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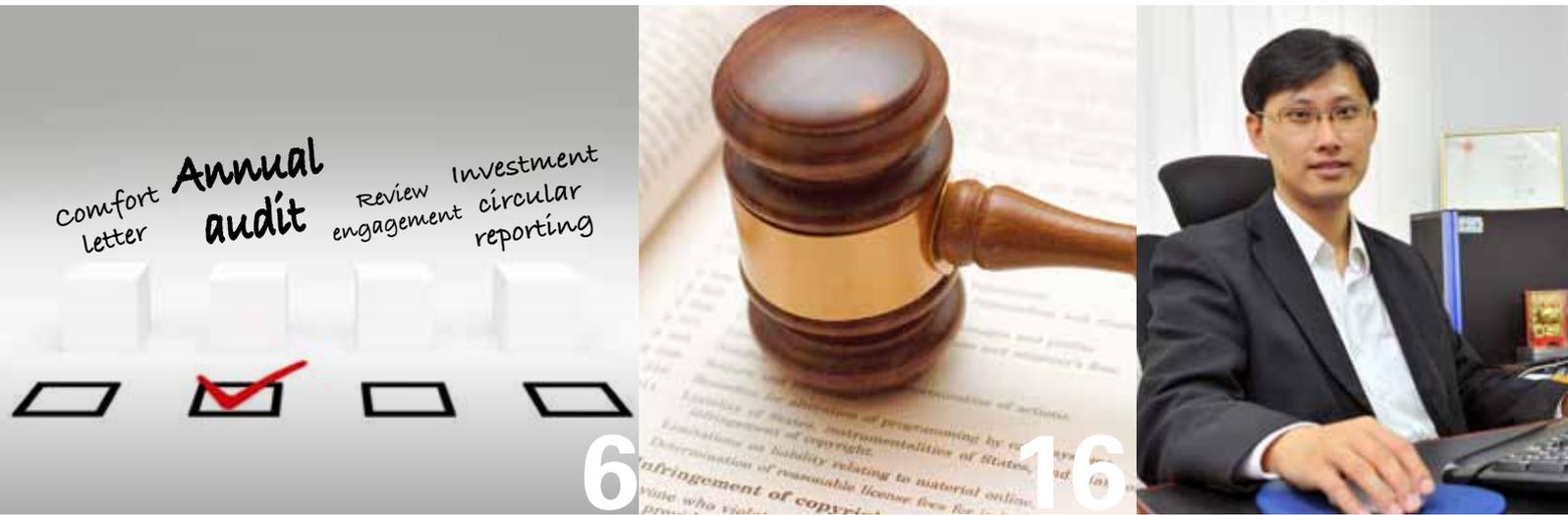


The increasing
scope of
assurance services



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The increasing scope of assurance services



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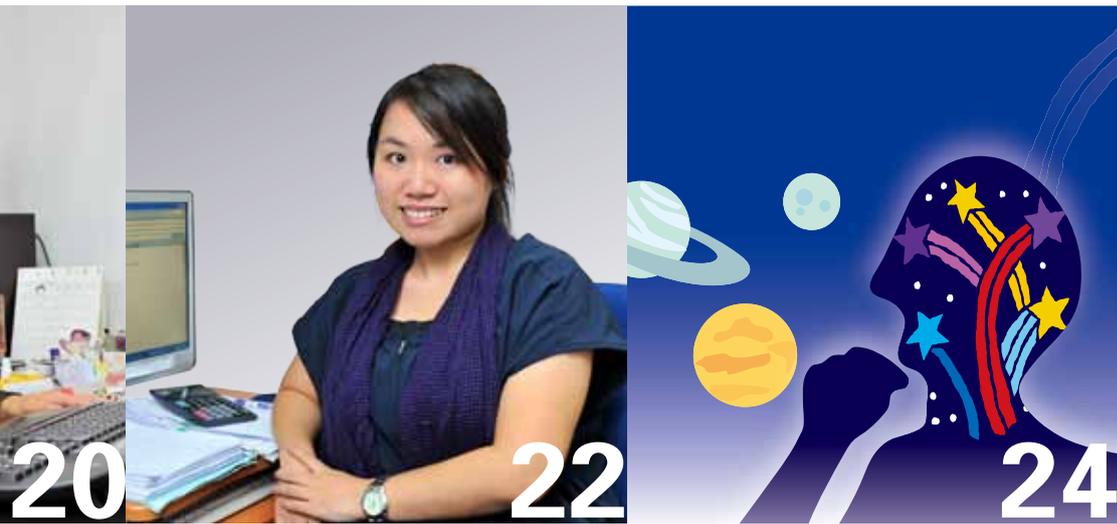
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From the
President's
Desk

Dear members and students,

The AAT qualification is the ticket to a promising accounting career. It equips our graduates with the essential accounting skills and knowledge that enable them to undertake various positions in a wide range of fields. My heartfelt congratulations to the 435 students who have successfully completed the AAT examination in the June 2010 session. This is a great milestone in their life, and I am sure that a prosperous future is awaiting them.

Completing a professional examination is never easy, not to mention achieving it with flying colors. I would like to commend those who performed superbly in the examination. This is a testament to their hard work and an encouragement to others that with diligence and dedication, every effort will pay off. For those who have enrolled in the December examination session, it's never too late to study hard. In this issue, we publish many technical articles to help you in your studies. We have also organized a series of examination technique seminars to teach you the techniques needed for answering questions during the examinations. For the Q&A booklets of the last examination session, they are now available for sale at our counter. What's more, a new set of AAT study texts will be launched in early 2011. Please stay tuned to more updates in our journal and e-newsletter.

Once you have completed your studies and the AAT examination, the next step is to choose which career path to pursue. The varied job opportunities open to graduates can be summarized into three major areas: Certified Public Accountant (CPA) firms, accounting in commercial and industrial companies, and accounting in government and non-governmental organizations (NGO). In the last issue, we talked about opportunities in the NGO sector; this time, we will look into careers in CPA firms. About 17% of AATs are hired by CPA firms, indicating that this is one of the key employment sectors among our graduates. However, most people are only familiar with statutory auditing and taxation services that make up a large proportion of services provided by CPA firms. In this issue, we talk to three CPA firm partners and an AAT graduate about various aspects of assurance services and the opportunities that are available for our graduates. This article will provide useful insights for those of you who would like to land a job in a CPA firm.

Starting in mid November 2010, we will be showcasing an advertisement on Commercial Radio 2 for about 10 weekdays with a view to bring people's attention to the advantages that the AAT qualification can bring. In addition, advertisements and success stories of AATs will also be publicized in newspapers and online media. The advertising campaign should help raising awareness of AAT and bring out the message that the AAT qualification is a ticket to a promising accounting career.

