

Insurance

Insurance is a type of contingent contract between insurance company and insured party in which insurance company promises to provide financial protection against losses due to specified risk. Functionally it can be defined as a cooperative device under which the risk of loss of one person or organization is distributed to large no. of people who are associated to it. In Nepal, this business is operated under Insurance Act, 2049.

Types of Insurance

1. Life insurance

Life insurance is an insurance contract where by the insurance company agrees to pay a fixed sum of money to the insured on the maturity of police period or to his/her nominees in cases of early death of the insured before maturity. For this, the insured has to pay the premium regularly till the maturity or till the death whichever is earlier. This provides financial protection to the insured in his old age or to his/her nominees in case of early death of insured.

2. Non life Insurance

It includes the following insurance policy other than life insurance.

- a) **Fire insurance:** This is the insurance in which insurer agrees to compensate the insurer against the loss or damage of properties caused by fire. This covers the risk only. It helps to regain the physical properties like factories, building, stock etc by the business.
- b) **Marine insurance:** This is the insurance contract in which insurer promises the insured to compensate the loss of ship, cargo passengers caused by marine risks like collision of ship, attack from enemies, explosion, jettison, barratry etc. For this, the insured has to pay the premium as par the volume of risk.
- c) **Motor Insurance:** The insurance which compensates the financial loss of motor car or vehicles due to accident, theft and other similar causes is known s motor insurance. It covers the risk of all type vehicles, loaded goods and passengers with in the period covered by insurance contract. Compensation is provided for each type of loss separately.
- d) **Aviation Insurance:** Air transportation has a no, of risk in its journey. The insurance which covers the risk of aviation and provides financial compensation in case of loss of aircraft, cargo, passengers and third party.
- e) **Fidelity Guarantee Insurance:** It is the insurance which compensates the financial loss arises due to embezzlement, theft, frauds or dishonesty committed by an employee in the organization. This insurance ensures guarantee of fidelity (loyalty) of the staffs in terms of compensation against financial loss.
- f) **Employer's Liability Insurance:** It is the insurance done by the employer to provide financial compensation to the employees (staffs) in case of their injury, accident, disability or death at the time of working. Under this insurance policy, the employer or factory owner has to pay the insurance premium regularly to claim over such losses

Types of Life Insurance

Life insurance policy can be classified as below:

1. **Endowment Life insurance:** It is the insurance policy issued for a fixes period of time generally 5, 10, 15, 20 or 25 years. The policy holder has to pay the premium till the endowment period. Then the assured sum is paid by the insurance co. to the policy holder on the maturity of policy period along with the bonus but in case of early death of policy holder, the sum assured is paid to his/her nominee.
2. **Whole life insurance:** It is the insurance policy issued to provide financial support to the dependents of policy holder after his/her death. The policy holder has to pay the premium regularly

during his life time, The sum assured is paid by the insurance company to the dependents only after the death of policy holder.

3. **Children's education and marriage endowment life insurance:** It is also the insurance policy issued for a fixed period of time like endowment life insurance, It provides financial support for the better education and also to meet marriage expenses of the children in future, For this the parents have to pay the premium regularly. Children are the nominees in this insurance.
4. **Anticipated Endowment life Insurance:** It is also similar to endowment life insurance but in this insurance, the sum assured is paid by insurance company in different installments. For e.g. if the policy is of 15 yrs, 25% of the insured amount is paid after first five year. Again 25% is paid after 10 years and remaining 50% is paid on the maturity of policy. But in case of early death of policy holder whole amount of policy is paid to the nominee.
5. **Term life Insurance:** This is the sort term life insurance policy which provides financial protection to the creditors or money lenders against the risk of recovering their granted loan. Under this policy, the sum assured is payable on the death of policy holder (borrower) before repayment of his/her loan.

FUNCTIONS OF INSURANCE

A. Primary function

1. **Provides assurance:** Financial loss is not predictable. The chief function of insurance is to provide assurance against such loss by analyzing the reasonable compensation of the loss.
2. **Distributes the risk:** insurance is a co-operative device under which risk of loss of an individual is shared among a large no. of people who are associated to the insurance. The risk of loss does not occur at a time so, the premium collected from many is given by the insurance co to few against their loss.
3. **Provide protection:** Insurance provides protection against financial loss of human life or property. Risk cannot be eliminated but can be reduced by way of compensation. Insurance provides a sense of security in the people by compensating their financial loss.

B. Secondary Functions

4. **Mobilizes capital:** Insurance Company collects huge sum of money as premium from large number of insured. Such collected money may not be used as compensation at a time. Thus, insurance company invests such insured money into different productive sectors and supports for the economic development of the country.
5. **Increases Efficiency:** Insurance eliminates the worries of losses and risks by providing security against the financial losses. When people are free from the tension of unexpected losses, they can devote their time for better achievement. The feeling of being secured certainly increases working efficiencies.
6. **Maintains Financial Stability:** A large no of uncertainties like theft, fire, accident etc. create financial instability in the business or in individual life. Insurance provides financial compensation against loss due to such uncertainties. This helps to maintain financial stability.
7. **Prevents from losses:** Jointly with other institution insurance company launches various awareness programs on how-to cope up with the losses due to uncertain events. It conducts various researches on various sectors to minimize losses. Thus due to insurance people learn to be secured and protect their properties.

