

Disclaimer

- ◆ **The materials of this seminar are intended to provide general information and guidance on the subject concerned. Examples and other materials in this seminar are only for illustrative purposes and should not be relied upon for technical answers. The Hong Kong Institute of Certified Public Accountants (The Institute), the speaker(s) and the firm(s) that the speaker(s) is representing take no responsibility for any errors or omissions in, or for the loss incurred by individuals or companies due to the use of, the materials of this seminar conference.**
- ◆ **No claims, action or legal proceedings in connection with this seminar brought by any individuals or companies having reference to the materials on this seminar will be entertained by the Institute, the speaker(s) and the firm(s) that the speaker(s) is representing.**
- ◆ **The Institute retains copyright in all materials published in the seminar. No part of this seminar may be reproduced without the permission of the Institute.**



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

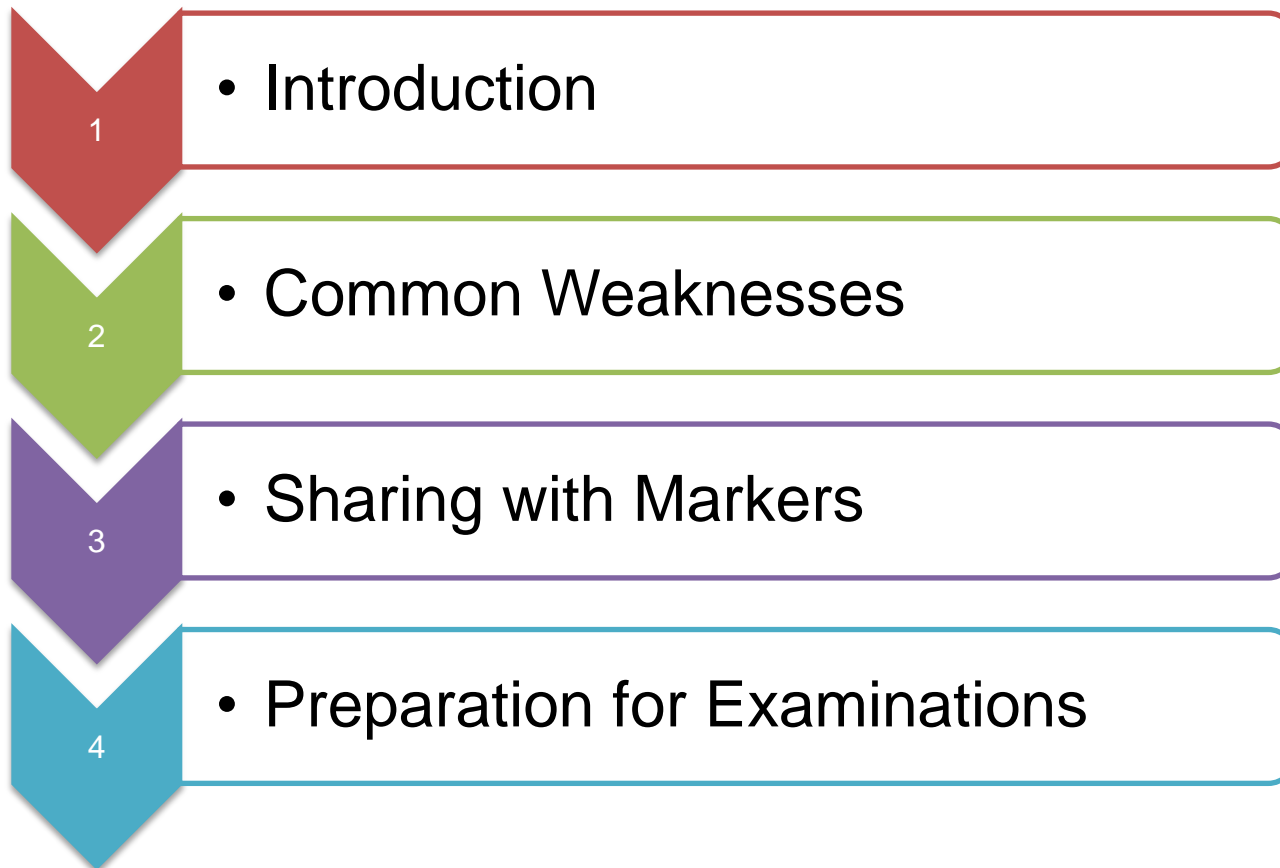
Examination Techniques Seminar on QP Module Examinations

