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Examination Techniques Seminar on QP Module Examinations

Module C (December 2016 Session)

Date: 1 November 2016





Agenda

- 1 • Introduction
- 2 • Common Weaknesses
- 3 • Sharing with Markers
- 4 • Preparation for Examinations
- 5 • Q & A Session



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Part 1: Introduction





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



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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



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Part 2: Common Weaknesses





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Major causes to examination failure



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Aspect 1: **Questions**

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



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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



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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

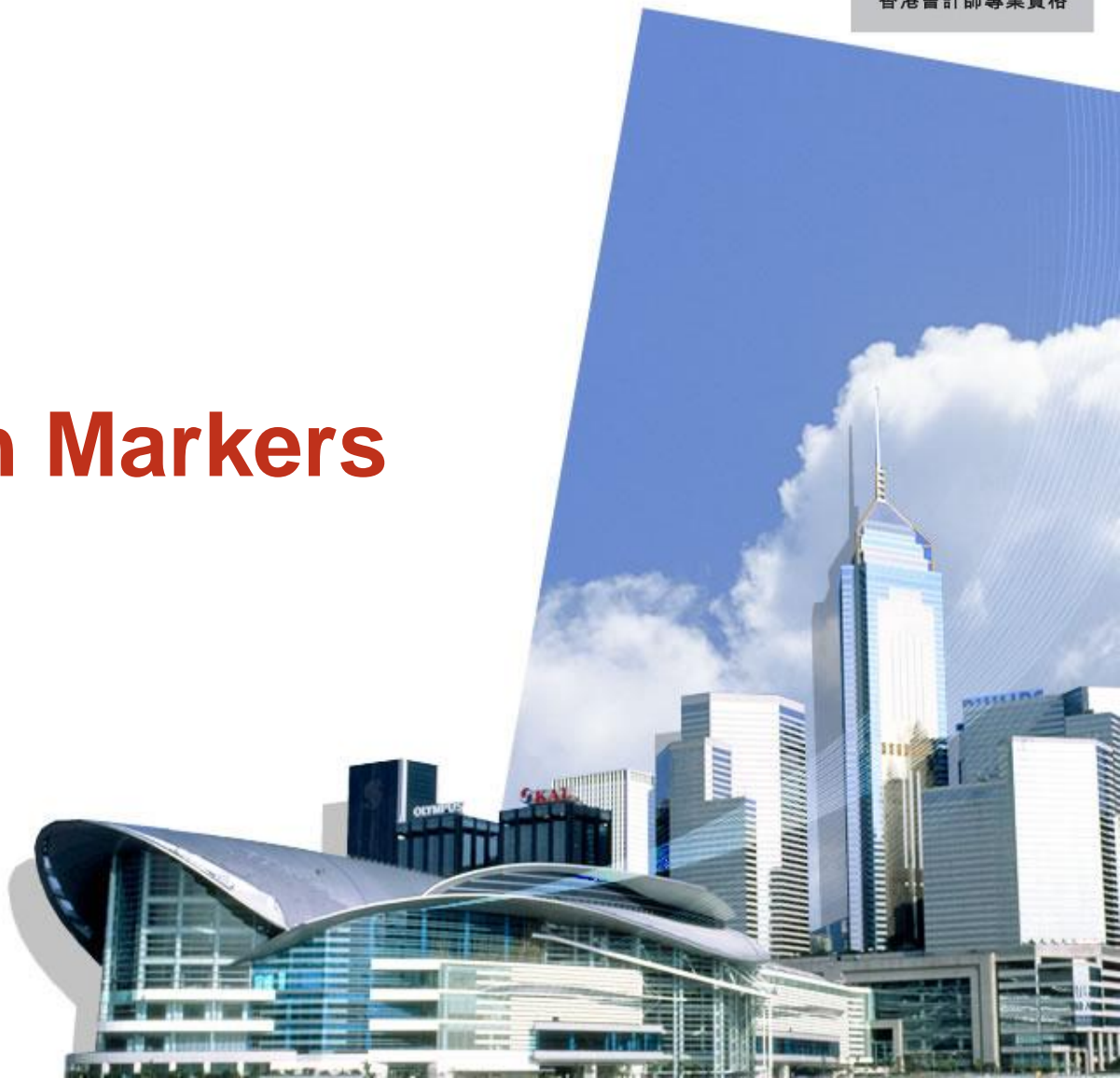


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Part 3: Sharing with Markers





