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METHODOLOGICAL ASPECTS OF ACCOUNTING
OF INCOME IN INSURANCE COMPANIES

Keywords: income, classification of income, income from insurance activities, accounting, clear earned insurance rewards, insurance payments, insurance reserves.

1. The tasks to be solved

The market changes in Ukraine led to the development of the market of financial services in general and the insurance service in particular. The methodology of accounting of insurer's income is influenced by the peculiarities in activity of insurance companies. The variety of problems of methodological character concerning profit recognition, its estimation and reflection in accounting is generated by the absence of the normative regulation in profit defining and its accounting in the sphere of insurance as the separate standard in accounting and proper methodological recommendations.

2. Analysis of recent research and publications

The following domestic scientists as M. Oleksandrova, M. Belgorodtseva, O. Vovchak, O. Gamankova, T.Harmatii, O.Zaremba, V.Len, V.Prykhodko, O.Rusak, L. Shirinian and others paid their attention to the problems of the essence of income in the sphere of insurance, their classification and methodological approaches in accounting. Despite the existing detailed work concerning this subject, the question of methodology of income accounting of the insurer is debatable and many-sided and requires further study and research. The aim of the article is to investigate the classification of the insurer's income and its recognition in accounting and its reflection in order to improve the accounting and analytical maintenance in management of insurance companies. The main material. The basis of construction of accounting of the insurer’s income should be classified according to the various
criteria. The research of special literary sources testifies that despite the different
criteria for the division of income, the main characteristic feature of the income is
the type of activity of the insurer. This approach is justified because it allows to
well-define the insurer’s income for the purposes of accounting. However, according
to this feature the scientists classify insurer’s income differently (Table 1). They
focus their attention, of course, on the income received due to the insurance activ-
ities, summarizing or detailing the content of their main type of activity. In this
case they have the similar point of view.

Concerning the received income from the other activities of the insurer, their
opinions are different. For example, V. Prykhodko does not separate any income
from the other types of activities, except insurance. O. Vovchak does not specify the
income from financial activity of the insurer in the research, if not to pay attention to
the income from investment and placement of temporary free funds. M.Belhorodts-
va classifies the other income from insurance business of the income, basing on the
current plan of accounts. V. Len and V. Prykhodko demonstrate the expanded com-
pound of the income from the insurance activity that enables to report the infor-
mation about the income of insurance company veraciously and completely in
accounting.
<table>
<thead>
<tr>
<th>M. Belgorodzeva</th>
<th>O. Vovchak</th>
<th>V. Len</th>
<th>V. Prykhodko</th>
<th>L. Shirinian</th>
<th>O. Gomakova</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from insurance business (insurance payments, insurance deposits, insurance rewards).</td>
<td>Income from principal (insurance) activity.</td>
<td>Income from insurance business: - earned insurance payments (insurance deposits, insurance rewards); - commission rewards for reinsurance; - part from the insurance sums and the insurance refunds paid by the reinsurers; - refunded amount from the central reserve funds; - refunded amount from technical reserve and other rewards.</td>
<td>Income from insurance business: - earned insurance payments; - commissions for reinsurance; - the part from the insured sums and insurance refunds, paid by reinsurers – refunded amount from the central reserve funds; - refunded amount from technical reserve and other reserves, not from the earned rewards.</td>
<td>Income from insurance business: – insurance rewards, – other operation income.</td>
<td>Income from principal (insurance) activity.</td>
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<td>Other income from the insurance activities.</td>
<td>Income from investments and placement of temporary free funds.</td>
<td>Income of the insurer, which is not related to insurance and reinsurance, which are included to the gross income of the insurer.</td>
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<tr>
<td>Income from investment activities.</td>
<td>Income from other operations.</td>
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<td>Income from financial activities.</td>
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<td>Income from the other activities.</td>
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Table 1: Analysis of recent researches concerning the classification of insurers.
According to the law of Ukraine „About Insurance“ (Article 2) it is determined that „subject of the direct activity of the insurer can only be insurance, reinsurance and financial activity, connected with the formation, placement of insurance reserves and their management, as well as any transactions for providing own business needs of the insurer“. So, on the legislative degree there is the division of the activity of the insurers on insurance, financial and other activities, consequently the income of the insurance companies are classified as income from insurance, financial and other activities. The same classification is determined by the methodology of forming of financial results.

