Accounting Unique to Insurance Agencies

Generic - Not Management System Specific

Please print out pages 91-95 and have ready for the class. This information will be referenced throughout the course.

Accounting processes in retail insurance agencies are still accounting, but as you'll learn through the lessons of this course, their practices and procedures are very different from any other business. Because of the unique nature of the company/agent/client relationship, agencies are required to employ very specific, detailed records of their sales and funds entrusted to them. Because of this unique position, many of the concepts of insurance agency accounting are foreign to those with many years of experience in other industries.

Join Janet Tuttle as she untangles the intricate and complicated nature of insurance agency accounting in way that will leave you feeling confident that you know what makes these accounting methods *truly unique!*

Developed for NetVU by:
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Director
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Janet has over 35 years of accounting experience, 26 specifically dedicated to insurance-specific issues. During her career, she has conducted workshops and taught bookkeeping for agency personnel for over 25 years. She has been involved with local insurance agents' associations since 1989. She is also well versed in Outlook, Word and Excel.

Her role at TDECU Insurance has evolved past accounting and is engaged in overall agency operations. Key accomplishments include integrating 3 acquired agencies from an accounting and operational standpoint. Improved and consistent work flows from all teams including – accounting, operations, personal, commercial and health insurance – have helped operationally align these agencies.

Janet is the ***NetVU 2017 Winner of the Volunteer of the Year Award in Memory of James M. Gibson.*** This award recognizes an individual for outstanding volunteer service to NetVU and its community of members during the past year, and has led through example and achieving results.

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Accounting Unique to Insurance Agencies

Table of Contents

Introduction to T-Accounts

DEBIT (DR)	CREDIT (CR)

This is a basic T account used to better understand all types of accounting. It gets its name because it looks like a T. A debit is always on the left side of the T and a credit is always on the right side of the T. Debit and Credit represent different meanings in different types of accounts.

Financial Statement Components

ASSETS

DEBIT (DR)*	CREDIT (CR)
+	-

*DENOTES NORMAL BALANCE

An Asset is anything of value that is owned by the agency.

Examples are Cash, Office Furniture, Accounts Receivable, Land, Building, Leasehold Improvements and Prepaid Expense. Assets are listed the left-hand side of the T account. An asset's normal balance is a debit. When you make a debit entry for an asset, it increases (+). When you make a credit entry for an asset, it decreases (-). An Asset will appear on the Balance Sheet.

LIABILITIES

DEBIT (DR)	CREDIT (CR)*
-	+

*DENOTES NORMAL BALANCE

A Liability is an amount that is owed by the agency. This is commonly referred to as a "payable". A Liability will always appear on the Balance Sheet.

Examples are Vendor Payable, Note Payable, LOCs, Company Payable and Producer Payable. Liabilities are listed on the right side of the T account. When you make a debit entry for a liability, it decreases (-). When you make a credit entry for a liability, it increases (+).

EQUITY/CAPITAL

DEBIT (DR)	CREDIT (CR)*
-	+

*DENOTES NORMAL BALANCE

Equity is also referred to as Capital. This is the amount that remains after the total liabilities are subtracted from the total assets. It is *"what the business is worth."* Equity or Capital will also appear on the Balance Sheet. This is where the behind the scenes posting happens to keep your bookkeeping system in balance. Income and Expense will be posted here in total.

Examples are owner's capital account and retained earnings and draw. When you make a debit entry for equity, it decreases (-). When you make a credit entry for equity, it increases (+).

INCOME

DEBIT (DR)	CREDIT (CR)*
-	+

*DENOTES NORMAL BALANCE

Income is an increase in equity or capital that results from the operation of a business. Income is also known as revenue.

Examples are Commission income, Interest income, and Contingency income. These accounts will appear on the Income Statement also referred to as the Profit and Loss Statement.

Just as in equity or capital, income's normal balance is a credit. When you make a credit entry for income it increases (+) and a debit decreases (-). Crediting all Income transactions to the capital account would make that account large and hard to analyze. Therefore, income is recorded in separate income accounts such as Property & Casualty Commission or Direct Bill Commission and Sales Income. An agency is making a profit if the income is greater than the expenses. If an agency has more expenses than income, this is referred to as a loss. In an agency, the premium being paid to the agency is not income, only the Commission portion of the premium is income or revenue.

EXPENSE

DEBIT (DR)*	CREDIT (CR)
+	-

*DENOTES NORMAL BALANCE

Expense is a decrease in equity that results from the operation of a business. Business expense is the cost of items and services used to produce income. These accounts will appear on the Income Statement, also referred to as the Profit and Loss Statement.

There are two types of expenses. The first is Sales or Cost of Sales Expense and the second is G&A or General and Administrative Expenses. Sales Expenses are directly related to the income generated through the selling of insurance products and G&A occurs without income necessarily being generated. Gross Profit will be Income less Sales Expense; Net Profit is Gross Profit minus G&A expenses. Net profit or loss is referred to as “the bottom line” income less all expenses.

Sales Expenses can include Advertising, Producer Expense, Producer T&E. G&A expenses include Officer and Staff Salary, Rent, Depreciation, Telephone and others. When you make a debit entry, the expense is increased (+). When you make a credit entry, it decreases (-).

Introduction to Financial Statements

DEBITS

MUST

EQUAL

CREDITS

This is referred to as double-entry bookkeeping.

This is why Debits and Credits effect accounts differently and a debit doesn't always increase, etc. Your management system will not let you post an entry out of balance.

ASSETS

Equal (=)

LIABILITIES

Plus (+)

CAPITAL

This is the basic accounting formula or statement for all type of bookkeeping.

INCOME

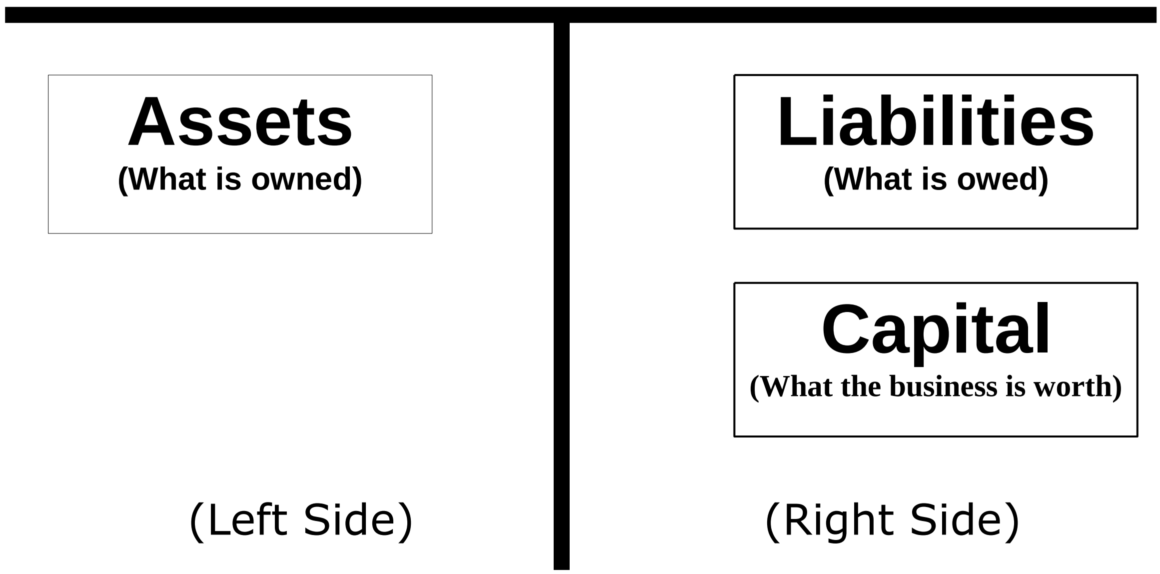
Less

EXPENSE

Equals

PROFIT or (LOSS)

BALANCE SHEET



A Balance Sheet shows the condition of the business at a specific time. Like a "Snapshot". Normally reviewed only at end of a period. This diagram represents normal balances. See a sample Balance Sheet on the next page.