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



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Common weaknesses



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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



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Examples



Example 1



June 2016 session – Sect A – Q2a

CCT is a group with over 100 chain restaurant in HK and Mainland China serving Hong Kong style food and catering... CCT has been expanding fast in the last three years, especially in mainland China. The number of restaurants have increased from 60 in 2013 to 120 in 2016, with 80 restaurants in HK and 40 restaurants in mainland China. According to the latest financial forecast for the year ending 30 June 2016, the HK and China operations contribute approximately 68% and 32% of the revenue to CCT respectively...

The system the CCT uses is called “Checkout”, which is a Point of sales system self –developed by CCT... Checkout initially implemented in HK in 2013 and rolled out to all restaurants in mainland China in 2016...

Required:

- (a) **Identify and evaluate the risks of material misstatements of the occurrence and completeness assertion of CCT’s revenue.**

(6 marks)



Example 1



What is the question asking for?

CCT is a group with over 100 chain restaurant in HK and Mainland China serving Hong Kong style food and catering... CCT has been expanding fast in the last three years, especially in mainland China. The number of restaurants have increased from 60 in 2013 to 120 in 2016, with 80 restaurants in HK and 40 restaurants in mainland China. According to the latest financial forecast for the year ending 30 June 2016, the HK and China operations contribute approximately 68% and 32% of the revenue to CCT respectively...

The system the CCT uses is called “Checkout”, which is a Point of sales system self –developed by CCT... Checkout initially implemented in HK in 2013 and rolled out to all restaurants in mainland China in 2016...

Required:

- (a) **Identify and evaluate the risks of material misstatements of the occurrence and completeness assertion of CCT’s revenue.**

(6 marks)



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Example 1



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June 2016 session – Sect A – Q2a

Panelists' comments:

- Only a few candidates were able to discuss and give reasons to explain the risk of material misstatements by making sensible use of the numbers and facts provided in the case.
- Candidates are encouraged to be more rigorous in their audit judgement.



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Example 1



June 2016 session – Sect A – Q2a

Bad examples:

- The revenue significantly increased by 31% from last year while the customer from mainland China had dropped by 40%...
- There are pressure to perform and report good result for the year as new loan was granted from the bank...
- The risk of material misstatement of occurrence is medium to high...



Example 1



June 2016 session – Sect A – Q2a

Better examples:

- The ROMM relating to occurrence and completeness of CCT's revenue is high as:
 - The rate of increase in average spending per customer is smaller than the drop in the number of China visitors, this may result in overstatement of revenue.
 - The increase in revenue of CCT is in line with the increase in number of restaurants opened during the year, which seems not realistic and may overstate the revenue
- The new system was implemented in China in 2016. The system in China may not be properly implemented, therefore revenue may not be completely and accurately recorded.
- China contributed to 32% of CCT's revenue, which is material...



Example 1



June 2016 session – Sect A – Q2a

Better examples:

- The ROMM relating to **occurrence** and **completeness** of CCT's revenue is **high** as
 - **The rate of increase in average spending per customer is smaller than the drop in the number of China visitors, this may result in overstatement of revenue.**
 - The increase in revenue of CCT is in line with the increase in number of restaurants opened during the year, which **seems not realistic and may overstate the revenue**
- The **new system** was implemented to China in 2016. The system in China may not be properly implemented, therefore revenue may not be completely and accurately recorded.
- China contributed to **32% of CCT's revenue, which is material...**



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Example 2



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June 2016 session – Sect A – Q4

You are planning the inventory count with the management for the next audit for the year ending 30 Jun 2017. In the past, the management performed inventory counts at year end and throughout the year. The financial controller considers cancelling 2016 year-end inventory count and would like to discuss with you regarding your audit plan relating to the inventory count. You plan to rely on and attend the management's continuous inventory count.

