



Hong Kong Institute of
Accredited Accounting Technicians
香港財務會計協會

Professional Assessment Examination

Pilot Examination Paper

Questions & Answers Booklet

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INSTRUCTIONS TO CANDIDATES

- (1) Do NOT open this question paper until instructed to do so by the Centre Invigilator.
- (2) You have 1.5 hours to complete the question paper.
- (3) This paper contains two sections – Section A and Section B.
- (4) There are 50 multiple-choice questions with 75 total marks, of which 25 marks are for Section A and 50 marks are for Section B.
- (5) You are required to answer ALL questions in both sections.
- (6) You should choose the most appropriate answer for each question.
- (7) Marks will not be deducted for incorrect answers.
- (8) You are NOT allowed to leave the examination centre without the permission of the Centre Invigilator.
- (9) The question paper must be returned to the Centre Invigilator at the end of the examination.

Important

Throughout this paper, “HKIAAT” is the abbreviation for the Hong Kong Institute of Accredited Accounting Technicians Limited, and a member of the HKIAAT is represented by “AAT”.

SECTION A (MULTIPLE-CHOICE QUESTIONS) (25 marks)

Answer **ALL** questions in this section. Each question carries 1 mark.

- A1.** Which of the following items is **NOT** a fundamental principle set out in the HKIAAT Code of Ethics?
- A Materiality
 - B Confidentiality
 - C Objectivity
 - D Professional Competence and Due Care
- A2.** What is the purpose of studying ethics?
- A Become a law enforcement agent.
 - B Act as an expert witness in court on the Hong Kong Financial Reporting Standards.
 - C Deal with all dilemmas in the accountancy profession.
 - D Decide on ethical issues.
- A3.** The HKIAAT is:
- A a limited company established by the Financial Reporting Council.
 - B a wholly owned subsidiary of the Hong Kong Institute of Certified Public Accountants.
 - C a subsidiary of the Financial Reporting Council.
 - D a limited company established by the Financial Secretary.
- A4.** Which of the following items is **LEAST** likely to form the major principles or standards for an AAT in ethical decision-making?
- A Rules in chess games
 - B *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants
 - C The Companies Ordinance
 - D The Hong Kong Financial Reporting Standards
- A5.** Joint and several liability is:
- A a legal principle developed in the 1990s in order to tackle professional liability issues.
 - B a legal protection for the defendants who cannot afford to pay the damages.
 - C a legal principle developed many years ago when businesses were fairly small and straightforward.
 - D a legal protection for the joint plaintiffs who cannot afford to pay the damages.

- A6.** Which of the following orders is **NOT** within the disciplinary powers of the Disciplinary Committee under the Professional Accountants Ordinance?
- A Remove a Certified Public Accountant from the register.
 - B Imprison a Certified Public Accountant.
 - C Reprimand a Certified Public Accountant.
 - D Order a Certified Public Accountant to pay a penalty of HK\$100,000.
- A7.** An ethical dilemma generally refers to:
- A a deadlock in commercial disputes.
 - B a particular position on the spectrum of ethical philosophies.
 - C two or more possible solutions to an ethical problem.
 - D two or more deadlocks on the spectrum of ethical philosophies.
- A8.** Can business reconcile with ethics?
- A Yes, always.
 - B No, never.
 - C Yes, but it only happens when the business is a charity.
 - D Yes, but it is a balancing act.
- A9.** Which of the following items can help to determine whether or not an action is ethical?
- A Ethical philosophies
 - B Forensic accountancy
 - C Profitability
 - D Liquidity
- A10.** The *Code of Ethics for Professional Accountants*, adopted by the HKIAAT, was issued in 2005 by:
- A the Financial Reporting Council.
 - B the Financial Secretary.
 - C the International Federation of Accountants.
 - D the Hong Kong Institute of Certified Public Accountants.
- A11.** In the context of ethical decision making, stakeholders generally refer to:
- A shareholders.
 - B parties whose interests are affected by the ethical decision in question.
 - C the HKIAAT and its members.
 - D parties whose interests are not affected by the ethical decision in question.