NetVU	Balance Sheet Ending Balances Only	8/7/2019	Page 1 of 1
GL#	**All Divisions**		**Balance as of 12/31/2018**
	ASSETS		
	Current Assets		
	Cash Accounts		
11131000	1st Trust & Loan Operating		25.00
11170000	Bank Holding Account		500.00
	Total Cash Accounts		**525.00**
	Accounts Receivable		
	Accounts Receivable - Agency Business		
11211000	AR - Agency Business		-500.00
	Total Accounts Receivable - Agency Business		**-500.00**
	Accounts Receivable - Broker Business		
11221000	AR - Broker Business		4,875.00
	Total Accounts Receivable - Broker Business		**4,875.00**
	Total Accounts Receivable		**4,375.00**
	Total Current Assets		**4,900.00**
	TOTAL ASSETS		**4,900.00**
	LIABILITIES		
	Current Liabilities		
	Accounts Payable		
	Accounts Payable to Companies		
21111000	Accounts Payable to Insurance Companies		4,500.00
	Total Accounts Payable to Companies		**4,500.00**
	Total Accounts Payable		**4,500.00**
21350000	Accrued Vendor Payables		-25.00
	Total Current Liabilities		**4,475.00**
	TOTAL LIABILITIES		**4,475.00**
	EQUITY		
	Retained Earnings		
	Undistributed Net Profit (Loss)		425.00
	Total Retained Earnings		**425.00**
	TOTAL EQUITY		**425.00**
	TOTAL LIABILITIES & EQUITY		**4,900.00**

INCOME STATEMENT

Expense	Income
(Left Side)	(Right Side)

An Income Statement shows the progress of the company over a specific period of time like a "Moving Picture". Will calculate monthly profit or loss as well as YTD. (Year to date). See next page for a sample Profit/Lost Statement.

NetVU	Income and Expense Statement Report Period Plus YTD 1/1/2018 - 12/31/2018	Date: 08/07/2019	Page 1 of 1

GL#	All Divisions, All Departments	1/1/2018 - 12/31/2018	Period % Total Incm	1/1/2018 - 12/31/2018	YTD % Total Incm
	INCOME				
	Property & Casualty Commission				
	P&C Agency Bill Commission Income				
40111000	P&C AB Commission Inc - Insurance Co	500.00	100.0	500.00	100.0
40110000	**Total P&C Agency Bill Commission Income**	**500.00**	**100.0**	**500.00**	**100.0**
	P&C Direct Bill Commission Income				
40100000	**Total Property & Casualty Commission**	**500.00**	**100.0**	**500.00**	**100.0**
	Life and Health Commission				
	L&H Agency Bill Commission Income				
	L&H Direct Bill Commission Income				
40200000	**Total Life and Health Commission**	**0.00**	**0.0**	**0.00**	**0.0**
	Other Commission				
	Other Agency Bill Commission Income				
	Other Direct Bill Commission Income				
40300000	**Total Other Commission**	**0.00**	**0.0**	**0.00**	**0.0**
	Financial Services Commission				
	FS Agency Bill Commission Income				
	FS Direct Bill Commission Income				
40400000	**Total Financial Services Commission**	**0.00**	**0.0**	**0.00**	**0.0**
	Other Income				
	Late Charge Income				
41100000	**Total Other Income**	**0.00**	**0.0**	**0.00**	**0.0**
	Income Adjustments				
40000000	**Total INCOME**	**500.00**	**100.0**	**500.00**	**100.0**
	SALES EXPENSE				
	Sales Salaries & Commissions				
	Agency Bill Commission Expense				
51120000	AB Commission Expense - Broker Business	125.00	25.0	125.00	25.0
51100000	**Total Agency Bill Commission Expense**	**125.00**	**25.0**	**125.00**	**25.0**
	Direct Bill Commission Expense				
51000000	**Total Sales Salaries & Commissions**	**125.00**	**25.0**	**125.00**	**25.0**
	Automobile Expense				
50000000	**Total SALES EXPENSE**	**125.00**	**25.0**	**125.00**	**25.0**
	ADMINISTRATIVE EXPENSE				
	Administrative Salaries				
	Insurance				
63100000	Office Supplies & Printing	-50.00	-10.0	-50.00	-10.0
	Taxes				
60000000	**Total ADMINISTRATIVE EXPENSE**	**-50.00**	**-10.0**	**-50.00**	**-10.0**
	Total SALES & ADMINISTRATIVE EXPENSE	**75.00**	**15.0**	**75.00**	**15.0**
	Operating Profit (Loss)	**425.00**	**85.0**	**425.00**	**85.0**

Understanding the relationship between account groups

To understand the previous financial statements, study the equations below to see how Assets are stated the same as Expenses, and Liabilities are stated the same as Income.

A = L + C

A = L + (Equity + Income - Expenses)

A + E = L + I

Assets and Expenses customarily have debit balances. Debits increase and credits decrease the balances of these accounts. Liabilities and Income customarily have credit balances. Debits decrease and credits increase the balances of the accounts. Capital and Equity are almost the same depending on Individual, Partnership, LLC and/or Corporation. During the end of the month process the profit or loss (difference between income and expense) is noted in Capital as Undistributed Profit or Loss. This keeps the balance sheet in balance, and debits = credits. Agency Management and Bookkeeping systems do this calculation behind the scenes.

Insurance Agency-Specific T-Accounts

CASH

DEBIT (DR)*	CREDIT (CR)
+	-

*DENOTES NORMAL BALANCE

Cash is an asset account. The cash account (Checking or Operating, Money Market, Trust, CD, petty cash) will reflect the balance of the account after all checks and deposits are recorded for the month. A check written to pay a company or vendor would credit (or decrease) cash (-). A deposit, such as, from a customer, would be a debit and would increase cash (+). Cash normally would have a debit (positive) balance.

Entries affect the agency's cash account opposite the banking notices that you receive from the bank. Imagine you own the bank: a customer's account would be a liability to the Bank or a payable. The bank must be able to cover the balance in an account at all times. A customer's deposit increases the bank's liability because it increases the amount owed to the customer. When the bank pays the customer or clears a check this is a debit charge, which decreases the bank's liability. (The customer's account balance in the bank now is smaller). Review your T account for liability – this is what *your* Cash Account looks like in bank's accounting records. You have to remember this when notices are received. If you receive a credit memo from the bank, it will increase your cash or debit the cash. Remember that the bank is affecting a liability account in their books. This is another reason that when you do a phone transfer for example, you say transfer to and from and not debit or credit. We are not talking the same type of entry or account.

PREPAID EXPENSE

DEBIT (DR)*	CREDIT (CR)
+	-

*DENOTES NORMAL BALANCE

Prepaid Expense also is an asset account. An example of Prepaid Expense would be an insurance policy covering the agency paid in advance for 12 months. You would might want spread the expense out over the 12 months' period but pay the invoice in full to take advantage of an annual pay discount. For example, an invoice paid in January 2018 for February 2018 to January 2019 policy - when paid in January, it would be a prepaid expense for the total amount. None of the policy coverage has been used at this stage. In February, one twelfth would be expensed and the rest would remain in prepaid expense. This would continue until the Prepaid Expense amount is zero. This prepaid creates value to an agency. In a case where the agency is sold and future expenses are transferred to the new owner, the balance of the Prepaid Expense could be reimbursed to the agency. This is why Prepaid is categorized same as Cash. Remember debits = credits. When you cut a check to pay for a policy, you would credit cash to decrease it and debit prepaid expense to increase it.

A/R (CUSTOMER)

DEBIT (DR)*	CREDIT (CR)
+	-

*DENOTES NORMAL BALANCE

Customer Accounts Receivable is an asset account. The balance in this account will reflect the amounts owed to the agency by its customers. A debit balance would mean money is due from the customer. An example would be premium due for a new or renewal policy. A credit balance could represent a check that has been deposited for a policy from the customer and not yet invoiced; or a return (credit) endorsement or cancellation that has been invoiced but not yet returned to the customer; for example, deleting a car. This would mean that a refund is due the customer. A debit entry (charge) would increase the receivable (+) and a credit entry (return or payment received) would decrease the receivable (-).

ACCOUNTS PAYABLE-INSURANCE COMPANY

DEBIT (DR)	CREDIT (CR)*
-	+

*DENOTES NORMAL BALANCE

Insurance Company Accounts Payable is a liability account. The amount in this account would represent the net amount due to the insurance company for policies written by the agency. The net amount is the full premium less allowed agency commissions. The normal balance would be a credit, indicating that the company is owed money. At some point in a month, a particular company's account balance could be zero but generally, companies the agency is actively writing business will with have some kind of balance owed to them at all times. An invoice for new or additional premium owed the company would increase (+) the payable and be a credit. An endorsement for a return premium would decrease (-) the payable and be a debit. This is exactly opposite your customer's account. (AR). Remember we're talking about double entry bookkeeping and debits must equal credits.

