

Insurance Proceeds Accounting

When an organization suffers a loss, the exact accounting procedures may vary depending upon the type of loss, according to US GAAP. However, for most parish and school needs, this may be simplified by using account 3430 Insurance Proceeds.

The following accounts should be set up in your Chart of Accounts:

Account 3430 Insurance Proceeds: It should be an Other Income Account

Account 4775 Impairment Loss: It should be an Other Expense Account

One important aspect is that the insurance proceeds should be in a separate account, not netted within an asset account. To calculate a loss or a gain due to an insured event, the two (or more) accounts may be summed together.

For more information, see [FASB ASC 450 Contingencies](#). (You will need to click to get access to the FASB site and then click the link again to get to the specific page.)

#1 Parishes & Schools that do not Follow Capitalization & Depreciation

If the parish or school had damages that will be either partially or fully reimbursed by insurance, account 4740 should be used regardless of the repair. This will ensure the cost and the subsequent reimbursement from insurance do not affect the operations of the parish or school.

Example: Due to flooding the basement of St. Adelina was flooded and experienced \$60,000 worth of damages.

	Account #	Account Name	Amount Dr	Amount Cr
Entry for payment to repair from damages:				
Dr.	4740	Major Maintenance Expense	\$60,000	
Cr.	1010	General Checking		\$60,000

St. Adelina filed an insurance claim with Catholic Mutual Group and was awarded \$50,000 for the damages caused by the flood.

Entry for reception of insurance funds from Catholic Mutual:				
Dr.	1010	General Checking	\$50,000	
Cr.	3430	Insurance Proceeds		\$50,000

Parishes & Schools that Depreciate – Total Loss

Example: St. Adelina School on July 1, 2025, had a flood, and the school HVAC System was a complete loss. The current replacement cost was \$1,000,000. St. Adelina School HVAC System was replaced 10 years ago and had a useful life of 20 years. The HVAC was replaced for \$800,000 10 years ago.

On June 30, 2025, the value of the following fixed asset accounts were:

1730 Buildings - School	\$800,000
1795 Accumulated Depreciation	(\$400,000)

#2 Insurance Funds are Received in the Fiscal Year of Loss

Entry #1 St Adelina will need to record the impairment loss due to the flood. Impairment loss is the difference between the book value of the asset and the accumulated depreciation of the fixed asset.

	Account #	Account Name	Amount Dr	Amount Cr
Entry to record impairment loss:				
Dr.	1795	Accumulated Depreciation	\$400,000	
Dr.	4775	Impairment Loss	\$400,000	
Cr.	1730	Buildings - School		\$800,000

Insurance Proceeds Accounting: Continued

Entry #2 St. Adelina received \$700,000 from Catholic Mutual of Insurance Proceeds due to the loss of the HVAC System.

Account 4775 Impairment Loss would be reduced up to the amount originally recorded. In the example below only \$400,000 of impairment loss was ever recorded. If the amount received was only \$300,000, then account 3430 would not be used and there would be a total loss of \$100,000 (\$400,000 impairment loss - \$300,000 recovery from insurance)

		Account #	Account Name	Amount Dr	Amount Cr
Entry to record insurance recovery:					
Dr.		1010	General Checking	\$700,000	
	Cr.	4775	Impairment Loss		\$400,000
	Cr.	3430	Insurance Proceeds		\$300,000

#3 Insurance Funds are NOT Received in the Fiscal Year of Loss

Entry #1 would remain the same. The impairment loss should still be recorded in the year the loss was incurred.

Entry #2 If St. Adelina didn't receive Insurance proceeds until a subsequent year, a prior period adjustment would need to be made to ensure the impairment loss is reduced in the correct fiscal year. An entry to Retained Earnings would be made rather than a negative expense to impairment loss.

		Account #	Account Name	Amount Dr	Amount Cr
Entry to record insurance recovery in subsequent year:					
Dr.		1010	General Checking	\$700,000	
	Cr.	29XX	Retained Earnings		\$400,000
	Cr.	3430	Insurance Proceeds		\$300,000

Note: If your Parish or School is ever in this situation, please reach out to parishfinance@archmil.org.

Parishes & Schools that Depreciate – Partial Loss

If a fixed asset was not a total loss but just needed to be repaired there would be no derecognition of the fixed asset since it would still exist. There are different accounting treatments depending on if the repair will increase the useful life of the asset and if the useful life remains the exact same.

#4: Useful Life of the Asset is Extended

Example: St Adelina's School had a fire, and a part of the building had to be refinished. Catholic Mutual covered 80% of the entire \$300,000 repair. The repair of the school building extended the useful life of the building by 5 years

Entry for repairs completed after flooding of school basement:

Dr.		1730	Buildings	\$300,000	
	Cr.	1010	General Checking		\$300,000

When funds are received from Catholic Mutual St. Adelina recorded:

Entry for reception of insurance funds from Catholic Mutual:

Dr.		1010	General Checking	\$240,000	
	Cr.	3430	Insurance Proceeds		\$240,000

St. Adelina will need to update its depreciation schedule for the school to extend the useful life of the building by 5 years and include the additional cost to repair the building on the schedule.

Insurance Proceeds Accounting: Continued

#5: Useful Life of the Asset is NOT Extended

Example: St Adelina's School had a fire, and only a classroom had to be refinished. Catholic Mutual covered 80% of the entire \$50,000 repair. The repair of the classroom did NOT extend the useful life of the building.

Entry for repairs of the classroom:

Dr.		4460	Repair and Maintenance of Buildings	\$50,000	
	Cr.	1010	General Checking		\$50,000

When funds are received from Catholic Mutual St. Adelina recorded:

Entry for reception of insurance funds from Catholic Mutual:

Dr.		1010	General Checking	\$40,000	
	Cr.	3430	Insurance Proceeds		\$40,000

Note: Insurance recoverability from Catholic Mutual is used just for example purposes and is not indicative of the amount that would be received by your parish or school.

FASB References

- [FASB ASC 610-30 Involuntary Conversions.](#)
- [FASB ASC 450 Contingencies](#)
- [FASB ASC 250-10 Prior Period Adjustments](#)
- [FASB ASC 360-10-35-4 Partial Loss Useful Life Extended](#)

Insurance Proceeds Accounting Flow Chart