- A12.** Which of the following statements about the International Federation of Accountants (IFAC) is correct?
- A The Hong Kong Institute of Certified Public Accountants is a member of the IFAC.
 - B The HKIAAT is a member of the IFAC.
 - C The International Accounting Standard Board is a member of the IFAC.
 - D The IFAC is a member of the United Nations.
- A13.** Which of the following items is NOT a factor of consideration for a firm of Certified Public Accountants to evaluate the familiarity threat when using the same senior personnel on a statutory audit engagement over a long period of time?
- A The role of the individual in the audit team
 - B The length of time that the individual has been a member of the audit team
 - C The structure of the firm
 - D The responsibility and judgement required in the audit engagement
- A14.** Ethical requirements for an AAT may be perceived as:
- A the basic principles to follow in performing professional work.
 - B the standards in assurance engagements.
 - C the guidelines in assurance engagements.
 - D the basic principles to follow in performing professional work in public practice.
- A15.** The 2008-09 global financial crisis is likely to increase the demand for AATs with experience in:
- A banking.
 - B derivatives.
 - C compliance.
 - D initial public offering.
- A16.** Which of the following statements about the 2008-09 global financial crisis is **NOT** correct?
- A Irresponsible mortgage lending has caused the credit crunch.
 - B Political instability has caused the collapse of some financial institutions.
 - C Sub-prime mortgage lending has caused the collapse of some financial institutions.
 - D Government intervention is required to save some financial institutions.
- A17.** Proportionate liability is necessary because of:
- A the negligence of some auditors.
 - B the difficulties in obtaining an adequate contractual liability cap in audit engagements.
 - C the difficulties in obtaining an adequate professional indemnity insurance cover.
 - D the negligence of some directors.

- A18.** Which of the following items is **NOT** a threat to compliance with the fundamental principles of the HKIAAT Code of Ethics?
- A Self-review
 - B Familiarity
 - C Advocacy
 - D Going-concern
- A19.** Professional Behaviour, as a fundamental principle in the HKIAAT Code of Ethics, requires AATs:
- A to be straightforward and honest in all professional and business relationships.
 - B to comply with relevant laws and regulations and avoid any action that discredits the profession.
 - C to prepare financial statements in accordance with the Hong Kong Standards on Auditing.
 - D to prepare financial statements in accordance with the Hong Kong Standards on Assurance Engagements.
- A20.** Independence of mind refers to a state of mind:
- A separating an individual from the rest of the society.
 - B permitting the expression of a conclusion without being affected by influences that compromise professional judgment.
 - C allowing the release of a feeling without compromising professional ethics.
 - D integrating an individual with the rest of the society.
- A21.** For an AAT working for a public practice, which of the following circumstances may create a self-review threat?
- A Threat of dismissal by the client over a disagreement about the review of accounting principles
 - B Concern over employment security
 - C Review of the data after being involved in the preparation
 - D Being threatened with litigation
- A22.** For an AAT in business, which of the following circumstances may create a self-interest threat?
- A Threat of dismissal by the client over a disagreement about the review of accounting principles
 - B Concern over employment security
 - C Review of the data after being involved in the preparation
 - D Being threatened with litigation

- A23.** In relation to Continuing Professional Development (CPD), upon renewal of membership, an AAT is required:
- A to comply with a minimum of 20 hours of unstructured CPD per year.
 - B to comply with a maximum of 20 hours of unstructured CPD per year.
 - C to comply with a minimum of 20 hours of structured CPD per year.
 - D to comply with a maximum of 20 hours of structured CPD per year.
- A24.** The financial reporting regulations and requirements currently in place in Hong Kong applicable to limited liability companies are based on a number of mandatory sources. Which of the following items is **NOT** a mandatory source?
- A Accounting Bulletins issued by the Financial Accounting Standards Committee of the Hong Kong Institute of Certified Public Accountants
 - B Hong Kong Accounting Standards
 - C Hong Kong Accounting Standards Interpretations
 - D Companies Ordinance
- A25.** An AAT should disclose the confidential information, acquired as a result of professional and business relationships, to third parties when the disclosure is:
- A financially beneficial to the AAT.
 - B not financially beneficial to the AAT.
 - C not required by the law.
 - D required by the law.