COMMISSION INCOME

DEBIT (DR)	CREDIT (CR)*
-	+

*DENOTES NORMAL BALANCE

Property/Casualty Income is an income or revenue account. This represents the "commission "made on a policy by the agency. When a new or additional premium is invoiced, the percentage of commission earned by the agency is credited to this account and increases the income. (+) When a return premium is invoiced the commission earned by the agency is due back to the company and the account decreases. (-)

PRODUCER EXPENSE

DEBIT (DR)*	CREDIT (CR)
+	-

*DENOTES NORMAL BALANCE

Producer Commission Expense represents the amount of commission paid to the producers. This is a cost of doing business for the agency. This percentage is usually an amount less than the percentage of commission income received by the agency on a policy. For example, on a $200.00 premium with a 20% commission income and a 10% producer commission expense, the agency would receive $40 (commission income) from the company and the agency would pay $20 (producer commission expense) to the producer. When a new or additional premium is invoiced with a producer commission, the producer commissions expense account, is increased (or debited). (+) When a return premium is invoiced, the producer commissions expense account is decreased (or credited). (-)

Producer expense is always offset to producer payable automatically during the system’s invoice posting process.

PRODUCER PAYABLE

DEBIT (DR)	CREDIT (CR)*
-	+

*DENOTES NORMAL BALANCE

Producer/Broker Commission Payable is a liability account. The amount in this account represents the commissions owed to the agency's producers or brokers. This would generally be expressed as a percentage of the commission received by the agency for a customer's policy. There will be a credit balance until the producer or broker is paid by the agency, usually once a month from a producer statement. The agency doesn’t want to cut a check each time the producer writes new business or a policy is renewed or endorsed. When the check is cut from cash to pay the producer or broker this will debit the payable or decrease the amount owed by the agency (-). When a return premium is invoiced, this will also debit or decrease the amount owed by the agency to the producer. When the new or additional premium is invoiced, this account will be credited for the percentage owed the producer or broker and would increase the balance (+).

Invoicing Effects on T-Accounts and Financial Statements

The following pages contain a number of word problems that describe very common invoicing situations that occur in your agency every day. Each problem is designed to grow your understanding of the accounting impacts of the invoicing process. Worksheets accompany each word problem so that you can record your answers and have a reference document to review later, and to share with others you will train on these concepts. There are also blank posting sheets on pages 94 and. It might be easier to print out 13 copies of the Agency Bill Scenario Posting Sheet on page 94, and 1 copy of the Direct Bill Scenario Posting Sheet on page 95 so you have them handy.

As you are working through the problems and posting your answers on the T account sheet, put the step number that entry corresponds to beside the debit and credit as you write them down. As you'll see in the presentation, we've color coded each step so that it is easier to follow along.

<u>Problem #1:</u>

This problem assumes only one policy due for this company and only one policy written by producer.

1. This is an Auto policy with an annual premium of $2,000. The agency receives from Dreamland 20% commission ($400.00). The producer receives 10% of premium 50 % of agency's commission. The producer commission is ($200). Both are invoiced only at this stage. There are 5 account effected and all will increase or have a + (plus) sign above on the T account.
2. Agency deposits full payment from customer.
3. Agency pays company the net premium due ($1,600).
4. The producer is paid by the agency ($200).

Problem #1 Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

BALANCE SHEET Impact– Problem #1

1. ASSETS

DEBIT*	CREDIT

2. LIABILITIES

DEBIT	CREDIT*

3. CAPITAL

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

NetVU

INCOME STATEMENT Impact – Problem #1

EXPENSE

DEBIT*	CREDIT

INCOME

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

Problem #2:

1. This is an agency policy, no producer. The premium is $500 a year. Agency commission is 10%. ($50.00). (All of these entries are increases [+].)

2. Agency deposits customer's check of $400.

3. Agency pays company. ($450.00)

Hint: Customer's A/R is not zero. Customer will have a balance.

Problem #2 Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

BALANCE SHEET Impact– Problem #2

1. ASSETS

DEBIT*	CREDIT

2. LIABILITIES

DEBIT	CREDIT*

3. CAPITAL

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

INCOME SHEET Impact – Problem #2

EXPENSE

DEBIT*	CREDIT

INCOME

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

Problem #3:

This is an agency policy, no producer. Go ahead and put an X over the T accounts labeled: A/P Finance Company, Commission Expense and Producer Payable.

Note: *Assume customer has a zero balance when starting this problem.*

1. The insured is adding a third car and the additional premium is $150. Commission is $30.00. (Commission can be a percentage or dollar amount.) Record invoice. There are only 3 accounts invoiced and all increases again (+)

2. Agency deposits customer's check for payment in full for additional premium.

3. The agency pays the company. ($120).

Problem #3 Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P INSURANCE COMPANY

-	+

A/R FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

BALANCE SHEET Impact– Problem #3

1. ASSETS	
DEBIT*	CREDIT

2. LIABILITIES	
DEBIT	CREDIT*

3. CAPITAL	
DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

INCOME STATEMENT Impact – Problem #3

EXPENSE	
DEBIT*	CREDIT

INCOME	
DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

Problem #4:

1. The insured and his wife completed a defensive driving course and the credit (return) premium is $60.00. The agency's commission was 20% ($12) and the producer commission was 50% [10% of premium or 50% of agency commission] ($6) (*Hint, there are 5 accounts involved.)* (This time opposite and will decrease accounts or have a minus sign on T account. (-).

2. A refund check is received from the company ($48) and deposited.

3. The agency deposits a check from the producer for his commission. (Assumes this is the only policy written by producer this month.

4. The insured is refunded credit since A/R balance was zero prior to this endorsement.

Reminder: Producer commission is 10% of Premium or 50% of agency commission. Sometimes the producer commission is a flat dollar amount.

Problem #4 Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

BALANCE SHEET Impact– Problem #4

1. ASSETS	
DEBIT*	CREDIT

2. LIABILITIES	
DEBIT	CREDIT*

3. CAPITAL	
DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

INCOME STATEMENT Impact – Problem #4

EXPENSE	
DEBIT*	CREDIT

INCOME	
DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

Problem #5:

Note: Additional premium and return premium is written with same insurance company.

1. Coverage is added for additional $80.00 premium. Agency's commission is 20% ($16) and the producer's commission is 50% ($8). No payment received from customer (*Hint: The customer should have an $80 balance due on his customer account receivable*.) (These are all +'s)

2. A few days later, the insured has deleted a car and the return premium is $100. The agency's returned commission will be 20% ($20) and the producer's returned commission will be 50% ($10). (These are all –'s)

3. The agency receives a check from the insurance company.

4. The agency receives a check from the producer.

5. The agency issues the customer a refund. ($?)

Problem #5 Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

BALANCE SHEET Impact– Problem #5

1. ASSETS

DEBIT*	CREDIT

2. LIABILITIES

DEBIT	CREDIT*

3. CAPITAL

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

INCOME STATEMENT Impact – Problem #5

EXPENSE

DEBIT*	CREDIT

INCOME

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

Problem #6:

Note: Original policy was invoiced and paid in full in prior months. Customer has a zero balance when you start this problem).

1. This is an agency policy, no producer. An endorsement has been received with an additional premium of $200. Agency's commission is 20%. [These are all increases +'s]

2. The insured canceled policy in full (same company as endorsement) and the return premium is $500. The agency's commission was 20% ($100). [These are all decreases or –'s]

3. The agency receives a check from the company. ($240).

4. The agency refunds the customer. ($?)

Problem #6 Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

BALANCE SHEET Impact– Problem #6

1. ASSETS

DEBIT*	CREDIT

2. LIABILITIES

DEBIT	CREDIT*

3. CAPITAL

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

INCOME STATEMENT Impact – Problem #6

EXPENSE	
DEBIT*	CREDIT

INCOME	
DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

Premium Finance Company

This represents the amount of premium financed by an insurance company's own finance company or an outside finance company. Usually 20% to 35% down payment is collected by the agency when the policy is written. Always zero (0) commission. Depending on the insurance company, the finance company remits amount due to the agency to pay insurance company or the finance company may remit direct to insurance company writing the policy. The finance company then deals directly with the customer to collect the finance company's monthly payments. The agency and company will be notified if the customer is late or misses a payment. A cancellation process may begin at this time.

This is the *MOST IMPORTANT* account to reconcile since it affects agency's cash flow!! It is one of the easiest and is very much the same as statement companies except that the money is due the agency and not the insurance company!

Standard Companies 20% down

General Agency 25% down or Minimum Earned Premium (25 to 35%)

Some companies will finance tax, some won't. The agency normally has to collect the policy fee since it is fully earned and not refunded. The down payment would be for example: 25% down plus policy fee.

$500-$1,000 usually Minimum Premium.

Some agencies will do in-house financing. Usually high interest rates and it must be monitored very closely. There are software packages that handle this. There is now a method on some AMS systems to track this for your agency.

Problem #7:
Note: Use the separate T account for the outside finance company portion of the invoice.

