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Olga Hasprová

Technická univerzita v Liberci

**COMPARISON OF SELECTED ITEMS OF COMPANY
AND INSURANCE COMPANY'S LIABILITIES
BALANCE SHEETS**

1. Introduction

Accounting as a system emerged at a certain stage of economic development of our society. Its origin and development was conditioned by the existence of market relations, namely barter trade based on money operations. Accounting enables the user to monitor the rate of capital appreciation in a certain business entity during an accounting period. It helps to secure property and provides information necessary for management and decision taking. During its development all these accounting functions have been maintained, only the accountancy books have been improved, which led to specialisation in enterprises activities, and a deeper specialisation within accounting itself.

From the historical point of view, a balance sheet or just a balance is the oldest accounting statement, initially created especially for entrepreneurial subjects of industrial and business nature. The balance sheet provides information about the financial position of an entity in an accounting summary form where the property standing and company's sources can be seen. The arrangement of a company's property and sources summary – the balance sheet must fulfil requirements emphasising its evidence giving ability from the user's point of view, and the general comparison requirements. The content of the balance sheet, to a certain extent, gives evidence about the subject's objective, and, concurrently, it is adapted to it.

Let's have a look how entrepreneurship projected itself into the company's balance sheet item system, namely in subjects of industrial and business nature, and the insurance company as an entrepreneurial subject focusing on a special form of

business, and how it restricted or supported the comparison of these subjects.

The term insurance company in this text will be understood as an insurance company set up in compliance with the ČNR (Czech National Council) law about insurance no. 363/1999 Coll. as amended by later regulations i.e. commercial insurance company. An insurance company can be defined as a special institution that centralises and manages mainly financial means obtained from its clients – the insureds respectively policy holders. It is a legal subject that negotiates insurance, collects premium, and manages them based on the pre-negotiated insurance contracts.

The objective of the entrepreneurship in the insurance field is to insure and secure activities connected with it. The entrepreneurship in the insurance field has a wide range of specifications compared to the entrepreneurship in other fields. It may be said, that the insurance company by taking some responsibility for certain business activities of companies, and for life risks of an individual, conducts business with risks. The insurance company's activities must comply with legal conditions, and a part of these legal regulations and delimitations is accounting with its statements and transparency.

Accounting of insurance companies as well as entrepreneurial subjects is brought to the line with the Accounting System Act N. 563/1191 Coll., amended by its later regulations, which are, for insurance companies, clarified in Regulation N. 502/2002 Coll., which was newly amended by Regulation N. 546/2004 Coll., where the Insurance System Act N. 363/1999 Coll. and, since 2004, Czech accounting standards for insurance companies, project themselves onto it. Accounting of insurance companies as well as accounting in other entrepreneurial subjects is based on respecting so called general accounting rules, where defining a unit of account, independence of fiscal period, moment of implementation, rule of incessant firm existence, rule of carefulness, and other belong. Insurance companies in the system of double booking accounting utilise specific accounting steps, and guiding chart of account that they can only use.

2. Liabilities in balance sheets

In the next section we will focus on differences in nature and structure of liabilities of the balance sheet of an insurance company in comparison with the balance sheet of entrepreneurial subjects. The main items of liabilities in the balance sheet of entrepreneurial subjects and insurance companies can be, in a simplified way, expressed by the following table.

A characteristic feature of accounting is the fact that it not only records the actual forms of property existence, but it also tracks its development and resources. When classifying property, its material structure is examined. When classifying sources of funds, the way of financing this property is examined. It is obvious, from the first look, that the structure of subject's liabilities is simpler, and the

required number of items the subject is required to prove is lower.

Table 1. Structure of liabilities in balance sheets of entrepreneurial subjects and insurance companies

Liabilities of equity	Liabilities of insurance companies
A – Equity capital	A – Equity capital
B – Foreign funds	B – Inferior liabilities
	C – Technical reserves
	D – Technical reserves for life insurance if the holder of investment risk is an insured
	E – Reserves for other risks and loss
	F – Deposits during passive reinsurance
	G – Creditors
C – Temporary accounts of liabilities	H – Temporary accounts of liabilities

Source: own processing based on [2; 3].

