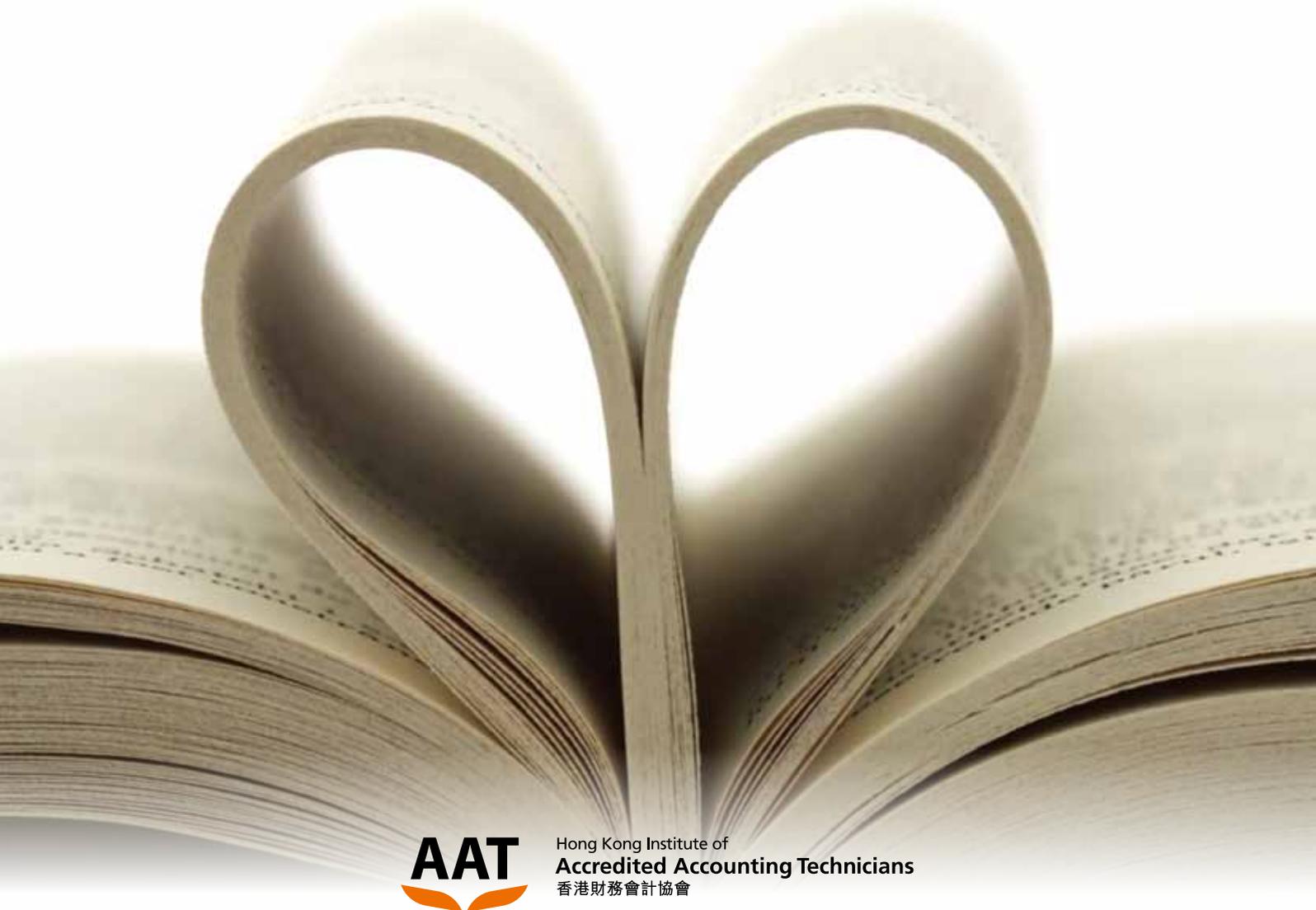




The all-rounder in accounting **April 2012**

T/DIALOGUE

Partners
in business and in life



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

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April 2012

Hong Kong Institute of
Accredited Accounting
Technicians Limited
香港財務會計協會有限公司
27/F, Wu Chung House,
213 Queen's Road East,
Wanchai, Hong Kong
Tel: 2823 0600
Fax: 2823 0606
Hotline: 2823 0660
Web: www.hkiaat.org
E-mail: hkiaat@hkiaat.org

From the President's Desk



Dear members and students,

It is my honour and pleasure to take on the presidency of the HKIAAT in February this year, and I would like to congratulate my two vice-presidents, Chan Cheuk Hay and Andy Li, on their election. Let's also welcome the new members who have joined the Board. They are Terence Cheung, Ivy Cheung, Simon Yeung and Artie Ng. Taking this opportunity, I would like to express my heartfelt gratitude to the immediate past president, Johnson Kong, for his visionary leadership and great contribution to the HKIAAT during the past three years.

I am excited to lead the HKIAAT as it embraces new challenges and opportunities for the development of the accountancy profession. One of our big leaps forward last year was the launch of the AAT Foundation Examination for senior secondary students. In its first year of launch, the examination has an excellent start with over 2,300 exam entries. I believe that the AAT Foundation Examination will become even more popular over the coming years and more Business, Accounting and Financial Studies students will benefit from it to build a solid foundation for their accounting studies.

We are striving to increase our exposure in mainland China. Following on from our collaboration with the China General Chamber of Commerce (CGCC) in introducing our Accounting and Business Management Case Competition to the college students in Mainland China, we arranged a tour during which around 70 faculty members and government officials from Mainland came to Hong Kong and attended the inaugural Accounting Education Conference jointly held by us and CGCC in April. We hope the Conference will become an annual event that brings together academia from the two regions to exchange their experience in accounting education, and at the same time, to further increase the awareness of the AAT brand in Greater China.

It is often thought that accounting personnel are too busy to build relationships, which result in many late marriages. In this cover story, we talk to an exceptional pair of AAT lovebirds to see how they have grown together to become life companions while at the same time setting up their own successful accounting service company.

Being the only professional qualification for accounting technicians in Hong Kong, the AAT qualification has become a ticket for our students to a promising career. The new qualification framework that we introduced in 2009 has strengthened the training for our students as it equips them with the essential accounting skills and knowledge for meeting the market needs. I pledge that we shall continue leverage this existing ground we have built, and with even greater effort, to gain more recognition for AAT. Your continued support and invaluable comments are very important to us as we all work together for the benefit of the accountancy profession.

Let me close by expressing my pride in the HKIAAT team and my gratitude to all of you for your unwavering support for us over the years. We will continue to keep you in the loop of every step of our work in building a brighter future for the HKIAAT.