1. This is an agency policy, no producer. The agency deposits the customer's $200 down payment check.

2. The premium is $1000. $800 has been financed with an outside finance company. Agency commission is 10% ($100).

3. Agency receives payment from the finance company.

4. Agency pays insurance company.

Problem #7 Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

BALANCE SHEET Impact– Problem #7

1. ASSETS

DEBIT*	CREDIT

2. LIABILITIES

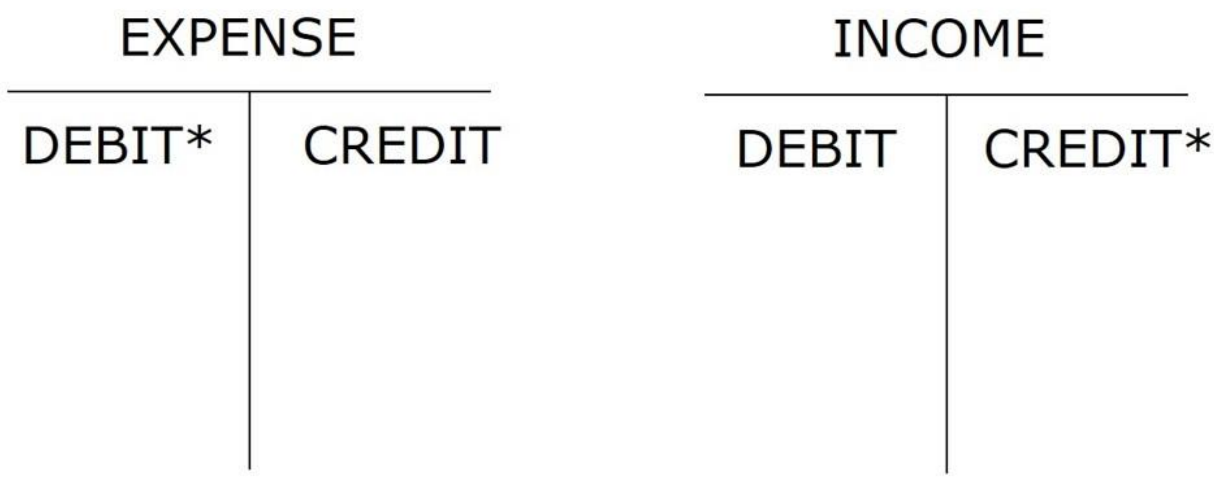
DEBIT	CREDIT*

3. CAPITAL

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

INCOME STATEMENT Impact – Problem #7



*** DENOTES NORMAL BALANCE**

Problem #8:

1. This is an agency policy, no producer. Agency writes new policy, premium $1200, financed with insurance company's **own** finance company for $900.00. The agency's commission is 15%. (180)

2. Agency deposits insured's down payment of 25%. ($300.00)

3. Agency pays insurance net amount due. ??

Problem #8 Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

BALANCE SHEET Impact– Problem #8

1. ASSETS	
DEBIT*	CREDIT

2. LIABILITIES	
DEBIT	CREDIT*

3. CAPITAL	
DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

NetVU

INCOME STATEMENT Impact – Problem #8

EXPENSE

DEBIT*	CREDIT

INCOME

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

Problem #9:

1. This is an agency policy, no producer. The insured has canceled a car and the policy was originally financed by an outside finance company. The return premium is $200. The original agency commission was 10% ($20). The note charge back due to the finance company is $150. (There are 5 debits or credits to complete this invoice in step one)

2. Agency receives net return from the company.

3. Agency paid note charge back to the finance company.

4. Agency refunds the customer.

Note Charge Back: Amount left unpaid on a finance note when policy is cancelled mid-term. It is very important to always know this amount. When received credit premiums from the insurance company without the note charge back, be sure and don't do refund customer till are positive customer balance zero with finance company. Sometimes you get note charge back at a later date. If originally financed, ALWAYS check for note charge back!

Problem #9 Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

BALANCE SHEET Impact– Problem #9

1. ASSETS	
DEBIT*	CREDIT

2. LIABILITIES	
DEBIT	CREDIT*

3. CAPITAL	
DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

INCOME STATEMENT Impact – Problem #9

EXPENSE

DEBIT*	CREDIT

INCOME

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

Problem #10:

This problem is a little harder. Don't forget the bottom two (2) accounts for producer. Use T for A/P finance company since outside finance company

1. This policy has a producer. The insured canceled his policy and the return premium is $300 and the note charge back is $250. The agency commission is 20% ($60) and the producer commission is 10% ($30). This policy was financed by an outside premium finance company. (Make sure Debits = Credits) (There are 7 debits and credits to complete this invoice in step 1)

2. Agency receives net return from the company.

3. Agency paid the note charge back to finance company.

4. Agency refunds credit left on account to customer

5. Agency receives check from producer.

Problem #10 Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

BALANCE SHEET Impact– Problem #10

1. ASSETS

DEBIT*	CREDIT

2. LIABILITIES

DEBIT	CREDIT*

3. CAPITAL

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

INCOME STATEMENT Impact – Problem #10

EXPENSE

DEBIT*	CREDIT

INCOME

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

Problem A:

T accounts the following. All transactions are for same customer, same company and same producer. Remember to record entries for commissions and producers.

1. New policy issued for $500.00. Agency commission from company is 20% ($100.00). Producer commission is 10% ($50). (These all are increases and have a plus sign above)

2. The customer pays full amount and is deposited to bank account. Customer had zero balance prior to this policy.

3. Company is paid full net amount.

4. The insured completed a defensive driving course and an endorsement is received showing a credit (return) premium of $60.00. Don't forget producer. Assume same commissions. (These are all decreases and have minus – sign above)

5. A refund check is received from company is deposited.

6. Producer is paid amount owed for end of month.

7. Transaction is done to clear customer's account.

How much total commission income is generated by these transactions?

How much total expense?

How much does the agency make on this policy for this customer?

How much is in Cash account?

Problem A Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

Problem B:

T accounts the following and answer questions as you go. Assume the policy is for the same customer, same company and same producer. ***Remember producers and commissions.***

1. Payment from customer is received for $250.00 and deposited and applied to customer account.

2. Policy is received and invoiced. Total premium is $1000, 20% commission ($200) and
   $750 financed with an outside premium finance company. The producer's commission is 10% of premium or 50% of agency commission. (All increases +)
   a. What is balance of customer's account?
   b. What is owed to insurance company?

3. Insured receives policy and calls and adds additional coverage and endorsement is issued which generates additional premium of $80.00. Customer chooses not to add to premium note. This is invoiced. (All increases +)
   a. What is customer's balance?
   b. What is owed to insurance company?
   c. What is due from finance company.

4. Deposit money received from finance company.

5. Cut a check to pay insurance company.

6. Cut a check to producer.

7. What action should be taken to clear customer's account?

How much total commission income?
How much total expense?
How much made on this policy for this customer?
How much in Cash account?
Why?

Problem B Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

<u>Problem C:</u>

T account the following. Assume that the policy for same customer, same company and same producer. ***<u>Remember commissions and producers</u>***.

1. New policy issued for $800.00. Agency commission from company is 20%.

   Producer's commission is 10%. (50% of agency commission) (All increases + on the T accounts)

2. A check from customer is received for $400 and deposited. (Customer had zero balance prior to this policy.)

   a. What is customer's balance?

   b. What is owed Company?

   c. What is owed Producer?

3. The insured cancels policy and the return premium is $560 and this is now invoiced. (All decreases – on T accounts)

4. A check is issued to insurance company.

5. Producer is paid amount owed for end of month.

6. Transaction is done to cleared customer's account

How much total commission income?

How much total expense?

How much made on this policy for this customer?

What is balance of cash account? *Income is cash!*

Problem C Answer Worksheet

CASH

+	-

CUSTOMER A/R

+	-

A/P
INSURANCE COMPANY

-	+

A/R
FINANCE COMPANY

+	-

COMMISSION INCOME

-	+

COMMISSION EXPENSE

+	-

PRODUCER PAYABLE

-	+

Bank Reconciliation

Here are three different forms that may be used if your system does not reconcile for you. Most people know how to do this and just need a format to follow. The next page shows a typical reconciliation form found on the back of most bank statement pages.

The most frequent mistake made is performing the reconciliation to the bank statement to the last check that clears. You should reconcile to last check recorded *by the agency* for the month you are reconciling so you can balance your checkbook bank balance and general ledger balance at the same time.

Listed below are a few items that often explain differences found between the bank's records and the agency's when you reconcile.

- Service charge must put in checkbook and general ledger
- Interest earned
- Check printing fees
- NSF checks and related fees
- Transfer between accounts and related bank fees

Deposits:

- Reconcile to the last entry the AGENCY made on the books for the month
- Include incoming ACH entries as they come in –at least weekly
- Record NSF transactions immediately, including any fees assessed

Checks:

- Use system's check register for manual check clearing if not automated
- Run check register after reconciling to get total of outstanding checks
- Record outgoing auto-pay transactions as they go out – at least weekly

Most systems will list out a check register and you can use this to reconcile. Some will let you mark off the cleared checks and give you a report of the checks that haven't cleared.