2.1. Item comparison of equity

Only two types of subjects use only a single item for liabilities in the balance sheet named A – Equity. The following sub-items are included in the balance sheet.

Original capital – it represents a total sum of financial and non-financial investments, and investments of partners (shareholders or cooperators) into the company. The original capital can be divided into registered and non-registered (in the trade register) according to the commercial code, and a special regulation. Non-registered capital is stated in a single sub-item both for the entrepreneurial subject and insurance company. The original capital does not show formal differences within its function, a significant difference is in the minimal amount required arising from taking different risks in business. This item is influenced by a legal form of the entrepreneurial subject. From the insurance company's point of view, only a joint-stock company and housing society are allowed to have their required minimal amount of original capital assigned to the same level. That is why only these two types of companies are listed in the table below.

Table 1.1. Minimal amount of original capital

Minimal amount of original capital [mil. Kč]			
Entrepreneurial subject		Insurance company	
Joint stock company – public availability of shares	2	Insurance activities	
Joint stock company – without public availability of shares	20	For life insurance	90
Housing society	0.05	Other insurances	60-200
		Reinsurance companies	1000

Source: own processing based on [6; 7].

Share premium, Other capital funds, Reserve fund and other retained earnings funds, Retained profit or unsettled loss from the past years, Profit or loss of a common accounting period – items that are the same for both the entrepreneurial subject and insurance company. The commercial code regulates the funds formation. Value differences can appear in dependence on the size of an accounting unit, and its financial and economic policy.

2.2. Comparison of foreign funds items

The biggest differences arise at the item that is for the entrepreneurial subjects characterised only as a point *B – foreign funds*, while this item is more sub-classified for insurance companies. The entrepreneurial subject can obtain similar funds, but they are presented by optional sub items in the balance sheets.

B – Inferior liabilities consist of all liabilities (they can but do not have to be proved by securities), that have been agreed to be paid as the last, after satisfying all other creditors, in case of liquidation or bankruptcy. This relationship towards creditors can also arise at the entrepreneurial subject, but the balance sheet does not show this, as there is not a separate item for it. The biggest structure differences in liabilities items in the balance sheet can be seen at reserves. The general description of reserves in the balance sheet are the following properties:

- Reserves are formed as expenses debit entry;
- They represent future liabilities estimation;
- Liabilities are probable or secure;
- Their amount and moment when they cease to exist is uncertain.

Reserves at the entrepreneurial subject and insurance companies fulfil these basic characteristics. The entrepreneurial subject's reserves are shown in a sub-item of foreign funds, because these funds are not, from the structure and function's view, as important as for the insurance companies.

Generally, reserves can be divided into two big groups:

- 1) Reserves according to legal regulations.
- 2) Other reserves.

Based on the division above, it can be said that entrepreneurial subjects, value wise, can have both groups of reserves with the same or different value with possible superiority of one or other. Insurance companies, on the other hand, handle reserves based on special regulations about insurance (Insurance System Act N. 363/ 1999 Coll., and decree of MF N. 303/ 2004 Coll.) which are based on risks the insurance companies take when fulfilling their elementary activities.

C – D Technical reserves and Life insurance technical reserves, if the risk taker is the insurant. The amount of technical reserves is set according to the kind of insurance activity of the given insurance company (according to the structure of so called insurance stock) with the help of mathematics – insurance methods, in

order to immediately fulfil insurance responsibilities arising from policies. Further peculiarity of insurance companies' reserves is the fact that they represent total liabilities to clients, including the proportion for the provider.

Reserves that can be found under the point 2 – other reserves represent for both the entrepreneurial subject and insurance company item of similar nature, insurance companies have to write it down into a different item.