Module C (June 2017 Session)





Agenda





Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Part 1: Introduction





Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Today's objective:
***Finding ways to pass the
Module Examination!***



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

HKICPA QP Module Examinations

Examination Format:

- Section A – Case Questions (50%)
- Section B – Essay / Short Questions (50%)
- 3 hours duration for each Paper
- All compulsory questions



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Part 2: Common Weaknesses





Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Major causes to examination failure



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Aspect 1: **Questions**

- Difficulty in identifying the specific question requirements
- Misinterpretation of the question requirements



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Aspect 2:

Answers

- Approach or structure of answers are disorganized
- Answers are either too long or too short
- Answers are wrong, irrelevant, or lack of practical consideration
- Answers are not linked to the case facts
- Answers are straight copy from LP or reference materials
- Did not attempt all questions



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Aspect 3: Candidates

- Inadequate or ineffective preparation
- Other commitments affecting examination preparation
- Not in a good form to perform on examination day
- Felt panicking or got nervous in the examination centre
- Poor time management

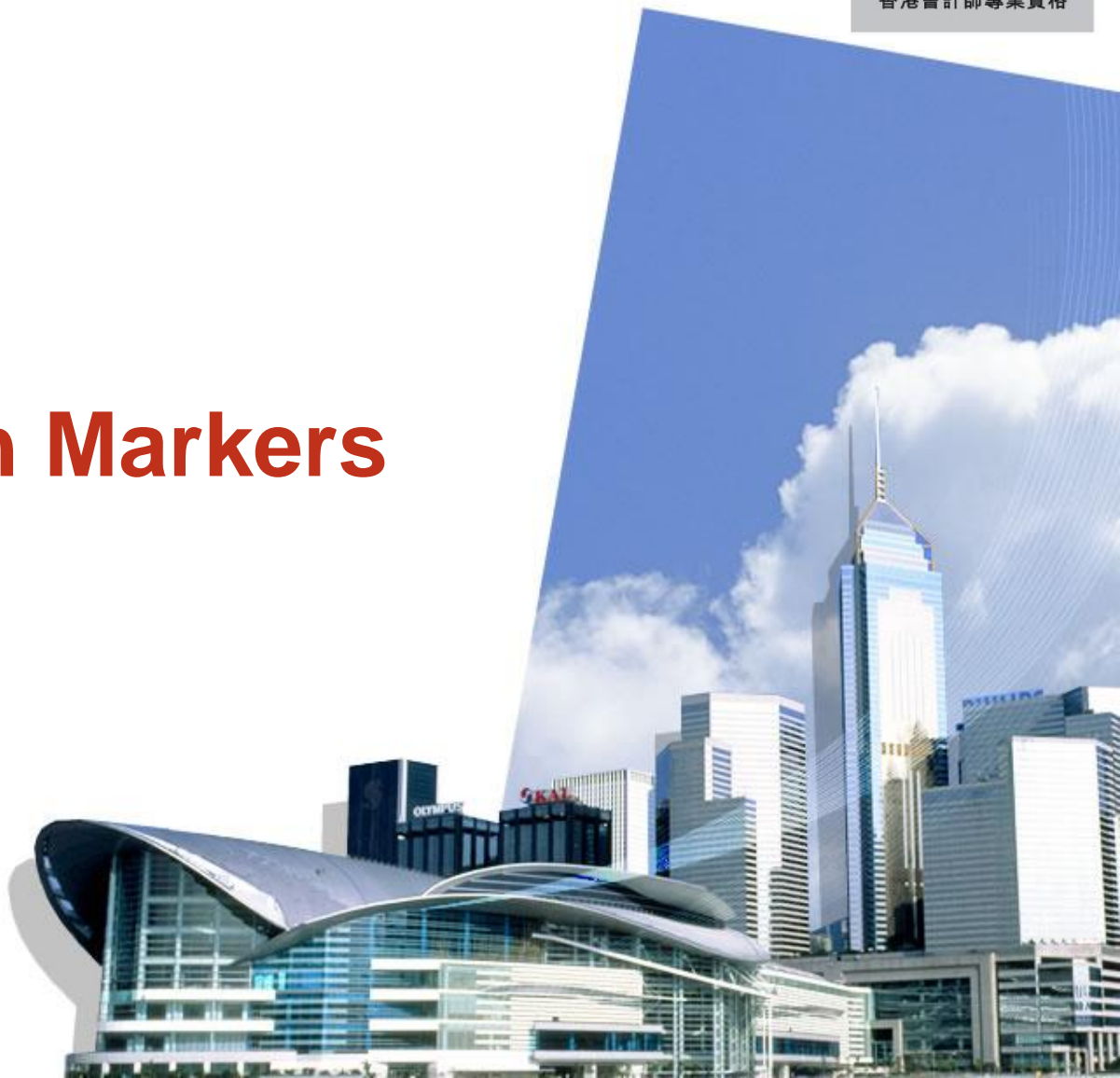


Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Part 3: Sharing with Markers





Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

**What are your objectives to
attend this forum?**



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Common weaknesses



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Common weaknesses observed during marking

- Difficulty in identifying the specific question requirements/ misinterpretation of the question requirements
