

Interpretation of the Emerging Accounting Issues Working Group**INT 02-11: Recognition of Amounts Related to Earned but Unbilled Premium****ISSUE NULLIFIED BY SSAP NO. 53****INT 02-11 Dates Discussed**

June 9, 2002; September 10, 2002

INT 02-11 References

SSAP No. 53—Property Casualty Contracts-Premiums (SSAP No. 53)

INT 02-11 Issue

1. ABC Insurance Company (ABC) writes workers' compensation policies subject to adjustment via payroll audits. ABC records Earned but Unbilled Premium (EBUB) in accordance with the SSAP No. 53 paragraphs 9-12. ABC handles all business through a TPA who charges service fees based on a percentage of collected premium. In addition, ABC pays its agents commissions based on a percentage of collected premiums. Despite the provisions outlined in paragraph 11 of SSAP No. 53, ABC does not record a liability for accrued service fees or commissions when the EBUB is recorded as an asset, but rather handles these liabilities on a cash basis. ABC justifies its cash basis accounting based on paragraph 3(c) of SSAP No. 5R. ABC proposes that the definition of a liability has not been met as ABC believes the transaction or other event obligating the entity has not yet happened until the premium has been collected.

2. The accounting issue is whether ABC should recognize all of the requisite liabilities associated with the recognition of the EBUB receivable.

INT 02-11 Discussion

3. The working group reached a consensus that ABC's treatment of the transaction violated the conservatism and recognition principles inherent in the SAP Statement of Concepts. If an entity feels comfortable enough in their ability to collect the premium that an asset is recorded then it appears that they should also book the associated liabilities. Further, in this case the definition of a liability has been met. The transaction or event that obligates the entity is the earning of the premium rather than the collection of the premium. Once an estimate of the premium has been made and the entity feels certain that it will be collected, it should also book the liabilities that will be due when they receive the cash. If the premiums were unearned and the policyholder had the ability to cancel, the definition of a liability has not been met. Nevertheless, in this case, paragraph 11 of SSAP No. 53 is clear and on point.

INT 02-11 Status

4. No further discussion planned.