

AAT: The indispensable element **April 2011**

# T/DIALOGUE

**Facing adversity**

The story of a  
courageous AAT



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

## Table of Contents

# Facing adversity: The story of a courageous AAT



6



7



8

---

## 2 From the President's Desk

---

### HKIAAT News

- 4 Education & careers expo 2011
- 6 Annual Award and Graduation Ceremony cum New Members' Reception
- 6 Reciprocal membership agreement with the New Zealand Institute of Chartered Accountants
- 7 Ecological day tour to Ma Shi Chau
- 7 Membership and studentship fees for 2011 – Final reminder

---

### Cover Story

- 8-11 Taking on life's challenges:  
The story of a resilient AAT reaching his goal the hard way

---

### Learning Zone

- Professional Bridging Examination (PBE)*
  - 13 Paper I: Group reorganization Part II  
by K C Cheng
  - 14 Paper II: Relevant cost in decision making  
by Simon Lee
-



## Learning Zone

- 15 *Accredited Accounting Technician (AAT) Examination*  
Paper 1: Step by step in handling computerized accounts  
by Bruce Li
- 16 Paper 3: Cost accumulation using absorption costing  
by Andy Li
- 17 Paper 3: Cost drivers and company activities  
by Steve Fong
- 18 Paper 4: Decision making made easy  
by Y O Lam
- 19 Paper 5: Highlights of the revenue proposals in the  
2011/12 Budget  
by Dora Lee
- 20 Paper 5: Taxation of environment-friendly vehicles  
by Dora Lee
- 21 Paper 6: Defence against negligence  
by Tony Chow

## Careers and Lifestyle

- 22-23 Passport to success
- 24-25 Creative business writing  
by Vivien Ho
- 26-27 Managing the change journey  
by Weelan Ho

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## From the President's Desk



*Dear members and students,*

At the Annual Award and Graduation Ceremony cum New Members' Reception, I witnessed a new batch of dynamic accounting professionals who are dedicated to strive for excellence in their accounting studies and career. Congratulations once again to all the award winners, scholarship recipients, graduates and new members. Your outstanding achievements show your commitment and passion. With the HKIAAT qualification, I am sure that you will excel in this profession and make invaluable contributions to many industries and sectors.

We are constantly striving to improve the prospects of our members and students. Hong Kong is an international financial centre and our accounting professionals have been recognized as among the best in the international community. I am delighted to announce that HKIAAT has signed another reciprocal membership agreement (RMA) with the New Zealand Institute of Chartered Accountants. This is the third RMA of its kind that the HKIAAT has signed with an overseas professional body, following the RMAs with the UKAAT and AAT Australia, signed in 2006 and 2009 respectively. This new agreement is an important milestone as it signifies the recognition of the quality of our members, and gives employers the assurance regarding the AATs we produce.

In today's ever-changing market conditions, the ability to be agile and responsive to change is the key to success. To devise strategic plans for the sustainable development of the HKIAAT, we have held a productive strategy away day last month, combining forces with the Hong Kong Institute of CPA's leadership team and the HKIAAT's board members. After our insightful and fruitful discussion, we have clarified what opportunities HKIAAT should focus on, and have drafted a tactical plan to get this done. We shall keep you apprised of the progress as the year moves on.

One of the directions that we identified was to attract more new blood to the accountancy profession. I am proud to announce that we will launch the new AAT Foundation Examination in August this year, with the target candidates being secondary school students. This tailor-made examination aims to help students to meet the broadening New Senior Secondary (NSS) curriculum requirements and local business needs. It incorporates the NSS subject "Business, Accounting and Financial Studies" syllabus as part of its professional training in the articulation path to becoming a CPA. It is hoped that by sowing the seeds early in secondary school, we can attract more new entrants to join our great profession.

Many of us are too quick to give up in the face of obstacles. However if you read this issue's cover story about Lonny Mak, an AAT graduate, you will see that our hurdles are very small in comparison with what he has had to overcome. His can-do attitude is one of the most inspiring examples I have come across to show us that dreams which seem impossible can be realized. With determination and perseverance, you can also join the road to success!

A handwritten signature in black ink, consisting of a stylized 'J' and 'K' that are connected together.

Johnson Kong

**Advertisement**

## Education & Careers

# Expo 2011

The HKIAAT and its parent institute, the Hong Kong Institute of CPAs, participated in the Education and Careers Expo 2011 again this year. The Expo ran from 17 to 20 February and was held at the Hong Kong Exhibition and Convention Centre. This four-day event attracted about one hundred thousand job seekers and people who were looking for further study and training opportunities. A seminar was held during the Expo to explain about the AAT qualification and the progression career in the accountancy profession. **T/D**



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## Annual Award and Graduation Ceremony cum New Members' Reception



Susanna Cheung, guest-of-honour, gives speech at the ceremony.

Johnson Kong, HKIAAT president, presents award to a scholarship recipient.



AAT graduates taking photo with honourable guests.

The HKIAAT Annual Award and Graduation Ceremony cum New Members' Reception 2010-11 was successfully held on 25 March 2011. More than 200 distinguished guests, including government officials, members of academia, accounting professionals and the HKIAAT new graduates, members and their relatives, attended this celebratory occasion. We were pleased to have Susanna Cheung, Chief Treasury Accountant (Planning and Development), The Treasury, as our guest of honour to officiate at the ceremony and to present awards to the top students to acknowledge their excellent performance in the HKIAAT examinations. HKIAAT scholarships and HKIAAT/ Employees Retaining Board (ERB) scholarships were also presented to outstanding students of accounting programmes. During the ceremony, certificates were conferred to new graduates and members.

T/D

## Reciprocal membership agreement with the New Zealand Institute of Chartered Accountants

The HKIAAT is pleased to announce that it has recently entered into a reciprocal membership agreement (RMA) with the New Zealand Institute of Chartered Accountants (NZICA). This is the third RMA of its kind that the HKIAAT has signed with an overseas professional body, following the RMA with the UKAAT and AAT Australia signed in 2006 and 2009 respectively. Under the RMA, members of both HKIAAT and NZICA's College of Accounting Technicians will be mutually recognized and eligible to apply for the membership of the other body. The RMA will further enhance the status of HKIAAT in the international arena.



T/D

## Ecological day tour to Ma Shi Chau

Twenty-two participants, including HKIAAT students, members and their friends and family members, enjoyed a one-day ecological tour to Ma Shi Chau Special Area nature trail in Tai Po on 16 January 2011. During the two-hour walk, participants learnt more about the formation of the sand spit joining the Yim Tin Tsai headland and Ma Shi Chau. After the walk, participants headed to Tai Mei Tuk where they enjoyed a great barbeque lunch buffet and visited a farm with animals where they picked fresh strawberries. The day ended with full stomachs and plenty of laughs!