- Answers are irrelevant to the questions, or are not specific to the case facts
- Poor presentation and structure of answers
- Poor time management, not all questions are attempted



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Examples



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 1



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect A – Q4a

You realise that BLINK introduce a “90-days No Questions Asked Free Return Available” policy to enhance customers’ protection. As BLINK is required to issue its consolidated financial statements within 60 days after the year end date, it is not possible for the management to obtain the actual sales return amount before then. Accordingly management will estimate a provision amount for sales return based on a percentage representing the previous five years actual return rate applied to the revenue amount of the BLINK group for the year when preparing BLINK’s consolidated financial statements.

Required:

- (a) **Explain why the risk of material misstatement increases when accounting estimates are involved.**

(5 marks)



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 1



Hong Kong's
CPA Qualification
香港會計師專業資格

What is the question asking for?

You realise that BLINK introduce a “90-days No Questions Asked Free Return Available” policy to enhance customers’ protection. As BLINK is required to issue its consolidated financial statements within 60 days after the year end date, it is not possible for the management to obtain the actual sales return amount before then. Accordingly management will estimate a provision amount for sales return based on a percentage representing the previous five years actual return rate applied to the revenue amount of the BLINK group for the year when preparing BLINK’s consolidated financial statements.

Required:

- (a) **Explain why the risk of material misstatement increases when accounting estimates are involved.**

(5 marks)