President
Stella Cho



New board members

**Professor
Cho Lung Pui Lan Stella
elected president**



From left: Vice-president Chan Cheuk Hay, President Stella Cho, Vice-president Andy Li

The 22nd Annual General Meeting of the Hong Kong Institute of Accredited Accounting Technicians Limited (HKIAAT) was held on 31 January 2012.

Professor Cho Lung Pui Lan, Stella was elected as president of the HKIAAT at its 156th meeting held on 24 February 2012. Dr. Chan Cheuk Hay and Mr. Andy Li were elected as vice presidents. Professor Cho has served on the HKIAAT Board for 10 years and has been a vice president for the past five years. She is the Dean of Division of Business and Management at the Beijing Normal University – Hong Kong Baptist University United International College. She is also a Council member of the Hong Kong Institute of CPAs. **T/D**

Four new members have been appointed while three members have retired. The composition of the Board for 2012 is as follows:

Professor Cho Lung Pui Lan, Stella (President)

Dr. Chan Cheuk Hay (Vice-President)

Mr. Li Tak Ming, Andy (Vice-President)

Mr. Kong Chi How, Johnson (Immediate Past President)

Mr. Cheung Kwong Tat, Terence

Ms. Cheung Wing Han, Ivy

Mr. Ng Wai Cheong, Artie

Mr. Wong Yue Ting, Thomas

Mr. Yeung Kai Kin, Simon

Education & Careers

Expo 2012

The HKIAAT and its parent institute, the Hong Kong Institute of CPAs, participated in the Education and Careers Expo 2012 again in February this year. This four-day event attracted about 100,000 job seekers and people who were looking for further study and training opportunities. A seminar was held during the Expo to explain the progression pathways in the accountancy profession; this was attended by 100 aspiring individuals. **T/D**





Horse riding activity

A total of 30 HKIAAT students, members and their friends and family members headed to the Tai Tong Lychee Valley Riding School in Yuen Long on 8 January 2012, where they enjoyed the wonderful experience of touching, feeding and riding horses. This largest private stable in Hong Kong features a wide variety of award-winning horses and ponies. All participants enjoyed horse riding in the peaceful countryside. Before returning, participants also enjoyed a great barbeque lunch and then visited other farm animals. The day ended with full stomachs and plenty of laughters!

T/D

Group photo at Tai Tong Lychee Valley.



A very warm Sunday afternoon to enjoy barbeque.



Students enjoy getting to know the horses.

Membership and studentship fees for 2012

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 Professional Bridging Examination (\$700) and for the Accredited Accounting Technician Examination (\$600) for 2012. Failure to settle the fees will result in the removal of the member's or student's name from the Member or Student Register in May 2012. In order to have their status re-instated, members and students whose names are removed must pay a re-registration fee. Furthermore, students who are removed from the Register are required to pay the prevailing fees again should they wish to claim back the exemptions previously granted or the examination results previously awarded. So renew your membership or studentship status now and save these avoidable costs!

T/D



Application for Accredited Accounting Technician Examination Certificates

Candidates who have successfully completed a certain combination of the papers in the Accredited Accounting Technician (AAT) Examination can now be awarded with an interim qualification. The AAT Examination has been divided into two modules, successful completion of each module leads to the following qualification:

- AAT Diploma in Accounting
(Successful completion of Papers 1 to 4)
- AAT Advanced Diploma in Accounting
(Successful completion of Papers 5 to 8)

Despite the modular approach, students can still attempt any paper in any sequence, and can apply

for the following certificates:

- **Module certificate**
Applicants should have completed the relevant module by sitting and passing at least two examination papers, of which at least one paper should have been completed in the December 2011 Session or later.
- **Individual examination paper certificate**
Applicants should have completed the relevant examination paper(s) in the December 2011 Session or later.

For further details, download the application forms from our website www.hkiaat.org. T/D

Advertisement



The perfect match

Success story of lovebirds in an accounting business partnership



In this society in which people are often said to be too busy for relationships, a cluster of other factors such as the high cost of living and giddy property prices explain the trend for later marriages. Many avoid relationships in an office environment. But there are perfect examples where married couples are in a professional as well as a personal partnership, experiencing the ups and downs in business as well as in life. Fellow AAT members Samuel Kwok Yu Man and Crystal Chan Sze Ki are not only partners in an accounting services firm, but also life companions.

by Aldric Chau

Common interests

“I think what brought us together was a common interest in many things,” says Samuel who met his wife in secondary school. The couple, now in their late 20’s, have been happily married for three years and have one child.

In addition to their favourite pastimes such as hiking and travelling, they have shared a professional interest in accounting since being at school. To Samuel and other accounting personnel, the most beautiful thing about accounting is its requirement for precision. “It’s the rule of thumb that every entry should be balanced. We take satisfaction from achieving that,” Samuel thinks. “Also, there is a clear career path and decent remuneration package for accountants. Another attractive facet of accounting is the opportunity to immerse oneself into different industries, gaining an insight into the big picture of all kinds of business operations.”

With their passion towards accounting, the couple decided to pursue their dream together. They entered Hong Kong Institute of Vocational Education (Chai Wan) and obtained a higher diploma in accountancy. Since they understood that professional qualifications are vital to anyone looking to succeed within the profession, they then further attained the AAT qualification and



Professional Bridging Examination (PBE) throughout their several job changes. One strategy that the couple adopted while selecting jobs was to venture into different industries, so that they could share the knowledge, experience and industry updates to help their career development.

Critical change in career

Crystal and Samuel were dedicated to their various jobs and earned themselves promotion opportunities from different firms. Over the course of four years, they reached the position of audit manager at the same company. However, after careful deliberations the couple decided to quit their jobs and head on to a more adventurous path, setting up their very first accounting business Crystal Chan & Co Ltd. in 2008. Their decision was supported by their mentor from school who offered them valuable advice on starting an accounting business.

“We aim to provide an one-stop and hassle-free service for our clients,” Crystal says, explaining that the company offers accounting, taxation, company secretary and basic consultancy services to clients in businesses from travel

agencies and architecture companies to different retailers to non-profit making organization. By providing a quality service at a competitive price, the business has expanded quickly through word-of-mouth marketing.

The exposure and experience gained from previous work were an important foundation for the couple in launching their business. “It’s controversial as to whether being a boss or an employee is better,” says Samuel. As an employee he didn’t have to worry about monthly revenue and salary payments. But being an employer, especially at their young age and with their relative lack of experience, it can be more difficult to convince clients of their competency. They are glad to have the chance to have experienced both the employers’ and employees’ perspectives, as this helps them understand about meeting employees’ needs and expectations, such as by setting up key performance indicators for staff management.