The information about insurers’ income according to their types is necessary to the users for making management decisions while choosing the insurance company by the insurers. The following information can be found in the accounting: financial, specialized, tax. The analysis of the system of indexes of income of the insurer according to the report about financial results (report about the comprehensive income), report about income and the Declaration of the Tax on Income (Earnings) of the insurer demonstrates the different information needs of their users (Table 2).

Table 2. Information Display about the Income of the Insurance Company in Report

<table>
<thead>
<tr>
<th>Forms of Report</th>
<th>Declaration about tax on income (earnings) of the insurer.</th>
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</thead>
<tbody>
<tr>
<td>Report about comprehensive income</td>
<td>Income from insurance business:</td>
</tr>
<tr>
<td>Report about income and expenses of the insurer.</td>
<td>- insurance payments, insurance deposits, insurance rewards, charged by the insurer according to the insurance contract during the reporting period;</td>
</tr>
<tr>
<td>clean earned rewards;</td>
<td>- investment income calculated by the insurer from the placement of life insurance reserves;</td>
</tr>
<tr>
<td>reward signed, gross amount;</td>
<td>- the amount of rewards payable to the insurer according to the insurance agreement, co-insurance and reinsurance;</td>
</tr>
<tr>
<td>rewarmeds transferred to reinsurance;</td>
<td>- income from the sale of the right of recourse demand of the insurer to the insured or other person, who is responsible for conducted losses in the part of excess of paid insurance refunds;</td>
</tr>
<tr>
<td>clean earned rewards;</td>
<td>- calculated rates on the deposit rewards according to the risks, accepted in reinsurance;</td>
</tr>
<tr>
<td>change of reserve of unearned rewarmeds, gross amount;</td>
<td></td>
</tr>
<tr>
<td>change in reinsurers' share in the reserve of unearned rewards;</td>
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</tr>
<tr>
<td>income (expenses) from changes in the long-term obligations;</td>
<td></td>
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<tr>
<td>income (expenses) from changes of other insurance reserves;</td>
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<tr>
<td>change of other insurance reserve, the gross amount;</td>
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the change of reinsurers' share in other insurance reserves.

- the sum of sanctions for not-fulfilment the conditions of the agreement, determined by the debtor willingly or according to the court decision;
- the amount of rewards for services of surveyors, emergency commissioner and adjuster, insurance broker and agent;
- the sum of the returned share of insurance payments (deposits, rewards) according to the contracts of reinsurance in the case of their long-term suspension;
- the amount of rewards and tanyem (forms of rewards of insurer by the reinsurer) under the reinsurance contracts;
- other income from insurance activities.

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<tr>
<th>other operating income</th>
<th>Income from providing of services for other insurers and other services.</th>
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<tr>
<td>income from part of the capital</td>
<td>Other operating income and other extraordinary income (other operating income, financial income, other income and extraordinary income).</td>
</tr>
<tr>
<td>other financial income</td>
<td>Other income: income from the other activity, which is not related to the insurance business and the profit, realized by the insurer – assignor from the reinsurers according to the reinsurance contracts – defined in Table 2 of the Declaration (their list counts 24 positions).</td>
</tr>
<tr>
<td>other income</td>
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</tbody>
</table>

The duplication of some indicators of the income of the insurer is observed in the Report about financial results and in the Report about income and expenses of the insurer. Both reports are sent to the National commission of Regulation of Market of Financial Services in Ukraine. Accordingly, the immediate problem is the integration of these forms of account. The logical result of this process would be the formation of the Account about financial results by the insurer and explanatory notes towards it.