Required:

Analyse the factors that you would consider for this audit plan so that you would agree not to attend the year-end inventory count for the year ending 30 Jun 2017

(10 marks)



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Example 2



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What is the question asking for?

You are planning the inventory count with the management for the next audit for the year ending 30 Jun 2017. In the past, the management performed inventory counts at year end and throughout the year. The financial controller considers cancelling 2016 year-end inventory count and would like to discuss with you regarding your audit plan relating to the inventory count. You plan to rely on and attend the management's continuous inventory count.

Required:

Analyse the factors that you would consider for this audit plan so that **you would agree not to attend the year-end inventory count** for the year ending 30 Jun 2017

(10 marks)



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Example 2



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June 2016 session – Sect A – Q4

Panelists' comments:

- Quite a lot of the candidates did not understand the question requirement. They suggested audit procedures in their answers but were not able to discuss the factors that were relevant to the proposed change in inventory count audit approach.
- Some candidate provided irrelevant answers such as evaluating whether the year-end inventory count could be cancelled, discussing the audit procedures should be performed or whether a qualified opinion should be issued...



Example 2



June 2016 session – Sect A – Q4

Bad examples:

- Ensure the audit coverage of the physical count is appropriate...
- As inventory count is not performed on 30 June 2017, roll-forward procedures from date of inventory count to year end date is required...
- Auditors should maintain professional skepticism on the reason why management cancel the year end inventory count...
- Auditor should consider to send inventory confirmation...



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Example 2



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June 2016 session – Sect A – Q4

Better examples:

- The auditors should consider whether CCT maintains adequate inventory record that are kept up-to-date
- Auditor will focus more on test of controls rather than substantive procedures. However the auditor will still need to do some further substantive audit work to address the completeness and existence assertions.
- Consider how the management follow up and investigate discrepancies.



Example 2



June 2016 session – Sect A – Q4

Better examples:

- The auditors should consider whether **CCT maintains adequate inventory record that are kept up-to-date**
- Auditor will focus **more on test of controls** rather than substantive procedures. However the auditor will still need to do some further substantive audit work to address the completeness and existence assertions.
- Consider how the management **follow up and investigate discrepancies.**



Example 3



June 2016 session – Sect B – Q6b

You are engaged to perform the audit of Win Limited. Your manager has prepared a draft engagement as set out below:

Fees

Our fees are computed on the basis of the time spent on your affairs by the partners and our staff and on the levels of skills and responsibility involved plus out-of-pocket expenses. Unless otherwise agreed, our fee will be billed at appropriate intervals during the course of the audit and will be due on presentation.

We propose an audit fee of HK\$100,000. Upon the issuance of our clean audit report, we are entitled to collect an additional fee of HK\$50,000...”

Required:

- **Justify the appropriateness of the fee arrangement mentioned in this engagement letter**

(4 marks)



Example 3



What is the question asking for?

You are engaged to perform the audit of Win Limited. Your manager has prepared a draft engagement as set out below:

Fees

Our fees are computed on the basis of the time spent on your affairs by the partners and our staff and on the levels of skills and responsibility involved plus out-of-pocket expenses. Unless otherwise agreed, our fee will be billed at appropriate intervals during the course of the audit and will be due on presentation.

We propose an audit fee of HK\$100,000. Upon the issuance of our clean audit report, we are entitled to collect an additional fee of HK\$50,000...

Required:

- **Justify the appropriateness** of the fee arrangement mentioned in this engagement letter

(4 marks)



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Example 3



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June 2016 session – Sect B – Q6b

Panelists' comments:

- The majority of candidates could only point out the relevant ethical standards but could not demonstrate the existence of the independence threat



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Example 3



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June 2016 session – Sect B – Q6b

Bad examples:

- According to HKSA220, auditor should not agree to provide a pre-agreed opinion where there is no reasonable justification to do so...
- For integrity, our audit firm will breach this as we are not honest enough on the assurance
- Under section 404 of New Companies ordinance, the remuneration of an auditor of a company appointed by the members may be fixed by a resolution passes at a general meeting...