“After all, running your own business is all about business development, such as revenue generation, operations issues, such as quality assurance and staff management,” Samuel points out. One simple principle that he adheres to is to avoid making loans, so that he can manage his financial risks more effectively.

Riding through the hardships

Samuel recalls the tough early days when starting from scratch. His and Crystal’s first office in Jordan was a 100-square-foot minimal workspace with room for the couple only. Fortunately, it took the company about a few months to find their first client and the couple went through frustrating moments.

“From time to time we received discouraging comments, but we just had to stay tough and get through it,” says Samuel. “It is lucky for us that both of our families are very supportive,” Crystal adds. “Marriage empowers us with the strength to overcome these obstacles. We provide motivation and emotional support to each other and thus balance our lives together.”



The couple will soon have a new member to the family this May. Crystal believes their new kid will bring much joy to the family and make them switch off the work mode at home.

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Relationships



There is pressure on the business owner when there is too much or not enough business. Workload is another issue. “There are times when we would work till four in the morning in order to meeting tight project deadlines,” Samuel recalls. He still regularly works until nine in the evening. However, the couple never encourages their staff to work over-time because it deteriorates their efficiency in long run – it also makes it difficult for them to discuss work issues at the office.

With an efficient team of six handling more than a hundred clients, Samuel and Crystal see a prudent growth in business ahead. However they believe that the market competition is intensifying, which compels every accounting firm to further enhance its quality of service in order to retain clients. Samuel, who is in charge of client liaison and business development, maintains that you need to present a convincing reason for a new client to switch to your service. This requires effective communications skills, selling techniques and real belief in the actual benefits that the company can offer. Samuel relies on Crystal for staff and project management, as she is highly organized and has the skills to do this well.

Roadmap for the future

Both Samuel and Crystal are convinced that knowledge from their AAT and PBE studies have given them a solid grounding in their career development. They are also keen to share their knowledge and experience with the next generation. Therefore, they provide internships to offer work placement to accounting students and also sponsor scholarships for students demonstrating great academic

improvement. They see a strong corporate responsibility in this commitment. Their next goal is to be more active in community services and charitable activities in both Hong Kong and Mainland China.

Home sweet home

While the couple grooms young accounting talent at work, they are also expecting another new member to the family soon. “Our child brings much joy to the family and makes us switch off from the work mode when we’re at home,” says Crystal. Whenever they are home they automatically put work issues aside and enjoy tender family moments – a critical element in maintaining a healthy work-life balance. When Crystal was first pregnant in 2009, the business was still in the development stage; since she had a very hands-on role, she only took one-month’s maternity leave. This time around, she’s ready for a



“The key for success in life partnership is to stand shoulder-to-shoulder. Marriage also empowers us to overcome all the obstacles and setbacks in life”, says Crystal.

longer break in welcoming her baby’s arrival in May. As a loving mother, Crystal has also taken the role of taking care for the children and doing the housework so that Samuel can focus on the company’s business – evenly sharing the increasing workload on both sides.

The couple excels in running a business as much as they do in a successful marriage. Their secrets to a healthy relationship or marriage are simple: respect, understanding and patience. These elements form a strong bond and provide mutual support for the couple to ride through their challenges in their studies and in making such a successful career change.

T/D

HKFRS 9 Financial Instruments

(Relevant to Paper I – PBE Financial Accounting)

Patrick P.H. Ng, BA (Hons.), M. Phil., FCPA, FCCA, Lecturer, Department of Business Administration,
Hong Kong Institute of Vocational Education (Chai Wan)

Morris Y.M. Kwok, MPA, ACMA, CPA

Introduction

HKFRS 9 “Financial Instruments” is the first of a three-phase project to replace HKAS 39 “Financial Instruments: Recognition and Measurement” on classification and measurement of financial instruments. Guidance on impairment methodology and hedge accounting will be published upon completion of phases 2 and 3 of the project.

HKFRS 9 is one of the essential topics for PBE Paper I “Financial Reporting”. Since HKFRS 9 covers more complex areas, our review of this subject is divided into two parts. This first part addresses the new requirements for classification and measurement of financial assets only. The second part will deal with de-recognition and impairment of financial assets.

Recognition of financial assets

HKFRS 9 provides that an entity should recognize a financial asset in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. This means that financial assets should be recognized when the entity becomes a party to the contract rather than when the transaction is settled. For example, an entity commits to buy HSBC’s ordinary shares on 3 October 2011 and will settle the amount on 5 October 2011. In this case, the entity should recognize HSBC’s shares as an investment in equity instruments (financial asset) on 3 October 2011 rather than 5 October 2011.

Classification of financial assets

Upon initial recognition of a financial asset, HKFRS 9 classifies financial assets on both of the following:

- (a) the entity’s business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial assets.

The business-model approach is fundamental to HKFRS 9, and it aims to align the measurement attribute of financial assets with the way management uses its assets in its business (its business model) while also looking at the contractual cash flow characteristics of the assets.

HKFRS 9 uses a mixed-measurement method and requires an entity to classify its financial assets into two categories:

- (a) financial assets measured at amortized cost; and
- (b) financial assets measured at fair value.

A financial asset is measured at amortized cost if both of the following conditions are met:

- (a) it is held within a business model of an entity with the objective of collecting the contractual cash flows rather than with the objective of selling the asset before its contractual maturity to realize its fair value changes; and
- (b) the contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

T/D

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

Stakeholders and corporate governance

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

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

Students may have heard the word “stakeholders” mentioned in the media from time to time. In accounting and finance, stakeholders represent an important topic in corporate governance.

Corporate governance refers to a system by which a company is directed and controlled. A company is formed by a contribution of equity from shareholders and debt offered by creditors. Shareholders can vote in the annual general meeting on important decisions while bondholders cannot as they are not owners. Shareholders expect to get their returns both from share price increase (called capital gains) and dividend (called dividend yield). Creditors, on the other hand, expect to get their returns from interest and repayment of the principal. From statistics in the financial market, we can see that the return from stock is higher than the return from bonds. This is reflected by cost of equity versus the cost of debt. The cost of equity is always higher than the cost of debt. Thus, shareholders normally expect to get higher returns than bondholders. When a higher return is expected, the related risk is also higher. We can say that shareholders normally tolerate higher risk in order to get a higher return than bondholders. In that sense, there is conflict of interest between shareholders and bondholders as the former want high returns with risk but the latter want low returns with low risk.