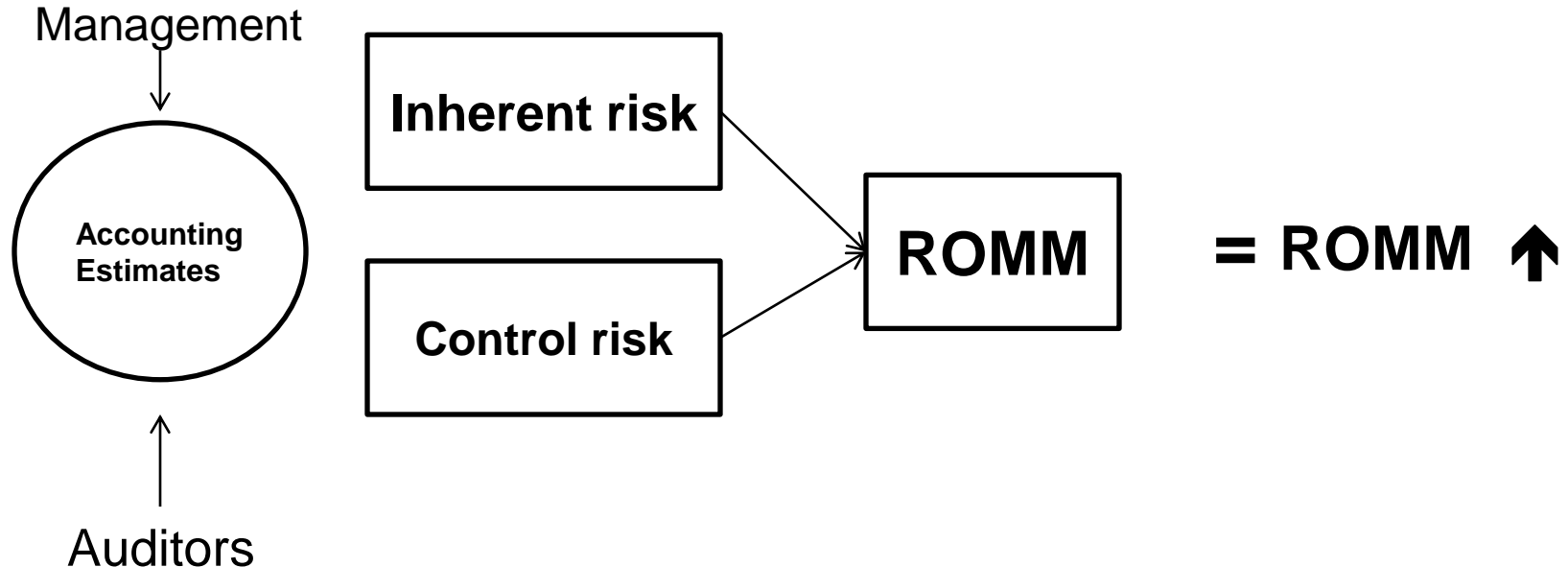
Example 1



What is the question asking for?

Required:

- (a) **Explain** why the **risk of material misstatement increases** when **accounting estimates** are involved.





Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 1



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect A – Q4a

Panelists' comments:

- The answers provided by the candidates were disappointing because the majority of the candidates did not really understand how to evaluate the risk of financial statement material misstatements
- Candidates only assembled a lot of unrelated facts in their answers.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 1



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect A – Q4a

Bad examples:

- ROMM increases when estimates are involved due to the subjectivity of the assumptions used to make accounting estimates
- The degree of estimation uncertainty varies based on nature of estimates, extent to which a generally accepted method and subjectivity of the assumption is made
- The sales balance as at year end is very significant to the group's total revenue ...



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 1



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect A – Q4a

Better examples:

- An accounting estimate is an approximation of a monetary amount in the absence of a precise means of measurement.
- As the responsibility of making the estimates lies with the management of BLINK, the reasonableness of the estimates depends on the management's knowledge and judgement, which is subjective and will increase the inherent risk and give rise to higher risks of material misstatements
- Auditors' objective is to obtain sufficient and appropriate audit evidence about whether accounting estimates are reasonable.
- The nature and reliability of the information used by management to support the accounting estimates can vary, which also affects the degree of uncertainty and increases the risk of material misstatements.



Example 1



December 2016 session – Sect A – Q4a

Better examples:

- An accounting estimate is an **approximation of a monetary amount in the absence of a precise means of measurement**.
- As the **responsibility of making the estimates lies with the management** of BLINK, the reasonableness of the estimates depends on the **management's knowledge and judgement**, which is **subjective and will increase the inherent risk** and give rise to higher risks of material misstatements
- **Auditors' objective** is to obtain sufficient and appropriate audit evidence about whether accounting estimates are reasonable.
- The **nature and reliability of the information used by management** to support the accounting estimates can vary, which also affects the degree of uncertainty and increases the risk of material misstatements.



