THE END

Question №4

Questions №3

Question №2

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Question №1

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Tokyo AFM - Brief History

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Tokyo AFM

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Julia Kavalenka
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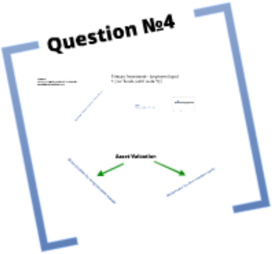
THE END



KOZMINSKI UNIVERSITY

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Tokyo AFM

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Tokyo AFM - Brief History

Two principal sources of revenue

Insurance premiums

Investment income

New CEO appointment ....

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Revenue recognition

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Contract acquisition costs

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Reserves for contingent future losses

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Investments in marketable securities

Question №1

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Premium revenue was recognized at the time the policyholder's upfront cash payment was received

The company's accountants argued that since the level of upfront payments received from policyholders had been stable over the last few years, this method was an appropriate reflection of economic reality

Example:
Fuji Computers entered into a 5-year insurance contract with Tokyo AFM against earthquake damage to its headquarters building. As is customary, it paid the ¥ 100 million premium for the five-tear coverage upfront in cash

How would you recognize revenue associated with this type of catastrophe insurance contract?

Revenue - "the gross of inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an entity" (IAS18).

Two methods of premium revenue and contract liability recognition for insurance contracts have been developed

BUT!

FASB + AICPA

Finally

1. Short-duration contract
   - provides insurance protection for a fixed period of short duration and enables the insurer to cancel the contract or to adjust the provisions of the contract at the end of any contract period, such as adjusting the amount of premiums charged or coverage provided

2. Long-duration contract
   - the contract generally is not subject to unilteral changed in its provisions, such as a enhanceable or guaranteed renewable contract, and requires the performance of various functions and services for an extended period

Question №2

Incremental insurance contract acquisition costs related directly to the signing of the contract were expensed immediately.

The company's accountants argued that this treatment was required to be consistent with the company's premium revenue recognition policy

Question:
Would you capitalize any of the above acquisitions costs, or would you expense them immediately?
If you were to capitalize,over what period would you amortize them?

Example:
On June 30, 2001, a policyholder paid an upfront 210,000 premium for a two-year property insurance contract for her Tokyo apartment.

The principal incremental contract acquisition costs were:

a) 50,000 commission fee paid to the agent who had worked directly with the policyholder

b) 20,000 cost of marketing efforts incurred to promote a product through broad-based advertising (50%) and targeted phone calls (50%) to existing Tokyo AFM customers as part of a cross-selling strategy. The policyholder was already using Tokyo AFM for car liability insurance

a) According to FASB statement #60
Costs that vary with and are primarily related to the acquisition of insurance contracts (acquisition costs) are capitalized and charged to expense in proportion to premium revenue recognized.

50,000 should be capitalized and amortized

b) According to the joint IASB and FASB meeting of June 2011, it has been decided that Acquisition costs would exclude a number of indirect costs, including advertising.

However...

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