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Examination Techniques Seminar on QP Module Examinations

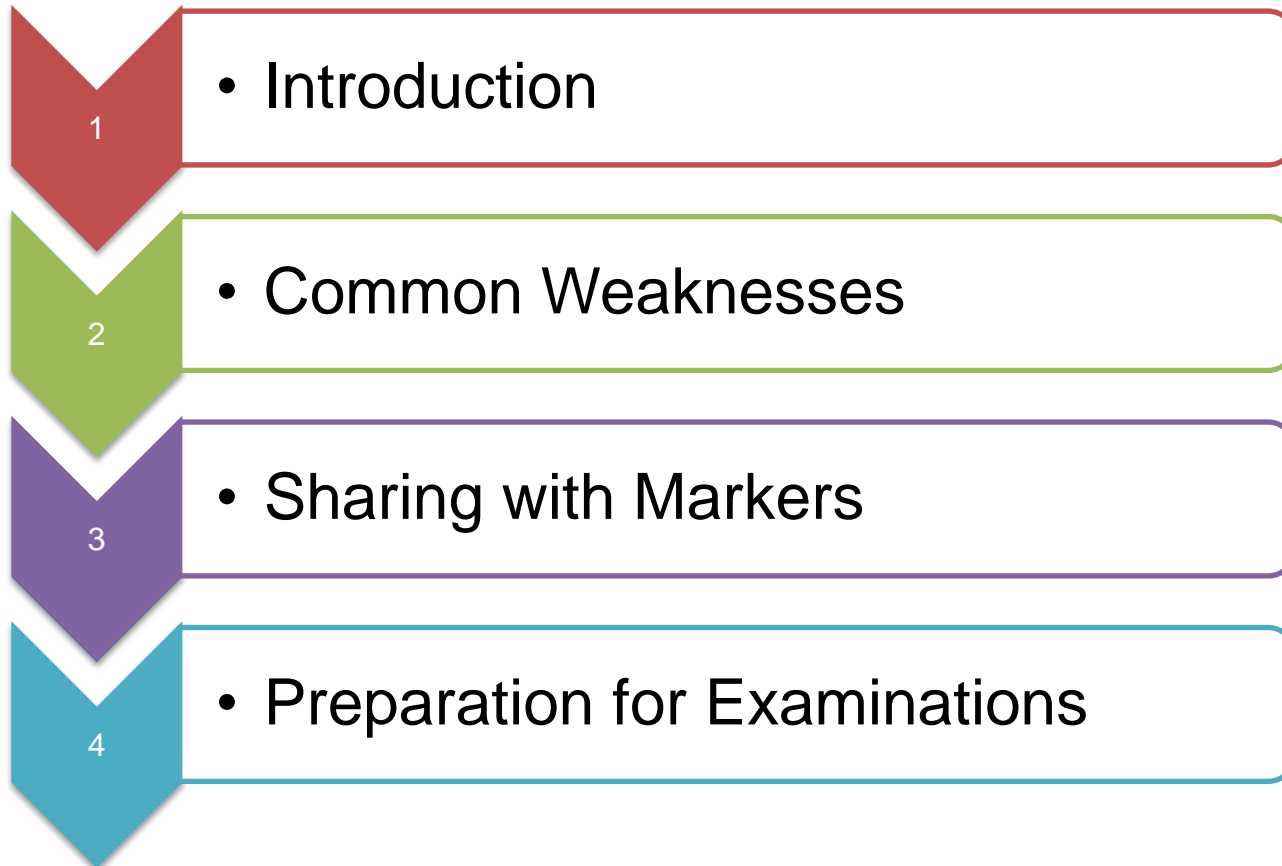
Module C (December 2015 Session)

Date: 11 November 2015





Agenda





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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 by aspect



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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 is 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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Agenda

- 1) Illustration of Common weaknesses
- 2) Sharing of exam techniques



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Common weaknesses observed during marking

- a) Not understanding question requirement

- b) Answers are not specific to the case / not addressing the questions

- c) Poor presentation and format

- d) Poor time management



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Examples



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Example 1



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June 2015 session – Sect A – Q1a

Based on the information provided in the case of the lending activities of Real Time and its organisation set up, assess the risk of material misstatements relating to the following:

- accuracy and occurrence assertions of interest income; and
- existence and valuation assertions of loan receivables.

State your reasoning and observations to support your assessment.

(9 marks)



Example 1



What is the question asking for?