It may be a long journey to obtain the AAT qualification but we promise to provide each student and member our greatest support. With the HKIAAT, you will never be alone on the road of attaining your professional goal.

Johnson Kong
President

Advertisement

HKIAAT Accounting and Business Management Case Competition 2010-2011



Open for entries!



The HKIAAT invites entries for the Accounting and Business Management Case Competition 2010-2011. This popular competition is already in its ninth year, and last year, it attracted more than 1,000 students from various secondary schools and tertiary institutions.

The competition is designed to enhance students' ability in using accounting information for business development and their soft skills, as required by today's business world. Using the information from a listed company's annual report, students will learn how to apply what they have learned in class to real-life situations.

Participants will also be invited to attend free business seminars and workshops to enhance their technical and soft skills.



All senior secondary school students and full-time sub-degree tertiary students are eligible to enter the competition. A briefing session will be held on 18 November 2010. For further details, please visit www.hkiaat.org.

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Comfort
letter

Annual
audit

Review
engagement

Investment
circular
reporting



Get ready for an assurance career

Understanding the world of assurance services

Certified Public Accountant (CPA) firms provide a wide range of services, and assurance services are the most popular. Auditing financial statements is a major part of assurance services, but new services are emerging, driven by increasing demand from corporations, whose managers are facing mounting pressure to manage not just financial risks, but risks on all fronts. In this issue, we talk to CPA firms and an Accredited Accounting Technician (AAT) graduate to explore the various aspects of assurance services.

By Eddy Li

Audit & review – a key part of assurance services

The provision of assurance services encompasses an array of review duties performed by CPA firms. Apart from the more structured, widely-known statutory audit of financial statements, assurance services can be highly customized and tailor-made to the specific needs of different companies. Accounting professionals offering assurance services can test financial and non-financial data, conduct reviews for various internal departments ranging from information technology, human resources and sales to inventory control and even carry out investigative procedures to identify business risks. The aim of assurance services is to offer the company a professional opinion or a finding.

“Management can’t possibly identify all risks associated in a business. Assurance services aim to improve decision-making process and mitigate risks of companies by verifying information and highlighting financial or operational risks,” said Roy Lo, deputy managing partner of SHINEWING (HK) CPA Ltd. “In the past, assurance services were conducted with a focus on the financial figures, but management and investors are increasingly shifting their focus to non-financial risks as well.”

Corporate activities ranging from new listings to the annual audit of financial statements, and from mergers & acquisitions to bank loan applications, all demand various types of assurance engagements. The large number of public companies creates ample business opportunities for CPA firms and accounting personnel with different experience and backgrounds to participate in assurance work at various levels.

The recurring audit and review of financial statements still remain the most sought-after assurance service for the majority of CPA firms.

All corporations registered as a limited company in Hong Kong, including listed companies, must have their full-year financial statements audited in accordance with the law and accounting regulations. If the auditors are confident that the accounts show a true and fair view of the company's financial position, they express a positive opinion on the financial statements.

“When auditing financial statements, auditors should be critical and analytical, and not merely blindly crosscheck numbers. They should understand the nature of the client's business and the industry in which it operates in order to better determine the major audit and operational risks when conducting the financial audit,” says Louis Leung, president of Wing On CPA & Associates. Auditors need to verify whether there has been a misstatement of income, whether sales have been inflated; the rationale behind any sharp increase in earnings, and so forth.

When it comes to interim results, the financial statements of Hong Kong-listed companies are unaudited. However, their books and records still have to be reviewed to some degree by the auditors under the Hong Kong Standards on review engagement. If no abnormalities are found, auditors will issue a negative assurance – meaning nothing has raised any alarm bells to suggest that the financial statements do not comply with the accounting standards.

Hong Kong is one of the world's key capital markets and, due to its proximity to China, has been a popular



Roy Lo from SHINEWING (HK) CPA Ltd says that the scope of assurance services is increasingly extended to cover non-financial risks.

fund-raising venue for international firms. In the first-half of 2010, about HK\$50.4 billion was raised from 30 newly-listed companies on the main board and growth enterprise market. Assurance services are needed before a company is listed on the Hong Kong bourse as auditors need to assure underwriters, regulators and investors that the newcomer is complying with the financial aspects of the Listing Rules. For instance, firms hoping to list on the main board are required to have a trading record of a minimum of three financial years and a positive cashflow from operating activities of at least HK\$100 million in aggregate for the three preceding financial years. An auditor needs to audit the company's financial information and prepare an accountant's report, verifying the accuracy of the data, and confirming that these financial accounts are prepared in accordance with either Hong Kong Financial Reporting Standards or International Financial Reporting Standards.

“An accountants' report included in an initial public offering (IPO) prospectus requires detailed and in-depth disclosure of various accounting and non-accounting matters, such as information on related party transactions and the remuneration package of the board of directors,” says Fung Shiu-hang, a practising director of Mazars CPA

Ltd. “As well as looking at the financial data, auditors also need to ensure consistent presentation of information in Management’s Discussion and Analysis section in the prospectus and annual / interim report in accordance with relevant accounting standards and regulatory guidelines.”

Young accounting personnel – start from the basics

Working on audits for new listings and full-year financial statements, the two services that require high degree of assurance and require an auditor to express a professional opinion, may not be suitable for young accounting personnel with little audit experience. But junior accounting staff are able to participate in other aspects of assurance services by offering a supporting role.

Angela Mui, an AAT graduate, has had a taste of various assurance services after serving in the assurance departments in several local and international CPA firms for more than five years. After completing a Higher Diploma in Accountancy at Hong Kong Institute of Vocational Education, she joined a local accounting firm working for the accounting division, but was soon promoted to audit assistant. She was first assigned supportive duties such as collecting financial data for some special review engagements. But later on, Mui realized that she would need to pursue a professional qualification in order to take the next step up the career ladder, where she could engage in more managerial and analytical procedures. She acquired the AAT qualification and undertook the Professional Bridging Examination (PBE). She also studied for a bachelor’s degree in management at the same time in order to boost her general management skills. “I hope I can enjoy the opportunity to move to more senior positions, which will include taking on more responsibilities and challenges. The AAT route is a fast track to becoming qualified and joining the Hong Kong Institute of CPA’s Qualification Programme,” Mui says.

Mui joined an international CPA firm and worked for its assurance department as an audit senior after completing PBE. By then, she was able to get involved in various assurance services such as substantial acquisitions, IPOs

and recurring audits of listed companies.

