



# SOCIETY OF FINANCIAL EXAMINERS<sup>®</sup>

## *Supplemental Background Material*

NAIC Examiner Project

**Course AFE 3**

### **Life & Health Insurance Accounting**

(Passing grade for this exam is 60)

Please note that this study guide is a tool for learning the materials you need to effectively study for this examination. As new editions of the textbooks are published, the SOFE Testing committee makes every effort to update the page references in this guide, but it is not always possible to keep it current. Therefore, it is the student's responsibility to see the topic listed in the study guide and find it in the required textbooks. But if it is not on the page indicated, then you need to go the textbook's table of contents or index and locate the topic. If you are unable to locate the topic anywhere in the textbook you are using, please e-mail SOFE headquarters at [info@sofe.org](mailto:info@sofe.org) and tell us the topic you cannot locate, where that topic is in the study guide and what version of the textbook you are using.

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## **Life and Health Insurance Accounting**

Unit:	1
Topic:	Introduction to Life Insurance Company Financial Statements
Text Required:	Introduction to Life Insurance Company Financial Statements (Course G-421U Study Note) R. Arthur Saunders, FSA (Society of Actuaries, Schaumburg, IL, 1997)
Objectives:	To introduce the new examiner to the basic principles that underlie the preparation of insurance company financial statements; to describe the regulatory environment in which insurance company financial statements are prepared.
Assigned Readings:	Introduction to Life Insurance Company Financial Statements Chapter 1-Preparation of Life Insurance Company Financial Statements Chapter 2-Regulation of Life Insurance Company Financial Statements

### *Unit Outline:*

- I. Preparation of Life Insurance Company Financial Statements
  - A. Difficulties in Understanding and Communicating
    - 1. Uncertainty of Future Profits
    - 2. Choice of Assumptions
  - B. General Purpose Financial Reporting
    - 1. Characteristics
    - 2. Objectives
  - C. Double-Entry Accounting
  - D. Status and Historical Accounts
    - 1. Status
      - a. Assets
      - b. Liabilities
    - 2. Historical

- a. Income
  - b. Disbursement
- E. Cash vs. Revenue Accounting
- F. General Accounting
- 1. Balance Sheet
  - 2. Statement of Income
  - 3. Statement of Retained Earnings
  - 4. Closing Entries
- G. Reporting of Nonledger Accounts
- H. Allocation of Income and Expenses
- 1. Subdivision of Ledger Accounts
  - 2. Allocating Investment Income
  - 3. Allocation of Expenses
- II. Regulation of Life Insurance Company Financial Statements
- A. Regulation of Life Insurance
- 1. Incorporation
  - 2. Licensing
    - a. Companies
    - b. Agents
  - 3. Investment Limitations
  - 4. Solvency Standards
  - 5. Policy Provisions
  - 6. Submissions of Prescribed Annual Financial Statements
- B. Financial Statements: The US vs. Canada
- C Statutory Financial Statements
- 1. Statement of Assets
  - 2. Statement of Liabilities, Capital, and Surplus
  - 3. Income Statement (Summary of Operations)
  - 4. Surplus Account
  - 5. Reconciliation
- D. Special Features of Life Insurance Statements

1. Initial Policy Expenses
2. Nonadmitted Assets
3. Actuarial Reserves
4. Investment Reserves
5. Gains and Losses on Investments

E. New Accounting Methods

F. Regulation of GAAP Financial Statements

G. Principle of GAAP

1. Matching
2. Emergence of GAAP Profit
  - a. Acquisition Expenses
  - b. Other Expenses
  - c. Deviations in Experience
  - d. Investment Income
3. Losses
4. Lock-In of Assumptions
5. General Considerations
6. Market Value Accounting

H. Changes in Canadian Requirements

I. Responsibilities of the Actuary

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**Life and Health Insurance Accounting**

Unit:	2
Topic:	Bonds and Stocks
Text Required:	Life and Accident and Health Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	<p>To familiarize the financial examiner with the characteristics of stocks and bonds and the corresponding accounting practices, control procedures, and types of transactions; to briefly describe other investment instruments-such as options and futures-that are used to complement the overall investment strategy of an insurer.</p> <p>Discussions in this unit, along with units 3 and 4, relate to Page 2, and Schedules A, B, BA, D, DA, DB, E, and X of the NAIC Annual Statement.</p>
Assigned Reading:	Life Insurance Accounting Chapter 2-Bonds and Stocks Appendix-Sample Annual Statement Forms

