



Certified Tax Adviser (CTA) Qualifying Examination

Paper 1 - Accounting and Finance

Objective of the Paper

The accounting for transactions of enterprises, reporting of the accounting results in financial statements as well as capital and cash management.

After successfully completing the examination of this paper, candidates should be able to prepare financial statements and reports according to the generally accepted accounting principles and to use funds wisely and secure funds, if necessary, for the smooth operation of an enterprise.

New Accounting Standards

The Institute will not set questions requiring detailed knowledge of new accounting standards until *at least six calendar months* after the last day of the month in which the standard is pronounced by the Hong Kong Institute of Certified Public Accountants. However, candidates taking the examination should be prepared to answer questions requiring knowledge of the principal aspects of relevant standards at examinations held within that six-month period.

Structure of the Paper

The paper is a three-hour examination to be based on all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), the collective term of which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the accounting principles generally accepted in Hong Kong. Questions will not be set on changes of financial reporting standards pronounced within six months before an examination.

Format of the Paper

The examination paper consists of two sections:

Section A

This section scores 32% of the overall marks of the paper and consists of one compulsory question.

Section B

This section scores 68% of the overall marks of the paper. Five questions will be set and candidates are required to answer any four questions in this section.

Syllabus for the Paper

Accounting

Objectives and basis of preparation of financial statements

- regulatory and conceptual framework for financial reporting
- applicable Hong Kong Financial Reporting Standards (HKFRS) comprising Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKAS), interpretations issued by the Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong
- quantitative constituents of financial statements
- reporting requirements of different entities, including small and medium-sized entities

Preparation and presentation of the following financial statements

- statement of profit or loss and other comprehensive income
- statement of financial position
- statement of changes in equity
- statement of cash flows
- applicable note and disclosure provisions

Accounting for elements of financial statements

- Non-current assets
 - o Tangible non-current assets
 - identify, classify and measure non-current assets
 - understand purposes and techniques of various depreciation methods in relation to different non-current assets
 - identify situations that indicate impairments to assets
 - apply impairment assessment to determine impairment loss including date of its recognition and recoverable amount of an asset
 - o Intangible assets
 - understand, classify and measure intangible assets
 - record acquisition, amortisation and disposal of intangible assets
 - measure any profit or loss on disposal
 - apply impairment assessment to determine impairment loss including date of its recognition and recoverable amount of an asset
 - understand impairment test associated with goodwill
 - o Long-term investment of financial assets
 - identify and understand different types of long-term financial investments
 - measure long-term shares and financial instruments including convertible bonds and financial derivatives
 - calculate appreciation and devaluation of these long-term investments
 - o Interests in subsidiaries, associates and joint ventures
 - recognise purposes and basis of required financial reporting
 - understand accounting treatments for merger and acquisition/business combination
 - prepare consolidated financial statements
 - o Investment property
 - define, identify and measure investment property
 - measure acquisition, holding and disposal of investment property
- Non-current liabilities
 - o identify, classify and measure non-current liabilities including legal and constructive obligations
 - o measure taking up and discharge of non-current liabilities, payment of interest and related expenses
 - o account for contingent liabilities, allowances, and provisions
 - o account for leases
- Current assets
 - o identify, classify and record current assets
 - o prepare bank reconciliation
 - o reconcile accounts or trade receivable

- o reconcile various types of stock or inventory with different methods
- o measure and account for
 - cash and cash equivalents
 - accounts receivable or trade receivable
 - foreign exchange
 - stock or inventory
 - deposits and prepayments
 - short-term financial investments
 - impairment of assets
- Current liabilities
 - o identify, classify and record current liabilities
 - o reconcile accounts payable and tax payable, and update corresponding provisions
- Equity
 - o understand different forms of organisation in which business can be carried on
 - o understand source and use of equity capital
 - o verify and record injection and reduction of equity capital
- Revenue, expenses and profit
 - o understand basis of recognition of different kinds of revenue/income and expenses
 - o identify, classify and record different kinds of revenue/income
 - o identify, classify and record various expenses incurred in different forms of organisation
 - o calculate profits for diverse purposes
 - o comprehend and present prior period adjustment
 - o measure foreign exchange and related effects

Finance

- Conceptual framework of financial management
 - o recognise objective of financial management
 - o understand economic, financial and legal environments, and their impacts on financial management
 - o recognise integrated effect among various analysis, decisions, processes and controls in relation to financial management
- Financial analysis
 - o understand purpose and nature of financial analysis
 - o calculate and apply different financial ratios and trends to explain relationships among financial data
 - o measure risks and recognise importance of time value of money, inflation and deflation
- Budgeting
 - o understand functions of budget committee and differences among planning, controlling, forecast and budgeting
 - o employ budgeting techniques and prepare budgets for the whole enterprise and different departments within the enterprise
 - o implement related control mechanism for performance monitoring and evaluation
- Short-term financial management
 - o identify sources of cash and prepare cash forecasting
 - o implement working capital management
 - o employ inventory, accounts receivable and payable control
 - o understand treasury functions including management of surplus or deficit fund
 - o assess corporate needs for short-term investment
 - o comprehend means, reasons and impacts of different forms of short-term investment
 - o acknowledge key factors for unhealthy liquidity
- Long-term financial management
 - o identify reasons of financing
 - o understand effects of different financing alternatives, namely capital financing and loan financing
 - o identify pros and cons between financing alternatives

- o determine methods of capital financing and loan financing
- o calculate costs of capital financing and loan financing
- o identify advantages and drawbacks of different capital structures
- o measure cost and consequence of different ways of profit distribution, including dividend payment to shareholders
- o understand procedure of dividend payment, and pros and cons of payment of dividend in cash and other forms
- o recognise significant factors for business failure and insolvency

Reference Books

1. **Applying IFRS Standards**

Author: Ruth Picker, Kerry Clark, John Dunn, David Kolitz, Gilad Livne, Janice Loftus, Leo van der Tas

Publisher: Wiley, 4th Edition, 2016

2. **Intermediate Accounting: IFRS Edition**

Author: Spiceland, D. J. et al.

Publisher: McGraw-Hill, Global Edition, 2013

3. **Corporate Finance with S&P card**

Author: Stephen A. Ross, Randolph W Westerfield, Jeffrey Jaffe

Publisher: McGraw Hill-Irwin (latest edition)

4. **Principles of Corporate Finance + Student CD + Ethics in Finance PowerWeb + Standard and Poor's (McGraw-Hill/Irwin Series in Finance, Insurance, and Real Est)**

Author: Richard A Brealey, Stewart C Myers, Franklin Allen

Publisher: McGraw-Hill/Irwin (latest edition)

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