“The AAT examination syllabus is closely related to my work. The AAT qualification has built a solid foundation for my career and professional development. Initially, my tasks involved the simple ritual of data entry, and basic auditing such as confirming no receipts went missing. But

after completing the AAT Examination and PBE, I started to take on more analytical tasks, such as gauging whether the reported financial data was reasonable or not. Asking question such as how a company can achieve 20 percent growth in revenue when its competitors only managed a flattish growth,” Mui says.

“Working in the assurance department is more challenging than working in commercial accounting. It involves a great deal of analysis, and we need to decide how each and every figure is intertwined with and relates to the others,” Mui points out, saying that it gives her a thrill to be able to apply her knowledge learned from the examination to the job.

Working in the assurance department, part of her duties is to prepare comfort letters for substantial acquisitions and IPOs by conducting audits on historical records and verifying financial forecasts. Comfort letters are documents issued by CPA firms which are included into circulars of listed companies presented to shareholders.

In the case of a very substantial acquisition, for instance, Mui conducts a full audit of the financial books and records of the acquisition target for the past three years. She verifies whether the estimates and forecasts of future



“Working in the assurance department is challenging as it involves a great deal of analysis,” says Angela Mui, an AAT graduate.

cashflow and profits provided by the management are reasonable or not. Because the assumptions are based on management judgment, the Hong Kong Stock Exchange requires a professional third party to validate whether those estimates are fair.

“In many cases the numbers are sharply overestimated. Whenever a suspicion arises, we seek explanations from the management for overly optimistic estimates and we compare the figures against those of industry peers ourselves. If at the end of the day we can’t justify the higher-than-expected assumptions, we’ll ask management to make changes before issuing the comfort letter,” Mui says.

The robust development of trade and commerce in mainland China has opened many doors for Hong Kong accounting elites. While red chips and H-shares are the most famous examples, many local companies now have operations or factories in China. Like her counterparts in international CPA firms, Mui travels to the mainland frequently.

“Between 2008 and early 2010, I spent nearly three to four months each year in Heilongjiang in northern China, conducting the year-end audit for a Hong Kong-listed petroleum machinery maker,” Mui says. Apart from the need to adapt to cultural differences, Mui needs to bear in mind the variation in accounting rules between Hong Kong and China. For instance, under mainland accounting standards, sales can be booked only when the sales document, such as a value-add tax receipt, is issued. But in Hong Kong, sales should be recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

The accounting profession is closely linked to the world’s fast-changing financial capital market, and accounting standards are constantly being updated. Accounting personnel need to keep abreast of the emergence of newly-created financial products or instruments, such as derivatives. “It’s just not possible to pause and take a breather in this profession. Apart from technical skills, we also need to have effective communication and language

skills since we may need to deal with clients and different teams from different countries,” Mui adds.

Non-statutory assurance and other related services

Assurance engagements other than audits or review of historical financial information

In these kinds of engagements auditors render assurance on financial information other than the year-end financial statements. For example, Hong Kong companies which have their headquarters overseas may ask the auditors to carry out an audit on the adjustments arising from differences between the accounting standards stipulated in Hong Kong and the country of the holding companies, says Fung.

An audit of financial information may also be required when a listed company enters into continuing connected transaction with a connected party, he adds. For instance, a Hong Kong-listed mainland coal supplier has for many years been regularly supplying coal to an affiliate for a maximum annual fee. Under Hong Kong listing regulations, this kind of transaction may constitute a continuing connected transaction. Connected transactions are subject to disclosure and shareholders’ approval requirements. An auditor’s letter will be required to confirm various aspects including whether the continuing connected transactions have received the approval of the entire board of directors and whether the monetary amount involved in the deal is within maximum cap as outlined in the agreements.

Comfort letters

Comfort letters are documents issued by auditors in circumstances including the request of companies seeking a listing, or listed companies about to engage in asset acquisitions or disposals. The objective of a comfort letter is to assure underwriters, lenders, regulators or shareholders of the financial status of a company when it plans to undertake certain corporate actions. CPA firms issue comfort letters as written assurance to offer “comfort” after conducting the procedures agreed upon between the auditors and the client. The letters include the factual findings, together with

Rising trend of non-traditional assurance services – risk management approach

Industry challenges and opportunities have given rise to the development of some less traditional assurance services. Although Hong Kong is home to many public firms, the supply of audits and assurance services is dominated by the bigger players. For instance, the annual audits of the 1,344 listed companies were conducted by just 20 CPA firms as at the end of June, of which the Big Four accounted for some 62 percent, according to Hong Kong Stock Exchange data. In the face of rising competition, relatively smaller players are exploring other business opportunities.

SHINEWING's Lo says that in view of mounting requests from corporates seeking risk advisory services, many CPA firms are offering value-added assurance services aiming to reduce financial and operational risks through exercises such as internal control reviews, forensic services, cash flow projections, profit-planning and budgeting.

High-profile accounting and corporate scandals have given rise to stronger awareness of risk management services among companies. The enactment of the U.S. Sarbane-Oxley Act was a result of these financial fiascos which shook investor confidence in the capital market.

"It's impossible for management to identify all risks associated with the capital market. And many are vigilant towards seeking risk management advice, especially in the area of internal controls," says Lo.

As China plays an increasingly important role in the world's financial stage, the country is playing catch-up in internal control and risk management. Following the footsteps of the United States, China implemented "China SOX" – legislation

sufficient details of errors and exceptions found, if any.

Investment circular reporting engagement

When a public company is going to enter into a significant investment transaction such as a takeover or purchase of a stake in another company, or a substantial acquisition of assets, the company is required to present to its shareholders an investment circular. When the proposed acquisition is a material one (as defined under the Listing Rules), the circular includes an accountants' report verifying the financial

soundness of the acquiree and the financial impact to be brought upon it following the deal. In most cases the auditors also issue their comfort letters to the company giving comfort as to: (1) whether the enlarged company will have sufficient working capital going forward after completion of the purchase; and (2) the completeness of the indebtedness of the enlarged company for readers to appraise the gearing position. Based on the assured facts, investors are then able to gauge whether to vote for or against the deal at the shareholders' meeting.

Agreed-upon procedures

In performing agreed-upon procedures, auditors report their findings from the procedures rather than arriving at a professional opinion. Different divisions or elements could be objectives of an agreed-upon procedure. For instance, a firm can reach an agreement with its client to verify its accounts receivables as loan collateral, or validate its financial statements for a loan application. A firm may also be asked by a client to perform other duties such as to run checks on its



"Young AATs can provide the ground work for due diligence such as relevant data collection," says Fung Shiu-hang, practising director of Mazars CPA Ltd.

cash balances and outstanding bank loans. Upon completion of these procedures, the auditors report their findings but do not form any opinion.