*Unit Outline:*

- I. Regulatory Restrictions
  - A. Regulatory Reporting Requirements
    - 1. Investments in Any One Institution or Property
    - 2. Investments in Common Stocks
    - 3. Investments in Real Property
    - 4. Foreign Investments
    - 5. Others
  - B. Different Accounting Basis
- II. Bonds
  - A. Classifications
    - 1. Mortgage

2. Debentures
  3. Sinking Fund
  4. Serial Bonds
  5. Convertible Bonds
  6. Mortgage-backed Securities
  7. Valuation
  8. Classifications
  9. Pricing and Yield
- III. Preferred Stocks
- A. General
  - B. Characteristics
- IV. Common Stocks
- A. General
  - B. Stock Warrants
- V. Mutual Funds
- VI. Repurchase Agreements
- VII. Wash Sales
- VII. Disclosures
- IX. Bond and Stock Accounting
- A. Basic Accounting
  - B. Unique Accounting Aspects
    1. Commitment Fees
    2. Stock Dividend
    3. Stock Splits

- X. Derivative Securities
  - A. Description
  - B. Cash Market Derivative Security Terms
  - C. Collateralized Mortgage Obligations
  - D. SAP Accounting for CMO's
  - E. CMO Accounting
  - F. National Derivatives
  - G. Accounting and Hedging Overview
  - H. Interest Rate Swaps

- XI. Financial Futures

- A. Description
  - B. Regulatory Constraints
  - C. Accounting
  - D. Tax Considerations

- XII. Other Topics

- A. Tax Basis Accounting
  - B. Misc. Investment
  - C. Bond & Stock Systems

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**Life and Health Insurance Accounting**

Unit:	3
Topic:	Mortgage Loans
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	<p>To familiarize the examiners with the nature and types of mortgages, the documentation required for life insurer investments in mortgage loans, the types of transactions related to investments in mortgage loans, and the general statutory investment regulations affecting mortgages; to describe the accounting principles and reporting requirements of life insurers related to their investments in mortgage loans.</p> <p>Discussion in this unit, along with units 2 and 4, relate to Page 2, and Schedules A, B, BA, D, DA, DB, E, and X of the NAIC Annual Statement.</p>
Assigned Reading:	Life Insurance Accounting Chapter 3-Mortgage Loans Appendix-Sample Annual Statement Forms

*Unit Outline:*

- I. Introduction
  - A. Significance to Insurance Companies
  - B. Changes in Lending Practices
- II. Definitions
  - A. Mortgage Loans
  - B. Promissory Note
  - C. Mortgagor
  - D. Mortgagee
- III. Types of Mortgage Loans
  - A. Classified by Lien

- A. Classified by Real Estate Security
  - 1. Residential Loans
  - 2. Commercial Loans
  - 3. Construction Loans
  - 4. Development Loans
  - 5. Undeveloped Land Loans
  - 6. Farm Loans
  - 7. Purchase Money Loans
  
- IV. Governmental Regulations Affecting Mortgage Loans
  - A. Limitations
    - 1. Quality of Loans
    - 2. First-Lien Loans
    - 3. Loan-to-Market-Value Ratio
    - 4. Concentration of Investments
  
  - B. Basket Clauses
  - C. Reappraisal
  
- V. Normal Documents for Mortgage Loans
  - A. Generated During the Underwriting Process
    - 1. Loan Application
    - 2. Credit Report
    - 3. Financial Statement
    - 4. Verification of Employment
    - 5. Verification of Deposit
    - 6. Appraisal
    - 7. Environmental Report
    - 8. Commitment Letter
    - 9. Other Documents
  
  - B. Generated When Loan Funds Are Distributed
    - 1. Original Note
    - 2. Mortgage
    - 3. Evidence of Lend First Lien
    - 4. Survey
    - 5. Closing Statement
    - 6. Property Insurance Policy
    - 7. Assignment of Rent
    - 8. Participation Agreement