As well as shareholders and bondholders, there are other groups of stakeholders. Shareholders delegate the daily management authority to managers and employees. This group of people expects salaries, benefits and increments. They may or may not act in the interest of the shareholders. For example, if there is a risky project which gives a high return, shareholders may want to take it but management may refuse because if they do not perform well, their prospects will be affected. On the other hand, almost all employees want to receive high salaries and benefits. This may not be the wish of shareholders as the higher the salaries and benefits, the lower the profit. With a lower profit, dividend distribution and the stock price will be affected. This again creates a conflict of interest between employees and shareholders.

Now, all the shareholders, bondholders and employees want to know about the company’s financial performance. In order to get a fair assessment of the financial results, a company hires auditors to issue the audit report and give an opinion on the financial statements. The audit report is issued to the shareholders but is paid for by the company. The higher the audit fee, the higher audit quality is expected. Paying a high audit fee reduces profit. Shareholders want a higher profit but also want higher audit quality. This creates a conflict of interest as one party (the auditor) wants a higher audit fee while another party (the shareholders) wants it to be lower. **T/D**

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

From traditional budget planning to zero-based budgeting

(Relevant to Paper II – PBE Management Accounting)

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

Introduction

A budget is an important financial plan that incorporates a systematic analysis and interpretation of financial forecasts in terms of products, markets and the application of resources. It requires managers to plan. It needs operational and financial resources information for decision making. More importantly, it sets a benchmark that can be used for subsequent performance measurement.

Annual budget planning is conducted every year. When time passes, managers treat it as a regular practice and may fall into the habit of repeating a similar budget allocation and adjusting the figures slightly merely to account for inflation.

Traditional incremental budgeting

Traditional budgeting uses the incremental approach. It begins with previous year's budget and adjusts up or down from that budget to reflect changing assumptions for the new year. For instance, if previous year's budgeted expenditures for a department were \$1.8 million, the department may request a 4 percent increase (\$72,000) to maintain the same level of service for next year. The justification for increased expenditure is the increased cost of inputs, such as materials and labour. This incremental approach may not incorporate a careful evaluation of the level of services being offered.

Under the incremental approach, government unit managers often strive to spend the year's entire budget, so there is no surplus at the year end. This acts to maintain the current budgetary level and to help the unit manager apply additional funds. For example, at a certain government department office in the New Territories, the officer-in-charge, Wong Kar Ming, was faced with the possibility of having surplus funds of around \$150,000 at the fiscal year end. Kar Ming found methods to spend the extra money before the year ended. He posted an internal notice to colleagues saying that those who lived in Kowloon and Hong Kong Island were welcome to apply for a travel allowance. Brand new office furniture was acquired for a new section (before office furniture was centrally dispatched from the government warehouse). The inefficiency and wastage portrayed in this example is often perpetuated and encouraged by incremental budgeting.

Zero-based budgeting

Zero-based budgeting offers a better approach to dealing with these kinds of drawbacks. Unlike in incremental budgeting, zero-based budgeting does not start from the previous year's budget level. Existing operations are studied, and continuance of the operation or activity must be justified on the basis of its usefulness and its need to the company. The manager requesting the budget is responsible for this justification. As a result, each company department begins from zero and prepares a series of budgets – one for each decision package under consideration.

T/D

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

Coming to grips with the nuts and bolts in answering essay-type questions

(Relevant to AAT Examination Paper 2 – Business Communication and Organization and Management)

Oska Li

This article provides guidance to candidates on dealing with essay-type questions in Paper 2: Business Communication and Organization and Management of the AAT Examination. First we cover the common pitfalls found in candidates' answers and then refer to the competence expected of candidates. We then use a sample essay-type question from the examination to illustrate.

Common pitfalls in candidates' answers

Time and again, many candidates have had difficulty in completing the required writing tasks within the time allowed in the examination, not least because they have failed to organize and present their answers in grammatically correct and complete sentences with suitable paragraphing. A number of them have failed to set out their answers in an appropriate layout for the type of business correspondence (such as a letter, memorandum, proposal, report, etc.) required in the question.

[Learning Point No. 1 – Write correct and complete sentences with suitable paragraphing along the layout of various common business correspondence.]

Essay-type questions in this paper test candidates' ability to apply their acquired knowledge, within the context of a given business problem or scenario, to the specific requirements of a question. It often seems that many candidates rush to write down their answers to these essay-type questions without knowing exactly what they

have been asked to do. As a result, the answers they give are, in most cases, inappropriate and sometimes even entirely irrelevant, leading to their failure in the examination. Candidates must read the question very carefully and analyze the information given. Before starting to write their answers, they should get into the habit of taking a couple of minutes to think about the question, the requirements and the basic facts relevant to the given problem / scenario. Particular attention should be given to the following:

- ✓ **Types of answers** required
- ✓ **Level of details** expected
- ✓ **Relationship amongst different pieces of information** set out in the question
- ✓ **Relevance of the concepts and theories** to be applied to the given problem or scenario

[Learning Point No. 2 – Spare a minute or two to think about the specific requirements of a question before putting down your answers in writing.]

The most common weakness among those who performed poorly in Paper 2 has been that they fail to finish studying the whole syllabus adequately. From reviewing past examination papers, candidates should be aware that questions are always include elements of the whole syllabus. Candidates invariably lose marks if they miss any part of the syllabus from their studies. **T/D**

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



Cost-volume-profit analysis

(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)

Introduction

Cost-volume-profit analysis (CVP) is the study of the effects on future profit of changes in fixed cost, variable cost and sales prices, quantity and mix. It is also known as break-even analysis (CIMA Official Terminology). Break-even means there is neither profit nor loss from the business operation. CVP is a useful management tool used by planners in determining the amount of sales needed to cover all expenses; determining the income level for a desired level of profit; and evaluating and justifying a new marketing strategy.

Assumptions

It is important to know the following assumptions in CVP analysis before we can use it effectively.

- Fixed costs are constant at all levels of output.
- Unit variable cost is the same at all levels of output.
- Unit selling price is constant at all levels of output.
- Production volume and sales volume are the same.
- The estimates of fixed costs and variable costs per unit are certain.
- CVP can only be applied to a single product situation or a group of products with a fixed mix sales ratio.

Calculation of break-even point with CVP analysis

The break-even point can be presented either in terms of units or sales value. The formulae for calculating the break-even point are as follows:

Break-even point (in units): Fixed costs (contribution required to breakeven) \div contribution margin per unit

Break-even point (in sales value): Fixed costs \div contribution margin ratio

Contribution margin ratio: Contribution \div sales \times 100%

The contribution margin (CM) ratio is a measure of how much contribution is earned from each \$1 of sales.

