

Detailed competency map

**Additional competency requirements
for entry to the Hong Kong Institute of CPAs'
qualification programme**

(Professional bridging examination)

Fields of competency

The items listed are shown with an indicator of the minimum acceptable level of competency, based on a three-point scale as follows:

1. Awareness

To have a general academic awareness of the field with a basic understanding of relevant knowledge and related concepts.

2. Knowledge

The ability to use knowledge to perform tasks competently without assistance in straightforward business situations or applications.

3. Application

The ability to apply comprehensive knowledge and a broad range of skills in a business setting to solve most problems generally encountered.

Paper II: PBE Management accounting and finance

Aim: This subject aims to test students' ability to apply relevant management accounting and financial management principles and techniques in analyzing and providing business information to management for the purposes of planning, control, performance evaluation and decision-making. These include the preparation of management information at strategic level and the evaluation of financial implications of strategic decisions in a changing business environment

Content

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
1. Strategic management accounting framework		
Understanding of the strategic management process	<ul style="list-style-type: none"> ▪ Understand the basic concepts of strategic management and corporate governance 	1
	<ul style="list-style-type: none"> ▪ Appreciate how the external business environment and the internal organizational environment affect the competitiveness of contemporary organizations 	1
	<ul style="list-style-type: none"> ▪ Understand the processes in strategic management, including environmental scanning and SWOT analyses, strategy formulation, strategy implementation, and evaluation and control 	2
	<ul style="list-style-type: none"> ▪ Identify and explain different types of strategies: corporate, business and functional strategies 	2
Understanding of the role of strategic management accounting	<ul style="list-style-type: none"> ▪ Understand the objectives and roles (traditional and contemporary) of management accounting 	1
	<ul style="list-style-type: none"> ▪ Appreciate how management accounting activities add value to the strategic management process 	1
	<ul style="list-style-type: none"> ▪ Understand the nature and effectiveness of management and internal control systems 	1
	<ul style="list-style-type: none"> ▪ Understand the nature of value chain and activity analysis, competitor analysis and benchmarking process 	2
	<ul style="list-style-type: none"> ▪ Explain activity-based management (ABM) and its relationship with activity-based costing (ABC) 	3
	<ul style="list-style-type: none"> ▪ Appreciate the strategic cost management techniques, including just-in-time (JIT) and total quality management (TQM) concepts, product life cycle costing, target costing, quality costing, theory of constraints and throughput analysis 	3

2. Information for managerial decision making		
Understanding of the relevant cost concept in decision making	<ul style="list-style-type: none"> ▪ Define and explain relevant costs, opportunity costs, sunk costs and out-of-pocket costs in the context of decision making 	2
	<ul style="list-style-type: none"> ▪ Prepare incremental analysis based on the relevant cost concept for the following common business decisions: <ul style="list-style-type: none"> ○ acceptance of a special order ○ optimal production mix with constrained resource ○ add or drop a product line or a segment ○ make or buy a component or part ○ sell, scrap or rebuild defective products ○ further process joint products after being split-off 	3
Knowledge of the pricing policies and decisions	<ul style="list-style-type: none"> ▪ Understand the factors affecting pricing policies and decisions 	1
	<ul style="list-style-type: none"> ▪ Appreciate the different approaches of pricing products and services based on external market factors and internal cost structure 	2
Skills in preparing profitability analysis	<ul style="list-style-type: none"> ▪ Appreciate the importance of profitability analysis to management in making business decisions 	2
	<ul style="list-style-type: none"> ▪ Prepare product, customer and supplier profitability analysis based on pre-determined cost behaviour (fixed, variable, activity-based) 	3
Understanding of the transfer pricing methods	<ul style="list-style-type: none"> ▪ Understand how transfer pricing methods affect the performance of independent units in the same country or units across different countries 	1
	<ul style="list-style-type: none"> ▪ Explain and illustrate the different transfer pricing methods, including cost-based, market-based and negotiated transfer prices 	3
	<ul style="list-style-type: none"> ▪ Determine the optimal transfer price between the selling division and the buying division 	3
3. Information for performance measurement		
Understanding of the organizational structure affecting performance measurement	<ul style="list-style-type: none"> ▪ Appreciate the advantages and disadvantages of decentralization in a sizable organization 	3
	<ul style="list-style-type: none"> ▪ Identify different types of responsibility centres, including cost centres, revenues centres, profit centres and investment centres, and explain how to evaluate the performance of these centres 	3
Skills in preparing segment performance and profitability reports	<ul style="list-style-type: none"> ▪ Prepare segment reports showing performance or profitability of different segments with the identification of traceable fixed costs, segment margin and common fixed costs 	3
	<ul style="list-style-type: none"> ▪ Appreciate how the allocation of common fixed costs affects the performance of different segments 	3

