14. (2 points)

An insurance company that writes $100 million of premium a year experiences two significant events while preparing its 2013 financial statements:

i. A large claim was initially reported on October 30, 2013. Information received on January 5, 2014 called for a $5 million increase in this claim's reserves.

ii. A hurricane made landfall on January 8, 2014, causing catastrophic property damage with an estimated net impact of $30 million to the company.

a. (1 point)

Briefly describe the two types of subsequent events discussed in financial statements, and for each event described above, identify which type of subsequent event it is.

b. (1 point)

For each event described above, briefly describe whether the financial statements should be updated to reflect the event and whether a disclosure is required.

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SAMPLE ANSWERS AND EXAMINER'S REPORT

<table>
<tr><td colspan="2">QUESTION 14</td></tr>
<tr><td>TOTAL POINT VALUE: 2</td><td>LEARNING OBJECTIVE: C1</td></tr>
<tr><td colspan="2">SAMPLE ANSWERS</td></tr>
<tr><td colspan="2">Part a: 1 point</td></tr>
<tr><td colspan="2">
• Event i = Recognized Subsequent Event (Type 1) - loss occurred prior to the Financial statement as of date and that new information was received after that date
• Event ii = Non Recognized Subsequent Event (Type 2) - loss occurred after the financial statement as of date and also include one of the following items:
o The event was material
o The event occurred/known prior to Financial Statement publish date
</td></tr>
<tr><td colspan="2">Part b: 1 point</td></tr>
<tr><td colspan="2">
• Event i - the financial statement already reflected the event because the financial statement should reflect all known information up to the date it is published.
• Event i - the financial statement needed to be updated

• Event i - a disclosure was not required
• Event i - a disclosure may be required to prevent the statement from being misleading.

• Event ii - the financial statements should not be updated and a disclosure is required.
</td></tr>
<tr><td colspan="2">EXAMINER'S REPORT</td></tr>
<tr><td colspan="2">Part a</td></tr>
<tr><td colspan="2">Most candidates were able to define the two types of Subsequent Events and match the two example events to the correct Subsequent Event Type. Common errors included not providing the correct description of the event types as shown in the sample answer, or thinking that subsequent events applied to events after the statement was published.</td></tr>
<tr><td colspan="2">Part b</td></tr>
<tr><td colspan="2">Most candidates performed well on this part, especially for event ii. The most common error was stating that event i did not require an update to the financial statements because it was already reflected, immaterial, or that the additional information came in after the 12/31 cutoff date.</td></tr>
</table>