9. Other Documents

VI. Acquiring mortgage Loans

- A. Secondary Markets
- B. Blocks of Loans during Acquisition or Merger
- C. In Lieu of Cash in a Reinsurance Transaction
- D. Through Brokers
- E. Through Participation or Joint Venture Loans
- F. Through Participation Certificates

VII. Accounting for the Initial Investment

- A. Original Recorded Amount
- B. Expense of Initial Investment
- C. Income from Initial Investment

VIII. Servicing the Investment in Mortgage Loans

A. Loans Directly Serviced

- 1. Functions of the Accounting Department
- 2. Functions of the Investment Department
- 3. Expenses and Income

B. Loans Serviced by Others

- 1. Control over the Service
- 2. Expenses Related to Serviced Loans

IX Accounting For Loans During the Servicing Period

A. Processing Transactions

- 1. Recording Principal Receipts
- 2. Recording Interest Income
- 3. Earned Interest Income
- 4. Recording Participation Income
- 5. Escrow Accounts
- 6. Recording Expenses

B. Special Transactions

- 1. Nonadmittance of Principal or Accrued Interest
- 2. Recording foreclosures
- 3. Modified Mortgages

4. Impairments
5. Transfers/Securitizations
6. Recording Transactions with Affiliated Companies or Joint Ventures

X Statutory Reporting of Mortgages

- A. Exhibit of Net Investment Income
- B. Exhibit of Capital Gains and Losses
- C. Page 2
- D. Schedule B

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**Life and Health Insurance Accounting**

Unit:	4 and 5
Topic:	Real Estate, Joint Ventures, and Other Assets
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	<p>To familiarize the examiner with the nature and types of real estate investments of life insurers; to describe the other types of assets owned by life insurers; to describe the accounting principles and reporting requirement of life insurers related to their investments in real estate and assets other than stocks, bonds, and mortgage loans.</p> <p>Discussions in this unit, along with units 2 and 3, relate to Page 2 and Schedules A, B, BA, D, DA, DB, E, and X of the NAIC Annual Statement.</p>
Assigned Readings:	Life Insurance Accounting Chapter 4-Real Estate Investments and Joint Ventures Chapter 5-Other Assets Appendix-Sample Annual Statement Forms

*Unit Outline:*

- I. Real Estate Investments and Joint Ventures
  - A. Reasons for Real Estate Investments
    - 1. Long-term Profit
    - 2. Social Purposes
  - B. Differences between Real Estate Investments and other Investments
    - 1. Fixed Location
    - 2. Value Dependent on Location
    - 3. Managerial Skills Required
  - C. Types of Real Estate Investments
  - D. Legal Limitations
  - E. Valuation

1. Cost
2. Plus Capitalized Improvements
3. Less Depreciation

#### F. Accounting for Real Estate

1. Acquisition Accounting
  - a. Cash Purchases
  - b. Financed Purchases
  - c. Group Purchases
  - d. Property Acquired in Acquisition of Debt
  - e. Capital Improvements
  - f. Sale/Leaseback Arrangements
2. Sales Accounting
3. Income and Expense Accounting
4. Fair Value, Carrying Value, and Statement Value
5. NAIC Risk-based Capital

#### G. Home office Real Estate

#### H. Real Estate Joint Ventures

1. Types of Joint Ventures
  - a. Corporate
  - b. Limited Partnership
  - c. General Partnership
  - d. Individual Interest

2. Funding the Joint Venture
3. Accounting Issues
4. Tax Considerations

## II. Other Assets

- A. Admitted Assets
- B. Non-ledger Assets
- C. Non-admitted Assets
- D. Valuation
- E. Basket Assets
- F. Principal Other Assets

1. Policy Loans
2. Premium Notes
3. Collateral Loans

4. Cash and Short-term Investments
5. Other Invested Assets
6. Reinsurance Ceded
7. Electronic Data Processing Equipment and Software
8. Federal Income Tax Recoverable
9. Deferred and Uncollected Premiums
10. Investment Income Due and Accrued
11. Receivables for Securities
12. Foreign-Exchange Assets
13. Separate Accounts
14. Write-in Assets
15. Non-admitted Assets