The report about comprehensive income is the standard form of Financial Statement – the Annex to National Regulation (standard) in Accounting 1 „General Requirements to the Reporting”, that form all the companies, including insurance companies. It regulates the algorithm of determining the financial result of the reporting period in domestic enterprises regardless of their activities. For the first time since adoption of the Law of Ukraine „About Insurance” the list of indicators of
The insurer’s income formation is determined in the National Regulation (standard) in Accounting 1.

The content of some, but not all, items of income of the insurer is examined in the methodological recommendations concerning completing the financial reporting forms approved by the Ministry of Finance of Ukraine from 28.03.2013, № 433.

The report about comprehensive income of the insurance companies differs by great quantity of additional articles (indexes), which should be determined by the insurers in the presence of certain types of income, such as:
- clean earned insurance rewards;
- signed reward, gross amount;
- rewards, transferred to reinsurers;
- change of reserve of unearned rewards, gross amount;
- change in the share of reinsurers in the reserve of unearned premiums;
- income (loss) from changes in the reserves of long-term liabilities;
- income (loss) from changes in other insurance reserves;
- change of other insurance reserves, gross amount;
- change in the share of reinsurers in other insurance reserves.

These indicators characterize the income from the main activity of the insurer – insurance. The problem of accounting income from operation of insurance organizations is in its identification. If the majority of the income indexes from insurance activities, listed above, is calculated, the value of clean earned insurance rewards and gross amount of signed rewards should be directly formed on the accounts. So the question arises concerning the recognition of income from the sale of insurance products.

According to the National Regulation (standard) in Accounting 1: income – is the increase of economic benefits in the form of receipt of assets or commitment reduction that leads to increase of own capital (the exception is the capital growth due to the contributions from owners). It is reflected in the Income Statement if it responds the criteria, which is laid down in national provisions (standards) of accounting. The criteria of income recognition is given in Regulation (standard) in Accounting 15 "Income", but it does not concern the income from insurance activities. This approach is determined due to the fact that the method of calculation and matching of income is applied to the income, on which the method of accounting is governed by the determined position.

For insurance organizations cash basis is mainly typical, because the contract of insurance will be valid from the moment of the first insurance payment (unless otherwise is not provided in the contract) and uncharacteristic accordance of rewards and expenses.

The insurer can use the method of calculation of insurance payment in order to raise the ranking indexes during a certain period by including sham agreements in the report, which will be will be terminated or canceled during the next periods. The question of accounting of insurance payment is closely linked to the issue of
calculation of insurance reserves and asset requirements, which are taken into the
calculation of the solvency of the insurer.

Proceeds from insurance payments (insurance deposits, insurance rewards)
according to the insurance agreement are the main source of income of the insurer. They have to fulfill obligations to policyholders in case of insurance cases, compensation of current expenses and receive of profit. Their records are maintained in the account 76 „Insurance payments”. The amount of the insurance payment is critical in determining the insurer's income from insurance activity.

The profit of the insurer is calculated monthly by the insurer account closure 76 „Insurance payments” in correspondence with subaccount 703 „Income from realization of work and services„, in which the insurers summarize information on the income from the provision of insurance services, the results of changes in reserves for unearned premiums, reinsurance transactions result (in correspondence with subaccount 705 „Reinsurance„).

Analytical accounting of income from insurance operations is advisable to con-
duct according to the types of services, region of sales and / or other areas as deter-
mained by the insurer. In order to form the account about financial results without additional sampling it is necessary to open analitical accounts to subaccount-49 „Insurance reserves”.

4. Conclusion

The classification of income from insurance operations is conducted according
to the organized research, the comparative characteristics of types of income of the
insurer are provided, which appear in various forms of report, the basis for the
information, which reflects the index of income of the insurer in the financial
account, is given above.

Summary:

The methodological approaches to the construction of accounting of income in
insurance companies, especially classification of the income of the insurer, the
recognition of income from insurance activities in accounting in order to display
them in the accounting on the bases of which the users make management decisions,
are revealed in the article. The lack of regulatory bases in accounting methodology
in insurance organizations creates a number of problems concerning the recognition
of income of the insurer and the order of formation of indicators of the income in the
current accounting and reporting.

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