Due diligence, for instance, is a type of agreed-upon procedure. Its aim is to provide insight into the fairness and attractiveness of an acquisition target before a company decides whether or not to buy it. Based on the factual findings provided by a CPA firm, clients can then decide whether to go ahead with the deal based on the information and financial data collected from the due diligence procedure.

A CPA firm needs many supporting staff to help collect data and lay the groundwork during the due diligence process. Although these tasks may seem rather routine at the outset, with built-up experience, young AATs can work their way up within the assurance service department if they continue their education by enrolling in further exams.

“Ground work for due diligence such as collecting data and information are pretty straightforward and routine, and do not require too much auditing knowledge,” says Mazars’ Fung. “These can be assigned to junior staff, who may carry out simple tasks such as checking the authenticity of customers of target companies, or verifying the existence, ownership and working condition and depreciation of major plant and machinery to be acquired.”

Conclusion

While audit and review of financial statements still make up a large proportion of assurance services, this area is growing – and offers great potential. Services such as fraud investigation, risk management, internal controls and forensic services are gathering speed in CPA firms as management, shareholders and regulators demand more stringent corporate responsibilities from companies. Young accounting staff who are interested in exploring the various aspects of assurance services should keep beefing up the accounting, writing and language skills, and keep abreast of the changes in the dynamic world of assurance services. There are plenty of opportunities ahead. **T/D**

similar to the Sarbane-Oxley Act. This aims to impose more stringent corporate governance, internal control and risk management standards on companies such as overseas-listed entities and state-owned enterprises.

Although Hong Kong doesn’t have such a bill regulating internal controls, it is the responsibility of directors of listed companies to conduct an annual review of the effectiveness of their internal control systems. Listed companies are subject to public, investor and regulatory scrutiny at all times and financial blunders can be costly. Directors can face charges if the companies fail to comply with listing regulations, Lo says.

Recent financial debacles have raised corporate awareness of the need of more careful risk management, giving rise to more diverse types of value-added assurance services. Traditionally, the provision of assurance services mainly focused on the accuracy of financial data. But until recent years, as corporates are becoming extra cautious before entering into a financial transaction, CPA firms are expanding their scope beyond the basic financial figures when watching out for red flags. CPA firms may carry out legal searches, and dig deep into non-financial details including the authenticity of the client base and standards of corporate governance when conducting due diligence.

Lo sees ample opportunities in this emerging sector. Of SHINEWING’s more than 3,000 staff in Hong Kong and China, about 150 are working in the risk advisory department, and Lo hopes to be able to boost the headcounts to around 700 in the coming five years.

“Tertiary institutions aren’t doing enough to groom future professionals, given the fact that risk management isn’t a major part of assurance services. They ought to dedicate more resources towards this new area,” Lo says.

Group reorganization Part I

(Relevant to Paper I: PBE Financial Accounting)

K C Cheng

Group 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 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. The second 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”

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



Implementation of strategic management accounting

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

Dr Fong Chun Cheong, Steve, Division of Commerce,
Community College of City University

Introduction

Modern business environments are increasingly competitive and dynamic. International competition through e-Commerce and demand-based supply chain management dominate business. It is important for companies to develop coherent and consistent business strategies and to utilize management accounting tools to support strategic planning, decision-making and control.

Implementation of management accounting tools

To integrate business strategies with various management accounting tools, first companies need to identify which business they are in. It is essential to identify products and services, customer types, geographical markets, and delivery channels.

It is useful to match the strategic business unit (SBU) with the related business unit strategy. An SBU is a company department or sub-section which has a distinct external market for goods or services that differ from another SBU. We ask how a specific strategy should be measured.

Comprehensive implementation and management accounting tools

In response to the modern sophisticated business environment, many new management accounting practices are being developed to emphasize the use of accounting data and related information regarding business strategies and operations. These important developments integrate

business strategies and management accounting tools as strategic management accounting. This is an integrated framework for strategic and financial decision-making and for integrating business performance which needs competitive, operational and financial analysis.

The full article considers the following:

1. Balanced scorecard
2. Profit-linked performance measurement systems
3. Strategic variance analysis

Conclusion

Strategic management accounting practices exist in different forms within companies seeking to use both financial and non-financial information as well as external market-based information. It is also subject to wider contextual influences including industry-specific effects.

Strategic management accounting systems include a wide array of techniques. The balanced scorecard, profit-linked performance measurement systems and strategic variance analysis are common and well-utilized. Their implementation and effects on companies are best considered in visionary and creative terms. Apart from cost and benefit analysis, understanding organizational context from a long-term spectrum is the key to the implementation of an effective strategic management accounting system.

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



Accounting, finance & capital budgeting

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

Sebastian A. Bombaci, CPA

Accounting and finance play key roles in every organization. Without the proper financial controls an organization cannot run effectively and, in the worst case, an organization may fall into bankruptcy. The financial industry can be separated into three broad areas:

1. Accounting
2. Finance
3. Capital budgeting

1. Accounting

The main focus of accounting is to provide financial information about an entity's operations and financial status to shareholders and stakeholders. This information is communicated through the external financial reports (the most common of which is the annual report) that show, in monetary terms, the assets and liabilities under the control of management. Accounting is further sub-divided into a number of branches with the three most notable being financial reporting, management accounting and auditing.

Financial reporting focuses on the preparation of financial statements for shareholders and stakeholders, and these statements are published in the public domain. Management accounting focuses on providing accounting and other information to help internal managers make business decisions and to manage the day-to-day operations of an entity. Unlike financial accounting, there are no legal requirements covering the preparation of management accounting reports and statements. These reports are for internal use within the entity and typically

none of these reports are made available to either shareholders or stakeholders.

Auditing is the third sub-branch of accounting. Audits are carried out to assess the reliability of information provided by an entity's management in the financial statements they have prepared for distribution to their shareholders and stakeholders. In a financial audit, a set of financial statements are said to be true and fair when they are free of material misstatements.

2. Finance

Finance focuses on managing the usage, procurement and disbursement of funds within an entity. This usually encompasses two main areas: the raising of money by issuing debt or equity, or the investment of an entity's monies by the purchasing of debt or equity. Put simply, finance deals with the saving and lending of money on the capital and debt markets.