Example 2



December 2016 session – Sect B – Q7c

Rent Smart Limited is a leading service company in HK providing portable sanitation equipment and cleaning services... You have been asked to plan the year end audit procedures for the fixed assets of R Limited and findings are as below:

- Over 70% of R Smart's total assets are sanitation equipment
- Over 300 portable restrooms and pumping systems are all rented out and they are usually held at customers premises
- R Limited office and warehouse are located in the New Territories
- Most of the sanitation equipment are very durable...

Required:

List the factors that should be considered when planning the fixed asset count at year end

(6 marks)



Example 2



What is the question asking for?

Rent Smart Limited is a leading service company in HK providing portable sanitation equipment and cleaning services... You have been asked to plan the year end audit procedures for the fixed assets of R Limited and findings are as below:

- Over 70% of R Smart's total assets are sanitation equipment
- Over 300 portable restrooms and pumping systems are all rented out and they are usually held at customers premises
- R Limited office and warehouse are located in the New Territories
- Most of the sanitation equipment are very durable...

Required:

List the **factors** that should be considered when **planning the fixed asset count at year end**

(6 marks)



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 2



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect B – Q7c

Panelists' comments:

- Candidates were in general weak at discussing their thought process in designing an audit plan
- Most candidate usually involved in the audit execution in their real life experience but not planning



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 2



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect B – Q7c

Bad examples:

- HKSA 330 says that auditor should consider the nature, timing and extent for audit procedures...
- The engagement team should plan whether they have capabilities to inspect all 300 restrooms and pumping system in the New Territories...
- The auditor who inspects the restrooms should consider ...
- Staff allocation and consider roll back procedures if cannot perform the count on the year end date...



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 2



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect B – Q7c

Better examples:

- As all sanitation equipment are rented out to different locations, I should consider at which locations the attendance is appropriate...
- I shall obtain direct confirmation from the third party for those sanitation equipment that are rented out and in the custody of third parties...
- Management control over the Fixed Assets count and record
- Whether a full count or a sample count will be taken place and also the sample size...



Example 2



December 2016 session – Sect B – Q7c

Better examples:

- As all sanitation equipment **are rented out to different locations**, I should **consider at which locations** the attendance is appropriate...
- I shall obtain **direct confirmation from the third party** for those sanitation equipment that are **rented out** and in the custody of third parties...
- **Management control** over the Fixed Assets count and record
- Whether **a full count or a sample count** will be taken place and also the **sample size**...



Example 3



December 2016 session – Sect B – Q8b

“Company A is a garment manufacturing company and owns 100% of Company B and Company C. Company B and Company C are both yarn manufacturing companies and each pay a monthly management fee to Company A for the administrative and financial services provided by Company A. During the year, Company A purchased a large volume of yarns from Company B...”

Required:

- **Assess the risk of material misstatements in respect of the two related party transactions identified in Question 8(a) and explain your answers**

(5 marks)



Example 3



What is the question asking for?

“Company A is a garment manufacturing company and owns 100% of Company B and Company C. Company B and Company C are both yarn manufacturing companies and each pay a **monthly management fee** to Company A for the administrative and financial services provided by Company A. During the year, **Company A purchased a large volume of yarns from Company B...**”

Required:

- **Assess the risk of material misstatements** in respect of the **two related party transactions** identified in Question 8(a) and **explain your answers**

(5 marks)



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 3



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect B – Q8b

Panelists' comments:

- A lot of candidates did not read and interpret the question carefully enough
- They assessed the risk of material misstatements of the related party transactions as a whole but not the two related party transactions identified in Q8(a)
- Some candidates were not able to provide appropriate reasons to support their assessments



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 3



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect B – Q8b

Bad examples:

- There is no control and is not at arm's length...
- There may have risk over related party transactions as they may not be conducted under normal market terms...
- Company A failed to recognise the two yarns, either due to human error or possibility of fraud may apply to this case...