(Total: 25 marks)

[END OF SECTION A]

SECTION B (MULTIPLE-CHOICE QUESTIONS) (50 marks)

Answer **ALL** questions in this section. Each question carries 2 marks.

- B1.** Anna is an AAT working in the Treasury and Finance Department of a listed company as a supervisor. As part of her work, she has just sighted a report prepared by her manager. She knows that the report contains price-sensitive findings which are likely to stimulate an increase of her company's share price as soon as it is released to the market. Anna's father is heavily in debt and has recently asked Anna to help.

What should Anna do under the HKIAAT Code of Ethics?

- A Tell her father to buy the company's shares without disclosing any details of the report findings.
- B Tell her father about the report findings and let him make his own choice.
- C Do nothing and keep the report findings confidential.
- D Buy the shares herself hoping to gain from the share price increase and help her father.

- B2.** Taking the case of Anna in Question B1 above, assume that Anna accidentally leaked the price-sensitive information to her father. What is the most appropriate course of immediate action for Anna under the HKIAAT Code of Ethics?

- A Report the incident to the Stock Exchange of Hong Kong Limited.
- B Report the incident to the Hong Kong Securities and Futures Commission.
- C Consult with the HKIAAT.
- D Consult with her manager.

- B3.** Peter is an AAT working in the Audit Department of a firm of Certified Public Accountants as a senior officer. Peter has just started planning for the audit of QQ Limited's 2008 financial statements, and Peter expects to start the fieldwork in mid-January 2009. QQ Limited's Senior Accounting Manager approaches Peter today with a job offer as an accounting supervisor starting from 1 March 2009 (by then the audit will be completed). Peter is seriously considering the job offer because the offer is attractive and the work appears interesting.

What should Peter do under the HKIAAT Code of Ethics?

- A Consult with his audit manager and suggest modifying the audit plan so as to establish appropriate safeguards to the identified threats.
- B Report the identified threats to his audit manager and audit partner, and re-assure them about his loyalty to the CPA firm during the audit.
- C Decline the job offer from QQ Limited.
- D Do nothing because QQ Limited's appointment will start after the completion of the 2008 audit.

- B4.** Taking the case of Peter in Question B3 above, assume that Peter has decided to accept the job offer from QQ Limited. Peter has been assigned to carry out the audit procedures on trade receivable of QQ Limited's 2008 financial statements. QQ Limited's Senior Accounting Manager has asked Peter not to look into one particular trade receivable balance, which is material, because of some sensitive relationships with that customer.

What is the most appropriate course of immediate action for Peter under the HKIAAT Code of Ethics?

- A Report the incident to the HKIAAT.
 - B Turn down the request of QQ Limited's Senior Accounting Manager and briefly explain to him/her about the purpose and procedures in auditing.
 - C Decline the job offer from QQ Limited.
 - D Follow the request of QQ Limited's Senior Accounting Manager and explain to his audit manager about the sensitive customer relationship and the priority of client's interest.
- B5.** Which of the following sentences best describe morality and ethics?
- A Morality and ethics have opposite meanings at the two extremes along the spectrum of philosophies.
 - B Morality applies to human behaviour and the society, while ethics applies to professional accountants only.
 - C Morality is required by the law, while ethics is enforced by professional institutes in their codes.
 - D Morality is generally perceived in a broader sense than ethics and is reflected in human behaviour and life code.
- B6.** The following statements refer to the Stock Exchange of Hong Kong Limited (the SEHK) and the Hong Kong Securities and Futures Commission (the SFC). Which one is **NOT** correct?
- A The SEHK's principal function is to provide a fair, orderly and efficient market for the trading of securities.
 - B The SEHK regulates the financial reporting compliance of listed companies.
 - C The SFC regulates the Hong Kong Exchanges and Clearing Limited.
 - D The Hong Kong Exchanges and Clearing Limited is a subsidiary of the SEHK.
- B7.** The International Accounting Standards Board:
- A requires all countries in the world to comply with the International Financial Reporting Standards.
 - B co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.
 - C requires all developed countries in the world to comply with the International Financial Reporting Standards.
 - D co-operates with national governments of all developed countries to achieve convergence in accounting standards around the world.