Most systems have good reconciliation programs but some will only produce an outstanding list that don't include deposits, fees, etc. unless you manually input them. These items have been input as journal entries rather than showing up as what they actually are -deposits, fees, etc..

As long as you can display your general ledger cash balance, any time you enter deposits or checks you should be able to compare checkbook balance with the general ledger and it should be the same. If you do this once a week or so, at end of month the statement will be easy to reconcile. This way if an error is found, it will be the same on the checkbook and the general ledger.

If not, comparing checkbook to general ledger, the checkbook could be wrong and general ledger right or vice versa. This just saves time and serves as a double check on your checkbook balance.

- Routine looks at online bank site – at least weekly – will insure that operating accounts are fully funded
- Looking at online bank site weekly means transactions are accounted for during the month making the month-end reconciliation go more smoothly
- System bank balance should rule…following these guidelines means it is the most accurate, up-to-date record of the agency’s cash position

Bank Reconciliation Form

Account Number: ____________________ Date: ____________________

Bank: ____________________ Statement Date: ____________________

Company: ____________________ GL#: ____________________

I. Balance This Statement $____________________

Additional Deposits Made Since Statement

Date:	Amount:
__________	__________
__________	__________
__________	__________

Balance with Deposits: $____________________

II. Outstanding Checks

#________	$________	#________	$________	#________	$________
#________	$________	#________	$________	#________	$________
#________	$________	#________	$________	#________	$________
#________	$________	#________	$________	#________	$________
#________	$________	#________	$________	#________	$________
#________	$________	#________	$________	#________	$________
#________	$________	#________	$________	#________	$________
#________	$________	#________	$________	#________	$________
#________	$________	#________	$________	#________	$________
#________	$________	#________	$________	#________	$________

Total of Outstanding Checks $____________________

Balance Without Checks $____________________

IV. Bank Charges and Miscellaneous

____________________ $____________________

____________________ $____________________

____________________ $____________________

V. Balance $____________________

VI. Checkbook Balance $____________________

Accounts Payable-Insurance Companies Reconciliation

Reconciling refers to the process of verifying that individual insurance company balances roll up and match the total in the general ledger.

Most automation systems have a subledger as in the examples used in this class guide and the subledger ties back to one general ledger number on the balance sheet. Some systems have each company listed on the general ledger as a separate company showing only the balance forward and the current month activity. See the following pages for samples from AMS360, a Vertafore agency management system.

Subsidiary Ledger Accountings Payable-Insurance Companies

Kimberly's Insurance Group	Subsidiary Ledger 21111000, Accounts Payable to Insurance Companies	3/9/2018 Page 4 of 7
Kimberly's Edwards	Through 3/9/2018	

Chubb Insurance Group - DBS (Continued)

Customer	Policy	Inv#	InvDate	InvEffDate	Company Gross	Agency Comm	Net Payable	GL Balance
		0000955	06/14/2017	11/07/2017	417.00	104.25	312.75	312.75
		0000956	06/14/2017	12/07/2017	417.00	104.25	312.75	312.75
		0000960	06/14/2017	01/07/2018	417.00	104.25	312.75	312.75
		0000961	06/14/2017	02/07/2018	417.00	104.25	312.75	312.75
		0000962	06/14/2017	03/07/2018	417.00	104.25	312.75	312.75
Gauff, James	PA1245887	0001052	11/14/2017	10/12/2017	69.00	0.00	69.00	69.00
		0001053	11/14/2017	11/12/2017	71.00	0.00	71.00	71.00
		0001054	11/14/2017	12/12/2017	71.00	0.00	71.00	71.00
Timber Ridge Lumber, Inc.	WC12345	0001045	10/30/2017	10/24/2017	100,000.00	18,000.00	82,000.00	82,000.00
Walton's Books	GL9876	0001065	01/29/2018	01/26/2018	1,500.00	270.00	1,230.00	1,230.00
Chubb Insurance Group - DBS Total								**98,226.50**

Cincinnati Insurance Company

Customer	Policy	Inv#	InvDate	InvEffDate	Company Gross	Agency Comm	Net Payable	GL Balance
A & R Engineering and Testing	WC87654	0000771	09/19/2016	10/04/2016	1,000.00	100.00	900.00	900.00
		0000815	10/14/2016	11/04/2016	1,000.00	100.00	900.00	900.00
		0000823	11/04/2016	12/04/2016	1,000.00	100.00	900.00	900.00
		0000832	12/05/2016	01/04/2017	1,000.00	100.00	900.00	900.00
		0000842	01/05/2017	02/04/2017	1,000.00	100.00	900.00	900.00
		0000853	02/02/2017	03/04/2017	1,000.00	100.00	900.00	900.00
		0000867	03/05/2017	04/04/2017	1,000.00	100.00	900.00	900.00
		0000926	03/28/2017	05/04/2017	1,000.00	100.00	900.00	900.00
		0000927	03/28/2017	06/04/2017	1,000.00	100.00	900.00	900.00
Jenkins & Leggett, Attorney's at Law	BA12341	0000767	10/07/2016	09/01/2016	1,500.00	150.00	1,350.00	1,350.00
Villa, Bob	HM0998765	0000773	09/23/2016	10/08/2016	909.00	90.90	818.10	818.10