Calculation of margin of safety

The margin of safety (MOS) is the difference in activity levels between the budgeted activity level and the break-even point. It can be expressed in units, sales value and as a percentage of the budgeted sales units or value as follows:

Margin of safety (in units): Budgeted sales units – break-even point in units

Margin of safety (in sales value): Budgeted sales revenue – break-even point in sales revenue

Margin of safety (in percentage terms):

(Budgeted sales units – break-even point in units) \div budgeted sales units \times 100%, or

(Budgeted sales revenue – break-even point in sales revenue) \div budgeted sales revenue \times 100%

Use CVP for planning in different scenarios

When a company plans to achieve a desired profit during a period, the sales value must cover all costs and leave the target profit. The required contribution will equal the fixed costs plus the target profit. The sales level needed to achieve a target profit can be calculated as follows:

Sales level to achieve a target profit (in units): (Fixed costs + target profit) \div contribution margin per unit

Sales level to achieve a target profit (in sales value): (Fixed costs + target profit) \div contribution margin ratio

Moreover, we can manipulate the variables (selling price, units sold, variable costs and fixed costs) so as to help plan different scenarios. **T/D**

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

Highlights of the Revenue Proposals in the 2012/13 Budget

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

Dr Dora Lee

Introduction

On 1 February 2012, the financial secretary, John Tsang Chun-wah, made his fifth Budget Speech, this one for the financial year 2012/13.

According to the financial secretary:

- forecast GDP growth is 1%-3% in 2012 (2011: 5%) while headline inflation rate is estimated to be 3.5% in 2012 (2011: 5.3%);
- a revised consolidated surplus of \$66.7 billion is forecast for 2011/12;
- the forecast consolidated budget deficit for 2012/13 is \$3.4 billion;
- government expenditure is estimated to reach \$393.7 billion for 2012/13, an increase of 7% compared with the revised estimate for 2011/12; and
- total government expenditure is estimated to be \$390.3 billion.

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 for tax rates and marginal tax bands. The financial secretary proposed:

- reducing 75% of the final tax payable under salaries tax and personal assessment for the year of assessment 2011/12, subject to a ceiling of \$12,000;
- increasing the basic allowance and married person's allowance to \$120,000 and \$240,000 respectively;

- increasing the child allowance and additional child allowance in the year of birth to \$63,000 each;
- increasing the dependent parent/grandparent allowance to:
 - \$38,000 for each parent/grandparent aged 60 or above and not residing with the claimant;
 - \$19,000 for each parent/grandparent aged 55 to 59 and not residing with the claimant.
- increasing the additional dependent parent/grandparent allowance to:
 - \$38,000 for each parent/grandparent aged 60 or above and residing with the claimant;
 - \$19,000 for each parent/grandparent aged 55 to 59 and residing with the claimant.
- increasing the dependent brother/sister allowance to \$33,000;
- increasing the single parent allowance to \$120,000;
- increasing the disabled dependant allowance to \$66,000;
- extending the entitlement period for the tax reduction for home loan interest from 10 years to 15 years starting from the year of assessment 2012/13;
- increasing the deduction ceiling for residential care expenses to \$76,000; and
- increasing the maximum annual deduction for mandatory contributions to Mandatory Provident Schemes to \$14,500 for the year of assessment 2012/13, and to \$15,000 from the year of assessment 2013/14 onwards. This proposed change is made in the light of the increase of the maximum relevant income level under the Mandatory Provident Fund Schemes Ordinance to \$25,000, which will be effective from June 2012.

T/D

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The cornerstone of Hong Kong's success

(Relevant to AAT Examination Paper 6 – Fundamental of Business Law)

CK Chang, KW Sin and LP Chan, Hong Kong Institute of Vocational Education

There are many crucial factors leading to Hong Kong's success. The rule of law is definitely amongst one of them, if not the most crucial one. This talismanic phrase has been much used by the senior government officials in their speeches and Hong Kong is proud of having the rule of law and not rule by law. The principle of the rule of law can be illustrated in one of the landmark English cases on civil liberty, *Entick v Carrington* (1765).

So, what is the rule of law? Professor Dicey in his work "Introduction to the Study of the Law of the Constitution" gave three meanings to the rule of law. A more recent formulation of the rule of law has been expressed by Lord Bingham in his book "The Rule of Law." Some of the principles enunciated by Professor Dicey and Lord Bingham are enshrined in the Basic Law of the HKSAR. The courts have on various occasions since 1997 guarded this constitutional right in the HKSAR. Overall, the public has confidence in the judicial system and the rule of law in Hong Kong.

Explaining the rule of law

The rule of law is an elastic concept and is rich in underlying values. It is not easy to give it a positive

definition. One early explanation of the concept can be found in Professor Dicey's work "Introduction to the Study of the Law of the Constitution."¹ He gave three meanings to the rule of law :-

- In the first place, the absolute supremacy or predominance of regular law as opposed to the influence of arbitrary power, and excludes the existence of arbitrariness, of prerogative, or even of wide discretionary authority on the part of the government ...; a man may with us be punished for a breach of law, but he can be punished for nothing else.
- Equality before the law, or the equal subjection of all classes to the ordinary law of the land administered by the ordinary law courts.
- That with us the law of the constitution, the rules which in foreign countries naturally form part of a constitutional code, are not the source but the consequence of the rights of individuals, as defined and enforced by the courts; that, in short, the principles of private law have with us been by the action of the courts and Parliament so extended as to determine the position of the Crown and of its servants; thus the constitution is the result of the ordinary law of the land.

T/D

1. Introduction to the Study of the Law of the Constitution, Albert Venn Dicey, (1923) Reprinted, BiblioBazaar (2010)

Financial ratio analysis in practice

(Relevant to AAT Examination Paper 7 – Financial Accounting)

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

Introduction

Financial ratio analysis interprets the relationships between chosen figures in the financial statements. The ratio explains the relationship between one quantity and another. Such mathematical relationships can be presented in terms of a rate, a percentage or a proportion.

Ratios pinpoint the underlying company conditions that may not be expressed clearly from individual financial statement elements. As a single ratio measured for a company item is meaningless when considered by itself, cross-unit or cross-comparison is used. In the discussion of company results through ratios, intra-company, industrial average and intercompany comparisons are commonly used. Liquidity, solvency and profitability are common measures used in financial ratio analysis.

Liquidity ratios

Liquidity ratios are used to measure the company's ability in short run (usually one year) to meet unexpected cash requirements and to pay off its maturing obligations. Creditors, such as suppliers and bankers, are especially interested in assessing clients' debt-paying ability through liquidity analysis. Common ratios employed to determine the company's liquidity are the current ratio, acid-test ratio, receivables turnover and inventory turnover.

Solvency ratios

Liquidity considers a short period of time while solvency reflects the long-term financial situation of companies.