B8. ABC Limited is a listed company in Hong Kong. Mr. Chan is an AAT and ABC Limited's internal auditor. He has recently received an anonymous letter alleging a possible fraud in the company. Following an initial investigation, Mr. Chan has found some evidence showing wrongdoings of Mr. Lee, the Head of the Purchasing Department and a close relative of the Chief Executive Officer (CEO). The malpractice includes operating bogus companies to supply materials to ABC Limited, accepting secret commissions in awarding contracts and claiming private expenses through the company's accounts.

Mr. Chan has reported this matter to the CEO, but the CEO has told Mr. Chan that Mr. Lee is a respected senior member of the company. The CEO has also questioned the nature and extent of Mr. Chan's evidence, concluding that this accusation against Mr. Lee is unfounded and has asked Mr. Chan to stay away from the case.

As an experienced internal auditor, Mr. Chan is very confident about his initial findings. Under such circumstances, what should Mr. Chan's immediate action be?

- A Report the matter to the Independent Commission Against Corruption.
- B Report the matter to ABC Limited's board of directors.
- C Report the matter to the Commercial Crime Bureau of the Police.
- D Consult with Mr. Lee and Mr. Chan's own lawyer.

B9. Taking the case of Mr. Chan in Question B8 above, which of the following items is **NOT** a factor for Mr. Chan to consider in deciding whether or not to disclose his findings?

- A The interests of all parties which could be harmed
- B Whether or not all the relevant information is known and substantiated
- C Whether or not Mr. Lee's accomplices can be identified and caught
- D The type of communication that is expected and to whom it is addressed

B10. Taking the case of Mr. Chan in Questions B8 and B9 above, which of the following circumstances is **NOT** an example where Mr. Chan has the freedom to disclose his findings?

- A Mr. Chan may disclose the findings to comply with a court order enforced by the Police.
- B Mr. Chan may disclose the findings to defend himself against disciplinary proceedings.
- C Mr. Chan may disclose the findings to resist an action for negligence brought against him.
- D Mr. Chan may disclose the findings to defend himself against a criminal charge.

- B11.** Miss Li is an AAT and is an employee in a firm of Certified Public Accountants. Miss Li has been offered a non-executive directorship position (on a part-time basis) by an audit client of her firm.

What should Miss Li do under the HKIAAT Code of Ethics?

- A Miss Li should accept the directorship offer, but she must consult with her manager and/or partner to ensure appropriate safeguards are in place to reduce the threats to compliance with the HKIAAT Code of Ethics to an acceptable level.
 - B Miss Li should accept the directorship offer and should ask her firm not to engage her serving that particular audit client.
 - C Miss Li should decline the directorship offer because the threats to compliance with the HKIAAT Code of Ethics would be so significant making it not possible for any safeguard to reduce them to an acceptable level.
 - D Miss Li should decline the directorship offer because her firm would not allow Miss Li to take up any part-time employment.
- B12.** Taking the case of Miss Li in Question B11 above, what kinds of threats, potentially threatening the fundamental principles of the HKIAAT Code of Ethics, are created?
- A Advocacy and familiarity
 - B Advocacy and intimidation
 - C Self-interest and intimidation
 - D Self-interest and self-review

- B13.** ETHICS PLUS is an ethical decision-making model introduced by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Ethics Development Centre. ETHICS PLUS sets out six steps for decision-makers to follow in the decision-making process and also lists four factors for decision-makers to consider during the process.

Which of the following items is **NOT** one of the six steps?