Based on the information provided in the case of the lending activities of Real Time and its organisation set up, assess the risk of material misstatements relating to the following:

- accuracy and occurrence assertions of interest income; and
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State your reasoning and observations to support your assessment.

(9 marks)



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Example 1



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June 2015 session – Sect A – Q1a

Panelists' comments:

- Some candidates did not pay attention enough to the question requirements and spent time explaining the risks which had arisen from the system change which was not the focus of this question.
- Some candidates were not able to identify the risks from the case based on the facts and circumstances given.
- Some candidates were able to identify the risks from the case but were not able to provide appropriate reasons to support their risk assessment.



Example 1



June 2015 session – Sect A – Q1a

Bad examples:

- There is no invoice to support...Although they should have a loan contract, the rate of borrowing may be different ..
- The risk of occurrence is high because there is earning pressure by the management and the competition of the industry in HK is high...
- Existence and valuation of loan receivable is low as all preliminary approved applications are entered into the credit evaluation system and then



Example 1



June 2015 session – Sect A – Q1a

Better examples:

- The risk of material misstatement of the accuracy and occurrence of interest income is high because...
 - The interest income increased by 36% while the total assets increased only by 15%
 - This may be due to the overstatement of interest income
- The risk of material misstatement of the valuation of loans receivable is high because...
 - The loan to provision ratio is maintained at 3.5% which may not be suitable for the change in composition of borrowers.
 - The provision for bad debts may be understated



Example 1



June 2015 session – Sect A – Q1a

Better examples:

- The risk of material misstatement of the **accuracy** and **occurrence** of interest income is **high** because...
 - The **interest income** increased by 36% while the total assets increased only by **15%**
 - This may be due to the **overstatement of interest income**
- The risk of material misstatement of the **valuation of loans receivable** is **high** because...
 - The **loan to provision ratio** is maintained at 3.5% which may not be suitable for **the change in composition of borrowers**.
 - The provision for bad debts may be **understated**



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Example 2



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June 2015 session – Sect A – Q2c

In response to the significant increase in cash transactions, from the case, suggest possible control activities that can help Real Time management to mitigate the potential risk of material misstatement in the financial statements relating to cash and bank balances.

(8 marks)



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Example 2



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Example 2



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June 2015 session – Sect A – Q2c

Panelists' comments:

- Some of the candidates misunderstood the question by suggesting audit procedures instead of possible control activities.
- Some candidates were only able to suggest some general control activities without considering that the company in the case was a money lending company.
- Many candidates only suggested IT related controls without considering other manual controls that were also significant to the information processing.



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Example 2



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June 2015 session – Sect A – Q2c

Bad examples:

- Internal auditors review and evaluation of effectiveness of physical controls and management review of bank reconciliation...
- Pre-numbered receipts and cash registers are effectively used and controlled
- Automated or manual checking of the arithmetical accuracy of records
- Segregation of duties – receipt of cheques and clearance of receipts should be segregated
- There should be authorisation of transaction amount



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Example 2



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June 2015 session – Sect A – Q2c

Better examples:

- Segregation of duties – the personnel handling the cash transactions and the one who record the transactions should be handled by different people. For example, approval of a cash loan should be carried out by the loan lending committee and the general manager and the payment of cash loan to be handled by the Treasury department
- Physical controls – controls and procedures to ensure cash is handled properly. For example, cash are stored at a safe and only authorised person would be given the key to the safe



Example 2



June 2015 session – Sect A – Q2c

Better examples:

- Segregation of duties – the personnel handling the cash transactions and the one who record the transactions should be handled by different people. For example, approval of a cash loan should be carried out by the loan lending committee and the general manager and the payment of cash loan to be handled by the Treasury department
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Example 3



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June 2015 session – Sect B – Q5a

List four types of threats which may affect the objectivity of an auditor. For each of these threats, suggest a policy or procedure that an audit firm can apply to prevent the occurrence of these threats.

(4 marks)



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Example 3



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What is the question asking for?

List four types of threats which may affect the objectivity of an auditor.

For each of these threats, suggest a policy or procedure that an audit firm can apply to prevent the occurrence of these threats.

(4 marks)



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Example 3



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June 2015 session – Sect B – Q5a

Panelists' comments:

- Some candidates spent time to explain the definition of each of the four types of threats, **without** suggesting any policy or procedures that an audit firm could apply.



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Example 3



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June 2015 session – Sect B – Q5a

Bad examples:

- Self interest threat – it's too accepting and too sympathetic to audit clients work → hire external review
- Self interest threat – when the auditor have financial interest in a client's business, it may result in a biased view to the auditors' objectivity.