T/D



A great BBQ buffet lunch



A warm Sunday afternoon spent mingling with friends.



Membership  
and  
studentship  
fees for 2011

**Final reminder**

Members and students are reminded to renew their subscription IMMEDIATELY if they have not already settled their annual membership fees (\$700) and studentship fees for the Accredited Accounting Technician Examination (\$600) and for the Professional Bridging Examination (\$700) for 2011. Failure to settle these fees means their names will be deleted from the member / student register in May 2011. Members and students whose names are removed must pay their registration fees again in order to be re-instated. Rejoining students who have claimed exemptions before will be required to pay the prevailing exemption fees again and must abide by the closing dates for registration for the examinations. So renew your membership or studentship status now and save the costs of re-registration and re-instatement of examination status!

T/D



# Taking on life's challenges

The story of a resilient AAT reaching his goal the hard way

by Aldric Chau

*"It was always my dream to develop a professional career in accounting, but there have been some, shall we say, roadblocks along the way that have made my path difficult," says AAT graduate Lonny Mak. Life always brings unexpected events: some people may choose to whine while others decide to face the challenges. Mak is definitely one of the latter. Born with haemophilia [血友病] and accidentally infected with liver disease about ten years ago, Mak has struggled through to realize his dream in becoming an accounting professional.*



### A long battle

Haemophilia patients suffer from a lack of a blood clotting factor, which is crucial in the clotting process. Mak was diagnosed with this illness when he was one year old. He spent most of his childhood commuting between home and hospital. The illness deprived him of the opportunity to take part in many sports activities because even a minor injury for a haemophiliac can result in bleeding lasting days or weeks.

Growing out of the hardships, Mak has become resilient and clear about his goals in life. “There was misunderstanding and prejudice towards chronically diseased patient at the time I started considering my future career, which was once I joined the workforce,” says Mak. He left school after completing form three. As a secondary school leaver without much work experience, it was not easy for him to secure a decent job. However, Mak did not give up. He worked as a messenger during the day and attended night school to study for the Hong Kong Certificate Education Examination (HKCEE). He believed that accounting was a prosperous profession with ample opportunities, and so decided to study the “principles of accounts” subject at HKCEE. It took him three attempts to complete the HKCEE, and he received his full certificate in 1982.

His commitment and enthusiasm towards accounting soon impressed an owner of a CPA firm. “In this CPA firm, I needed to learn everything from scratch. However, this also enabled me to associate what I had learnt with my daily tasks in assisting the auditor,” he says. In 1984, he was successfully admitted to the Hong Kong Polytechnic (currently The Hong Kong Polytechnic University) to study an Accounting Certificate programme. This study was one of the most fulfilling experiences for Mak and further strengthened his determination to aim high in this profession. In the meantime,

as a breadwinner for the family, Mak was also engaged in part-time accounting jobs referred by his friends. “As much as I was happy to start my chosen career, it was hard trying to handle multiple tasks at the same time. I was doing a full-time job, part-time study and carrying out some freelance jobs as well.” At this stage, Mak’s physical condition worsened while the medications and family expenses became a major concern, meaning he had no choice but to drop out of college in the second year.

Under the side effects of his medical treatment, the physical burden on Mak doubled. In 1987, he decided to start his own company so that he could concentrate on more flexible work with his freelance jobs referred by friends and by word-of-mouth. He had already built up a well-established base of clients who appreciate his quality work, and he was building on a few years of hands-on experience and wide exposure in the field. In order to capture more clients, his firm diversified its business by offering a range of services including business consultancy, accounting, book-keeping and tax consultation.

Mak sailed along smoothly with his own business until about ten years ago. In a sudden turn of events, he was accidentally infected by injection with hepatitis C; this developed into cirrhosis [肝硬化]. Stricken by this astonishing news and the fact that his life expectancy was only two years without a liver transplant and proper treatment, Mak and his family felt the depths of despair.

One option was to wait for a compatible liver to be donated. However, this could have taken several years – precious time which Mak could not afford, given the seriousness of his condition. Under the doctors’ advice, Mak’s wife took the brave and prompt decision to donate part of her liver to her husband. The



“There were few options for me in the past to progress in the accounting profession. I was only able to get on when I found the HKIAAT, which offers flexibility and has laid an excellent foundation for me to reach for my dream,” Lonny says.

complex surgery, which lasted a whole day, was thankfully a success.

### Stepping up with AAT

About four months after the surgery, Mak was still recovering from his trauma but felt himself to be physically capable of fully taking over his job duties. During the recovery period, he was vulnerable to infection and thus had to minimize vigorous physical activities. Therefore, instead of fully gearing up for a new job, the enthusiastic survivor chose to start his working life afresh by taking some classes to allow himself time to recover while acquiring the new accounting knowledge he knew he needed after being away from the classroom for such a long time.

“From newspaper I came across the AAT qualification and thought it was the perfect opportunity for me to start again on the road to my long-term goal of becoming a CPA. Following the AAT study path would ensure I could possess the highest level of

technical competence and further develop my business,” he says. “With eight papers covering comprehensive accounting and related knowledge, the AAT Examination can be taken at different times to suit individual study and career plans. Such flexibility has allowed me to manage my work and study schedule while not putting too much of a burden on me physically.”

Mak started studying for the AAT Examination in 2004 and finished five papers in one attempt, which, given his circumstances, was an extraordinary feat. “I wanted to make up for the time I lost when I was ill. Also, I understand that attaining a professional qualification is critical in the accounting profession nowadays and thus I was keen to acquire a professional qualification as soon as possible,” he explains.

As Mak progressed through these first five papers, he found the syllabus pragmatic and easy to follow. However, once again he suffered a set back with a change in his health in 2005. He underwent another bilateral knee replacement on both knees. This slightly slowed down his pace in finishing the rest of the examinations.

In the four years between 2004 and 2008, Mak successfully passed all eight AAT Examination papers and later moved on to complete the Professional Bridging Examination (PBE), marking another important step towards his CPA goal. Reviewing his experience of taking the AAT Examination, Mak stressed that every single AAT paper was equally important in preparing him for this challenging career because this was the first formal accounting training he had received after his studies for the certificate programme at the Hong Kong Polytechnic back in 1984.