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**Life and Health Insurance Accounting**

Unit:	6
Topic:	Policy and Claim Reserve Liabilities
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with insurance contract guarantees and how these guarantees are valued and accounted for as reserves within balance sheets and supporting statements.  Discussions in this unit relates to Page 3, and Exhibits 5, 5A, 6, 7,8 of the NAIC Annual Statement.
Assigned Reading:	Life Insurance Accounting Chapter 6-Policy and Claim Reserve Liabilities Appendix-Sample Annual Statement Forms

*Unit Outline:*

- I. Introduction
  - A. Nature of Reserves
  - B. Purpose of Reserves
- II. Individual Life Insurance Reserves
  - A. Premiums
    - 1. Gross
    - 2. Net
  - B. Based on Level Premiums
  - C. Reserve Valuations
    - 1. State Insurance Department Regulations
    - 2. NAIC Model Standard Valuation Law
    - 3. Permissible Interest Rates
  - D. Net Level Reserves

1. Prospective Calculations
2. Retrospective Calculations
3. Calculating Successive Reserves

E. Mean Reserves

1. Nature
2. Minimum Levels

F. Modified Reserves

1. Purpose
2. Full Preliminary Term Method
3. Commissioners' Reserve Valuation Method
4. Illinois Standard Method
5. Other Methods

G. Modification of Assumptions

1. Interest
2. Mortality
3. Timing of Premiums and Death Claims

H. Premium Adjustments

I. Methods of Calculating the Policy Reserve

1. Seriatim
2. Group
3. Attained Age
4. Retrospective
5. Approximate

III. Indeterminate Premium Plans

IV. Deposit Type Plans

V. Universal Life Policies

- A. Nature of Policies
- B. Complexity of Reserves

VI. Multiple Life Policies

- A. Valuation of Life Insurance
- B. Variable Insurance Products
- C. Equity Indexed Insurance Policies

VII. Miscellaneous Life Reserves

- A. Supplemental Contracts with Life Contingencies
- B. Accidental Death Benefit
- C. Disability-Active Lives
- D. Disability-Disabled Lives
- E. Additional Mortality under Group Conversions
- F. Additional Mortality under Term Conversions
- G. Reserve for Excess of Valuation Net Premiums over Corresponding Gross Premiums on Respective Policies
- H. Substandard Policies
- I. Payor Benefits

VIII. Accelerated Benefits

IX. Annuity Reserves

X. Group Life Insurance Reserves

XI. Industrial Life Insurance Reserves

XII. Other Reserve Considerations

XIII. Accident and Health insurance Reserves

- A. Legal Requirements
- B. Forms of Reserves

- 1. Active Life Reserves
- 2. Disabled Life Reserves
- 3. Reserve for Present Value of Amounts Not Yet Due
- 4. Reserve for Future Contingent Benefits
- 5. Contingency Reserves

XIV. Consumer Credit Life and Disability Insurance Reserves

XV. Policy and Contract Claim Liability

- A. Liability for Incurred but Unreported Claims
- B. Liabilities for Claims in Course of Settlement
- C. Liabilities for Due and Unpaid Claims

XVI. Reinsurance

- A. Effect on Reserves

B. Insurance Department Requirements

XVII. Statement of Actuarial Opinion

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**Life and Health Insurance Accounting**

Unit:	7 & 8
Topic:	Other Liabilities
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the purpose and use of the numerous miscellaneous liabilities that appear on insurers' financial statements; to discuss how these liabilities are calculated and what modifications to statutory accounting presentations are needed to comply with generally accepted accounting principles.  Discussions in this unit, relate to Page 3, and Exhibits 1, 2, 3, and 4 of the NAIC Annual Statement
Assigned Readings:	Life Insurance Accounting Chapter 7-Liabilities for other policyholder amounts held including funds on deposit. Chapter 8-All Other Statement Liabilities, Including Asset Valuation Reserve and Interest Maintenance Reserve Appendix-Sample Annual Statement Forms

*Unit Outline:*

- I. Liabilities for Policyholders' Dividends
- II. Liabilities for Deposit Type Contracts
- III. Liabilities for Premium Amounts
- IV. Commissions to Agents Due or Accrued
- V. Reinsurance Liabilities
- VI. General Expenses Due or Accrued
- VI. Transfer to Separate Accounts
- VII. Taxes, Licenses, and Fees Due or Accrued
- IX. Federal Income Taxes Due

