Analysis of the Application of Contract Settlement Accounts for Insurance Companies Under the New Revenue Standard

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Abstract
The implementation of the new revenue standard has a far-reaching impact on the accounting treatment of insurance enterprises, and the application of contract settlement accounts, as the key to connect business and financial accounting, needs to be standardized. This paper analyzes the core requirements of the new revenue standard, combines the special characteristics of insurance contracts with both service and financial attributes, and explains the logic of setting up and accounting methods of secondary accounts, such as insurance service income and investment component apportionment. In view of the practical pain points such as variable consideration apportionment and reclassification of inter-period contracts, the paper proposes strategies for system upgrading and internal control strengthening. The study shows that standardizing the application of accounts can help enterprises implement the requirements of the standard and improve the quality of financial information.
Keywords: New Revenue Standards, Insurance Companies, Contract Settlement Accounts, Accounting

Competing Interests:
The authors declare that there is noconflic to finterest.

1. Introduction

With the full implementation of ASBE No.14 - Revenue (revised in 2017), there is a fundamental shift in the logic of revenue recognition and measurement for enterprises and the insurance industry(Wang and Wang, 2018), as an important part of the financial services sector, faces significant challenges in its accounting treatment. The new revenue standard requires enterprises to recognize revenue based on contractual performance obligations, which is highly compatible with the long-term and complex characteristics of insurance contracts(Fu ,2018). However, insurance contracts have both service and financial attributes, and the application of the contract settlement account, as a key link between business processes and financial accounting, has not yet been standardized, resulting in significant differences in account settings, accounting methods and presentation rules(Wang, 2021). In-depth analysis of the application logic of the contract settlement account of insurance enterprises under the new revenue standard not only helps to standardize the accounting practice of the industry, but also provides theoretical and practical support for improving the quality of financial information.

2. The New Revenue Standard and the Characteristics of Insurance Contracts

The five-step model of the new revenue standard provides a standardized framework for revenue recognition, which includes identifying the contract, the individual performance obligations, determining and apportioning the transaction price, and recognizing revenue when the performance obligations are completed(Ma, 2022). However, the specificity of insurance contracts makes it challenging to implement the standard: on the one hand, contracts containing insurance protection and investment functions, such as participating insurance, need to be split and apply the revenue and financial instruments standards separately, but in practice, the boundary between the components is blurred, measurement is difficult, and the split standard is not uniform(Li and Xu, 2022); on the other hand, long-term life insurance contracts are intertwined with risk protection and savings services, and the transaction price is to be apportioned according to the proportion of the individual selling price of each performance obligation, which is much more demanding for enterprises' actuarial and accounting treatment. In addition, in long-term life insurance contracts, risk protection and savings services are intertwined, and the transaction price has to be apportioned according to the separate selling price of each performance obligation, which has higher requirements for actuarial and accounting treatment of enterprises(Fang, 2025). Therefore, clarifying the adaptation between the characteristics of insurance contracts and the new revenue standard is the key to standardize the application of the contract settlement account.

3. Setting Up and Accounting for Contract Settlement Accounts

In order to adapt to the new revenue standard, insurance enterprises need to set up and refine the accounting of contract settlement accounts in a hierarchical manner. Under the first-level account of "Contract Settlement", "Insurance Service Income" is added to account for protection service income carryover, "Investment Component Apportionment" to deal with the apportionment of investment income, and "Claims Reserve" to account for the cost of outstanding claims, so as to realize the matching of cost and income. "Claims reserve" accounts for the cost of outstanding claims, realizing the matching of cost and income(Chen et al., 2021).

Take a life insurance company's 10-year participating insurance as an example, the first premium is $100,000 ($60,000 for protection services and $40,000 for investment components). When the premium is received, borrow $100,000 from "Bank Deposit" and credit $100,000 from "Contract Settlement - Premiums to be Carried Forward"; recognize the first year's protection income according to the 10% progress by borrowing $6,000 from "Premiums to be Carried Forward" and $6,000 from "Insurance Service Income". To recognize the first year's guarantee income at 10% progress, borrow "Premiums to be Carried Forward" (6,000) and credit "Insurance Service Income" (6,000); to apportion the investment components according to the effective interest rate method, borrow "Premiums to be Carried Forward" (4,000) and credit "Apportionment of Investment Components" (4,000). When there is a claim of $50,000, borrow $50,000 from "Claims Reserve " and $50,000 from "Bank Deposits", and at the same time, borrow $50,000 from "Operating Costs" and $50,000 from "Claims Reserve ". At the same time, debit "Operating Costs" for 50,000 and credit "Claims Reserve" for 50,000.

Through the above account setting and accounting methods, insurance enterprises can clearly divide the revenues and costs corresponding to different fulfillment obligations, effectively solve the accounting problems brought by the composite nature of insurance contracts, and provide protection for the accuracy and compliance of financial information.

4. Balance Sheet Presentation and Practical Difficulties

In the balance sheet presentation, the balance of the contract settlement account should be classified according to the direction of debit and credit: the credit balance is the premiums received but not carried forward, which is reported as "Contract Liabilities"; the debit balance is the uncollected portion of the recognized income, which is reported as "Contract Assets" or "Other Current Assets". This rule can clearly reflect the status of the enterprise's performance obligations and the right to receive payment, but in practice, it is easy to calculate the balance incorrectly, resulting in presentation bias.

Insurance companies face two major difficulties in practice: first, the complexity of variable consideration apportionment, the high uncertainty of insurance contract claims expenditure, enterprises need to use the expected value method or the most probable amount method to estimate the transaction price, but the actual claims are often different from the estimate, resulting in inaccurate revenue recognition; second, the difficulty of convergence between the old and new standards for inter-period contracts, and the need to reclassify the "Reserve for Outstanding Liabilities" to "Contract Settlement - Premiums to be Carried Forward" when converting the "Reserve for Outstanding Liabilities". Secondly, it is difficult to connect the old and new standards for inter-period contracts, and the "Reserve for Unexpired Liabilities" for unexpired contracts needs to be reclassified to "Contract Settlement - Premiums to be Carried Forward" when converting, which involves the retrospection of historical data and the adjustment of actuarial assumptions, which makes it difficult for some enterprises to accurately convert, and thus affects the consistency and comparability of financial data.

5. Optimization Recommendations

With regard to the practical difficulties in the application of contract settlement accounts for insurance enterprises, optimization can be carried out in terms of system upgrading and internal control enhancement. In terms of system upgrading, enterprises need to deploy automated systems to connect policy management, actuarial valuation and financial accounting modules, use intelligent algorithms to automatically calculate the progress of fulfillment, update account balances in real time, and integrate actuarial models to dynamically adjust revenues in the assessment of variable consideration. In terms of strengthening internal control, it is necessary to establish a "contract settlement account reconciliation mechanism" to regularly reconcile policy, actuarial and financial data to form a closed loop of tripartite verification; strengthen the training of accounting staff on the standards, standardize the process of reclassifying inter-period contracts, ensure the accurate connection between the old and new standards, and improve the quality of financial information.

The new revenue standard has higher requirements on accounting of insurance enterprises, and the standardized application of contract settlement accounts is the key to implement the standard. This paper analyzes the problem of adapting insurance contracts to the standard, constructs a hierarchical account system, demonstrates the accounting logic with case studies, and clarifies the presentation rules and practical difficulties. The study shows that system upgrading and internal control enhancement can improve the accuracy of account application. In the future, with the innovation of insurance business, the application of contract settlement accounts will face more challenges, and it is necessary to continue to improve the theoretical and practical system to provide support for the high-quality development of corporate finance.

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