### Essential elements of accounting

AAT Examination Paper 6, “Fundamentals



of Business Law”, benefitted Mak the most. “Before taking this examination, I was not familiar with business law and, when confronted with legal inquiries by clients, I often fell short of their expectations. Even though my studies for this paper did not make me a legal expert, I am now more confident in handling legal inquiries and, just as importantly, know the source of information concerning legal subjects in the finance and accounting fields,” he says.

His studies for Paper 8 “Principles of Auditing and Management Information Systems”, on the other hand, have helped Mak build a checklist for his own company in what needs to be in place in ensuring the clients’ reports are in line with the auditors’ requirements. Another subject area he has found useful is Paper 2 “Business Communication and Organization and Management”. “This paper may be seen as relatively insignificant for a highly numerical subject as accounting. However, it in fact covers an essential skill for accounting professionals. In my case, I learnt much from it about establishing proper and effective client correspondence with the Inland Revenue Department when handling the taxation jobs,” he explains. All in all, Mak firmly believes that all the eight papers made up the fabric of what it takes to become an all-round accounting professional.

### Plans ahead

With his solid foundation built up from AAT, Mak found it relatively easy to finish the PBE, which he did in two years. He now is looking to complete the qualification programme (QP) of the Hong Kong Institute of CPAs, his final step in becoming a CPA. He is also planning to acquire a degree or Master’s degree to further enhance his professional credentials after becoming a CPA.

After his epic battle with illness and all the hard work in passing the AAT Examination

and PBE, Mak has seen life in a different way from most of us and has constantly need to re-prioritise elements such as health, family and career. Apart from keeping a balanced diet, not drinking alcohol and ensuring he gets plenty of sleep, he has learnt to treasure his wife and loving children, who have given him tremendous support throughout.

### Can-do spirit

Mak also mentions that when he was taking the AAT examination, he was also undergoing other surgical procedures, which made his studies all the more difficult for him. However, he made through it by sticking with his well-developed study plan. “Practice makes perfect” is his single most important piece of advice to AAT students, and he suggests they achieve this through regular revision of their notes and by practising past exam papers.

Mak’s positive spirit and optimistic outlook of life is neatly encapsulated in the name of his company, Cando Co., which Mak treats as a platform to do whatever he can in providing the best possible accounting services to his clients.

T/D

### Profile of Lonny Mak

Year	
1958	Born in Hong Kong
1978-1983	Part time night school study for the Hong Kong Certificate Education Examination
1981-1985	Audit clerk in C.C. Ho & Co CPA
1984-1985	Enroled in the Hong Kong Polytechnic – Certificate programme in accounting
1987-present	Sole proprietor of Cando Co.
January 2003	Underwent liver transplant surgery
November 2005	Underwent a bilateral knee replacement surgery
2004-2008	Undertook and passed all eight AAT Examination papers
2009-2010	Undertook and passed all four PBE papers
Current	Student of the Hong Kong Institute of CPA's QP



## Group reorganization Part II Recognition of impairment losses and reversals

(Relevant to Paper I: PBE Financial Accounting)

K C Cheng

**G**roup reorganizations often involve disposal of assets and a group of assets. The accounting practice in the classification of assets held for sale and disposal, measurement of the gain or loss, disclosure and presentation are becoming more and more common due to the impact of financial turmoil on the reorganization of group assets for disposal or realization for cash, etc. These topics are divided into three small articles to help readers understand the details of Hong Kong Financial Reporting Standard 5 “Non-current Assets Held for Sale and Discontinued Operations”.

This standard is not easy as it deals with very practical and complicated situations in the commercial world.

The first article published in October 2010 covers the reasons for the disposal of assets, the “held for sale” classification, and the measurement of non-current assets (or disposal groups) classified as held for sale. This article deals with recognition of impairment losses and reversals, a change to a plan of sale, presentation and disclosure. The third article gives numerical examples to explain the concepts clearly. As the content has been divided into three parts, paragraphs are numbered to help cross references.

Relevant examples and references from annual reports are given to enhance the understanding of concepts and practice in the workplace.

Important words are highlighted in order to emphasize the important concepts which need to be memorized in order to apply the concepts and measurement techniques.

### HKFRS5:

- (a) adopts the “held for sale” classification
- (b) introduces the concept of a disposal group, being a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction
- (c) specifies that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell
- (d) specifies that an asset classified as held for sale, or included within a disposal group that is classified as held for sale, is not to be depreciated
- (e) specifies that an asset classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, are presented separately in the statement of financial position
- (f) withdraws SSAP 33 “Discontinuing Operations”

T/D

To read the complete article, visit the Learning Centre on our website at [www.hkiaat.org/index.php/services/index/199/](http://www.hkiaat.org/index.php/services/index/199/)



## Relevant costs in decision making

(Relevant to Paper II – PBE Management Accounting and Finance)

Lee Siu Po, Simon, The Chinese University of Hong Kong

In management accounting, you often hear the term relevant cost. Relevant cost is closely linked to incremental analysis, and refers to costs which differ across decision or situation alternatives.

In the full article we use examples to illustrate the concept of relevant costs. In the first example, we consider whether to extend the opening hours of a café. Through our analysis we identify which are the relevant and irrelevant costs in deciding whether it is worth extending the opening hours. We need to decide whether to extend the café's opening times by one hour. There are two situations. One is the original opening hours; the other is the new opening hours.

In the original opening hours situation the daily revenue is \$110,000 and the daily costs \$80,000. If the opening hours are extended, the daily revenue becomes \$113,000. Of the daily costs 40% are for food, 30% other variable costs and the remainder fixed. If the café extends its opening time by one hour, the additional labour cost is \$400 and the additional electricity cost is \$300. Determine whether it is feasible to extend the operating hours.

If the additional revenue is able to cover the additional costs, it is worth extending the opening hours. The

situations can be represented as follows:

	Original	New
<b>Revenue</b>	\$110,000	\$113,000
<b>Cost</b>		
Food	\$44,000	\$45,200
Labour		
<b>Other variable</b>	\$33,000	\$33,900
Electricity		
<b>Total cost</b>	\$77,000	\$79,100
<b>Profit</b>		

How is it possible to complete the above without knowing the present levels of labour cost and electricity cost? The answer is that it is the difference which is relevant. The increase in revenue is \$3,000. Food costs constitute 40% of revenue: these increase from \$44,000 to \$45,200, an increase of \$1,200. Other variable costs constitute 30% of revenue and these increase from \$33,000 to \$33,900, an increase of \$900. We know that the labour cost increases by \$400 and electricity by \$300. Therefore the total increase in costs = \$1,200 + \$900 + \$400 + \$300 = \$2,800, which is lower than the increase in revenue of \$3,000. This shows it is worth extending the opening hours.