- A Identify all stakeholders involved.
 - B Subjectively assess each stakeholder's position.
 - C Identify viable alternatives and their effects on the stakeholders.
 - D Compare and evaluate the likely consequences of each alternative with reference to the four PLUS factors.
- B14.** Relating to Question B13 above on ETHICS PLUS, which of the following items is **NOT** one of the four factors to consider for an AAT?
- A Rainfall test
 - B The HKIAAT Code of Ethics
 - C Sunshine test
 - D Uncompromising self values

- B15.** Which of the following items is a correct statement in the area of ethical philosophies?
- A Action-based ethics defines good or bad action in terms of its effects on the greatest number of people.
 - B Action-based ethics deals with the right and wrong of the consequences of an action.
 - C Result-based ethics defines good or right action in terms of its intrinsic value.
 - D Result-based ethics deals with the consequences of a particular action forming the basis for any valid moral judgement.

- B16.** According to the HKIAAT Code of Ethics, compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Safeguards that may eliminate or reduce such threats to an acceptable level fall into two general categories.

What are these two categories?

- A (i) Safeguards created by the professional, legislation or regulation
(ii) Safeguards created by the individual
 - B (i) Safeguards created by the professional, legislation or regulation
(ii) Safeguards created in the work environment
 - C (i) Safeguards created by society and government
(ii) Safeguards created by the professional, legislation or regulation
 - D (i) Safeguards created by the work environment
(ii) Safeguards created by the individual
- B17.** Relating to Question B16 above, which of the following items is **NOT** an example of safeguards that may eliminate or reduce the threats to compliance with the HKIAAT Code of Ethics to an acceptable level for an AAT?
- A Practical experience requirements for entry into the HKIAAT membership
 - B Practical experience requirements for entry into the Board of the HKIAAT
 - C Continuing professional development requirements
 - D Professional or regulatory monitoring and disciplinary procedures

- B18.** William is a sole proprietor of PQR-CPA, a firm of Certified Public Accountants, in charge of the statutory auditor of Big Limited.

Which of the following action or behaviour is **NOT** a possible threat against the compliance of the fundamental principles of ethics?

- A William becomes a minority shareholder of Big Limited.
- B William lends a moderate sum to a director of Big Limited.
- C William gets married with the finance manager of Big Limited.
- D William gets married with the administrative officer of Big Limited.

- B19.** Relating to Question B18 above, William has recently been asked by his old schoolmate, Tim, to act as the new auditor of Tim's company.

In considering whether or not to accept Tim's company as a new client, which of the following items is **NOT** a factor for PQR-CPA to consider in relation to possible threats against the compliance of the fundamental principles of ethics?

Consider whether or not:

- A PQR-CPA is competent to perform the audit.
- B William is competent to perform the audit.
- C the financial statements of Tim's company present a true and fair view.
- D Tim is an honest person.

- B20.** The HKIAAT has the missions to meet business needs in Hong Kong and mainland China by upholding and promoting the competencies of its members and students; to accredit relevant sub-degree qualifications; and to offer premier member and student services.

To this end, the HKIAAT also has some objects. Which of the following items is **NOT** an object of the HKIAAT?

- A Serve the accountancy profession and the public through an efficient and transparent system of self-regulation and effective professional development in line with the development of Hong Kong as a world city.
- B Accredit persons whose employment wholly or partly comprises accountancy work but who have not qualified to be registered as Certified Public Accountants and who are to be known as AATs.
- C Encourage and/or secure the training and professional education and to conduct examination in relation thereto.
- D Provide graduates with a chance for further development in the accounting field.

- B21.** Which of the following items is **NOT** one of the reasons put forward by the Hong Kong Institute of Certified Public Accountants in proposing professional liability reform?

- A The proposed reform will let Hong Kong catch up with other major jurisdictions in respect of professional liability laws.
- B The proposed reform will ease the unfair burden on auditors who might otherwise have to bear the full consequences without reference to the actual share of the fault.
- C The proposed reform will attract well qualified and experienced professional accountants staying (or entering) in Hong Kong.
- D The proposed reform will improve the financial reporting in Hong Kong by allowing auditors to take risks because of their proportionate liabilities.