3. Capital budgeting

Before an entity raises finance on the capital markets, it needs to determine how much capital (money) it needs to meet its tactical and strategic plans. This planning process is called capital budgeting. It enables the entity to estimate the long-term investments it needs to make in new assets such as new plant and equipment to ensure its future business operations and growth.

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

Index numbers

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

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

In business world, we need to reduce a large number of facts or information to data so that we can identify changes over time. An index number provides a standardized way for comparing the levels of prices, wages, volume of output and other variables at given dates to their levels at a previous date. An index number can also be used to compare one thing to another. In conclusion, index numbers make it easier to interpret data. This article shows you how to present and interpret data in index number format.

Prices indices and quantity indices

An index can be a price index or a quantity index. A price index measures the change in the price of a group of items over time. A quantity index measures the change in the quantity of a group of items over time. For example, the index of food prices is 168 for 2010 compared with 150 in 2009. The index has increased by 18 points between 2009 and 2010 and this is a rise of $(18/150) \times 100\% = 12$ percent. These figures are often defined as price relatives since they indicate how the price changes over time. The index number is expressed as a percentage but the percent sign is usually omitted. The base period should be stated. In the above example regarding the food prices, we used 2009 as the base period.

Weighted index

In the business, we may be required to deal with a basket of commodities. Weighted means of relative indices are always used. To obtain a weighted mean of relative indices, we need to calculate index relatives for each component and then to obtain a weighted average of the relatives by using the corresponding weights.

Choice of weight

There are two methods in computing a weighted index:

the Laspeyres method and the Passche method.

Laspeyres index

Laspeyres indices use base period values as weights. The original prices and quantities of the items are used in calculating the index in terms of either price or quantity consumed.

Passche index

Passche indices use current year values as weights. The current prices and quantities of the items are used in calculating the index in terms of either price or quantity consumed.

It should be noted that Laspeyres indices are more commonly used in today's business world. The weights should be revised every few years.

Time series deflation

Another type of price index used for measuring the real value of commodity is the consumer price index, or CPI. The consumer price index is widely used both in the private and public sectors. In the public sector, governments use the consumer price index to reflect changes in the cost of living for residents. In the private sector, employers often use the CPI in calculating the salary rises for their employees. The CPI is considered the most relevant inflation measure from the point of view of consumers. For example, say the cost of a commodity was \$100 in 2009 and \$120 in 2010, this represents an increase of 20 percent. If the retail price index was 205 percent between 2009 and 2010, we can argue that the real cost of the commodity has increased.

T/D

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CASE STUDY on tort of defamation

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

Alfred Chan, Solicitor

There has been an increase in the number of defamation cases which have gone to court. Through two recent court cases, we can see examples of legal issues in defamation and how one can approach them. Hopefully this will improve your technique in answering problem-solving type questions.

First to refresh your memory, in defamation:

1. The plaintiff has to prove
 - a. the statement is defamatory and it refers to him
 - b. there is publication of the statement whether there should be special damages for slander.

2. The defendant can defend by showing the statement is
 - a. justified (defence of justification)
 - b. a fair comment
 - c. made on a privileged occasion which can be
 - i) absolute privilege
 - ii) qualified privilege
 - d. retracted and section 4 of the Defamation Ordinance is complied with, in the case of a newspaper defendant

But the plaintiff can defeat defences 2b and 2c(ii) by proving malice on the part of the defendant in making the statement.

3. The plaintiff can claim damages if he succeeds; there is more than one kind of damages.

In the article, the first case considers a statement made by a representative of an accounting firm to a prospective SME client about the work performed by the SME's current accountant.

The second case considers a front page article run by a newspaper in which it accused a solicitor of absconding with client funds – accusations which were later found to be false.

In both cases we consider whether the statements may or may not be defamatory. We look at whether the plaintiffs need to prove damage to their reputation, and at whether there are any possible defences that the defendants could use. We also look at the kinds of damages that may be due in successful cases for the plaintiffs.

T/D

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

The cost model and the revaluation model under HKAS 16 Property, Plant and Equipment

(Relevant to AAT Examination Paper 7: Financial Accounting and Paper I: PBE Financial Accounting)

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This article discusses the two models of subsequent measurement after initial recognition of property, plant and equipment as stipulated in HKAS 16.

Introduction

Under the requirements of HKAS 16, an item of property, plant and equipment shall be recognized as an asset when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The amount recognized at this “initial measurement” stage shall be the cost of the asset. Besides the purchase price, the cost of the asset also includes import duties, non-refundable purchase taxes, installation costs, etc.

Once an entity has recognized an item of property, plant and equipment as an asset in its books, the entity can choose between two models to account for the asset in subsequent measurement periods, i.e., the period(s) after the asset has been acquired and before its disposition. The two models are the cost model and the revaluation model.

Cost model

When an entity adopts the cost model, the property, plant and equipment shall be carried at its cost less subsequent accumulated depreciation and impairment losses:

Carrying amount = cost – accumulated depreciation – accumulated impairment losses

Revaluation model

When an entity adopts the revaluation model, the property, plant and equipment shall be carried at a revalued amount less subsequent accumulated depreciation and accumulated impairment losses:

Carrying amount = revalued amount – accumulated depreciation – accumulated impairment losses

The revalued amount refers to the fair value of an item of property, plant and equipment at the date of revaluation. In order for the revaluation model to be used, it should be possible to measure the fair value of an item of property, plant and equipment reliably. Reliable measurement may be obtained through external evidence such as market-based evidence or internal estimates using an income or a depreciated replacement cost approach.

The entity shall make the revaluations with sufficient regularity to avoid a material difference between the carrying amount and that which would be determined using fair value at the end of the reporting period. The revaluation model stipulated in HKAS 16 is different from the fair value model stipulated in HKAS 40 “Investment Property”.

Conclusion

An entity can choose either the cost model or the revaluation model to account for property, plant and equipment after it has been initially recorded in the books as an asset. The cost model is simple. The revaluation model is more complicated. Candidates are advised to spend considerable time studying the revaluation model.

T/D

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

HKAS 24 Related Party Disclosures

(Relevant to AAT Examination Paper 7: Financial Accounting and Paper I: PBE Financial Accounting)

Stella So, Hong Kong Baptist University

Related party relationships and transactions are a normal feature of commerce and business. The objective of HKAS 24 “Related Party Disclosures” is to ensure that an entity’s financial statements contain the disclosures necessary to draw users’ attention to the possibility that its financial positions and operating results may have been affected (1) by the existence of related parties and (2) by transactions and outstanding balances with such parties. HKAS 24 was revised in November 2009. The revised standard amends the definition of a related party and reduces the disclosure requirements for the government-related entities.