The full article continues by explaining the concept of sunk costs and including two more examples of relevant costs in incremental analysis: replacing an item of equipment, and moving to new premises. **T/D**

To read the complete article, visit the Learning Centre on our website at [www.hkiasat.org/index.php/services/index/199/](http://www.hkiasat.org/index.php/services/index/199/)



## Techniques in handling the computerized accounts

**(Relevant to AAT Examination Paper 1: Accounting and Computerized Accounts)**

Bruce Li, School of Accounting and Finance, Hong Kong Polytechnic University

### Introduction

Starting from June 2011, the syllabus of the Accredited Accounting Technician (AAT) Examination Paper 1: Accounting and Computerized Accounts has been enhanced. Students need to have sufficient financial accounting knowledge to tackle the Sections A and B of the examination, which relate to accounting (70 out of 100 marks). They also need to have hands-on computerized accounting experience to handle Section C, computerized accounts (30 out of 100 marks). Thus, in order to pass, students must be competent in both areas.

MYOB Premier Plus v13 English version is the designated accounting software under the revised syllabus. Students are strongly suggested to check with the syllabus, download the appropriate version of software for practice and use updated textbooks and other references in learning.

In the full article we focus on how to handle computerized accounts step by step through an example.

### Computerized accounts

This is a challenging part of the examination, since both accounting experience and computerized accounts skills are required. The general background of the question is designed as a case. Students are assumed to be the accountants or senior accounting staff in a company. They have to convert the manual accounts to computerized

accounts at a particular starting date, and to prepare the remaining accounting entries until a particular closing date. Thus, students must be clear about these two important dates before they start to create a new company file in MYOB. The basic steps for handling the data in the examination are suggested.

In the full article, you can get the basic idea of how to create and set up a new company file. Examples from the 2010 December Exam Paper are used in illustration.

### Conclusion

Paper 1 of the AAT Examination aims to develop and assess candidates' knowledge, comprehension and application of the basic accounting concepts and principles, including the ability to apply these to recording business transactions and to prepare and interpret basic financial reports. Therefore, the Computerized Accounts examination is another platform for assessing candidates' knowledge, ability and understanding in a practical working environment. By using accounting software, their knowledge can be applied and shown more effectively. Students are reminded that good performance can only be obtained by fully understanding the required accounting knowledge and combining this with good presentation in their answers by using the accounting software properly. Last but not least, the golden rule to getting satisfactory results is simple: "Practice makes perfect". **T/D**

To read the complete article, visit the Learning Centre on our website at [www.hkiaat.org/index.php/services/index/199/](http://www.hkiaat.org/index.php/services/index/199/)



## Cost accumulation using absorption costing

### (Relevant to AAT Examination Paper 3: Management Accounting)

Li Tak Ming, Andy, Deputy Head, Department of Business Administration,  
Hong Kong Institute of Vocational Education (Kwai Chung)

To calculate the full production cost of a product, we need to identify the direct costs (direct materials, direct labour and direct expenses) and the indirect costs (indirect materials, indirect labour and indirect expenses). Indirect costs relating to production are generally called production overheads. Direct costs can be directly identified with a specific product (cost unit). Production overheads cannot be directly identified with a specific cost unit or cost centre. Absorption costing is the most common way of dealing with overheads by assigning an appropriate share of the entity's total overheads in accordance with the required time and effort that has gone into producing the product.

The full article includes examples to show how the types of cost allocation outlined below work in practice.

#### Allocation and apportionment of overhead costs

Overhead costs are usually assigned to a product by a process of allocation, apportionment and absorption.

Cost allocation is the process by which overhead costs are charged directly to a cost centre.

Cost apportionment is the process of splitting a common cost between two or more costs centres in proportion to the estimated benefits received.

It is quite common for manufacturing companies to have both production and service cost centres. The costs of the service cost centres need to be re-apportioned to the production cost centres before the total overhead costs of the production cost centres are absorbed to products.

When the service cost centres provide reciprocal services to other service cost centres, there are various methods of re-apportioning the service centre costs to the production cost centres. The two popular and fairer methods are the repeated distribution method (continuous allotment method) and the algebraic method (simultaneous equation method).

#### Absorption of overhead costs to cost units

Once the overhead costs of all service cost centres are re-apportioned to production cost centres, the overhead costs of all production cost centres are absorbed to cost units (products or services) on a fair and equitable basis.

Under absorption costing, the figure for overhead costs absorbed is not actual overhead costs but rather a value based on a budgeted figure estimated prior to the beginning of the budget period.

The pre-determined overhead absorption rate for a production cost centre is calculated by dividing the budgeted overhead costs by the budgeted level of activity of the centre.

The absorbed overhead costs are accumulated to the prime cost (direct materials, direct labour and direct expenses) to become the production cost.

#### References:

*Colin Drury, Management and Cost Accounting, 7th Edition 2008, South-Western*

*Andy Tak-ming Li & Patrick Kin-wai Ho, BAFS in the New World, Accounting – Elective Part 2 Cost Accounting, First Edition 2010, Pilot Publishing Company Ltd.*

T/D

To read the complete article, visit the Learning Centre on our website at [www.hkiaat.org/index.php/services/index/199/](http://www.hkiaat.org/index.php/services/index/199/)

logistics

labour

## Cost drivers and company activities

(Relevant to AAT Examination Paper 3: Management Accounting)

Dr Fong Chun Cheong, Steve, School of Business, Macao Polytechnic Institute

Organizations require different types of supporting activities (administration, purchasing, marketing, logistics, etc.) to co-ordinate their products and services. The accounting for different types of supporting overhead costs, as well as for material and labour costs, is important. Design and classification of cost drivers for accounting organizational and operational activities are usually the first cost accounting tasks to be handled.

A **cost driver** is the unit of an activity that drives the change of cost in production or servicing. It refers to any activity that causes a cost to be incurred. In traditional costing, the cost driver used to allocate overhead costs to cost objects relates to quantity of output.

There are usually two main types of supporting cost. The first is a **resource driver**, which is the contribution of the quantity of resources used to cost an activity, such as one kilogram of flour for bread production and one operator hour for manufacturing work. The second is an **activity driver**, which is the cost incurred by the activities required to complete a specific task.