- IX. Unearned Investment Income
- X. Amounts Withheld or Retained by Company as Agent or Trustee
- XI. Amounts Held for Agent's Accounts
- XII. Remittances and Items Not Allocated
- XIII. Net Adjustment in Assets and Liabilities Due to Foreign Exchange Rate
- XV. Liability for Benefits for Employees and Agents if not Included Above
- XVI. Dividends to Stockholders Declared and Unpaid
- XVII. Asset Valuation Reserve and Interest Maintenance Reserve
- XVIII. Payable to Parent, Subsidiaries, and Affiliates
- XIX. Drafts Outstanding
- XX. Liability for Amounts Held under Uninsured Accident and Health Plans
- XXI. Aggregate Write-ins for Liabilities
- XXII. From Separate Accounts Statement

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**Life and Health Insurance Accounting**

Unit:	9 and 10
Topic:	Capital and Surplus Accounts; Revenues
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the capital, surplus, and revenue accounts; to recognize how capital, surplus, and revenue transactions are treated for statutory accounting and generally accepted accounting purposes.  Discussions in this unit relate to Pages 3 and 4, Exhibits of Net Investment Income, Exhibit of Capital Gains, Exhibit 9 and Schedules H and T of the NAIC Annual Statement
Assigned Readings:	Life Insurance Accounting Chapter 9--Capital and Surplus Accounts Chapter 10-Revenues Appendix-Sample Annual Statement Forms

*Unit Outline:*

- I. Perspectives on Capital and Surplus
- II. Corporate form of Organization
- III. Capital Stock and Gross Paid in and Contributed Surplus
- IV. Surplus Notes
- V. Surplus
- VI. Treasury Stock
- VII. Need for Surplus
- VIII. Capital & Surplus Account

- IX. Quasi Reorganization
- X. Other Surplus Considerations
  
- XI Premium Income
  
- XII Investment Income
  - A. Bond Interest
    - 1. Accrual of Discount on Bonds
    - 2. Amortization of Bond Premium
    - 3. Call Prices
    - 4. Accrual of Interest on Bonds
  
  - B. Loan-Backed and Structured Securities
  - C. Dividend Income on Stock
  - D. Investments in Subsidiary, Controlled, and Affiliated Entities
  - E. Derivative Instruments
  - F. Mortgage Loans
  - G. Real Estate Income
  - H. Repurchase Agreements
  - I. Joint Ventures
  - J. Policy Loans
  - K. Miscellaneous Income

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**Life and Health Insurance Accounting**

Unit:	11
Topic:	Benefits, Commissions, Expenses, and Dividends
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the types of benefits, commissions, expenses, and dividends incurred by life insurers; to describe the accounting process for benefits, commissions, expenses, and dividends and to explain how this process affects Annual Statement exhibits and schedules.  Discussions in this unit relate to Page 4, Exhibits 5, 6, 7, 11, and 12, and Schedules F, G, H, I, J, K, L, M, and O of the NAIC Annual Statement.
Assigned Reading:	Life Insurance Accounting Chapter 11-Benefits, Commissions, Expenses and Dividends Appendix-Sample Annual Statement Forms

*Unit Outline:*

- I. Relationships
- II. Benefits
  - A. Types
    - 1. Death Benefits
    - 2. Matured Endowments
    - 3. Annuity Benefits
    - 4. Disability Benefits
    - 5. Surplus Benefits
    - 6. Group Conversions
    - 7. Interest on Policy or Contract funds
    - 8. Payments on Supplementary Contracts with Life Contingencies
    - 9. Payments on Supplementary Contracts without Life Contingencies
    - 10. Accumulated Coupon Payments
  - B. Nature
  - C. Accounting Process