General Ledger
Accounts Payable
Insurance Companies

Kimberly's Insurance Group

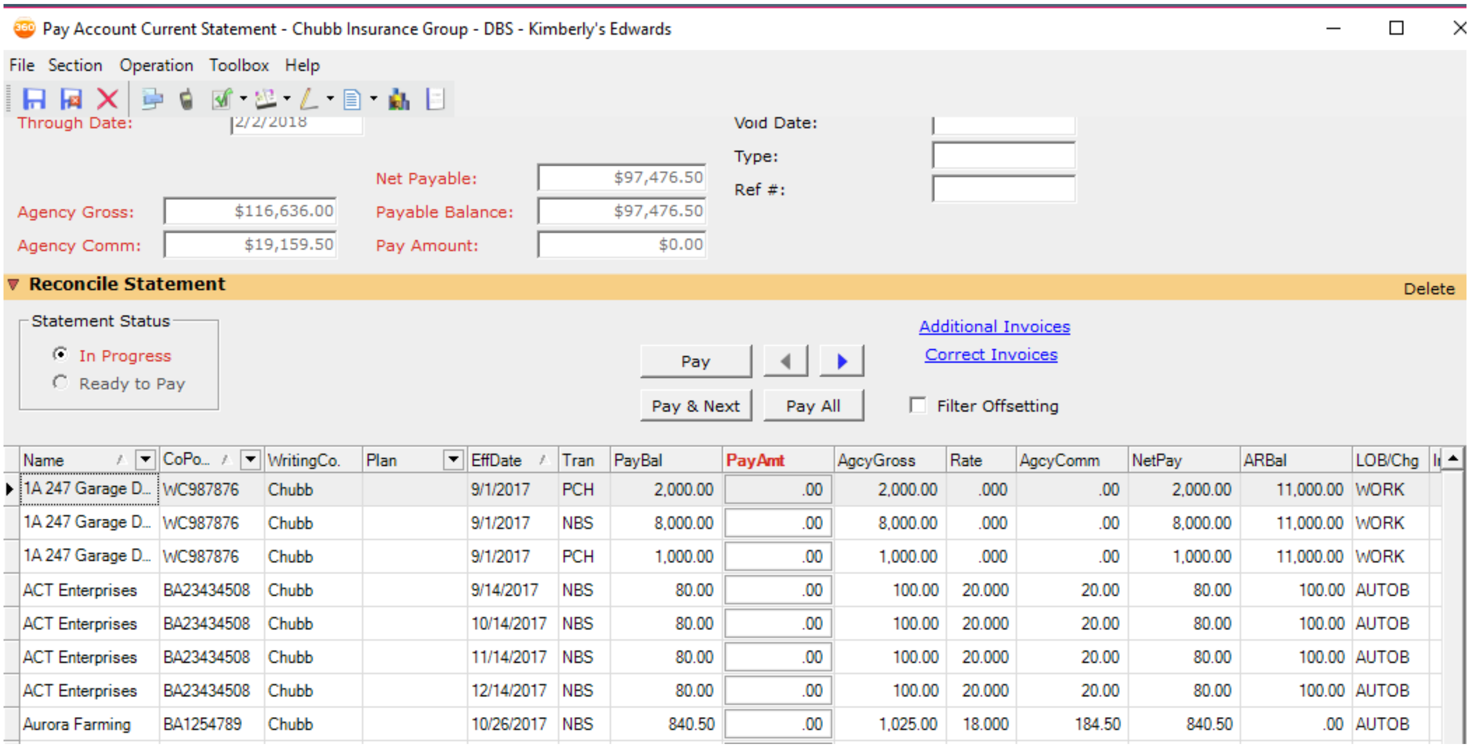
3/9/2018 Page 1 of 2

General Ledger
1/1/2018 - 12/31/2018

	Beginning Balance	Debits	Credits	Net Charges	Ending Balance
GL 21111000 Accounts Payable to Insurance Companies					
Acuity	-2,660.00	0.00	1,642.50	-1,642.50	-4,302.50
Aetna Ins. Co.	-4,827.80	0.00	0.00	0.00	-4,827.80
American States	6,900.00	10,800.00	19,800.00	-9,000.00	-2,100.00
BlueCross BlueShield FL	-62,381.24	0.00	0.00	0.00	-62,381.24
Chubb Insurance Group - DBS	-95,871.50	0.00	2,355.00	-2,355.00	-98,226.50
Cincinnati Insurance Company	-10,268.10	0.00	0.00	0.00	-10,268.10
CNA Insurance	-425.00	0.00	0.00	0.00	-425.00
Commercial Union Insurance Co.	-65,835.00	0.00	540.00	-540.00	-66,375.00
General Casualty	-24,075.00	0.00	0.00	0.00	-24,075.00
MetLife	-4,770.00	0.00	0.00	0.00	-4,770.00
Pacific Insurance	-5,242.50	0.00	0.00	0.00	-5,242.50
Progressive	-714.45	0.00	0.00	0.00	-714.45
Safeco	-18,273.20	0.00	0.00	0.00	-18,273.20
Travelers Insurance Co	-18,170.55	0.00	0.00	0.00	-18,170.55
Westfield Insurance Co	-3,375.00	0.00	0.00	0.00	-3,375.00
Acct Summary	**-309,989.34**	**10,800.00**	**24,337.50**	**-13,537.50**	**-323,526.84**

NetVU

Sample: Account Current Statement



Name	CoPo...	WritingCo.	Plan	EffDate	Tran	PayBal	PayAmt	AgcyGross	Rate	AgcyComm	NetPay	ARBal	LOB/Chg
1A 247 Garage D...	WC987876	Chubb		9/1/2017	PCH	2,000.00	.00	2,000.00	.000	.00	2,000.00	11,000.00	WORK
1A 247 Garage D...	WC987876	Chubb		9/1/2017	NBS	8,000.00	.00	8,000.00	.000	.00	8,000.00	11,000.00	WORK
1A 247 Garage D...	WC987876	Chubb		9/1/2017	PCH	1,000.00	.00	1,000.00	.000	.00	1,000.00	11,000.00	WORK
ACT Enterprises	BA23434508	Chubb		9/14/2017	NBS	80.00	.00	100.00	20.000	20.00	80.00	100.00	AUTOB
ACT Enterprises	BA23434508	Chubb		10/14/2017	NBS	80.00	.00	100.00	20.000	20.00	80.00	100.00	AUTOB
ACT Enterprises	BA23434508	Chubb		11/14/2017	NBS	80.00	.00	100.00	20.000	20.00	80.00	100.00	AUTOB
ACT Enterprises	BA23434508	Chubb		12/14/2017	NBS	80.00	.00	100.00	20.000	20.00	80.00	100.00	AUTOB
Aurora Farming	BA1254789	Chubb		10/26/2017	NBS	840.50	.00	1,025.00	18.000	184.50	840.50	.00	AUTOB

Statement Company

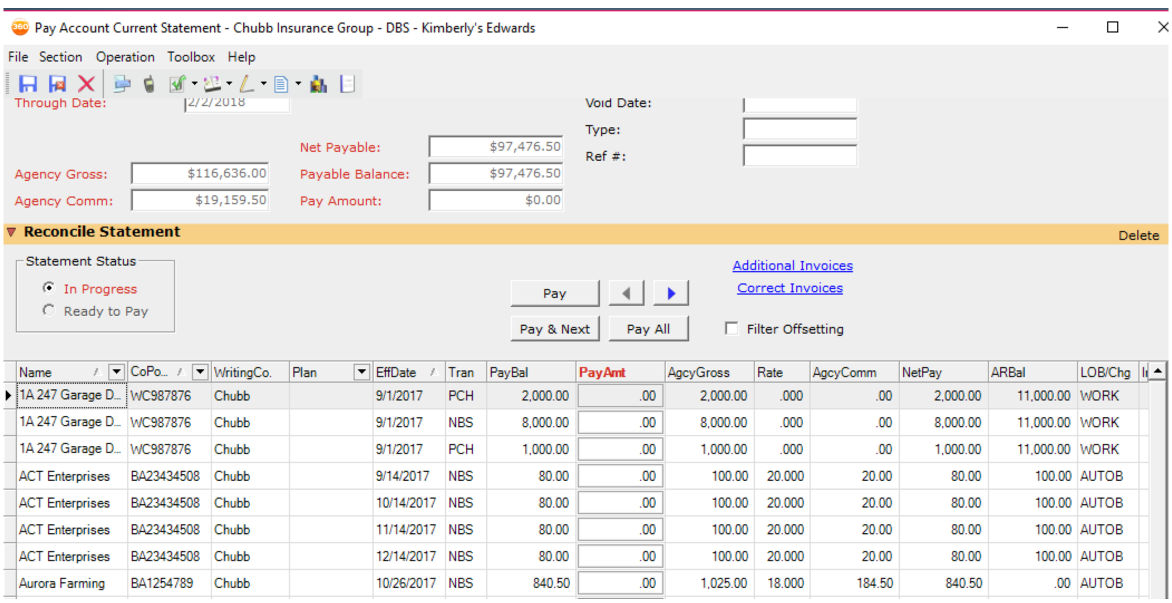
The agency pays by the company statement. This forces the agency to reconcile its records to company records. Most agencies do check and make sure each item has been invoiced and that the customer has or has not paid for the policy. If the policy has not been invoiced, you should find out from the CSR that the item is correct and when the invoice will be entered into the system so it is available to include in the payment to the company. It is also important to verify that the customer has paid the agency the premium due before paying the company, avoiding the advancement of premiums, which can violate certain rebating laws. Continue working with the CSRs to make sure all premiums included in the company statement are properly processed so that the agency's records and the company's match. Note: if missing invoices are a frequent problem, view it as a training opportunity and use it to make sure the customer service staff is aware of your procedures for processing invoices, and that they understand the impact to you and to the agency if client's are not billed promptly and properly.

If all entries are correct, the only open items would be items invoiced and not yet billed by company due to timing and/or effective date of the policy. If an item is open that the company has been paid for, more than likely, the policy has not yet been received from the company or was received after the invoicing cutoff date passed for the agency and will clear the following month. If the policy was not invoiced, the customer would have a credit balance from the down payment or full payment of the policy only being applied to customer's account. When invoiced, the existence of the invoice will clear Customer Accounts Receivable as well as Accounts Payable-Insurance Company. It is very important to remember the balance forward.

Most management systems are open item systems-this means that each item being paid to the insurance company is identified for inclusion in the payment, and that once paid the item no longer appears on open-item reports. This allows you to see at a glance what is still owed to the insurance company.

Accounts Current

This is the easiest type to reconcile since the agency pays based on its own account current generated in the agency's office. This forces the company to reconcile with the agency. The open balance in these company accounts should always be the last month account current or possibly the last two account currents if on a 45-day payment plan. The only time you would have any accounting differences would be if an adjustment is made by the agency when payment of the account current is made and the adjustment has not been corrected on the agency's books or the correction is made after the fact. Once the correction has been made and the correction appears on the account current, another manual adjustment must be made when the payment is made for the account current reflecting the correction. The company normally is notified when the account current is mailed originally to company prior to the due date. Once the company receives a check from the agency, all differences have normally been ironed out. Note: it is no longer a common practice for insurance companies to allow the agency to pay from their own accounts current. Following is a sample Account Current statement from a Vertafore management system:


Pay Account Current Statement - Chubb Insurance Group - DBS - Kimberly's Edwards

File Section Operation Toolbox Help

Through Date: 2/2/2018
Void Date:
Type:
Ref #:
Net Payable: $97,476.50
Agency Gross: $116,636.00
Payable Balance: $97,476.50
Agency Comm: $19,159.50
Pay Amount: $0.00