There are two types of **organizational activities** for studying overhead cost: structural and executional. **Structural cost drivers** relate to business strategic

choices about an organization's underlying economic structure, such as scale and scope of operations, use of technology and complexity of products. **Executional cost drivers** relate to the execution of the business activities, such as utilization of employees, provision of quality service, and product design and manufacturing.

**Operational activities** are daily work activities done as a result of the structure and process adopted by the company. Examples are receiving incoming components, moving components, setting equipment, testing products, shipping finished goods, and servicing products after sales. Operational cost drivers refer to factors that drive the costs of operational activities. They include factors such as the volume of materials received, number of moves, number of products, number of sales orders, and number of returned goods.

Take the example of a bakery. When making a birthday cake, the overhead costs of electricity and packaging materials can be counted at the **unit level**. Similarly, the overhead costs of electricity and packaging materials are counted at the **batch level** cost when baking of bread in batches is the usual practice. In a large baking plant, the cost of product line scheduling is grouped under the **product level**. T/D

To read the complete article, visit the Learning Centre on our website at [www.hkiaat.org/index.php/services/index/199/](http://www.hkiaat.org/index.php/services/index/199/)



## Decision making made easy

(Relevant to AAT Examination Paper 4: Business Economics and Financial Mathematics)

Y.O. Lam, SCOPE, City University of Hong Kong

In the competitive world of business, we need to make varied important decisions every day, so that effective decision making is crucial. Some decisions are very easy to make but others are quite complex. Simple decisions usually require simple decision-making skills. However, most people face more complex decisions in today's business world. In this article, the net present value method (NPV) and expected net present value (ENPV) methods for evaluating business projects are discussed.

### Net present value method

The net present value (NPV) is a discounted cash flow technique and it can be used as a capital expenditure appraisal method. The NPV method starts by calculating the present values of all cash outflows and inflows related to an investment at a given rate of return, arriving at a NPV. If the NPV is positive, we can conclude that the investment is acceptable. If it is negative, the investment is unacceptable. If it is zero, we are indifferent about the investment.

### Expected value

It is important to realize that there are a lot of uncertainties in the future such as over cash flows, interest rates and so on. Consider the following example. Amy must decide whether to purchase an apartment to live in as an investment, or whether to rent it. If sales of apartments continue to increase, it will be more profitable to purchase the apartment. If sales levels decline, it will be more profitable to rent the apartment. Which decision should she make?

Amy thinks that if the economic climate is good and she decides to buy an apartment, the payoff will be an estimated \$100,000. On the other hand, if Amy decides to

buy the apartment and the economic climate is poor, the payoff is estimated to be -\$90,000.

The expected value is the weighted average of each value multiplied by their corresponding probabilities.

Expected value  $\sum_{i=1}^n x_i p_i =$  Where  
 $x_i$  = the value of the payoffs.  
 $p_i$  = the probability of the state of nature.

Over the past decade, in six years the economic climate has been good and in four years it has been poor. We can therefore project that the probability of a good economic climate is 0.6 and the probability of a poor economic climate 0.4.

The expected value of Amy's decision to buy an apartment is:  

$$\begin{aligned} \text{EV (purchase apartment)} &= (\$100,000) \times 0.6 + (-\$90,000) \times 0.4 \\ &= \$60,000 - \$36,000 \\ &= \$24,000 \end{aligned}$$

### Expected net present value method

Here we extend the expected value idea in evaluating an investment project. The expected net present value (ENPV) method uses the idea of expected value through uncertain cash flows, an unknown future economic environment, and so on.

### Limitations of using ENPV method in decision making

Although the ENPV method is a good way of considering an investment appraisal, it may not always be applicable. The probabilities, future discount factors and cash flows are also estimated, i.e they are not known with certainty. Here we consider the limitations of the ENPV method. **T/D**

To read the complete article, visit the Learning Centre on our website at [www.hkiaat.org/index.php/services/index/199/](http://www.hkiaat.org/index.php/services/index/199/)

## Highlights of the revenue proposals in the 2011/12 Budget

(Relevant to AAT Examination Paper 5: Principles of taxation)

Dr Dora Lee

### Introduction

On 23 February 2011, the Financial Secretary, the Hon John Tsang Chun-wah, made his fourth Budget Speech, this one covering the financial year 2011/12.

### Economic performance

According to the Financial Secretary:

- The Hong Kong economy has fully recovered from the global economic crisis;
- the SAR's gross domestic product (GDP) increased by 6.8% in 2010; and
- the inflation rate for 2010 was 2.4%.

### Economic outlook / forecasts

The major forecasts made by the Financial Secretary are as follows:

- a 4% to 5% increase in GDP in real terms is forecast for 2011;
- the inflation rate is expected to be 4.5% in 2011;
- a revised consolidated budget surplus of \$71.3 billion is forecast for 2010/11 and a consolidated budget surplus of \$3.9 billion is forecast for 2011/12; and
- operating expenditure for 2010/11 and 2011/12 are forecast to be \$240.8 billion and \$298 billion respectively.

This article highlights the major revenue proposals made by the Financial Secretary in light of the underlying and predicted economic conditions.

### Proposals relating to income taxes

#### Salaries tax and personal assessment

No changes have been proposed to the tax rates. The allowances for dependent parents, dependent grandparents and children will be increased by 20 percent. The maximum deduction for elderly residential care expenses will also be increased by 20 percent.

On 2 March 2011, the Financial Secretary also proposed reducing the tax payable under salaries tax and personal assessment by up to 75 percent, subject to a ceiling of \$6,000. The year of assessment concerned has not been specified though it is likely to be the year of assessment 2010/11.

#### Property tax

No changes have been proposed.

#### Profits tax

No changes have been proposed

A summary showing the personal allowances and deductions for the years of assessment 2010/11 and 2011/12 is shown in Table A.

**Table A: Personal allowances and deductions**

Year of assessment	2011/12	2010/11
	\$	\$
<b>Personal allowances</b>		
Basic	108,000	108,000
Married person's	216,000	216,000
Single parent	108,000	108,000
Child		
1 <sup>st</sup> to 9 <sup>th</sup> child (each)		
Year of birth	*120,000	100,000
Other years	*60,000	50,000
Dependent parent/grandparent (aged 60 or more, or eligible for government's disability allowance)		
• Basic	*36,000	30,000
• Additional (for dependant living with taxpayer)	*36,000	30,000
Dependent parent/grandparent (aged 55-59)		
• Basic	*18,000	15,000
• Additional (for dependant living with taxpayer)	*18,000	15,000
Dependent brother/sister	30,000	30,000
Disabled dependant	60,000	60,000
<b>Deductions</b>		
Self-education expenses	60,000	60,000
Home loan interest	100,000	100,000
Elderly residential care expenses	*72,000	60,000
Contribution to recognized retirement scheme	12,000	12,000
Approved charitable donations	35%	35%

\*As proposed by the Financial Secretary in his Budget Speech for 2011/12.