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Example 3



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June 2015 session – Sect B – Q5a

Better examples:

- Self interest threat – An audit firm shall establish the policy list out that no financial or other interest during the period of engagement with client and, they should ask the staff to fill in the questionnaire to ensure no direct financial interest
- Familiarity threat
 - An audit firm shall confirm regular rotation on its partner in order to reduce the familiarity threat due to long association with assurance client.
 - Under the code of ethics, rotation of partner every 7 years is required.



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Example 4



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June 2015 session – Sect B – Q6

Excellent Limited is a company listed on the Hong Kong Stock Exchange. Excellent Limited is engaged in construction projects contracted by certain reputable real estate developers. Recently, the directors of Excellent Limited were aware that one of its key construction projects may face a significant delay in completion. In accordance with the terms as set out in the respective construction contract, the customer has the right to claim against Excellent Limited for any loss arising from such delay. Based on the project team's estimation, the claim may amount to HK\$100 million.

Required:

From the corporate governance perspective, suggest actions that the directors of Excellent Limited should take.

(8 marks)



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Example 4



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What is the question asking for?

Excellent Limited is a company listed on the Hong Kong Stock Exchange. Excellent Limited is engaged in construction projects contracted by certain reputable real estate developers. Recently, the directors of Excellent Limited were aware that **one of its key construction projects may face a significant delay in completion**. In accordance with the terms as set out in the respective construction contract, the customer has the right to **claim against Excellent Limited for any loss arising from such delay**. Based on the project team's estimation, the claim may amount to HK\$100 million.

Required:

From the corporate governance perspective, suggest actions that the directors of Excellent Limited should take.

(8 marks)



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Example 4



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June 2015 session – Sect B – Q6

Panelists' comments:

- Candidates tended to pull all the related information from the learning pack onto their answer sheet, but with the lack of any focus which could specifically address the question.



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Example 4



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June 2015 session – Sect B – Q6

Bad examples:

- Ensure to provide a proper and reliable financial and operating information for decision making, evaluation of activities
- Ensure Excellent Limited compliance with applicable legislation and regulations
- Maintain an ongoing dialogue with shareholders



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Example 4



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June 2015 session – Sect B – Q6

Better examples:

- In terms of the potential claims.... The board of directors should perform and present a balanced clear and comprehensive assessment of the impact of the significant delay in completion and future potential financial impact...
- Maintain an ongoing dialogue with shareholders, use other general meeting to communicate with shareholders of the potential delay in completion and the potential claim and the company's responsive actions.
- The directors should establish measures to respond to the possible losses. For example, try every effort to negotiate with their customer aiming to minimise the loss and damage to the company.



Example 4



June 2015 session – Sect B – Q6

Better examples:

- In terms of the **potential claims**.... The board of directors should **perform and present a balanced clear and comprehensive assessment of the impact of the significant delay in completion** and future potential financial impact...
- Maintain an ongoing dialogue with shareholders, use other general meeting to **communicate with shareholders of the potential delay in completion and the potential claim and the company's responsive actions**.
- The directors should establish measures to **respond to the possible losses**. For **example**, try every effort to negotiate with their customer aiming to minimise the loss and damage to the company.



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Sharing of Exam techniques: How to address the weaknesses?



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Common weaknesses observed during marking

- a) Not understanding question requirement

- b) Answers are not specific to the case / not addressing the questions

- c) Poor presentation and format

- d) Poor time management



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Weakness 1 – Not understanding question requirement because question was not read carefully

- Spend some time to read the question 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 stage



Weakness 2 – Answers are not specific

- If the question is linked to a case, 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 → executive → review



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Weakness 2 – Answers are not specific

- Consider the use of 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



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Weakness 3 – Poor presentation and format

- Use point form if allowed by question or question circumstance
- 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 illegibly



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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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Key to pass the exam in writing answers

- **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 the 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



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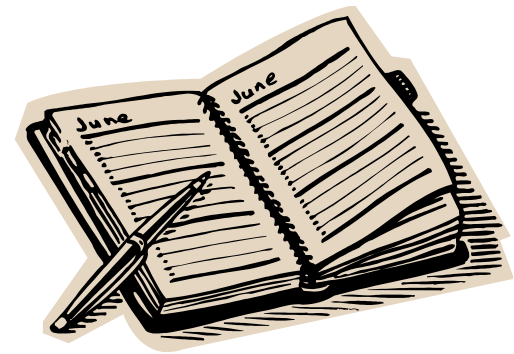