Example 3



December 2016 session – Sect B – Q8b

Better examples:

- The risk of material misstatement of management fee is low. Company B and C have been paying a fixed and agreed management fee from time to time and there was no change in arrangement in this year...
- The risk of material misstatements over yarn purchase is high as there was material misstatements in the last year audit...
- The yarn purchase volume was high, which would have a significant impact in the financial statements...



Example 3



December 2016 session – Sect B – Q8b

Better examples:

- The risk of material misstatement of **management fee** is **low**. Company B and C have been **paying a fixed and agreed management fee from time to time** and there was no change in arrangement in this year...
- The risk of material misstatements over **yarn purchase** is **high** as there was **material misstatements in the last year audit**...
- The **yarn purchase volume was high**, which would have a **significant impact** in the financial statements...



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 4



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect B – Q8d

The audit engagement senior said that the engagement team does not need to perform detailed audit procedures on management's presentation and disclosure of related party transactions if the management has provided their written representation that all related party transactions have been accounted for, presented and disclosed properly.

Suggest your proposed response and explain your answer

(3 marks)



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 4



Hong Kong's
CPA Qualification
香港會計師專業資格

What is the question asking for?

The audit engagement senior said that **the engagement team does not need to perform detailed audit procedures on management's presentation and disclosure of related party transactions** if the management has provided their **written representation** that all related party transactions have been accounted for, presented and disclosed properly.

Suggest your proposed response and explain your answer

(3 marks)



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 4



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect B – Q8d

Panelists' comments:

- Candidates fail to show that they had sufficient knowledge and understanding of management representation letter.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 4



December 2016 session – Sect B – Q8d

Bad examples:

- They have disclosed to auditors the identity of the related parties and all relationship and transactions...
- Written representation from management is better than oral representation... However the letter is evidence from within the Company, which is less reliable than information from independent sources
- Auditor cannot solely rely on written representation as it does not provide sufficient and appropriate audit evidence ...



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Example 4



Hong Kong's
CPA Qualification
香港會計師專業資格

December 2016 session – Sect B – Q8d

Better examples:

- According to HKSA580, Written Representation, it stressed that written representation does not provide sufficient and appropriate audit evidence on its own...
- The auditors should consider the competence, integrity, ethical values of the management as these would affect the reliability of the written representation...
- I would advise the audit senior to carry out detail audit procedures over the management's presentation and disclosures...



Example 4



December 2016 session – Sect B – Q8d

Better examples:

- According to **HKSA580**, Written Representation, it stresses that **written representation does not provide sufficient and appropriate audit evidence on its own...**
- **The auditors should consider** the competence, integrity, ethical values of the management as these would affect the reliability of the written representation...
- **I would advise** the audit senior to carry out detail audit procedures over the management's presentation and disclosures...



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Sharing of exam techniques: How to address the weaknesses?



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Common weaknesses observed during marking

- Difficulty in identifying the specific question requirements/ misinterpretation of the question requirements
- Answers are irrelevant to the questions, or are not specific to the case facts
- Poor presentation and structure of answers
- Poor time management, not all questions are attempted



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Weakness 1

Difficulty in identifying (or misinterpreting) the specific questions requirements

- Spend some time on reading the questions carefully
- Use highlighter to underline the important question requirements
- Be aware of the key action words – assess, provide examples, propose actions, etc.
- Be aware of the time dimension – planning, execution of TOC or TOD, and completion/ reporting stage



Weakness 2

Answers are irrelevant/ not specific

- Make sure the answer includes factual information extracted from the case (e.g. AR increased by 200% while sales increased by 24%)
- Ratio or variance % can be computed to support the answer as it is useful for describing significance, severity or materiality
- Plan the structure of answer (e.g. mindmap) to confirm linkage to question requirements
- Review the written answers to ensure the intended effect
- Plan → execute → review



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Weakness 3

Poor presentation and structure of answers

- Consider using the READ Approach to structure the answer in a specific way:
 - Raise the issue / subject matter
 - Extract facts from the case
 - Apply standards to confirm rationale
 - Decide the conclusion



