

FA Module 22: IFRS 17 subsequent measurement and onerous contracts – *homework assignment*

(The attached PDF file has better formatting.)

This homework assignment helps you complete IFRS 17 computations, but it takes time to complete. You may choose instead the simpler homework assignment on revenue and expense; either one is sufficient.

An insurer issues insurance contracts on January 1, 20X1, with coverage periods of three years.

- ! Premiums of 500 are paid right after initial recognition.
- ! The discount rate for the fulfilment cash flows is 4% *per annum*.
- ! Directly attributable acquisition costs are zero.
- ! No contracts lapse before the end of the coverage period.

The insurer estimates

- ! the cash outflows for claims as 150 each on December 31, 20X1, 20X2, and 20X3.
- ! the risk adjustment for non-financial risk as 20 for each year's claims, or 60 in total.

In 20X1, the actual claims paid equal the initial estimates, and no changes are made to the claims expected to be paid in future years.

In 20X2, the actual claims of 130 are 20 less than originally expected, and the insurer revises

- ! its estimate of the future cash outflows for 20X3 to 120, instead of 150
- ! the risk adjustment for non-financial risk related to the 20X3 future cash outflows to 15

Form three tables (for 20X1, 20X2, and 20X3) with four columns in each:

- ! present value of future cash flows
- ! risk adjustment for non-financial risk
- ! contractual service margin
- ! insurance contract liability

For each table:

- A. What are the changes related to future service for each column?
- B. What are the cash inflows and outflows for each column?
- C. What are the insurance finance expenses for each column?
- D. What are the changes related to current services for each column?
- E. What are the closing balances for each column?

Table format for each year (form three tables):

	<i>Present Value of Future Cash Flows</i>	<i>Risk Adjustment For Non-financial Risk</i>	<i>Contractual Service Margin</i>	<i>Insurance Contract Liability</i>
<i>Opening Balance</i>				
<i>Changes for Future Service</i>				
<i>Cash Inflows</i>				
<i>Insurance Finance Expenses</i>				
<i>Changes for Current Service</i>				
<i>Cash Outflows</i>				

Closing Balance

Compare your solution with the practice problems on the discussion forum. The figures differ, but the relations are the same. This posting includes an RTF file that can be edited in Word so you can fill in the table online.