T/D

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# Taxation of environment-friendly vehicles

(Relevant to AAT Examination Paper 5: Principles of Taxation)

Dr. Dora Lee

**I**nland Revenue (Amendment) (No. 3) 2010 was gazetted on 18 June 2010 to give effect to, *inter alia*, the proposal in the 2010/11 Budget to provide an accelerated profits tax deduction for environment-friendly vehicles (EFVs) as from 18 June 2010.

This article describes the taxation for EFVs together with related examples. All references to statutory provisions in this article, unless otherwise specified, refer to sections in the Inland Revenue Ordinance (IRO).

## What is an environment-friendly vehicle?

An EFV is defined in Part 3 of Schedule 17 of the IRO as:

1. Any vehicle qualified for remission of first registration tax (as defined by section 2(1) of the Motor Vehicles (First Registration Tax) Ordinance (Cap 330)) under the following schemes administered by the Environmental Protection Department: –
  - (a) the Tax Incentives Scheme for Environment-friendly Commercial Vehicles;
  - (b) the Tax Incentives Scheme for Environment-friendly Petrol Private Cars.
2. Any motor vehicle (as defined by section 2(1) of the Motor Vehicles (First Registration Tax) Ordinance (Cap 330)) that is capable of drawing energy from both of the following on-vehicle sources of stored energy or power for mechanical propulsion:
  - (a) Consumable fuel;
  - (b) Battery, capacitor, flywheel, generator or other electrical energy or power storage device.

3. Any motor vehicle (as defined by section 2(1) of the Motor Vehicles (First Registration Tax) Ordinance (Cap 330)) that is solely propelled by electric power and does not emit any exhaust gas.

In short, EFVs cover the following vehicles:

- (a) eligible vehicles under the “Tax Incentives Scheme for Environment-friendly Commercial Vehicles” and the “Tax Incentives Scheme for Environment-friendly Petrol Private Cars” administered by the Environmental Protection Department (EPD);
- (b) hybrid electric vehicles; and
- (c) electric vehicles.

Related information about EFVs can be found on the website of Environment Protection Department, viz., [http://www.epd.gov.hk/epd/english/environmentinhk/air/prob\\_solutions/Profits\\_Tax\\_Deduction\\_EFV\\_Models.html](http://www.epd.gov.hk/epd/english/environmentinhk/air/prob_solutions/Profits_Tax_Deduction_EFV_Models.html).

## Tax Treatment for specified capital expenditure on EFVs acquired on / after 18 June 2010

Any capital expenditure incurred on the provision of any EFV, excluding expenditure:

- that can be deducted under another section of the IRO, or
- incurred under a hire-purchase agreement, by a person on or after 18 June 2010
- can be fully deducted, subject to apportionment if the EFV is not 100% used in the production of chargeable profits (section 16I(1)).

T/D

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# Defence against negligence

## (Relevant to AAT Examination Paper 6: Fundamentals of Business Law)

Tony Chow, Lecturer, United International College (UIC), Beijing Normal University, Hong Kong Baptist University

### Introduction

Negligence is a tort action where the defendant owes a duty of care to the plaintiff, the defendant breached that duty of care, and this proximately caused consequential damages.

The defendant in a negligence suit could defend himself by negating one of the elements of negligence: for example, that he did not owe a duty of care, he had exercised reasonable care, or the breach did not cause the damages.<sup>1</sup> In addition to negating one or more of these elements, a defendant may rely on some specific doctrine or statutory defence that may eliminate or reduce liability. Four of the more common defences are the doctrine of *volenti non fit injuria*, reliance on exemption clause, contributory negligence or claiming that the action is time-barred.

In the full article we outline a scenario and consider whether the defendants could use any of the following defences.

### Volenti non fit injuria (voluntary assumption of risk)

The person who consented to an activity which is associated with a risk of injury should not be able to hold the person who caused that injury liable in tort. *Volenti non fit injuria* is a complete defence; if pled successfully, the defendant will not be liable at all. The plaintiff could assume the risk by express agreement or by implication of his conduct. In order to succeed the defence, the defendant must establish that the plaintiff was aware of the exact risk he is going to take and must willingly accept it.<sup>2</sup>

### Exemption clause

If the defendant contracted with the plaintiff to be involved in an event which is associated with some risk of harm, he may include some exemption clauses in the contract to exempt him from those liabilities. In order to rely on these exemption clauses, the document which contains the exemption clause must be signed by the defendant or it must be incorporated in a contractual document by giving sufficient notice before the defendant accepted the contract.

Even if the exemption clauses are incorporated by notice or by signature, the validity of the clause will be subject to the Control of Exemption Clauses Ordinance (Cap 71).

### Contributory negligence

Contributory negligence is a partial defence that reduces the amount of damages payable to the claimant on a fair and equitable basis. It applies when the plaintiff's own negligence contributed to his own injury.<sup>3</sup> The defendant must establish that the plaintiff failed to take care of his own safety in a way that at least partially caused the damage that he suffered.

### Limitation period

Under section 4 of the Limitation Ordinance for action found on tort, the basic limitation period is six years. Under section 27(4)(a)&(b) where the damages claimed consist of or include damages in respect of personal injuries, the limitation period is three years from the date of accident or from the date the injury came to the plaintiff's knowledge. An action of negligence will be time-barred if it is commenced after the limitation period.

T/D

1. For example, there was some intervening act which breaks the chain of causation (*novus actus interveniens*)
2. The risk was not accepted under the plaintiff's own free will if the situation renders him no choice but to accept it.
3. Section 21 of the Law Amendment and Reform (Consolidation) Ordinance (Cap 23)

To read the complete article, visit the Learning Centre on our website at [www.hkiaat.org/index.php/services/index/199/](http://www.hkiaat.org/index.php/services/index/199/)



Passport to success – **Kenny Tsang**  
**Pathways to  
 many possibilities**

The start of a career is the most difficult time. For Kenny Tsang, financial manager at K & P International Holdings Ltd, this is especially true. Having negotiated his way through some obstacles, Kenny finally found that the most suitable pathway for him to build a solid foundation in his accountancy career was through the AAT qualification. The promising articulation offered by the AAT qualification combined with his persistence have helped Kenny get through the rigorous training involved in his transformation from an outsider into a full-fledged accounting professional.