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Committed to your Study Plan

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 standard / topic in revisions
- Get familiar with this file



Advantages:

- Colour coding for standards / topics allows easy identification (same file used in examination – time saving!)
- Long term memories after frequent revision of critical file
- Indexing without understanding be identified easily if tagged pages showed no sign of revision



Before writing answers on the answer booklets

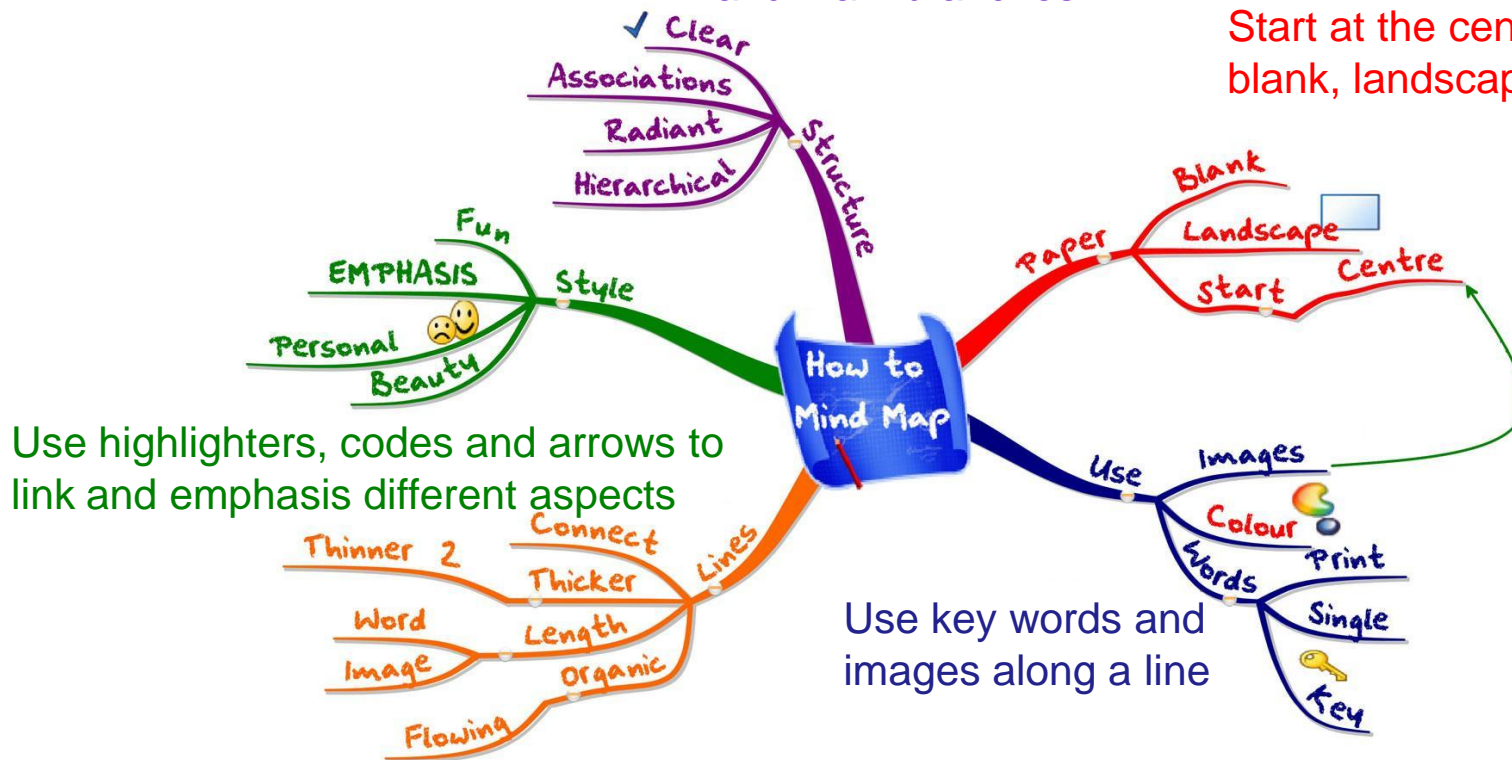
DO

- Identify question requirements
- Highlight key action words (e.g. Calculate / Advise / Discuss etc...)
- **Mind-map** or sketch the question requirement
- Outline your answers or approach
- Pay attention to specific format requirements (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

Start at the centre of a
blank, landscape paper



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 was not provided by the question
- Don't write more than required
- 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

- 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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Closing

- **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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Thank you