Solvency ratios are used to measure the ability of a company to continue its operations over a long period of time. Long-term creditors and stockholders are interested in the company's ability to pay interest as it reaches maturity and to repay the face value of debt. The times-interest-earned ratio and debt-to-total-assets ratio are the two ratios that reflect the company's debt-paying ability over a longer time frame.

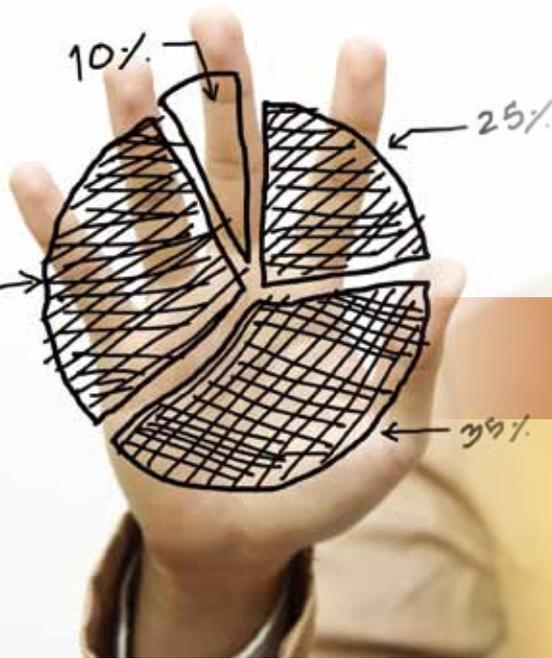
Profitability ratios

Profitability reflects the company's ability to generate earnings. Profit analysis is of vital importance to shareholders as they derive revenue in the form of dividends. An increase in profitability can cause a rise in market price, leading to capital gains. Company management use profit as a performance measure. Profitability ratios measuring assets, sales and investment are employed to analyze the profit or operating success of a company for a given time period. The common ratios used are profit margin, asset turnover, return on assets, return on common stockholders' equity, earnings per share, price earnings and payout.

Profit or loss influences the company's ability to obtain equity and debt financing. It also influences the company's liquidity position and its ability to develop. As a result, both creditors and investors are interested in evaluating profitability, or the company's earning power. Financial analysts usually regard profitability as the ultimate test of a company's operating effectiveness.

T/D

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Understanding one of the internal control components – the control environment

(Relevant to AAT Examination Paper 8 – Principles of Auditing and Management Information Systems)

Zoe N.Y Chan, CPA, Lecturer, School of Higher and Professional Education, Hong Kong Institute of Vocational Education (Chai Wan)
Patrick P.H. Ng, FCPA, FCCA, Lecturer, Department of Business Administration, Hong Kong Institute of Vocational Education (Chai Wan)

Introduction

Internal control is one of the more frequently examined topics in Paper 8: Principles of Auditing and Management Systems (see June 2009, Question C2, June 2010, Question C2 and June 2011 Question C3). However, the examiner's reports often show that candidates are not familiar with key issues in internal control. Internal control covers a wide range of knowledge, including internal control components, control procedures, control systems, risk assessment, etc.

This article aims to assist students to grasp an in-depth understanding of the following:

- What internal control is and what its components are
- The control environment, including the identification of its strengths and weaknesses.

Internal control

Internal control is defined as the process designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.

(Source: *Glossary of Terms Relating to Hong Kong Standards on Quality Control, Auditing Review, Other Assurance and Related Services*)

A few key points can be learned from this official definition about the what, who and why of internal controls and their major components.

What is an internal control? An internal control is a process, which means that there is a series of actions taken, and policies, procedures and methods implemented in a company. It is internal, so it is related to a particular company and the specific policies and procedures in the company. Internal controls are accomplished by management establishing an effective internal control system.

Who designs internal controls? Not only management, but also those charged with governance and other personnel who will carry out the internal control procedures. It is the primary responsibility of management to set up and maintain an effective internal control system to achieve their objectives.

Why is reasonable assurance an essential element in internal controls? Reasonable assurance is less than absolute assurance but more than a low level of assurance. Management has some acceptable uncertainties about the effectiveness of internal controls. This implies that internal controls are not perfect or have some inherent limitations, e.g. human errors, management override, collusion between personnel, cost and benefits and inadequacies in dealing with changes in conditions such as environmental protection regulations. **T/D**

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

Versatile AAT – Lydia Lam



Achieving your goals one step at a time

Lydia Lam, accounts clerk at Wilhelmsen Ships Service Ltd., tells us about how setting her goals and priorities straight, and heading down the path most suited for herself, defines the beginning of her career in accounting.

Setting off on the right study path

Lydia went into accounting with very practical considerations in mind. “Every company has an accounting department and would inevitably need accounting personnel,” says Lydia. After first coming into contact with accounting in her secondary studies and having a good grip on the subject, Lydia decided to pursue professional qualifications in accounting as a starting point for a career in the field.

From the beginning Lydia had an initial goal in mind – to attain a degree in accounting. This is because she has realized that in today’s market, an employer’s expectations of prospective employees’ qualifications have never been higher. After completing her diploma in accounting studies at the Hong Kong School of Commerce, the HKIAAT qualification appeared to be the fast-track and most attractive.

The diploma programme Lydia did allowed her to be exempted from five of the AAT Examination papers. Of the remaining three papers Lydia sat for, she found

Paper 8 “Principles of Auditing and Management Information System” to be the most challenging. “I passed with credit on my third try,” Lydia told us. She found that simple memorizing is not the correct approach. Being a subject involved with more writing, Lydia realized that language and writing skills have a bigger role to play in this paper. For her preparation, Lydia spent a lot of time on summarizing the syllabuses of the topics involved and revising the relevant materials. Moreover, she studied five years’ worth of past papers to get herself familiarized with the exam and its question formats.

Application in practical situations

Lydia is currently an accounts clerk at Wilhelmsen Ships Service Ltd., a global shipping company listed in Norway. She is mainly responsible for the company’s accounts receivable. Working in a multinational company, Lydia’s daily work also involves assisting and verifying the accounts of China business from cities such as Shanghai. These accounts would then in turn be handed over to the company’s headquarters in Norway.

Before her current employment however Lydia has been working at another trading company where she had been primarily responsible for accounts payable. She found the work at her previous employment more stable and easier to master, but also consequently less challenging. Her

aspirations to learn more as well as the prospects of better career opportunities were the main reasons for her move to current employment.

“My current work requires a deeper and more comprehensive understanding of accounting concepts and knowledge than my previous job did. Needless to say it is also more demanding,” Lydia said. According to her, while it is true that there is always a substantial gap between knowledge in a book and practical situations, she found her studies for the AAT Exam, in particular on Paper 8 “Principles of Auditing and Management Information Systems”, to be useful in helping her to understand and anticipate what stakeholders or auditors would query regarding her work.