### **Moving into the flourishing accounting profession**

As a science stream student, Kenny's first brush with accounting did not come until his gap year study in the United Kingdom after Form 5 graduation, when he picked up the subject by chance. For the first time, Kenny became aware of the complementary effect with his proficiency in numbers could have on accounting studies.

Later, he returned to Hong Kong to study for his matriculation. After his Form 7 graduation, Kenny was responsible for the development of an enterprise resources planning system. "In 2003, SARS hit Hong Kong. The company I was working for, like many other companies, closed down," Kenny recalled. "I was at a crossroads – should I continue with my career in Information Technology, or to go for a more stable career in accounting?"

### **Choosing the right path to get started**

Ultimately Kenny chose accounting, as he felt this would provide him with more viable career options. "I was looking for an accounting job at that time. After several interviews, I realized that my accounting knowledge was insufficient to deal with the employers' questions and expectation," Kenny recalls.

Though Kenny successfully landed a job in an audit firm, his experiences moved him to investigate further studies in accounting. To start with, Kenny considered studying for a bachelor's degree. However, when he realized how closely the AAT Examination syllabus resembled problems and situations he encountered in his daily work, he opted to study for the AAT qualification.

The practical nature and the articulation of the AAT qualification appealed to Kenny's aspirations in pursuing the professional qualification. In addition, he found that the Professional Bridging Examination (PBE) syllabus complements the Qualification Programme (QP) of the Hong Kong Institute of CPAs and has been proved to be a powerful tool for students to adapt themselves to the modules they need to study for QP.

### Good analytical training

It was in that early and crucial period of his new career in accounting when Kenny's AAT studies helped him most. His limited accounting background was greatly remedied by applying his AAT knowledge to his daily work. For instance, the case studies on financial reporting covered in Paper 7: Financial Accounting closely resemble the situations he encountered in his daily work and enable him to present his work more efficiently. Other areas which were of great help were the knowledge he gained for his studies for Paper 3: Management Accounting and Paper 8: Principles of Auditing and Management Information Systems. He says he can apply the review procedures and internal control measures learned even in the duties of his present job.

Kenny also values the PBE training. Through PBE Paper II: PBE Management Accounting and Finance, he was able to understand issues such as overhead costs from different perspectives; he was then able to utilize his knowledge to give all-round suggestions on top of his normal output. All in all, he is very satisfied with the AAT training, which he says has provided him with a solid grounding in accounting concepts and analytical skills.

Kenny knows that qualification is just as important as experience. After passing the AAT Examination in 2005 and the PBE in 2007, Kenny found his confidence greatly boosted. He therefore decided to move his career forward by moving to his current employer, K & P International Holdings Limited, as an accountant. Within two years, he was promoted to financial manager.

Currently Kenny works directly under the company's financial controller, and has six sub-ordinates in the accounting department. "My key responsibilities include ensuring the company's accounting policy complies with the accounting standards and requirements, negotiating with different parties with regards to relevant contracts and terms and conditions, and participating and monitoring work in areas including the annual audit, annual and interim reports, costing and taxes," he explains.

### Looking into the future

Kenny has completed all four modules of the QP, and will be taking the final examination this June as his final step to becoming a CPA. Kenny is also looking into qualifying as a CPA in mainland China in the future. "My current work involves occasional trips to the mainland. The rapid development in China has created a strong demand for accounting services and has resulted in many opportunities for Hong Kong accounting professionals. Passing the Chinese Institute of CPA's examination could help me capitalize on these opportunities," says Kenny.

T/D

### Kenny Tsang's study and career path

Year	
1993	F7 graduation
1993 – 1995	Assistant Accountant at The Hongkong Manager & Secretarial Ltd
1995 – 1997	Audit Assistant at K.M. Leung & Co. C.P.A.
1997 – 2003	Assistant Accountant at Subic Bay Travel & Amusement Ltd
2003 – 2005	Accountant at MegaPrint (Hong Kong) Ltd
2005	Undertook and passed four papers of the AAT Examination (with four papers exempted)
2005 – 2007	Accountant at Black & White Films Ltd
2006 – 2007	Undertook and passed PBE
2007 – 2008	Completed the four modules of the Hong Kong Institute of CPA's QP
2008 – current	Accountant / Financial manager in K & P International Holdings Ltd
June 2011	Taking in the QP's final examination

# Creative business writing

By Vivien Ho



Creative business writing evokes some kind of positive response by captivating, persuading, bringing understanding and even stimulating success. In today's competitive business environment, how can accounting professionals unleash this skill in their letters, memorandums, reports, proposals, presentations and the like? This is an issue which deserves our high and immediate attention.

Let us start with the origin and meaning of two English words: creative and writing. The word "create" derives from the Latin verb *creare*, to make and allied to crescent, from the Latin *crescere*, to grow, increase. The word "writing" derives from the Old German verb, *writan*, to scratch, which implies all writing starts from scratch. This origin emphasizes writing as a material activity; the process described also involves thinking and imagination. Some people describe writing as "pictures in my mind". Both words remind us to expand our minds, to allow our thoughts to flourish and bloom.

To write creatively requires some mastery of basic writing skills and an artistic impulse. There are a number of ways, as suggested below, to help you become more creative and articulate business writers.

## Open your mind

Ideas come from different sources, and they only come into the mind that is prepared to receive them. Most of

us have had the experience of looking up an unfamiliar word in a dictionary, and then, in the days and weeks that follow, seeing and hearing the same word somehow somewhere – on advertising hoardings, in newspapers and magazines, on the radio and television, even from friends. But this is not because it is simply being used more frequently by people; it is just that you have prepared your mind to notice it. The same applies to ideas, which only come to minds that are prepared to receive them. Once you have prepared your mind you begin to pick up, from a range of different sources, ideas and evidence that you can use in your writing. This explains why it is so important to carry a notebook with you, so you can record ideas whenever they come, from whatever source, rather than allow them to disappear for good.

## Writing from theme

Factual accuracy is only one aspect of writing. You also have to find a way to breathe life into the characters featured in your messages. It is much more convincing when you share your real experiences with others. For example, you might want to write about success. With this general theme in mind, one route you can take is to look back at your life and consider the events where success played a major part. To arrange and document these events might not let the recipients know everything you think or believe about success, but certainly, if your message portrays two or three different instances where success is a central concern, the recipients are going

to understand a theme is being developed. How much interest you inspire depends on your presentation. If you approach the idea you are dealing with from many angles, and if you allow yourself the freedom to be completely honest and open in your exploration of the subject (and perhaps even be surprised by what you find) rather than merely offering preconceived notions, your messages will likely be more interesting. And to be interesting is your greatest challenge.