Example 3



June 2016 session – Sect B – Q6b

Better examples:

- The additional audit fee of HK\$50,000 is considered as a contingent fee arrangement which is prohibited under Section 290 of Code of Ethics for Professional Accountants.
- The additional fee arrangement create self-interest and advocacy threat
- The threat created is very significant and cannot be reduced to acceptable levels through safeguards
- This arrangement is not appropriate and should be prohibited.



Example 3



June 2016 session – Sect B – Q6b

Better examples:

- The additional audit fee of HK\$50,000 is **considered as a contingent fee** arrangement which is prohibited under **Section 290 of Code of Ethics for Professional Accountants**.
- The additional fee arrangement create **self-interest and advocacy threat**
- The threat created is **very significant and cannot be reduced to acceptable levels through safeguards**
- This arrangement is not **appropriate and should be prohibited**.



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Example 4



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June 2016 session – Sect B – Q8b

During the year, the CFO of Green Limited reported to its board that since the second quarter of the financial year, more than half of its IT staff had left the company. The IT support to Green Limited was intermittent because only part time non IT staff could be employed. The lack of IT support was the cause of various discrepancies found between Green Limited's sales and inventory ledger. Hence, the financial statements closing process has been delayed.

Required:

What are the possible consequences arising from the above incident? Advise as to what actions the board should consider in order to ensure the internal control of the IT system is effective in the upcoming financial year.

(5 marks)



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Example 4



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What is the question asking for?

During the year, the CFO of Green Limited reported to its board that since the second quarter of the financial year, **more than half of its IT staff had left the company. The IT support to Green Limited was intermittent because only part time non IT staff could be employed.** The lack of IT support was the cause of **various discrepancies** found between Green Limited's sales and inventory ledger. **Hence, the financial statements closing process has been delayed.**

Required:

What are the possible consequences arising from the above incident? Advise as to what actions the board should consider in order to ensure the internal control of the IT system is effective in the upcoming financial year.

(5 marks)



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Example 4



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June 2016 session – Sect B – Q8b

Panelists' comments:

- The question required the candidates to suggest remedial actions that the directors of the entity could take to address the issues. This was one of the weakest areas of the candidates.



Example 4



June 2016 session – Sect B – Q8b

Bad examples:

- Possible consequences:
 - Lack of transaction trails
 - Lack of segregation of duties
 - Potential errors

- The possible consequences may be fraudulent financial reporting...

- The possible consequences arising from the incident is the information for the system cannot be relied on. Audit procedure, instead of substantive procedure, a walkthrough should be performed...

- The BOD should first consider to reconcile the sales and inventory in the second quarter...

- Actions to consider - Increase the promotion opportunities to staff



Example 4



June 2016 session – Sect B – Q8b

Better examples:

- The possible consequence would be incorrect financial information being recorded due to the data input may not be complete and correct. Such incident may lead to material misstatements on the financial statement...
- The BOD should consider to hire more qualified and experienced IT staff to improve the control deficiency.
- The Board of director should implement remedial plan to ensure the internal control of the IT system is effective



Example 4



June 2016 session – Sect B – Q8b

Better examples:

- The possible consequence would be **incorrect financial information being recorded due to the data input may not be complete and correct**. Such incident may lead to **material misstatements on the financial statement...**
- The BOD should consider to **hire more qualified and experienced IT staff to improve the control deficiency**.
- The Board of director should **implement remedial plan** to ensure the internal control of the IT system is effective



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Sharing of exam techniques: How to address the weaknesses?



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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



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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



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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



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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



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Improvement areas

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



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Thank you



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Part 4: Preparation for the Examinations





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



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1. Prepare your examination Before examination

DO

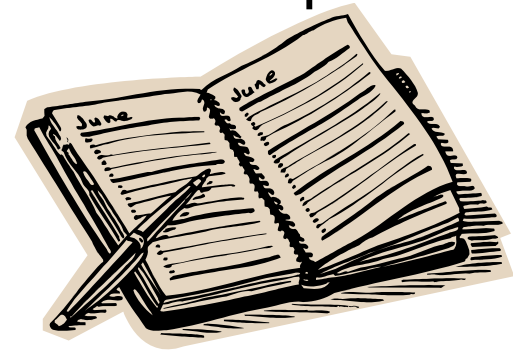
- Commit to your **Study Plan**
- Cover beyond LP
- Form **Study Group** with fellow students
- Prepare **Critical File**
- Practise past papers
- Visit QP Learning Centre
 - Past papers and Examiners' reports;
 - Special topics and/or Important notice; and
 - Examination preparation seminar archives



