



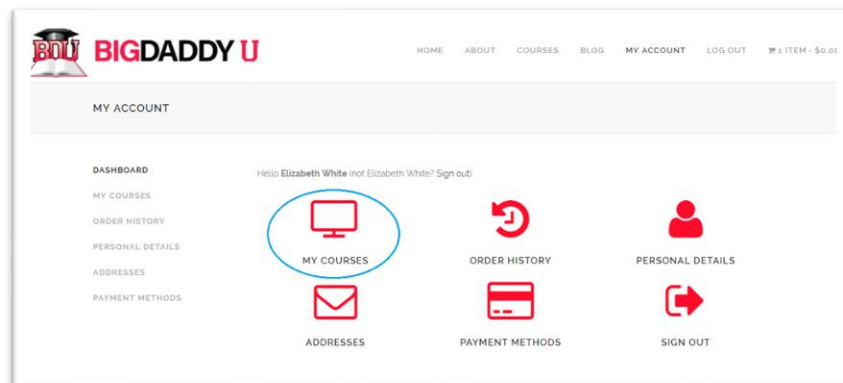
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BigDaddy U study materials are designed to provide you with the key information you need to pass your exam. We structure our videos to have a length of 15-30 minutes per objective, and therefore the videos for a particular module may not cover every single topic in detail.

Before taking your exam, please make sure to review the **Test Bank Questions and Solutions** thoroughly, as we occasionally add questions to the Test Bank that are not covered in the videos (in an attempt to keep the videos at a reasonable length). Also, please make sure to review the **flashcards, handouts, and practice exams**.

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HP 10bII Calculator Note

When you first take your HP 10bII calculator out of the box, HP has already set the calculator to **MONTHLY** compounding.

In Module 6 (Time Value of Money), all examples are based on **ANNUAL** compounding.

As a result, you must set your calculator to **ANNUAL** compounding so your calculator results will agree with those displayed on the DVDs.

Use the following keystrokes: 1, [SHIFT], P/YR

The [SHIFT] key is the orange key above the “c” key.

Please note that the HP 10bII calculator is NOT included with these study materials, and must be purchased separately.



ABC Company GAAP Financial Statements

GAAP Balance Sheet December 31, 20XX

Assets			
Current Assets			
Cash	A	50,000	
Accounts Receivable		125,000	
Inventory		1,500,000	
Marketable Securities		25,075,000	
Non-Current Assets			
Buildings & Equipment		300,000,000	
Less: Accumulated Depreciation		(10,000,000)	
Intangible Assets		5,000,000	
Total Assets		321,750,000	
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts Payable		6,250,000	
Short-Term Debt		4,000,000	
Non-Current Liabilities			
Long-Term Debt		200,000,000	
Total Liabilities		210,250,000	
Shareholders' Equity	F	111,500,000	
Total Liabilities and Equity		321,750,000	

GAAP Cash Flow Statement For the Year Ended 12/31/20XX

Cash Flow From Operating Activities			
Net Income	B	28,275,000	
Add/Deduct Items Not Affecting Cash			
Depreciation Expense	C	3,000,000	
Change in Receivables/Payables		320,000	
Change in Inventories		(1,125,000)	
Cash From/For Operating Activ.		<u>30,470,000</u>	
Cash Flow From Investing Activities			
Additions to Buildings/Equipment		(32,750,000)	
Cash From/For Investing Activ.		<u>(32,750,000)</u>	
Cash Flow From Financing Activities			
Proceeds From Debt Issue		750,000	
Proceeds From Stock Issue	G	6,000,000	
Purchase of Treasury Stock	E	(1,250,000)	
Dividends Paid to Shareholders	D	(3,500,000)	
Cash From/For Financing Activ.		<u>2,000,000</u>	
Increase (Decrease) in Cash		(280,000)	
Cash, Beginning of Year		<u>330,000</u>	
Cash, End of Year	A	<u>50,000</u>	

GAAP Income Statement For the Year Ended 12/31/20XX

Sales	350,000,000
Cost of Goods Sold	(250,000,000)
Gross Profit	100,000,000
General Operating Expenses	
Advertising	(6,000,000)
Office Expense	(29,000,000)
Depreciation Expense	C (3,000,000)
Operating Income	62,000,000
Other Income and Expenses	
Investment Income	1,500,000
Interest Expense	(20,225,000)
Income Taxes	(15,000,000)
Net Income	B <u>28,275,000</u>

GAAP Comprehensive Income

Net Income	B	28,275,000
Other Comprehensive Income		
Unrealized Appreciation		(11,500,000)
Foreign Currency Translation		750,000
Minimum Pension Liability		(2,250,000)
Comprehensive Income		<u>15,275,000</u>