### Freewriting

Writers come to good writing in different ways but the best way to improve is by constant practice. The practice of freewriting is a useful technique for generating new ideas for a given period of time. To freewrite is to write unceasingly without erasing or correcting for grammar, spelling or punctuation. This practice can free your mind from your usual thought patterns and allow you access to ideas you might otherwise be too busy editing. More importantly, freewriting allows you to stop making sense. When you are not trying to infuse your writing with meaning, you may develop out-of-the box thinking which may never come to you when you think seriously. As a matter of fact, people work with the conscious mind as well as the unconscious mind. It is worth giving this a try and see if it works for you as well.

### Change ways to look at the same thing

If you change your physical position when looking at an object, that object will change too. Without getting into a deep philosophical discussion, most of us agree that this idea is lively and possesses some startling implications. If the object changes and reveals new dimensions as you change, what does it suggest? For yourself, it is very likely that you might think differently when you are in different moods. The ideas you generated might totally change when you are in a psychologically relaxed state. Besides, people have different viewpoints and you should allow yourself to experience other people's standpoints to generate different ideas about the same issue. You may be surprised to find out that this is not such a difficult task.

### Reflection and introspection

Reading is a fundamental practice for a writer and can be

perceived as a creative act. The way you understand this is that, to read is to imagine and to imagine is to create. If you read carefully and question what you read, you also learn to reflect, or to integrate knowledge and information in such a way that it becomes a part of your psychic and intellectual make-up, even if only temporarily. By means of reflection you not only come to term with the ideas of others, but you are also able to better understand your own. To be reflective is to be thoughtful. Think about your present circumstances and about events that have occurred in the past and still affect you today. Think about questions that have no definite answer, yet still require some effort of deciphering, however inadequate this effort may seem.

One of the efficient ways to develop your skills as a reflective thinker and writer is to pose questions to yourself. We often pose sharp questions to others but forget to question ourselves. A good starter is: how did I get where I am today? Or, where am I today? Think about your strongest beliefs and values and your most troubling confusions and contrast them with others. Or consider the adverse effects brought by the recent economic crisis: what have you learned and why is it important? The questions you might ask yourself are endless. Some might be playful, others are entirely serious. As you can imagine, some of these questions can be extremely difficult to answer. Regardless, you can become a reflective thinker when you try hard to address them.

Creative writing requires discomfort, at times, and it certainly requires thought and reflections. With determined effort, everyone is able to acquire the skill, which can be as easy as picking your pen and writing a sentence.

T/D

Vivien Ho holds a BBA degree majoring in Human Resources from the University of RMIT, Australia and an MEd degree in Teaching in Professional, Vocational and Higher Education from the Hong Kong Polytechnic University. She is currently a lecturer at HKU SPACE and was awarded the Outstanding Teacher Award by HKU SPACE in 2006.



# Managing the **change** journey

By Weelan Ho

**Over the years, I have come across a number of quotes relating to the subject about “change”. Some of the more interesting ones are:**

- *“Change, change – who wants change? Things are bad enough as they are” – Lord Salisbury’s reputed remark to Queen Victoria*
- *“The one unchangeable certainty is that nothing is certain or unchangeable” – John F Kennedy*
- *“They always say that time changes things, but you actually have to change them yourself” – Andy Warhol*
- *“The world is moving so fast these days that the man who said it can’t be done is generally interrupted by someone doing it” – Anonymous*

These quotes capture the essence of change. Most people dislike change. It is usually this human inertia about change that makes implementing difficult; and yet change is inevitable. The human race could not have progressed if we had not been able to overcome our resistance to change.

#### **Reasons why people are afraid of change**

- **Fear of the unknown.** Most people don’t like an uncertain future which they cannot control.
- **The reasons, objectives, and the vision for change have not been clearly communicated.** Consequently people are unable to buy-in to the ideas of change and therefore do not commit to the vision.
- **People are not involved in planning for change.** This has a number of consequences including not knowing what is going on, poor communication, lack of commitment and support, and therefore not wanting to contribute to the process of change.
- **Fear of losing their status, rights and face.** Change

often requires a transformation in job roles and responsibilities, alteration of compensation package, and sometimes even the work location. Such change also creates inconvenience to a family when other family members need to adapt to a different lifestyle.

- **People resist change simply because it is *change*.** Human beings are creatures of habit. Deep inside, there is a little bit of us that doesn't like change and prefers the status quo. Have you ever wondered why you keep eating the same kind of food, buy similar sorts of clothing or go to the same restaurants repeatedly instead of venturing out and try new places and experiences?

### Manage the change journey

Understanding the reasons for resistance to change is the first step towards overcoming our inertia to change. It helps us develop a better change plan and navigate the change journey better. It is dangerous to embark on a journey without first knowing the end picture and the intended outcome. How do we know we have deviated from our goal if we don't have a plan? Thus developing a blueprint or a change plan is a must.

While change is dynamic and full of uncertainties, it can be managed. Planning and having the right measurements so that we can monitor the progress of change will help to minimize risks of failure.

No change project can be successful without sponsorship from top leadership and management. Top leadership sets the tone while management and team members plan as well as carry out specific implementation.

How quickly we can get the things done depends on our ability to mobilize the change plan. Apart from getting sponsorship, we also need to identify change champions

who have the passion to drive change and change agents who ensure change takes place within their local function. They are the catalysts and role models for change. They help to demonstrate the ways change can be achieved, motivate people and provide the proof that it is possible and beneficial to change.

We can only get people to buy-in and be involved if there is sufficient communication. There are no short cuts. Communicate, communicate, communicate – that's the key to generating involvement and commitment. So, don't fall into the trap of "we will communicate when we have the time", for you will never have the time as change takes a lot of time and effort. Make sure you have structured communication sessions and share the progress and results with all the people concerned.

Organizational change must be accompanied by organizational development. Address people's needs and concerns, particularly those whose jobs will be affected by the change. Be open and honest but do not breach confidentiality or tell lies. It is important that we help people to re-orient or get re-skilled so that they are able to cope and ready to work in a new environment. It pays to be considerate and compassionate.

It is often said that change is a process; it is not a singular event, and the change journey can be painful, exhausting and time consuming. It demands a lot of management's attention and sometimes creates and results in conflicts. But it is also true that there is "no pain, no gain". And whether we like it or not, change is here to stay. **T/D**

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