

**EXAM 6 – CANADA, SPRING 2014**

23. (2 points)

In the United States, insurance companies are required to present their financial statements under two bases: Statutory Accounting Practices (SAP) and Generally Accepted Accounting Principles (GAAP).

Compare these two bases in terms of:

a. (0.5 point)

Objective

b. (0.5 point)

Intended users

c. (0.5 point)

Asset recognition

d. (0.5 point)

Deferred income taxes

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## SAMPLE ANSWERS AND EXAMINER'S REPORT

<b>QUESTION 23</b>	
<b>TOTAL POINT VALUE: 2</b>	<b>LEARNING OBJECTIVE: C3</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a:</b> 0.5 point(s)	
<i>GAAP stresses measurement of emerging earnings of a business from period to period, (i.e., matching revenue to expense), while SAP stresses measurement of ability to pay claims in the future.</i>	
<b>Part b:</b> 0.5 point(s)	
<i>GAAP is designed to meet the varying needs of the different users of financial statements. SAP is designed to address the concerns of regulators, who are the primary users of statutory financial statement.</i>	
<b>Part c:</b> 0.5 point(s)	
<i>GAAP has recognized certain assets such as deferred policy acquisition costs, while SAP treats it as expense when incurred.</i>	
<b>Part d:</b> 0.5 point(s)	
<i>It has been recognized by GAAP but not SAP.</i>	
<b>EXAMINER'S REPORT</b>	
Most candidates did fairly well on this question and were able to identify some of the key differences between SAP and GAAP. Many candidates were unclear in their response to part (c).	
<b>Part a</b>	
Most of the candidates are able to compare in terms of objectives.	
<b>Part b</b>	
Most of the candidates are able to compare in terms of intended users.	
<b>Part c</b>	
Candidates had a difficult time comparing the difference in asset recognition between SAP and GAAP. Most candidates were able to identify that the DPAE is recognized in GAAP but not in SAP.	
<b>Part d</b>	
Most candidates received full credit for this part.	