Employees Provident Fund

Employees provident fund is a financial institution established under the Provident Fund Act, 2019 to accept and manage the fund deducted from the salary of government or non-government employees. Such collected fund is refunded by this office with bonus and interest after the retirement of the staff.

Functions of Employees Provident Fund

1. Keeps record: Employees provident fund keeps the record of deducted 10% amount from salary and 100% contribution of employer on the provident fund in individual account of employees.
2. Refunds the amount: It refunds the collected deposit to the employees with interest and bonus after the retirement from job.
3. Provides loan and social security: It provides different types of in service loan to the depositing employees like home loan, educational loan etc.
4. Mobilizes capital: It invests the collected fund from employees into different productive sectors like government securities, business, hydroelectricity real estate etc..
5. Informs about the facilities: It provides different types of information to the depositors about its facility and retirement scheme that it provides.

Citizen Investment Trust:

It is a financial institution established under Citizen Investment Trust Act, 2047 to provide investment opportunity to the people and increases the dynamism in capital market. It collects the deposit from people individually or institutionally.

Functions: Read from book. Pg-69 (any 8 functions)

Financial co-operatives:

Financial co-operative is a financial institution established by the group of economically weak people of the society for the upliftment of their financial and social status. It basically accepts the saving from its members and provides loan to them. It is established and run under the permissions of central bank.

Functions: Any six functions from book pg-70

GOVERNMENT ACCOUNTING

Meaning: The accounting system adopted by government is called government accounting. It collects, records, and summarizes the financial transactions occurred in government offices. It reflects the receipts and payment of public fund.

New Accounting System:

Meaning: The prevailing accounting system used by government offices of Nepal at present is known as New Accounting System. It was developed by Accounts Committee-2017. It started to be used since the fiscal year 2019/20 B.S. It is the modern, scientific and progressive accounting system which keeps the complete records of public fund and expenditure.

Objectives and Features/importance(Read from book any five points)

Auditing: Auditing is the process of checking books of accounts by an independent person (Auditor) for the purpose of preventing errors and frauds in accounting records. It helps to provide true and fair result of business operation. The word audit is derived from Latin word 'Audire' which means to listen.

Types of Audit

1. **Internal Audit:** It is a continuous examination of books of accounts by the staffs of the same organization. In government offices it is done by District Treasury and Comptroller Office under Finance Comptroller General. It helps to correct errors and irregularities accounting then and there.
2. **Final Audit:** It is the act of checking books of accounts and accounting statements after the closing of each accounting year. In government offices this task is done by the office of the Auditor General.

Petty Cash Fund:

A small sum of money separated to make comparatively smaller expenses is known as petty cash fund. It is impracticable to issue cheque for smaller expenses like refreshment, taxi fare, postal stamp etc. so for paying these expenses every office manages petty cash fund. It is handled by petty cashier and transactions related to these are recorded in petty cash book. It can be operated under ordinary system and imprest system.

Importance of petty cash fund: See book

Bank Cash Book

It is multiple column ledger book maintained by operating level offices of government to make effective control over cash and banking transactions. It is maintained with the help of journal in AGF No.5 which contains 17 column divided into five different accounts namely cash A/c, Bank A/c, Budget Expenditure A/c, Advance a/c and Miscellaneous A/c.

Monthly Statements:

Monthly statements are the summarized financial statements prepared by operating level offices on monthly basis and submitted to Office of the Treasury and Comptroller and concerned central level offices. Statement of expenditure, statement of outstanding advance etc. are the example of monthly statements. These statements help to maintain strong financial decision in government offices.

Types of monthly statements:

1. Statement of Expenditure(AGF No.13):

It is a monthly statement prepared by each operating level offices at the end of every month to depict annual budget, total release, budget expenditure, balance of budget, uncleared amount of advance, position of cash and bank balance etc. It is prepared in AGF No.13 and should be submitted within the first week of next month.

2. Statement of outstanding advance: (AGF No.14):

It is also one of the important monthly statements prepared by operating level offices to depict the uncleared amount of advance to the concerned central level office along with the reasons for unclearance of advance amount.

3. Bank reconciliation statement: (AGF No.15)

It is a monthly statement prepared to report to the concerned central level offices about the causes of difference of the bank balance shown by bank statement and bank cash book. There may be some reason causing the difference in bank balance between these two statements at the end of the month. If it is so, operating level offices have to prepare bank reconciliation statement. It is prepared in AGF No.15.

4 Statement Of Security deposit: (AGF No.19)

It is a monthly statements prepared by operating level offices to report to the concerned central level office about various security deposit amount received from supplier or contractors. It is prepared in AGF No.19.

5. Statement of Revenue:

There are some operating level offices involve in collecting government revenue such as Inland Revenue Office, Income Tax Office Custom Office etc. These offices need to prepare a statement of revenue at the end of each month to report about the collected revenues along with their sources which are known as statement of revenue. It is prepared in AGF No. 9.

Budget Sheet:

Budget sheet is the statement of annual appropriation of budget, budget release and budget expenditure prepare by operating level offices of government to make the effective control over budget expenditure. It provides details of annual budget, budget release, balance of budget and budget expenditure upto the month. It is prepared in the specimen of AGF No. 8