D. Relationship with Exhibits and Schedules

III. Commissions

A. Types

1. On Premiums and Annuity Considerations
2. On Expense Allowances and Reinsurance Assumed

B. Nature

C. Accounting Process

D. Relationship with Exhibits and Schedules

IV. Expenses

A. Types

1. General
2. Taxes, Licenses, and Fees

B. Accounting Process

C. Relationship with Exhibits and Schedules

V. Dividends

A. Types

1. During Policy Period
2. Terminal

B. Dividend Payment Methods

C. Relationship with Exhibits and Schedules

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**Life and Health Insurance Accounting**

Unit:	12
Topic:	Federal Income Taxes
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the taxation of life insurers; to explain how taxable income is determined for a life insurer by analyzing gross income, deductions, and special tax considerations.  Discussion in this unit refers to pages 3 and 4 of the NAIC Annual Statement.
Assigned Reading:	Life Insurance Accounting Chapter 12-Federal Income Taxes

*Unit Outline:*

- I. Taxation of Insurance Companies in General
  - A. Definition of a Life Insurance Company
  - B. Qualification as a Life Insurance Company
  - C. Determination of Life Insurance Company Taxable Income
  - D. Tax on Mutual Company Equity
- II. Gross Income
  - A. Premiums
  - B. Decreases in Reserves
  - C. Other Amounts
- III. Deductions
  - A. General
    - 1. Death and Other Policy Benefits Paid
    - 2. Losses Incurred
    - 3. Net Increases in Loss Reserves

- 4. Dividends to Policyholder
  - 5. Dividends Received
  - 6. Operating Losses
- IV. Life Insurance Products
- V. Accounting for Income Taxes
- A. Deferred Income Taxes
  - B. Operating Loss Carryforwards or Carrybacks
- VI Accounting for Income Taxes
- VII. Consolidated Federal Income Tax Returns

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**Life and Health Insurance Accounting**

Unit: 13

Topic: Accounting for Lines of Business

Text Required: Life Insurance Accounting  
(Insurance Accounting & Systems  
Association, Inc., Durham, NC, 2001)

Objectives: To familiarize the examiner with the lines of business of life insurers; to explain how revenue, investment income, and expenses are allocated among lines of business.

Assigned Reading: Life Insurance Accounting  
Chapter 13-Accounting for Lines of Business

*Unit Outline:*

- I. Statutory Reporting Requirements
- II. Revenues
- III. Policy Benefits
  - A. Death Benefits
  - B. Matured Endowments
  - C. Annuity Benefits
  - D. Disability Benefits and Benefits under Accident and Health Policies
  - E. Coupons, Guaranteed Annual Pure Endowments, and Similar Benefits
  - F. Surrender Benefits and Other Fund Withdrawals
  - G. Group Conversions
  - H. Interest on Policy or Contract Funds
  - I. Supplemental Contracts
- IV. Changes in Policy Reserves
  - A. Life Insurance Policy Reserves
  - B. Accident and Health Reserves
  - C. Special Reserves
- V. Commissions

- VI. General Insurance Expenses
- VII Taxes, Licenses, and Fees
- VIII. Dividends to Policyholders
- IX. Federal Income Tax

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**Life and Health Insurance Accounting**

Unit:	14
Topic:	Cost Accounting
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with how cost accounting can provide information needed to make crucial business decisions; to describe the methods to accumulate and use departmental and functional costs.
Assigned Reading:	Life Insurance Accounting Chapter 14-Cost Allocation

*Unit Outline:*

- I. Cost Accounting
  - A. Definition
  - B. Life Insurance Cost Accounting
  - C. Factors Affecting Choice of Cost Accounting System
  
- II. Classifying Expenses
  - A. Expense Classifications
    - 1. By Class or Nature
    - 2. By Organizational Unit
      - a. Department
      - b. Cost Center
  
    - 1. By Purpose or Benefit
      - a. Functional Costing
      - b. Costing by Line of Business, Product, or Strategic Business Unit
  
  - B. Interrelationship between Expense Classifications
  - C. Reasons for Expense Analysis

### III. Departmental Expenses

- A. Use of Departmental Costs
- B. Operating vs. Service Departments
- C. Expense Items Charged by Department
- D. Reporting