Apart from applications at work, Lydia also found that her studies can become useful in other practical circumstances. For instance, the knowledge she had acquired through studying Paper 5 “Principal of Taxation” has given her a clearer picture of tax system as a whole. It was also proven helpful in dealing with any questions regarding taxes herself or her family and friends may have.

Sharing valuable experience

Studying part-time is no easy feat, and one common problem among part-time students is time management. Lydia also encountered such difficulties when she was preparing for her exams. “There was a lot of written work and research involved in studying. And naturally, they do take time to finish,” Lydia told us. Luckily, her company was very supportive and accommodating, as long as it does not jeopardize the quality and schedule of her work.

Lydia stresses the importance of finding one’s own goal. In her opinion, while accounting may not be an ideal career choice for some students as the journey of getting a professional qualification requires dedication and self-motivation, she recommends that students should not give up easily. Further down the road, opportunities in the finance or business sectors can become available to accounting students, who would be better equipped and make the most out of those opportunities given their accounting background.

In today’s job market, more students with better qualifications are entering to compete every single day. Lydia thinks that well-established companies now require higher qualifications. A bachelor degree or AAT qualification are the basic prerequisite for launching a career in accounting. Students who are prepared and able to meet or even exceed those expectations would naturally have an upper hand.

Looking ahead to a bright future

Completing the AAT Exam is of course hardly the end of the road for Lydia. In fact, it is only the beginning, she continued, “I would recommend the accounting students to pursue the AAT qualification. By acquiring the qualification, it helps to visualize your future career goal.” To fulfill her goal, she has gone on to pursue a degree in accounting, which she expects to complete in the near future. “I really want to continue to study while I’m still in the mindset for it. Since my studies are of a part-time nature, I think it would be hard for me to pick up studying again once I’ve stopped for a certain period,” said Lydia.

Beyond her degree, Lydia may consider qualifying with the Hong Kong Institute of Certified Public Accountants through its Qualification Programme (QP). Career-wise, she would be open to work that would involve other areas of accounting, in order to give herself more exposure and opportunities for growth and development within the profession.

T/D

Lydia Lam’s study and career path

2006	Form 5 graduated
2007-08	Diploma in Accounting Studies at Hong Kong School of Commerce
2008-09	Completed AAT Examination eight papers (with 5 papers exempted)
2010-current	Studying BA (Hon) in Accounting programme at Edinburgh Napier University
2008-10	Accounts Clerk (accounts payable) at Fourstar Group
2010-current	Accounts Clerk (accounts receivable) at Wilhelmsen Ships Service Ltd.



EMOTIONAL INTELLIGENCE QUOTIENT MANAGEMENT

by Dr. Rob Yeung

In recent years, emotional intelligence – usually known as EI or EQ (for emotional intelligence quotient) – has been linked by various authors and researchers as the single largest predictor of success in the workplace. But what is it exactly? And does it really matter as much as these proponents claim it does?

First of all, a definition. Different authorities define EQ in different ways. For example, Daniel Goleman (who was responsible for popularizing the term in the 1990s) has a different definition from Peter Salovey and John Mayer (the researchers in the 1980s who did perhaps the largest chunk of research on EQ). But when my colleagues and I at the consulting firm Talentspace run leadership training courses, we define it as: “the ability to identify, understand, and manage moods, feelings and thoughts – in both ourselves and other people.”

It’s a huge topic. Dozens of books have been written on EQ. I’ve written an entire book on the topic. But in this short article, I’ll explain a little about how that definition can help us in our professional lives.

Managing our own emotions

Years ago, I worked for a managing director of a multi-million pound consulting firm who seemed to have little control over his emotions: he had little emotional intelligence. He frequently lost his temper, shouting at people and threatening to fire them. He fell into

dark moods and sulked. He was quick to broadcast his unhappiness to those around him, bringing morale down. I left the company more than a decade ago, but I heard a few years ago that his firm had combusted: in a fit of rage, he had fired many of his employees. Many of the remaining, disgruntled employees deserted him, leaving him with a business that was worth almost nothing.

Perhaps the most important component, the foundation and building block of EQ (which my former managing director lacked) is to have self-awareness: an ability to read our own emotional states. Of course we all have moods. We get annoyed or downright angry with colleagues and customers. We feel disheartened or crushed when we don’t receive a promotion or get told that we’ve done a poor piece of work. We suffer regret when we make a mistake and outright guilt when something goes badly wrong.

But people with EQ examine their emotions and realize that they don’t have to be controlled by these feelings. During an argument, for example, someone who realizes that he gets angry easily can choose to walk away or count to 10. None of those tactics are mysterious or difficult, but the point is that having self-awareness of a tendency to anger quickly allows such individuals to control their anger. People who do not examine their inner emotions may not realize that their anger is a problem.

The same goes for other emotions. A different individual who feels tense or anxious about big presentations, meetings or job interviews may use breathing techniques or positive self-talk to control the worrisome thoughts and feelings running around inside her head.

How can we improve our self-awareness? The first step is increased scrutiny. I work with executives who keep a mood journal, a log of what they felt and how they behaved. The simple act of monitoring their inner life is a first step to controlling their emotions.

Reading emotions in others

Another major component of EQ is being able to understand the emotions and thoughts of other people; this then allows us to use that knowledge to manage those people more effectively. The conventional view is that some individuals are more gifted with empathy and the ability to intuit the thoughts and feelings of others. However, research tells us that this is not the case.

Perhaps somewhat counter-intuitively, psychologists currently believe that the ability to take the perspective of others is like a function on a mobile phone, something like having Bluetooth. We all have an equal ability to understand what may be going through other people's heads – it's just that many of us forget to use this ability.

In one study led by researcher Adam Galinsky, for example, MBA students at a world class business school were given a week to prepare for a negotiation skills exercise with an opponent. Immediately before going into the negotiation, the students were randomly split into three groups. One group was asked to spend five minutes considering what the thoughts of the opponent might be. A second group was asked to consider what the feelings of the opponent might be. The third group acted as a control group and was given no further advice.

After the negotiations, the researchers found that 76 percent of the first group who had been asked to consider the thoughts of the opponent succeeded in reaching agreement in the negotiation exercise. This compares with

54 percent of the second group who had pondered the feelings of the opponent managing to reach an agreement in the test. Only 39 percent of those who had been given no additional instructions managed to secure a deal.

As the students had been divided at random into the three groups, the results indicate that none of the groups had had a prior advantage. It was simply a reminder to put themselves into the shoes of their opponent that enabled the feelings group to negotiate more effectively and the thoughts group to negotiate more effectively still.

