

ii. AMG Insurance Berhad purchased 3000 unit shares in Budi Corporation amounting RM16,500. (2 marks)

iii. AMG Insurance Berhad had received another 15% share dividend from Budi Corporation. (3 marks)

- iv. AMG Insurance Berhad sold of 1500 unit share in Budi Corporation for RM6.50 per share.

(3 marks)

- v. Purchased 4000 unit of bonds at RM75 per bond from Alliance Corporation. After two years, the insurer sold 2000 unit of bonds amounting RM110,000.

(5 marks)

QUESTION 2

- (a) An insurance company has three investment properties. The costs and revaluation amounts for the properties are as follows:

<u>Properties</u>	<u>Costs</u>	<u>Revaluation on December 31</u>		
		<u>2004</u>	<u>2007</u>	<u>2010</u>
Building A	600,000	720,000	680,000	660,000
Building B	650,000	630,000	700,000	740,000
Building C	720,000	605,000	685,000	745,000

You are required to:

- i. Prepare the journal entries to show the increase and decrease in value of the above properties.

(10 marks)

- ii. Calculate the Asset Revaluation Reserve at December 31, 2010.

(3 marks)

- (b) Inspira General Insurance Berhad is involved in underwriting motor vehicle policies. Below are the transactions for the period of one year ended as at April 30, 2010.

<u>Policy</u>	<u>Date of policy</u>	<u>Amount</u> <u>(RM)</u>
M.A	02/06/2009	60,000
M.B	18/10/2009	80,000
M.C	24/12/2009	35,000
M.D	12/02/2010	43,000

You are required to calculate the Unearned Premium Reserves by using the Time Apportionment Method as follows and prepare the journal entries:

- i. 1/365th Method

(6 marks)

- ii. 1/8th Method

(6 marks)

QUESTION 3

- (a) List down **FIVE (5)** of Application of Surplus Fund.

(5 marks)

- (b) The following information was received from IHSAN Life Insurance for the financial year ended December 31, 2010.

<u>Item</u>	<u>RM</u>
Outstanding premiums and agents' balances	30,840,000
Provision for outstanding claims	12,717,000
Receivables	42,030,000
Payables	45,686,000
Investment properties	13,865,000
Cash and bank balances	40,625,000
Capital	101,185,000
Property and equipment	15,024,000

Calculate the value of surplus or deficiency on December 31, 2010.

(8 marks)

- (c) The information below was received from AMBITIOUS Life Insurance Berhad for the financial year ended 30 April 2010. Surplus as at 1 May 2009 is RM150,000. You are required to determine the value of surplus as at 30 April 2010.

<u>Item</u>	<u>RM</u>
Extraordinary expenses	45,000
Disposal of furniture and fittings	20,000
Net capital gain	44,000
Excess of stocks purchased price over its par value	75,000
Gain from insurance operations	350,000
Special surplus fund	32,500
Total liabilities	950,000
Net annual premium	1,450,000

(12 marks)

QUESTION 4

- (a) The following information is with regards to the ABC Life Insurance for the year ended 31 December 2010.

<u>Item</u>	<u>RM</u>
Sum at risk (policies with original term 2 years or less)	1,850,000
Total non admitted assets	345,000
Annual premium	12,800,000
Valuation liabilities	5,350,000
Total liabilities	15,200,000
Insurance Regulation on Solvency Margin	2,500,000
Sum at risk (policies with original term more than 2 years)	5,250,000
Receivables	4,750,000
Investments in properties	5,430,000
Cash and bank balances	1,200,000
Investment in financial assets	950,000
Outstanding premiums and agents' balances	5,300,000

You are required to:

- i. Calculate the solvency margin for ABC Life Insurance.

(8 marks)

- ii. Determine whether the above company has a surplus or deficiency in solvency margin.

(5 marks)

- (b) BISTARI Insurance Berhad is a general insurance company. The following information is related to the company's year ended 30 June 2010.

Item	RM
Premium basis solvency margin	3,600,000
Total premium	12,200,000
Claims basis solvency margin	3,900,000
Total non admitted asset	550,000
Total admitted assets	8,630,000
Insurance regulation on solvency margin	5,300,000
Payables	1,750,000
Provision for outstanding claims	2,100,000
Provision for retirement benefit	750,000
Policyholders fund	2,300,000
Asset revaluation reserve account	450,000

You are required to:

- i. Calculate the solvency margin for BISTARI Insurance Berhad. (5 marks)
- ii. Calculate the excess of assets over liabilities. (4 marks)
- iii. Determine whether the above company has a surplus or deficiency in solvency margin (3 marks)