### IV. Functional expenses

- A. Relationship of Functional Costs and Lines of Business
- B. Use of a Functional Line of Business study
- C. Benchmarking to Improve Company's Performance
- D. Procedures for Functional Lines of Business Analysis
  - 1. Defining the System
  - 2. Identifying the Functional Operations to Be Measured
  - 3. Allocation of Service, Overhead, and Other Functions to Lines of Business
  - 4. Providing Cost Segregations of the Functions
    - a. Direct Costs
    - b. Internal-Indirect Costs
    - c. External-Indirect Costs
  - 5. Establishing and Calculating Units of Measure
    - a. Definition of Unit Cost
    - b. Selecting the Units
    - c. Uses of Unit Cost Data
  - 6. Reporting Results
    - a. General Guidelines
    - b. Sample Reporting

### V. Intercompany Allocations and Noninsurance Functions

- A. General Guidelines
- B. Accumulation Techniques

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**Life and Health Insurance Accounting**

Unit:	15
Topic:	GAAP Accounting
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the rationale for and the principles of GAAP accounting; to describe the ways in which accounting for life insurance companies follows and departs from GAAP.
Assigned Reading:	Life Insurance Accounting Chapter 15 - GAAP Accounting

*Unit Outline:*

- I. General Standards
- II. General Reporting Standards
  - A. Revenue Recognition
  - B. Cost-Basis
  - C. Adjustments to Cost-Basis
    - 1. Valuation Allowances
    - 2. Write-down of Cost
    - 3. Changes in Market Value
    - 4. Revenue Recognition
- III Debt and Equity Securities
- IV Hedge Accounting
- V. FASB Statement Number 133
- VI Disclosures
- VII Asset and Liability Determinations
  - 1. Marketable Securities
  - 2. Home Office Buildings and Other Properties
  - 3. Receivable and Allowances

4. Intangible Assets
5. Furniture, Equipment, and Other Assets
6. Policyholder Dividends
7. Stockholders' Equity
8. Deferred Federal Income taxes

VIII Retirement Benefits

IX Post Retirement Benefits

X Post Employment Benefits

XI Statutory Life Insurance Accounting

XII GAAP for Life Insurance Companies

XIII Product Related Requirements

XIV Financial Statement Presentation

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**Life and Health Insurance Accounting**

Unit:	16
Topic:	Consolidations and Holding Companies
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the purposes and limitations of consolidated financial statements; to describe the concepts of consolidated statements and identify the special issues involved in their preparation.
Assigned Reading:	Life Insurance Accounting Chapter 21-Consolidations and Holding Companies

*Unit Outline:*

- I Purposes of Consolidated Financial Statements
- II. GAAP
- III. Alternative Guidance
- IV. Accounting Practice for Consolidation Accounting
- V. The Equity Method
- VI. Parent Company Financial Statements
- VII GAAP Segment Disclosure
- VIII Difference in Fiscal Periods

- IX SAP
- X Market Value Accounting
- XI Limited Partnerships
- XII Statutory Impairment
- XIII SAP Disclosures
- XIV Internal Revenue Code
- VV Special Issues
- VVI Current Developments

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**Life and Health Insurance Accounting**

Unit:	17
Topic:	Treasury Management
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the importance of cash management; to describe the procedures for planning cash needs and collecting, controlling, and investing cash.
Assigned Reading:	Life Insurance Accounting Chapter 16-Treasury Management

*Unit Outline:*

- I. U S Banking Environment
- II. Collection System
- III. Concentration System
- IV. Reconciliation System
- V Cash Flow Forecasting
- VI Information Management
- VII Banking Relationships

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**Life and Health Insurance Accounting**

Unit:	18
Topic:	Asset/Liability Management
Text Required:	Life Insurance Accounting (Insurance Accounting & Systems Association, Inc., Durham, NC, 2001)
Objectives:	To familiarize the examiner with the concept of asset/liability matching; to explain the risks and strategies associated with asset/liability matching.
Assigned Reading:	Life Insurance Accounting Chapter 22- Asset/Liability Management

*Unit Outline:*

- I. The Life Insurance Company Setting
- II. Basic Principles of Asset/Liability Management
- III. Interest Rate Risks
- IV. Equity Market Risk
- V. Challenges in Asset/Liability Management
- VI. Historical Methods
- VII. The Risk of Derivatives
- VIII. Best Practical
- IX. Future Challenges & Opportunities