This article provides a summary of the possible related party relationships and their disclosure requirements as prescribed in HKAS 24 (2009). Diagrams are used to illustrate both the relationships and the key approaches applied in identifying them. The reduced disclosure requirements for the government-related entities are discussed, as is the rationale behind the reduction.

By reading this article, students should have a good understanding how related party relationships are identified and how related party relationships and transactions are disclosed in the financial reports. **T/D**

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



All you need to know about audit sampling

(Relevant to Paper 8 – Principles of Auditing and Management Information Systems and Paper III PBE Auditing and Information Systems)

David Chow FCCA, FCPA, CPA (Practising)

Statistical sampling is an approach to sampling with the following characteristics:

- i) Random selection of the sample items; and
- ii) The use of probability theory to evaluate sample results, including measurement of sampling risk.

It is important that the auditor selects a representative sample, i.e. without bias, and so that the items in the sample have characteristics typical of the population.

When analysing misstatements or deviations, their nature, cause and possible impact on other audit areas and financial statements as a whole should be considered. The auditor is required to project misstatements for the population to obtain a broad view of the scale of misstatement.

For tests of controls, no explicit projection of deviations is necessary since the sample deviation rate is also the projected deviation rate for the population as a whole. In the case of tests of details, the projected misstatement plus anomalous misstatement is the auditor's best estimate of misstatement in the population.

If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the tested population, the auditor may ask management to investigate the identified misstatements, the potential for further misstatements, and to make any necessary adjustments; or perform further audit procedures. **T/D**

The purpose of audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected. This article defines audit sampling, discusses when audit samples should be applied, looks at audit risks associated with sampling and the implications of sample size, and compares the statistical sampling approach with the non-statistical sampling approach. To conclude, the article considers how results from sample tests can be evaluated.

For tests of controls, auditors are primarily concerned with the erroneous conclusions in which controls are more effective than they actually are. For tests of details, auditors are concerned with the erroneous conclusions in which a material misstatement does not exist when in fact it does. This is more likely to lead to an inappropriate audit opinion, i.e. risk of incorrect acceptance.

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



Employer in the spotlight

Webster Ng

Turn detour into success

The journey to success in the accountancy profession may be long and rough. But with vision and dedication, it becomes easier. Webster Ng, the sole proprietor of Webster Ng & Co., gives us his insight on how to effectively manage one's career and the key to success. He also tells us his views on his valued employee, Sisi Tsui, who has chosen the AAT qualification to launch her career.

Like many AATs, Webster did not study for a university degree before he joined the workforce. He recalls, "After Form 7 graduation, I was admitted to a degree programme. However, I only tasted university life for half a day. Due to some family issues, I had to quit my studies and enter the job market." He first worked as a bank teller in 1992, stepping into accounting when he moved to a local firm as an audit junior in 1994. Since then, Webster has focused on an accountancy career, and set a goal to become a qualified accountant in five years.

In order to grasp as much knowledge and experience as possible, he studied a part-time diploma course in accounting at HKU Space and then sat the joint examination scheme offered by the Hong Kong Institute of CPAs (formerly known as the Hong Kong Society of Accountants).

"I completed all papers in five years and set up my own firm after obtaining practicing

By Tong Lam

status in 2003,” he says. Today, Webster Ng & Co. employs nine staff and offers various services including audit, accounting, tax, company secretarial and business consultant services.

A winding road means a solid ground

Webster recruits staff from different backgrounds, from diploma holders to university graduates. “I prefer recruiting sub-degree holders because they are more proactive and eager to learn. They know that they can only compete with their counterparts who have a degree by devoting extra effort and attaining professional qualifications like AAT. In fact traveling up a winding road can equip them with a solid foundation in their careers.”

Webster feels that smaller firms offer more opportunities for staff to gain experience in various areas. “The good part of working in large firms is the opportunity of serving big clients and working on big projects. But these firms’ hierarchical structure means that staff are only responsible for a specialised area. In a small firm like ours, all employees need to handle all types of clients’ enquiries and this requires staff to have a broader knowledge base,” he explains.

“Sisi first joined the company as an audit assistant about five years ago. At the beginning, her accounting knowledge was not that strong. After she had attained the AAT qualification, I could see a big improvement in her abilities,” says Webster. Sisi was later promoted to audit semi-senior and more complicated tasks were assigned to her. “Sisi is a fast-learner. She has now equipped herself with comprehensive accounting skills and knowledge. I seldom find mistakes in her work. This further gives me confidence in AAT qualified holders,” he says.

To obtain esteem by communication

Working in CPA firms not only requires strong technical

know-how but also good communication skills. “Sisi can always answer clients’ enquiries and solve their problems with confidence. In addition, a senior should also induce good respect from her sub-ordinates and clients. Sisi performs well in this regard. She can always solve problems of clients and co-workers with confidence. Because of this, people have great esteem for her professionalism,” says Webster.

Five years have passed since Sisi joined the firm, and in this time Sisi and Webster have built solid trust in each other. Webster is even thinking of inviting Sisi to become a partner if she obtains the CPA qualification. “I promoted Sisi again in her fifth year to be an audit senior because she is really outstanding and has great potential. And, most importantly, I trust her. Not only is she independent, she also has efficiency and integrity. A client once asked her in private whether she could work as a freelancer for him. She declined and reported the conversation to me immediately. These qualities are what I look for in an employee, as well as in a partner,” he continues.

On your marks, get set, and go!

Webster encourages prospective accounting personnel to set a five-year-plan. “Once you set your goal, you will be better prepared and equip yourself to achieve it.” Apart from setting goals, continued learning is also important. “My staff and I learn together. I share updated knowledge with my staff through organizing training seminars. We even have discussion groups to study cases and share views. Accounting standards keep changing, and we always need to keep our knowledge up-to-date.”

“The crucial factors in determining your success in the accountancy profession are not academic qualifications but the qualities that you possess: professional qualification, experience, integrity and excellent attitude,” Webster says.

T/D



Versatile AAT – Sisi Tsui

Learn to trust yourself

By Tong Lam

Accounting has long been admired as a great and professional career to be in. Sisi Tsui, an AAT graduate, talks to us about how the AAT qualification has boosted her confidence and has helped her work her way up the ladder at Webster Ng & Co. from being an audit assistant to becoming an audit senior.

Sisi did not study accounting at secondary school. She was inspired by her aunt to look into accounting as a career. “My aunt was a professional accountant. She used to wear a business suit to work everyday, which made her look smart and professional. At school, I was interested in mathematics rather than rote learning subjects. Accounting deals with numbers so I chose accounting when I joined the Hong Kong Christian Service (HKCS) Kwun Tong Vocational Training Centre (VTC).”