GAAP Changes in Shareholders' Equity For the Year Ended 12/31/20XX

Paid-in Capital:			
Beginning Balance (Jan 1)		19,105,000	
Common Stock Issued	G	6,000,000	
Ending Balance (Dec 31)		<u>25,105,000</u>	
Retained Earnings:			
Beginning Balance (Jan 1)		61,845,000	
Net Income	B	28,275,000	
Shareholder Dividends	D	(3,500,000)	
Ending Balance (Dec 31)		<u>86,620,000</u>	
Accumulated Other Comprehensive Income:			
Beginning Balance (Jan 1)		14,525,000	
Other Comprehensive Income		(13,000,000)	
Ending Balance (Dec 31)		<u>1,525,000</u>	
Treasury Stock:			
Beginning Balance (Jan 1)		(500,000)	
Repurchase of Shares	E	(1,250,000)	
Ending Balance (Dec 31)		<u>(1,750,000)</u>	
Shareholders' Equity (Dec 31)	F	<u>111,500,000</u>	



Super Insurer
Insurer Balance Sheet
December 31, 20XX

Assets	GAAP-Based		SAP-Based	
Investments				
Short-Term Investments	3,000,000	2.6%	3,000,000	2.9%
Bond Investments (1)	70,000,000	60.5%	68,000,000	65.7%
Equity Securities	20,000,000	17.3%	20,000,000	19.3%
Real Estate	4,000,000	3.5%	4,000,000	3.9%
Total Investments	97,000,000		95,000,000	
Other Assets				
Cash	5,000,000	4.3%	5,000,000	4.8%
Accrued Investment Income	1,500,000	1.3%	1,500,000	1.4%
Insurance Premium Receivables (2)	2,000,000	1.7%	1,250,000	1.2%
Reinsurance Recoverables (3)	3,500,000	3.0%	0	0.0%
Deferred Policy Acquisition Costs (4)	2,500,000	2.2%	0	0.0%
Furniture and Equipment (5)	3,360,000	2.9%	0	0.0%
Other Assets	750,000	0.6%	750,000	0.7%
Total Other Assets	18,610,000		8,500,000	
Total Assets	115,610,000	100.0%	103,500,000	100.0%
Liabilities and Equity				
Liabilities				
Unpaid Losses and LAE	54,000,000	46.7%	50,750,000	49.0%
Unearned Premiums	12,000,000	10.4%	12,000,000	11.6%
Long-Term Debt	30,000,000	25.9%	30,000,000	29.0%
Deferred Income Taxes	4,000,000	3.5%	0	0.0%
Total Liabilities	100,000,000		92,750,000	
Shareholders/Policyholders Equity				
Common Stock	768,000	0.7%	768,000	0.7%
Additional Paid-In Capital	1,232,000	1.1%	1,232,000	1.2%
Retained Earnings (6)	10,770,000	9.3%	8,750,000	8.5%
Comprehensive Income (7)	2,840,000	2.5%	0	0.0%
Shareholders/Policyholders Equity	15,610,000		10,750,000	
Total Liabilities and Equity	115,610,000	100.0%	103,500,000	100.0%

- (1) For SAP, bonds valued at Amortized Cost; For GAAP, valued at Amortized Cost only if held to maturity.
(2) For SAP, receivables more than 90 days past due are non-admitted assets
(3) For SAP, recoverables are netted against Losses and LAE reserves; for GAAP, they are reported as an asset
(4) For SAP, policy acquisition costs are expensed immediately; for GAAP, they are amortized over life of policy
(5) For SAP, furniture, fixtures, equipment, and autos are non-admitted assets
(6) For SAP, retained earnings is referred to as Unassigned Funds (Surplus)
(7) For SAP, comprehensive income is a direct adjustment to Surplus



Financial Ratios

Liquidity Ratios

GAAP-Based Measurement		SAP-Based Measurement	
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Liquidity Ratio	$\frac{\text{Cash} + \text{Invested Assets (FMV)}}{\text{Unearned Prem} + \text{Loss} + \text{LAE Reserve}}$
Acid-Test (or Quick) Ratio	$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$		

Leverage/Capacity Ratios

GAAP-Based Measurement (Leverage Ratios)		SAP-Based Measurement (Capacity Ratios)	
Debt-to-Equity	$\frac{\text{Long-Term Debt}}{\text{Shareholders' Equity}}$	Premium-to-Surplus	$\frac{\text{Net Written Premiums}}{\text{Policyholders' Surplus}}$
Debt-to-Assets	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$	Reserve-to-Surplus	$\frac{\text{Unearned Prem} + \text{Loss} + \text{LAE Reserve}}{\text{Policyholders' Surplus}}$

Profitability Ratios

GAAP-Based Measurement		SAP-Based Measurement	
Net Profit Margin (1)	$\frac{\text{Net Income}}{\text{Sales}}$	Combined Ratio	Loss Ratio + Expense Ratio
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$	Loss Ratio	$\frac{\text{Incurred Losses} + \text{LAE}}{\text{Earned Premiums}}$
Return on Equity	$\frac{\text{Net Income}}{\text{Shareholders' Equity}}$	Expense Ratio	$\frac{\text{Underwriting Expenses}}{\text{Written Premiums}}$
		Operating Ratio	Combined Ratio - Investment Income Ratio
		Investment Yield	$\frac{\text{Net Investment Income/Loss}}{\text{Total Cash} + \text{Invested Assets}}$
		Return on Policyholders' Surplus	$\frac{\text{Net Income}}{\text{Policyholders' Surplus}}$



Calculator HP10bII - Present and Future Value of a Single Sum



Calculator HP10bII - Annuities