Reconcile Statement
Delete

Statement Status
In Progress
Ready to Pay

Pay
Pay & Next
Pay All
Additional Invoices
Correct Invoices
Filter Offsetting

Name	CoPo...	WritingCo.	Plan	EffDate	Tran	PayBal	PayAmt	AgcyGross	Rate	AgcyComm	NetPay	ARBal	LOB/Chg
1A 247 Garage D...	WC987876	Chubb		9/1/2017	PCH	2,000.00	.00	2,000.00	.000	.00	2,000.00	11,000.00	WORK
1A 247 Garage D...	WC987876	Chubb		9/1/2017	NBS	8,000.00	.00	8,000.00	.000	.00	8,000.00	11,000.00	WORK
1A 247 Garage D...	WC987876	Chubb		9/1/2017	PCH	1,000.00	.00	1,000.00	.000	.00	1,000.00	11,000.00	WORK
ACT Enterprises	BA23434508	Chubb		9/14/2017	NBS	80.00	.00	100.00	20.000	20.00	80.00	100.00	AUTOB
ACT Enterprises	BA23434508	Chubb		10/14/2017	NBS	80.00	.00	100.00	20.000	20.00	80.00	100.00	AUTOB
ACT Enterprises	BA23434508	Chubb		11/14/2017	NBS	80.00	.00	100.00	20.000	20.00	80.00	100.00	AUTOB
ACT Enterprises	BA23434508	Chubb		12/14/2017	NBS	80.00	.00	100.00	20.000	20.00	80.00	100.00	AUTOB
Aurora Farming	BA1254789	Chubb		10/26/2017	NBS	840.50	.00	1,025.00	18.000	184.50	840.50	.00	AUTOB

Here is a typical Insurance Company Statement:

CHUBB

Chubb Insurance Group
St. Paul Plaza, 23rd Floor
200 St. Paul Place
Baltimore, MD 21202-2038

Statement of Premiums Due
Agency No.: 559929
Statement Date: 1-31-2018

Insured	Policy Number	Transaction Date	Transaction Type	Premium	Agency Commission	Net Due
ACT Enterprises	BA23434508	9/14/2017	New-Instl	$100.00	$20.00	$80.00
ACT Enterprises	BA23434508	10/14/2017	New-Instl	$100.00	$20.00	$80.00
ACT Enterprises	BA23434508	11/14/2017	New-Instl	$100.00	$20.00	$80.00
ACT Enterprises	BA23434508	11/14/2017	Endt	$80.00	$16.00	$64.00
Big Bang Tech	54152TUY	1/31/2018	Renl	$1,238.00	$185.70	$1,052.30
Aurora Farming	BA1254789	10/26/2017	NBS	$1,025.00	$184.50	$840.50
			Statement Total	$2,643.00	$446.20	$2,196.80
			Balance Due 03-15-2018			

Remittance Address:
Chubb
330 East Kilbourn Ave
Milwaukee, WI 53202-3146

Accounting Differences-Overview

- Accounting differences are simply items that aren't the same on both the agency and company records
- Common reasons are:
  - Commission-make sure percentage is what was agreed to, either through a commission schedule on the company contract or through negotiations during the policy quoting process
  - Timing of entries-agency didn't receive policy or endorsement in time to make an invoice entry before month-end; company didn't process before closing
  - Statement closing date-agency statement will reflect transactions through the last day of the month…does the company statement close on a different day?
  - Policy or endorsement issued with premium that doesn't agree with quoted premium
  - Endorsement returned to company for correction-agency will enter when the corrected document is received
  - Audits returned for collection or correction

- Clearing differences
  - Agency corrects its invoice entry to match company entry
  - Company makes a correction
  - Timing-company waits for agency to invoice then remit with next month's statement
  - IMPORTANT: Accounting personnel should never make invoice entries. You identify entries that need to be entered but return to the account manager for the actual entry.
  - EXCEPTION: Commission corrections where documentation can be linked to that supports the entry. Ex: company commission schedule showing the correct commission rate.

Statement Companies

The agency shouldn't receive very many accounting differences, unless the agency has marked an item off the statement when paying for a policy they shouldn't have. Invoicing does not affect what you pay the company since you pay by the company's statement. If the company is correct, you should have the policy on your log and will just need to add or deduct from the total amount due on the statement. If you missed an item, for example, took a credit for a policy when you originally marked off the charge for the same policy, you would have to add to the current statement and send a check. The payment would clear the accounting difference. The agency's book may be correct, and the error made during payment process. The agency should reconcile before paying the statement. Reconciliation should be current for last month end that the agency's books are closed!

Commission Difference

The agency invoices a specific percentage for commission. At the same time, the company bills the agency that pays a different percentage. This would affect net premium and can create an accounting difference. Commission will vary sometimes with the same company according to product lines. This is a very common error found in agency accounting. Since this affects net only, it is not easily seen unless reconciliation has been completed. This will not affect the customer balance in any way. This should not be corrected by journal entry since most systems will pull commission from the previous invoice when the policy is invoiced at renewal and unless corrected here, would create another accounting difference each year. There also may be a producer involved. Also, if a CSR catches the error and corrects it, she would have no way of knowing that accounting has also corrected it and it would appear open on accounts payable a second time.

Premium Difference on Policy

Agency bills insured for amount quoted and when the policy comes in, the premium is a different amount. Unless corrected in same month as the original policy, this may create an accounting difference since company will bill for correct amount most of the time.

Journal Entries

A method of doing entries to correct accounts. These are normally used for such items as recording depreciation, bank charges, interest, bad debts, CPA year-end adjustments, etc. You would not normally use journal entries to correct invoicing errors. As we learned earlier, an invoice affects 4 or 5 accounts automatically when recording premium to A/R, A/P, Prod. Payables, Commission Income and Commission Expense. A journal entry is normally just a debit and credit to single accounts. You would have to be sure you understood which accounts are involved and how they were affected to correct an entry properly. On most systems, a journal entry will not affect the Premium Volume report used by agencies for tracking premium written by company, line of business or by producer. A journal entry can be used on a customer account when adjusting a small balance that has no effect on the company or the commission on some systems. On other systems (Ex: Prime) have to setup a link code to do this. JE's only affect General Ledger balances and not sub-ledgers.

Direct Bill Commissions

Up to this point we've been talking exclusively about accounting for Agency Bill policies – those policies where the agency bills the customer, collects the premium, then pays the insurance company the premium minus the commission, or the net premium.

In the case of Direct Bill Policies, or those policies that the insurance company bills to and collects from the customer directly, the only accounting transactions that are recorded are those for the agency commission, and any associated producer commission. Most management systems offer a way to easily record these commissions with details as to customer and policy.

There are several ways that agencies recognize this direct bill commission in their financial and book of business reports. Because the customer is not involved in these transactions, you have a bit more flexibility to choose the method or methods that work best for you to achieve your goals in financial reporting.

We'll discuss four methods for recording direct bill commission. Each involves a certain level of detail entry, which impacts the amount of time it takes to process the transactions. Your agency management must weigh the cost of time needed for each method against the level of detail and control each provides. Consider your agency's goals for financial reporting and the amount of detail you require as we walk through each method.

The methods we'll be discussing are:

- Bill and reconcile commission as each policy transaction is received-similar to agency bill without the premium
- Record commissions monthly from an insurance company statement-manual entries or through an import or download into the agency system
- Bulk billing-recording commission from an insurance company statement not as individual policy transactions but in groups – by Line of Business; by producer; by branch or department
- Cash receipt only-no detail is created by this method

Bill and Reconcile

Invoice each customer with commission and reconcile direct bill statements. This is time consuming method but it is also the method that provides the highest level of control to the agency in 1) timing of recognizing income and 2) checks and balances to make sure commissions are accurate and timely.

This method requires that each policy transaction be invoiced using your system's established method for this type of transaction. Direct Bill invoicing recognizes that there is no exchange of premium for these transactions….Customer A/R and Insurance Company Payables are not affected.

Similarly, to agency bill statement reconciling, the invoices entered by the agency are compared to the statement from each insurance company transaction by transaction to match the entries. Any differences between the agency transaction and what the company reports on their statement must be investigated and corrected…either by the agency if the difference comes from its entry, or the company if the error, or difference originates with its entry. Common reasons for difference are:

- Incorrect Premium or application of commission to non-commissionable items, such as fees
- Incorrect commission rate-agency did not use the agreed rate per a commission schedule or carrier didn't pay bonus points for special programs
- Failure to book transactions after the initial premium, such as endorsements and audits
- Double-booking transactions-common to see, in agency transactions, an endorsement issued by the company to correct something on a new or renewal policy be included in the original invoice for the policy and then entered again as a separate charge.

Because these transaction do not impact the customer, it is sometimes easy for the account manager to overlook the importance of accurate and timely entry. In many agencies, the direct bill transactions might be saved up and entered just once a month, and if you run out of month before the transactions are all entered, well…that can cause issues.

As stated earlier, while this method does offer the highest level of detail and control for the agency, it is time consuming both for the account servicing team (if they are responsible for invoicing) and the accounting staff, as each transaction must be matched or researched before clearing.