At first, she opted for a one-year certificate programme in accounting rather than taking the two-year professional diploma programme since she was not sure whether she was ready for the two-year course. Sisi did quite well in the certificate programme and it bridged her to the final year of the professional diploma.

Upon graduation, Sisi joined Webster Ng & Co, a local CPA firm with 10 staff, and started to work towards the AAT qualification. “My teacher, who felt that I could progress in this profession, suggested I study for the AAT qualification,” Sisi explains. With the professional diploma behind her, Sisi was exempt from three of the AAT Examination papers, and she spent two years completing the other five papers.

From audit assistant to audit senior

Sisi was an audit assistant when she first joined the company five years ago. As a new trainee, Sisi was exposed to a wide range of work duties, including accounting, auditing, tax, administrative and secretarial works. These require more than accounting knowledge. “The AAT Examination studies did not only equip me with hard-core knowledge; it also trained me in analytical skills. For example, my studies for the taxation paper equipped me with a thorough understanding of the Hong Kong taxation system. I can now offer advice confidently to clients on various tax issues,” Sisi explains.

“Just memorizing the theory is not enough when taking professional examinations. They require a mixture of study, on-the-job training and practical experience. Knowing how to apply theories into practice enables you to excel in your daily job. On the other hand, practical experience can also enhance your theoretical understanding. I failed the AAT Examination Paper 8 ‘Auditing’ at the first attempt. After gaining some audit experience, I had a much better understanding of theoretical auditing procedures and this helped me to pass the exam,” Sisi says.

Sisi’s contribution and potential were recognized and duly rewarded. She was promoted to an audit semi-senior in less than two years. “The AAT qualification not only

enriched my accounting knowledge, it also brings me recognition. Right after I have attained the qualification, my boss Mr. Ng offered me a pay raise”.

Whole-hearted support from boss

“I have advanced well in my career. It is quite common for people to leave after working in a firm for two to three years. I have been here for five years and I have decided to stay as I know that it will be difficult to find a good boss like Mr. Ng, who is inspiring and who has empathy. He always encourages us to climb up the career ladder. He even said that he may invite us to be partners of his firm one day when we are qualified. This gives me a sense of stability,” says Sisi.

Mr. Ng supports his staff in their pursuit of professional qualifications. Whenever Sisi needed to prepare for an examination, he allowed her to study during work time, and offered help when she encountered any difficulties.

“In the accountancy profession, having a recognized qualification means a lot. With Mr. Ng’s encouragement, I am currently taking the Professional Bridging Examinations (PBE). My next goal is to sit the Hong Kong Institute of CPA’s Qualification Programme. I hope to be a qualified accountant one day and become a partner of a CPA firm. This is my target in the long run and I will strive for that.”

T/D

Sisi Tsui’s study and career path

Year	
2005	Obtained a Diploma in Professional Accounting from HKCS Kwun Tong VTC
2005-2006	Undertook and passed AAT Examination (with exemption from three papers)
2007-2010	Undertook and passed three papers in the Professional Bridging Examinations (PBE)
2005-current	Audit assistant / audit semi-senior / audit senior in Webster Ng & Co. CPA





Want to be a super-learner?

by William Tong

Do you realize how much time you have spent on learning during your life? Most of us spend between 20 and 25 percent of our lifetime learning things that other people ask us to, no matter whether we like to or not. When a person is forced to do things that they take no interest in, it is very unlikely that they will become a super-learner.

Take an interest

We all do better in topics or activities that we enjoy more than others. The key to learning well is to take interest in things that you want to learn. Assess the benefit you will gain through learning. Keep an open mind to consider as many personal benefit possibilities as possible. For example, what are the benefits that can come from learning about company law? A very straightforward benefit is that when you are equipped with the knowledge, you can advise your clients, and become more aware of the rights and responsibilities within corporations. This would make you more respected by others, and add value to your career, wouldn't it? Interest is the root to learning.

Unwavering intention

Many young people do what their peers do without really knowing what they want. Imagine if you set out on a hike, and on the journey you do not know why you are hiking, where to go, how long you need to hike, and so on. It is quite obvious that you will get lost. When you need rescuing, you can't even tell people how they could reach you. Studying for examinations is just the same. You need to set a clear intention to make the best use of your current resources; these include time, potential, and ability to apply your knowledge to your work. Know why you study and what can you get out of it. Get yourself motivated with a clear and unwavering intention.

Set your goals reasonably

A goal that leads to success is one that is specific, measurable, achievable, rewarding and time-sensitive. Many people are over-confident in themselves, believing that they are invincible, that they do not require sleep and have endless energy despite the fact that they feel tired all the time, lose concentration while studying, and get sick easily. Unbelievable? Unfortunately, this happens every day and to every one. People do over exert themselves, work long hours, do part-time jobs, take extra classes, hang out with friends often and still believe that they have enough time and energy to work with their examinations. Be realistic!

Managing your energy levels

Energy is not unlimited. Actually energy levels vary among individuals. "Owls" and "morning larks" have different "highs" in their daily energy cycle. Energy levels also vary during the day. It is important to harness your energy level, spread your studies to allow for rest in between so that you can conserve the optimum energy to be devoted to your studies. It is useless spending hours and hours reading the same page of notes at the weekend while you struggle with drooping eyes as you are short of energy and bored. Snap out of it, and give yourself a break before continuing. Short rests will help to maintain not only energy, but also your interest.

Managing your time

Give yourself enough time to study. Starting early is a good decision. Do not force yourself to sit for an examination when you do not have time to prepare for it. Estimate your available productive hours. Check this against your progress to make sure that you are on track. Study in short and manageable sessions, and not extensively for a number of hours. Do not drain your energy through poor time management. Be alert to the time-killers such as watching TV and surfing the Internet.

Boost your memory

A common frustration of learners is that their memory fails them. Your memory can be strengthened if you have a thorough understanding of the subject matter, if you have used active questioning to form associations with other topics being studied, and through repetition. People memorize things hard on Day One, but then quickly forget them on Day Two. The key to memory is repetition. Revise what you have learned frequently to make sure that you do not lose the knowledge gained. The more repetition you do, the less amount of time is needed to remember the subject during your next revision. Quality sleep boosts memory too. If you lose sleep, your memory will suffer in the long run. Treat your brain well. It is where the memory is. Think “brain-power”.