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





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During examination

DO

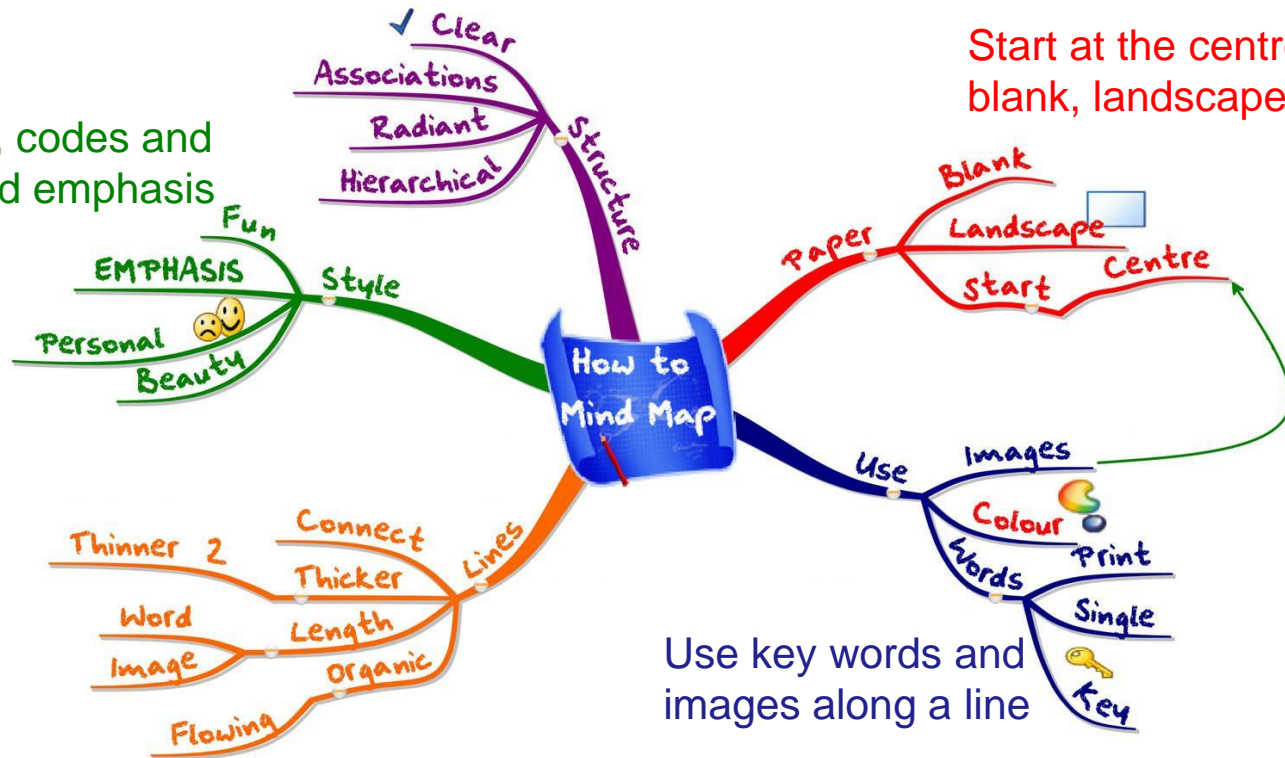
- Identify question requirements
- Highlight key words (e.g. Calculate / Advise / Propose etc...)
- **Mind-map** or sketch the question requirements
- Outline answers or approach
- Pay attention to specific format requirement (e.g. Write a memorandum)
 - Start with an introduction and end with a conclusion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



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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

adverse opinion

Example 2:

substantive matters

substantive matters ??

Example 3:

seriously misleading

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!



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- **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!**



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Part 5: Q&A Session