- B22.** Which of the following items is **NOT** one of the possible immediate consequences if a large firm of Certified Public Accountants (CPAs) fails or exits from Hong Kong due to a catastrophic claim of professional liabilities?
- A Choice of CPA firms by companies in Hong Kong will be greatly limited, especially in specialised area such as mergers and acquisitions.
 - B The accountancy profession will lose its respect and reputation making it difficult to recruit and retain the best professionals.
 - C Mid-tier and/or small CPA firms will merge to increase their scale and move into the large CPA firms' current market.
 - D Audits in progress and reporting timetables would be disrupted, and initial public offerings would be delayed or cancelled.

- B23.** In early 2008, the Government of the Hong Kong Special Administrative Region and many other jurisdictions still expected a healthy economic growth for 2008-09 and raised their concerns over inflation. How did the global financial crisis of 2008-09 spread so quickly around the world?

- A Many people around the world lost their substantial savings due to the collapse of Lethman Brothers.
- B Many people lost their trust in the financial stability of banks and financial institutions which were considered to be perfectly safe in the past. Also, banks and financial institutions stopped lending to individuals, companies and fellow banks and financial institutions.
- C Many people lost a great deal money from stock market investments which decreased the available credit around the world.
- D Many people lost their jobs following the collapse of Lethman Brothers which suppressed global demand and spread the financial crisis.

- B24.** Apple and Orange are two firms of Certified Public Accountants. Apple has an audit client, IJK Limited, which requires an expert in forensic accountancy on its litigation case against a vendor.

Apple does not have the knowledge or experience in forensic accountancy engagements and intends to make a referral to Orange which carries out forensic accountancy engagements on a regular basis. Apple has asked Orange for a referral fee of \$10,000 upon the confirmation of client instruction and the completion of the forensic accountancy engagement by Orange for IJK Limited.

Which of the following actions or behaviours is the most effective safeguard to reduce the threats against the compliance of the fundamental principles of ethics to an acceptable level?

- A Apple is to disclose the referral fee arrangement to IJK Limited.
- B Orange is to disclose the referral fee arrangement to IJK Limited.
- C Both Apple and Orange are to disclose the referral fee arrangement to IJK Limited.
- D Orange is to obtain IJK Limited's consent to the referral fee arrangement by re-charging the referral fee to IJK Limited as a reimbursement of out-of-pocket expenses.

B25. Relating to Question B24 above, assume that Apple has changed its mind and has decided to carry out the forensic accountancy engagement by itself for IJK Limited.

Which fundamental principles of the HKIAAT Code of Ethics might Apple have violated?

- A Professional competence and due care
- B Professional behaviour and due care
- C Confidentiality and objectivity
- D Confidentiality and integrity

(Total: 50 marks)

[END OF EXAMINATION PAPER]

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Suggested Answers

SECTION A (MULTIPLE-CHOICE QUESTIONS) (25 marks)

(Questions A1 to A25 carry 1 mark each.)

- A1. A
- A2. D
- A3. B
- A4. A
- A5. C
- A6. B
- A7. C
- A8. D
- A9. A
- A10. D
- A11. B
- A12. A
- A13. D
- A14. A
- A15. C
- A16. B
- A17. C
- A18. D
- A19. B
- A20. B
- A21. C
- A22. B
- A23. A
- A24. A
- A25. D

(Total: 25 marks)

SECTION B (MULTIPLE-CHOICE QUESTIONS) (50 marks)

(Questions B1 to B25 carry 2 marks each.)

- B1.** C
- B2.** D
- B3.** A
- B4.** B
- B5.** D
- B6.** D
- B7.** B
- B8.** B
- B9.** C
- B10.** A
- B11.** C
- B12.** D
- B13.** B
- B14.** A
- B15.** D
- B16.** B
- B17.** B
- B18.** D
- B19.** C
- B20.** A
- B21.** D
- B22.** C
- B23.** B
- B24.** C
- B25.** A

(Total: 50 marks)

[END OF SUGGESTED ANSWERS]