Company Statement

This method differs from Bill and Reconcile in two ways:

- Timing of recording the commission in the agency's financials
- The source of the transaction

In this method, commission for direct bill policies is entered into the agency's records from the monthly company statement rather than from each policy document received and processed by the agency. Typically, this statement is received in the first few days of the month following the accounting month. The agency has to choose how and when this statement is processed:

- During the month it is received, recording commissions a month behind
    - This method requires a one-time hiccup in the agency's records. If you are moving from another method to company statement and choose to process when received, you will reflect lower commission amounts during that first month. After the initial month, commission is received every month, and with a few exceptions, there are comparable entries each month of the year that will smooth out the flow of commission to the agency
- Hold open the accounting records until the statement is received and processed so commission is recognized in the accounting month that matches the statement date
    - This method requires that your month-end close be put on hold. Financials aren't run until all transactions are processed, which could be the 15th or later since you depend on the receipt of the company statement to process the transactions. This could be problematic if 3rd parties require financials within a short period of time after the month closes

This is method is less time consuming than reconciling but like the reconciling method, results in the creation Commission Expense and offsetting Commission Payable entries for each transaction.

One downside is that this method can result in missed commissions if the insurance company miscodes a transaction or reports the incorrect percentage of commission for the agency.

Company Statement Import or Download

This method has the same features as Company Statement using manual entry, however the data is pushed to the system through and import or download process. For the best results, policy transactions are set up but no invoicing is processed. The transactions set up by agency staff are used to match incoming commission entries to the correct policy and transaction. Management systems generally allow for pre-determined matching criteria to be established-including writing company, policy number, effective date and others.

Processing these incoming statements can result in unmatched transactions that require investigation and manual matching. This method provides the highest level of transaction detail with the least amount of manual entry, and thus the least amount of time spent by agency personnel.

In Vertafore systems, commission download follows the same setups as policy download but accepting policy download is not required to receive commission downloads.

Bulk Billing

In this method, individual transactions are grouped by the method or methods that result in the level of detail required by the agency. It requires manual calculations of commissions received for each grouping. This can be time-consuming if groupings don't follow subtotals offered by the insurance company. Processing direct bill commissions with this method results in some level of detail in the system, such as producer commission but no per customer/per policy/per transaction details are recorded

Once the bulk entries are calculated, enter transactions for each grouping, typically on a customer/policy specifically established for this purpose.

Cash Receipt Only

In this method, when direct bill statements are received, the check is coded directly to direct bill income. Direct Bill commission would be recognized on a cash basis no matter if rest of accounting is accrual based.

Note: some agents still create invoices but use settings within their system to stop accounting transactions from posting. This allows for some reporting of premium volume by company and/or producer etc. without impacting income and commission expense. A way to audit this would be on a quarterly, semi-annual or annual basic to print reports from the system and compare with direct bill statements received for the same period. Look for large amounts especially and cancellation commission charge backs the agency was not aware of. This is not a way to get a dollar-for-dollar reconciliation but instead allows the agency to make sure commission receipts are within acceptable tolerances without investing staff time in more detailed transactions.

Problem: Direct Bill Example

This is this same problem we did in Problem One in Lesson One, except using Direct Bill, so no A/P to company.

1. It is Auto policy with an annual premium of $2000.00. The agency will receive 20% commission ($400.00). The producer commission 50 % of agency's commission. ($200) We're accrual base and reconciling direct bill in this example.

2. Agency collects and deposits down payment from customer to be sent in with application and was done as on account A/R. ($500)

3. Agency pays company down payment or eft ($500).

4. Do steps 2 and 3 using direct bill customer deposit method.

5. Commission statement received from the company and is deposited and reconciled. ($100) (Down Payment portion only - some companies paid all commission up front.

6. The producer is paid by the agency. ($50)

Direct Bill Problem Answer Worksheet

CASH	
+	-

CUSTOMER A/R	
+	-

D/B Comm A/R	
+	-

D/B Deposit Clearing	
-	+

COMMISSION INCOME	
-	+

COMMISSION EXPENSE	
+	-

PRODUCER PAYABLE	
-	+

BALANCE SHEET – Direct Bill Problem

1. ASSETS

DEBIT*	CREDIT

2. LIABILITIES

DEBIT	CREDIT*

3. CAPITAL

DEBIT	CREDIT*

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INCOME SHEET – Direct Bill Problem

EXPENSE

DEBIT*	CREDIT

INCOME

DEBIT	CREDIT*

*** DENOTES NORMAL BALANCE**

Some Final Accounting Tips and Tricks

When starting a new system, don't input a whole month then try to figure out what went wrong or, that you had an incorrect procedure or that you didn't understand where the entries were posting. Do a few checks and /or a few invoices at a time, do daily procedure required by your individual systems. Then run and review some reports and see if you're happy. Check and make sure that your trial balance is in balance and that all your sub-ledgers are still in balance. If you find a problem, STOP, fix the problem now before you go on; find how what caused the issue and adjust procedures to avoid making the same mistake in the future. Otherwise the problem will just get larger. If possible, run parallel with your old system for a month of two.

Owners should always open their own bank statements and review front and back of their checks. If not the owner, the assigned person should be someone other than the person that signs checks or that reconciles bank accounts.

Visit another agency who you feel does insurance accounting right. See how the work is distributed. Watch how daily, weekly and monthly tasks are performed.

Before converting to a new system, be in balance before the migration or conversion process starts. Bring over only good balances and combine difference into one balance sheet general ledger account and advise CPA. The CPA can review with the owners then can decide to make a one-time adjustment after the balance remains the same after several months and you have a handle on customer, companies and producer open items.

Use Conversion Accounts on the general ledger for any detailed accounts – Customer A/R, Company Payable, etc. – that are migrated. After a few months of proper accounting, these balances should reach zero. If they don't, find out why and make the necessary correcting entries to clear them, or take action to clear (refund credits to customer, request credit balances from insurance company, etc.)

Have an *updated* procedure manual. This is a good tool when hire new employees and when find a change have someone responsible for updating entire office. Staff meeting are wonderful times to discuss and get these procedures same for all in the agency. This is a good place to store "exception to the rules" information. Also, the procedure manual is a place to store commissions for companies/producers.

If you don't know how to do a print screen, LEARN! Very easy and can use to build a procedure manual with actual screen shots for good visual aid. On most keyboards, be in screen you want to copy and hit the Prn Sc button usually on the top row of keys, or use Windows Snipping Tool. Then open up a word processing program like Word and have a new document open and click Edit, Paste. You can then add typing along the top or the bottom and can print. Alt, Control or Shift Prt Sc will usually print the active window and not the background. This will depend on your particular system.

CSR's and Accounting Personnel must get along. This will save work for both CSR's and accounting personnel. They need to understand a little about each other jobs to fully understand how affects each other and the financial statements.

Learn to use software Help File for How To's and technical questions. Become active in NetVU Communities (NCOM) to communicate with other users like you. The communities are available 24/7/354. Join a Local Chapter in your area to share what you know and to learn from others.

Accounting Entry Impact on Common General Ledger Accounts

CASH/ASSETS

+ *Increases	- Decreases
Deposits Interests	Checks Service Charge NSF's

A/R CUSTOMER/ASSETS

+ *Increases	- Decreases
Customer owes agency Refund Check	Customer credit balance due to D/P (deposit from customer) and needs invoicing
Gross additional premium	Customer credit balance due to cancellation agency owes customer
Premium finance charge back	Premium finance credit

A/R FINANCE CO./ASSET

+ Increases	- Decreases*
Due from premium finance company	Due from premium finance company
Cancellation-return or note charge back	New finance agreement
Deposit from premium finance company	Payment to premium finance company

A/P INS. COMPANY/LIABILITY

- Decreases	+ Increases*
Company owes agency	Agency owes company net
Net return premium	Net new, renewal or additional premium
Payment to company	Deposit-Payment from company (Refund or credit statement)

PRODUCER PAYABLE/LIABILITY

- Decreases	+ Increases*
Commission payment to producer	Commission due to producer on new, renewal or additional premium
Return (cancellation) premium. Commission due from producer	Payment deposited from producer

COMMISSION INCOME/ INCOME STATEMENT

- Decreases	+ Increases*
Commission on return premium	Commission on new renewal or additional premium

COMMISSION EXPENSE/ INCOME STATEMENT

+ *Increases	- Decreases
Commission on new, renewal or additional premium	Return commission on cancellation premium

AGENCY BILL PROBLEM
POSTING SHEET

CASH

CUSTOMER A/R

A/P
INSURANCE COMPANY

A/R
FINANCE COMPANY

COMMISSION INCOME

COMMISSION EXPENSE

PRODUCER PAYABLE

DIRECT BILL PROBLEM
POSTING SHEET

CASH

CUSTOMER A/R

DIRECT BILL
COMMISSION A/R

D/B DEPOSIT
CLEARING

COMMISSION INCOME

COMMISSION EXPENSE

PRODUCER PAYABLE