Weakness 3

Poor presentation and structure of answers

- Write in meaningful length, concisely and precisely → check fixed assets (for what?), check casting vs. check casting accuracy...
- Break long answers or present different arguments with short paragraphs
- Use simple English but keep the auditing standards jargons
- Allow sufficient spacing between lines
- Write legibly



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Weakness 4

Poor time management

- Reserve time for reading the questions and outlining the structure of the answer
- Determine the length of the answer with reference to the marks allocation
- Allocate time to answer each question and attempt all questions
- Leave some time as buffer for checking



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Improvement areas

- **Answer strategy** – beware of relationship between marks and time allocation
- **Structured answer** - show marker your thinking logic in your answer



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Thank you



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

Part 4: Preparation for the Examinations





Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

- 1. Prepare your examination**
- 2. Prepare yourself for examination**



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

1. Prepare your examination Before examination

DO

- Commit to your **Study Plan**
- Cover beyond LP
- Form **Study Group** with fellow students
- Prepare **Critical File**
- Practise past papers
- Visit QP Learning Centre
 - Past papers and Examiners' reports;
 - Special topics and/or Important notice; and
 - Examination preparation seminar archives



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

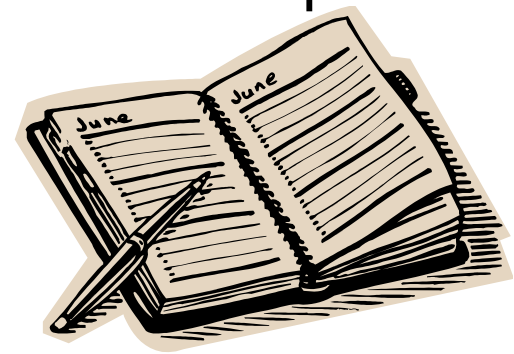


Hong Kong's
CPA Qualification
香港會計師專業資格

Commit to your Study Plan

Advantages:

- Schedule ahead
- Build long term memories → maximize efficiency
- Avoid last minute work and minimize impact of unpredicted events...





Prepare Critical File

How to prepare:

- Use different colour post-it for different standards / topics
- Organise materials by different standards / topics
- Understand theories behind each standards / topics
- Get familiar with this file

Advantages:

- Colour coding for standards / topics allows easy identification (same file used in examination – time saving!)
- Build up long term memories
- Avoid indexing without understanding





Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

During examination

DO

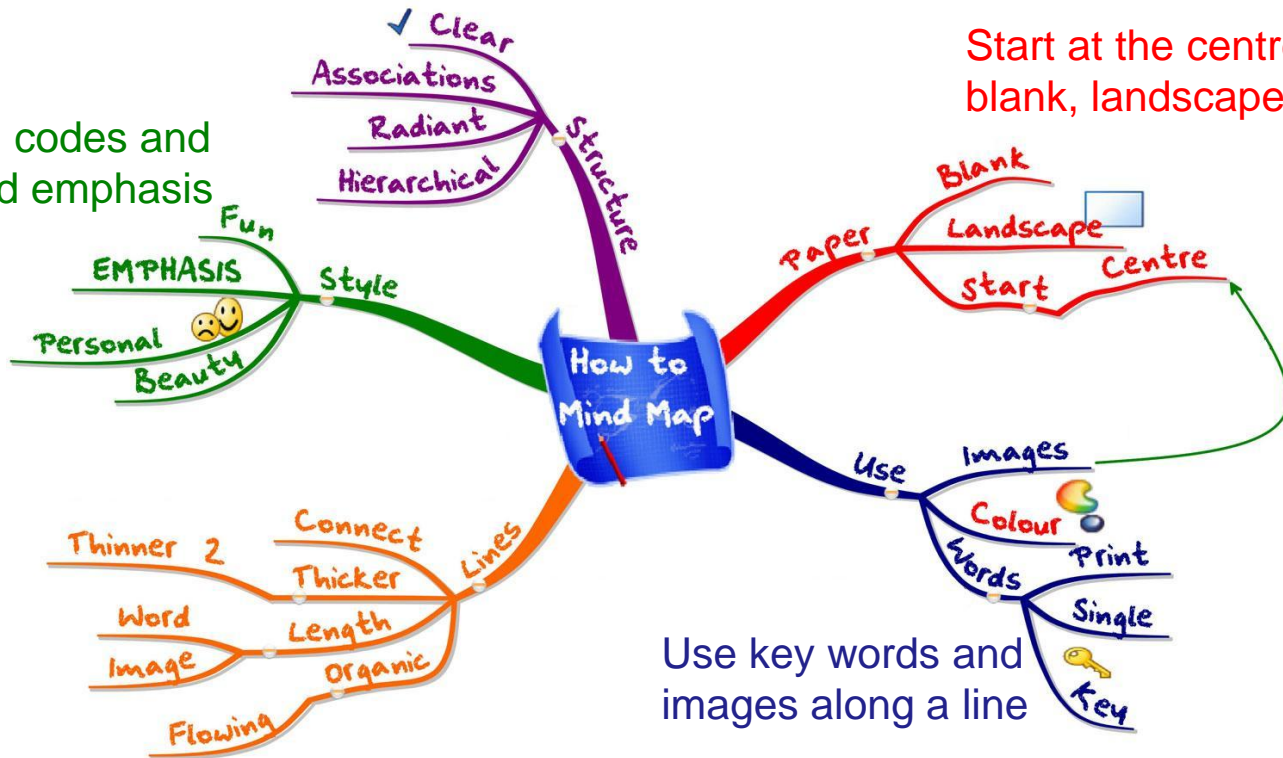
- Identify question requirements
- Highlight key words (e.g. Calculate / Advise / Propose etc...)
- **Mind-map** or sketch the question requirements
- Outline answers or approach
- Pay attention to specific format requirement (e.g. Write a memorandum)
 - Start with an introduction and end with a conclusion
 - ➔ Get easy marks!

Mind Map

Radiate the ideas out from the central theme and main branches

Use highlighters, codes and arrows to link and emphasis different aspects

Start at the centre of a blank, landscape paper



Use key words and images along a line

Make the lines associate as clear as possible



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

During examination

DO

- Apply technical knowledge
- Do an easy question first to gain confidence
- Leave time at the end to check for careless mistakes
- **Write legibly**

DON'T

- Don't make up any information that is not provided by the question
- Don't write more than required as indicated by marks allocation
- Don't struggle, move to another question

(Question No. 2.)

- a) Even ABC is a ~~an~~ costing method suitable for ~~the~~ requirement to apportion the cost.
However, it cannot reflect all the cost and considerations that related to the new customer policy.
- b) ABC is a complicated ~~and~~ system, it might inability to ~~access~~ non-controllable cost to the relevant duties.
New policy for the firm can help it to be focus on provide better service to customer and focus on high revenue's customer.
(To start with the new customer policy, we should use more than one analyse or costing method to make decision.)
However, the firm may loss the low cost but high contribution's customer and loss the customer's ~~costs~~ confidence once the customer cannot meet the target.
- c) KWL can get profit under new policy (set up a "re-use system" once the customer can). The company also can set up "quality system" ~~if the customer can~~ if the customer can meet the quality control which under new policy that can be ~~re-use~~ re-use again.



Examples of handwriting

Example 1:

adverse opinion

Example 2:

substantive matters ??

Example 3:

seriously misleading ????



2. Prepare yourself for examination

- Study HARD before examination
- Arrive early (examination centre opens for entry 45 minutes before start)
- Be aware of the **examination regulations** printed on the Examination Attendance Docket (“EAD”)
 - The EAD will be posted to students 2 weeks before the examination

Failure to follow any of the examination regulations may result in marks penalty or even disqualification from the entire examination!



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong's
CPA Qualification
香港會計師專業資格

- **There is no shortcut to any examinations including QP!**
- **This is your examination and not others' examination**
- **The only way to pass is to prepare properly for it!**