E – Reserves for other risks and losses. These include reserves whose formation is conditioned by current accounting legislation, and reserves that the accounting unit decides about alone. Among these reserves, in the balance sheet, are pension reserves and similar liabilities, income tax reserves, risks and loss reserves, and reserves for restructuring.

Generally, it can be said, that reserves of the balance sheet reflect the principle of caution, and its presentation in accounting is in relation to different rate of uncertainty, or business uncertainty for both the entrepreneurial subject and insurance company.

F – Deposits with passive reinsurance for insurance companies represent commitments from *deposits* deposited at the primary insurance company by the provider or contracts taken over in compliance with the contracts about reinsurance. If the primary insurer accepted securities in stocks, which were transformed into his property, then this item represents amount which the primary insurer owes to the provider by virtue of this guarantee

G – Creditors for insurance companies represent mainly long and short term commitments towards policyholders ensuing from the direct insurance and security activities, loans covered by bonds, commitments towards financial institutions, and other commitments (e.g. in relationship to employees, tax obligations, social security obligations). Entrepreneurial subjects do not have the item creditors in their balance sheets, but the content of the item is shown in foreign funds. Entrepreneurial subjects do not have obligations typical for insurance companies i.e. the obligations emerging from direct insurance and security.

Temporary liabilities accounts are shown as the item C for entrepreneurial subjects and H for insurance companies. Both types of the subjects have temporary liabilities accounts that differ in time, and suppositive passive accounts whose task is to classify expenses, income, capital and liabilities correctly to the right accounting period they refer to.

3. Conclusion

The balance sheet liabilities comparison implies that differences occur mainly due to different nature of main activities of these two subjects, but also from different differentiation rate which is set by applicable regulations. One of the elementary tasks of accounting is to inform users. If a user wishes to compare

balance sheets of the entrepreneurial subject and insurance company, then his knowledge must be even more profound especially as he needs to take into consideration both the entrepreneurial subject and insurance company. Even for specialists the task to compare financial positions of the insurance company and entrepreneurial subject is relatively difficult as it arises from the differences in the nature of main activities of these two subjects, and it reflects in the property and funds structure. From the above said a conclusion can be made that the balance sheet as a form characterising financial position of an accounting unit is inseparable from the running part of the accounting unit, and thanks to it, it allows more time than capacity comparison.

Literature

- [1] Čejková, V., Valouch, P., *Účetnictví pojišťoven po vstupu do EU*, Grada Publishing, a.s., 2005, ISBN 80-247-0953-8.
- [2] Regulation MF N.500/ 2002 Coll., amended by later directives, which is used to enact the Accounting System Act N. 563/2001 Coll., later amended for accounting units that are entrepreneurial subjects that work with double entry bookkeeping.
- [3] Regulation no. 502/2002 Coll., which is used to enact certain parts of Accounting System Act N. 563/1991 Coll., later amended, for accounting units that are insurance companies.
- [4] Regulation MF no. 303/2004 Coll., used for Insurance System Act N. 363/1999 Coll.
- [5] Accounting System Act N. 353/2001 Coll., as amended.
- [6] Insurance System Act N. 363/1999 Coll.
- [7] Commercial Code.

PORÓWNANIE WYBRANYCH ELEMENTÓW PASYWÓW BILANSÓW PRZEDSIĘBIORSTWA I FIRMY UBEZPIECZENIOWEJ

Streszczenie

Główny celem analizy jest porównanie charakteru i struktury pasywów bilansu podmiotów gospodarczych o charakterze przemysłowym lub biznesowym i przedsiębiorstw ubezpieczeniowych, oraz możliwości porównania wynikającej z tego pozycji finansowej. Różnica wartości dla indywidualnych elementów pasywów wynika z porównania prezentacji różnych regulacji prawnych i rachunkowych, a także z różnego charakterystycznego poziomu dopuszczalnego w rachunkowości. Porównanie finansowej pozycji przedsiębiorstw i firm ubezpieczeniowych jest zatem z tego powodu ograniczone.