Permanent memory vs temporary memory

People sometimes do not care whether they can retain the things they learn in their memory. In fact, many of us forget most of what we had studied soon after an examination. However, I feel a need to offer a word of caution here. While striving to get ahead quickly,

committing learning only to short-term memory will actually lead to a weak foundation of knowledge. One may get by in foundation level examinations but when it comes to more advanced level, learning will be a lot harder. Therefore it is important to learn to strike a good balance. If you want to apply your knowledge to help you earn a better living, you should aim to commit knowledge to your permanent memory. Again, the key is repeated learning and practices. Rote memory is sometimes useful, but for most of the time a permanent memory can be achieved through thorough understanding and repeated practice.

Get on fast track with good habits

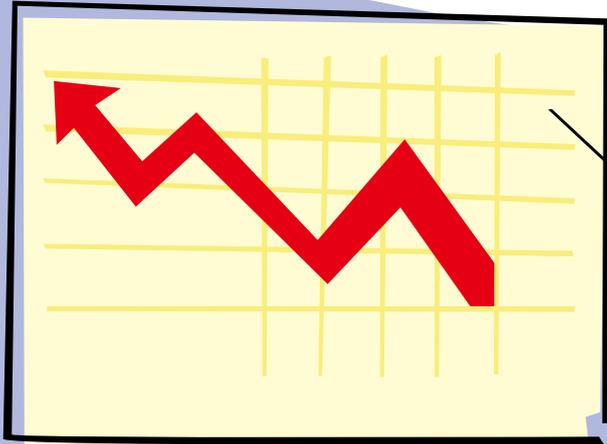
Most of us envy someone who is on the fast track. However, envying does not help unless you are motivated to catch them up. Study is a habit. Pick up this habit and drop unproductive ones. Habit is formed with repetition and determination. See the value in making yourself a super-learner and you will act like a super-learner. Ask mind-opening questions. Clear your doubts with questions. Make the best use of the how, what, when, where, why, etc. The more you handle knowledge with questioning, the more you get to understand and enjoy your knowledge. Be a super-learner!

T/D

William Tong is a professional accountant. He specializes in executive coaching and training in management soft skills. His expertise includes strategic planning, setting goals, and making things happen. He delivers cultural changes and helps people to excel in life. He can be reached at wtong@transformation.com.hk

The best presentation is conversational in tone

By Weelan Ho



What is a presentation?

A presentation is not an essay; it is a communication between the presenter and audience with the intent of either conveying information or persuading the audience to take the desired course of action.

Four essential factors for effective presentation:

- Identify the central issue
- Understand and relate to your audience
- Structure your presentation
- Deliver the presentation, i.e. delivery performance

Identify the central Issue

There must be a purpose to a presentation and it must press the audience's "hot buttons". In other words, you need to understand why have you been asked to do a presentation, what the key issues involved are, and which critical issue resonates among your audience. These considerations are crucial when shaping the content of your presentation.

Understand and relate to your audience

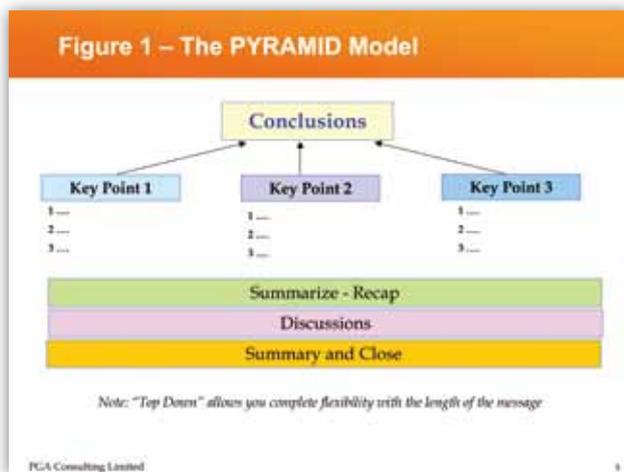
An effective presentation reaches out to the heart, mind and soul of the audience. Understanding the audience's preferences, level of understanding, knowledge and style will help you pitch your presentation at the appropriate level with style fitting the particular audience group. For example, a person who prefers a "helicopter" view of things tends not to like details; so (s)he is not likely to be interested in presentation slides with lots of numbers and details.

Structure your presentation

Begin with a conclusion. You read a book from the beginning and progress to the end; but when giving a presentation, you should begin with a conclusion and then elaborate with the details. The conclusion is the core message you want to leave with your audience, and this message must be able to address the central issue of the presentation effectively.

Most people have a limited capacity to remember, so try not to overload the audience with too much information. Three to four key points to support the conclusion should be sufficient. To help the audience recall, recap and retain the points highlighted in the presentation, a summary or a call to action (if the purpose is to persuade the audience) may serve as a good ending. The presentation can subsequently be opened for discussion, and an appropriate renewed summary and call for action can be reiterated.

Remember: *Less is more – only keep what is essential and important. Anything that is peripheral and superfluous should be deleted.*



This presentation approach is modelled on the pyramid and is therefore known as the Pyramid Model (figure 1). The advantage of starting a presentation with the conclusion is that it allows flexibility so that we can vary or modify the presentation material should the time available be cut short. The central question is answered despite the time constraint and the presentation remains coherent and meaningful to the audience.

Deliver the presentation (delivery performance)

People make the difference. People bring the presentation alive. A few guiding principles can make an effective presentation interesting:

1. The best presentation is conversational in tone.
2. Silence, or a pause, provides emphasis.
3. Clear and succinct sentences are easier to comprehend and remember.
4. Begin with a conclusion – the core message. If you cannot bring out the core message with one or two sentences, rethink your core message – it may be too complicated.
5. Appeal to the audience’s emotion and sum up with a powerful ending.
6. Create your space and develop your own style, be yourself.
7. Speak clearly with the appropriate volume compatible to the size of the room; do not murmur.
8. Have eye contact with your audience.
9. Use body language or gestures to emphasize the message. If used appropriately, they can bring the presentation to life.
10. You are your best visual aids.
11. Less is more – don’t over complicate the presentation.
12. Don’t bring up any points you had forgotten to mention after the summary. If you have forgotten them, they cannot be that important.

Overcome nervousness

Your audience is not your adversary. To overcome nervousness, you need to understand the underlying reasons for your concerns about the presentation. Then take a proactive approach and prepare well. Anticipate the kinds of questions your audience may ask and be prepared for them. Last but not least: rehearse, rehearse and rehearse!

T/D

Weelan Ho is the principal of PGA Consulting Limited; Consulting Advisor to MR-Asian Consulting Limited; and Director of Ascent Global Service Pty Ltd (Australia)