In other words, it's not that we can't or don't want to empathize, take the perspective of others and understand their needs. The mundane reality is that we often simply forget to do it. In my book *E is for Exceptional: The new science of success*, I call this ability 'Cherishing'. The challenge is less about developing a skill that we lack and more about reminding ourselves to take the time to use an existing skill that we already have.

In conclusion, those who wish to excel in negotiations, customer meetings, salary discussions and other interactions might be wise to prepare. They could spend just five minutes asking themselves the simple question: "What are the thoughts, interests and purposes of the person I'm about to meet?"

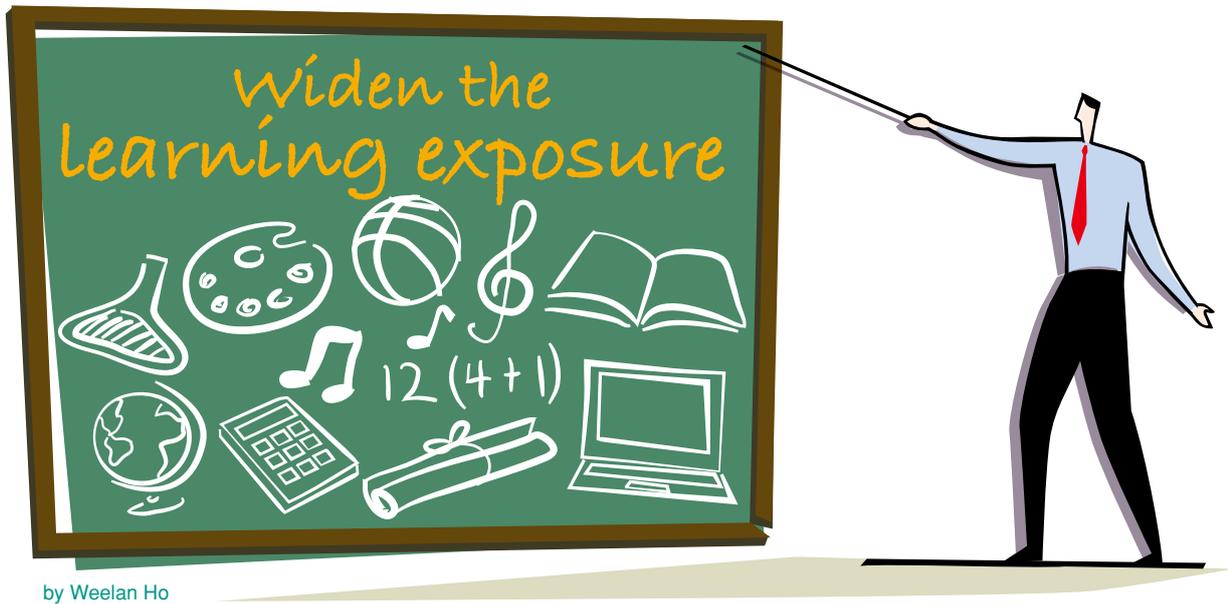
T/D



Dr Rob Yeung is a psychologist and executive coach at leadership consulting firm Talentspace and author of bestselling career and management books including *I Is For Influence: The new science of persuasion* and the new book *E is for Exceptional:*

The new science of success (both published by Macmillan). You can follow his news at www.twitter.com/robyeung

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by Weelan Ho

Reflections on learning

Experience is the best teacher. Making mistakes and creating success stories are all part of life's learning and they offer learning opportunities. They help expand our capabilities so that we are better at what we do and the associated experiences can be character building. Thus, having the ability, willingness and, very importantly, the open-mindedness and objectivity to reflect on the consequences and impact of what we do (i.e. the good and the bad) are prerequisites for learning. Everyone has his / her opinions. Opinions are not facts and should not be set in concrete, enabling one to be influenced by stronger lines of argument and a solid rationale. To remain obstinate is to deny oneself the opportunity to be better.

Some areas to ponder and questions raised include:

- The sources and others' perspectives of why they disagree without triggering off your in-built defensive mechanism, i.e. automatically becoming defensive and thinking about 'how right' you are
- Better and alternative ways of doing and handling issues if you have to do the same thing all over again
- Comparing and contrasting differing means
- Lessons which can be learned to draw generalizations and guiding principles for future reference

Sources and scope of learning

I am often perplexed by some people's narrow-mindedness about learning, which limits their learning sources and scope. Someone once wrote to *Readers*

Digest that "You need to be educated in order to be literate, but you certainly don't need to be literate in order to be educated" to highlight the differences between being educated and being literate.

Even illiterate people can be very educated through life-long learning, and we can learn from them.

Literate people are not necessary educated people. Being literate only means they have completed their schooling and they have learned to read and write. Think about the following. Would you consider someone with tertiary education but who treated the tea-lady badly (e.g. with no respect and no manners) to be educated?

I am certainly not proposing that we can forget about schooling and the need for a formal education. I am merely highlighting the fact that being literate does not equate to being educated. Education includes building one's character and therefore should be broader in scope.

I often wonder why technical and professional journals cater for technical and management and soft skills learning but regard learning from indirect sources to be irrelevant. For example while not relating directly to professional roles i.e. parents' capability to lead and coach. We seem to think that leadership examples must be derived from corporations rather than day-to day learning from all sorts of people including our parents.

Learning from people around us

Our family and friends are often the best source of learning. Communication is a socialization skill and we learn this skill through interacting with family and friends while we were young. The tone, choice of words and body language are picked up during our developmental years and follow through to our adulthood. These can be of benefit to us if what we learned were appropriate skills – or to our detriment if they are inappropriate and cause interpersonal skill problems. Our willingness to reflect and the courage to change provide a basis for improvement. We learn to undo bad habits of the past, build new skills and reinforce the positives.

Learning from situations around us

Some people leave the workforce to take care of their family and re-enter the workplace when the children have grown up. Looking after children, doing the house work, juggling priorities and running errands around for the family can be hard work despite having assistance from

domestic helpers. Experience, trial and error during the at-home period teach people useful soft skills that are equally applicable at work. Some skills learned include multi-tasking, prioritizing and delegating work and problem solving, just to name a few.

These at-home situations offer many invaluable opportunities for learning and can only increase our self-marketing asset value if we are open to learning from them. They also make us feel good in knowing that we are able to handle both situations at home and at the workplace.

T/D

Weelan **HO**, Principal of PGA Consulting Limited, Consulting Advisor to MR-Asian Consulting Limited, and Director of Ascent Global Service Pty Ltd (Australia). For more information, visit www.pgaconsulting.com

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