Understanding of the limitations of financial measures	<ul style="list-style-type: none"> Evaluate the financial performance of organizations or segments: return on investments (ROI), residual income (RI), economic value added (EVA) 	3
	<ul style="list-style-type: none"> Explain and illustrate non-financial measures and its relationship with financial measures 	3
	<ul style="list-style-type: none"> Understand the balanced scorecard approach of performance measurement by linking strategy, strategic objectives and performance measures in a coherent manner organized into four perspectives: financial, customer, internal business process and learning and growth 	2
4. Financial management framework		
Understanding of the nature of financial management	<ul style="list-style-type: none"> Appreciate the objectives and scope of financial management and its relationship with financial accounting and management accounting 	2
	<ul style="list-style-type: none"> Understand how the different objectives of multiple stakeholders create the agency problem in financial management and the ways to solve these problems 	2
	<ul style="list-style-type: none"> Identify the financial and non-financial objectives of both for-profit and not-for-profit organizations 	2
Understanding of the financial management environment	<ul style="list-style-type: none"> Understand the characteristics of financial and capital markets in Hong Kong and overseas 	2
	<ul style="list-style-type: none"> Explain the factors affecting the patterns of interest rates and the yield curve 	3
	<ul style="list-style-type: none"> Valuation of stock and bond using the dividend valuation model and yield-to-maturity approach 	3
	<ul style="list-style-type: none"> Explain the efficient market hypothesis and its implications for financial management 	3
Understanding of treasury management function	<ul style="list-style-type: none"> Understand the role of treasury management and describe its responsibilities and activities 	2
	<ul style="list-style-type: none"> Appreciate the advantages and disadvantages of a centralized and decentralized treasury function 	2
5. Risk analysis and management		
Understanding of the nature and types of risk	<ul style="list-style-type: none"> Explain business (operating) risk and financial risk and understand their respective measurements 	3
	<ul style="list-style-type: none"> Understand the risk and return relationship for individual securities and a portfolio of securities, and the capital asset pricing model (CAPM) 	3
	<ul style="list-style-type: none"> Calculate the cost of equity, cost of debt and the weighted average cost of capital (WACC) 	3
6. Capital investment appraisal		
Understanding of the basic techniques of capital investment appraisal	<ul style="list-style-type: none"> Appreciate the differences between discounted and non-discounted cash flow analysis 	2
	<ul style="list-style-type: none"> Understand the concept of time value of money, including simple and compound interest, nominal and real interest, future and present values, annuities and perpetuities 	3

	<ul style="list-style-type: none"> Use different appraisal methods to evaluate capital investments, including payback period, accounting rate of return (ARR), net present value (NPV) and internal rate of return (IRR) 	3
	<ul style="list-style-type: none"> Appreciate the effects of and the approaches to deal with taxation, inflation, risk and uncertainty in capital investment appraisal 	3
Applications of the discounted cash flow analysis	<ul style="list-style-type: none"> Analyze and calculate the NPV of the cash flows in making lease or buy decisions 	3
	<ul style="list-style-type: none"> Calculate the equivalent annual cost for assets with different useful lives in making asset replacement decisions 	3
7. Sources of finance and capital structure		
Understanding of the different sources of finance	<ul style="list-style-type: none"> Explain the differences between long-term and short-term finance and their sources 	2
	<ul style="list-style-type: none"> Appreciate the advantages and disadvantages of both equity and debt financing 	3
	<ul style="list-style-type: none"> Explain different types of share capital, new and right issues of shares, issues of convertibles and warrants in raising equity finance 	3
	<ul style="list-style-type: none"> Calculate different types of ratios: gearing, profitability, and those related to the stock market 	3
	<ul style="list-style-type: none"> Understand the financial implications of dividend policy and explain the arguments for and against the relevancy of dividend policy 	3
Understanding of the financial implications of capital structure	<ul style="list-style-type: none"> Explain and illustrate the impact of financial gearing on the returns to shareholders 	3
	<ul style="list-style-type: none"> Understanding theories of capital structure: Modigliani and Miller propositions and pecking order theory 	3
8. Working capital management		
Understanding of the nature and importance of working capital management	<ul style="list-style-type: none"> Appreciate the nature and scope of working capital management and its relationship with business insolvency 	2
	<ul style="list-style-type: none"> Calculate the funding requirements for working capital of different types of organizations 	3
	<ul style="list-style-type: none"> Understand the measures of effective working capital management, including liquidity ratios and the length of operating cycle 	3

Knowledge and techniques of managing working capital	<ul style="list-style-type: none"> ▪ Understand the techniques of stock management by applying the economic order quantity (EOQ) model and just-in-time (JIT) systems 	3
	<ul style="list-style-type: none"> ▪ Understand the techniques of debtor management which include credit evaluation and control, credit terms, early settlement discounts, factoring and invoice discounting 	3
	<ul style="list-style-type: none"> ▪ Analyze the costs and benefits of taking up early payment discounts offered by creditors 	3
	<ul style="list-style-type: none"> ▪ Understand the techniques of cash management by using cash budgeting with the Miller-Orr model 	3
9. Financial analysis		
Knowledge and techniques of financial analysis	<ul style="list-style-type: none"> ▪ Identify and calculate main Stock Exchange indicators 	3
	<ul style="list-style-type: none"> ▪ Calculate and explain main ratios used in internal financial management 	3
10. Financial forecasting and planning		
Knowledge and techniques of financial forecasting and planning	<ul style="list-style-type: none"> ▪ Prepare business plans for an organisation 	2
	<ul style="list-style-type: none"> ▪ Prepare cash flow projections for a business 	3
	<ul style="list-style-type: none"> ▪ Prepare profit projections for a business 	3