Local News Express

UPCOMING EVENTS

Cocktail in June — How do you boost results by creating A GREAT WORKPLACE CULTURE?
Friday, 22 June 2012, 6:30pm to 9:30pm (Free of Charge)

Co-organized by CMA Australia, Great Place to Work and Ascent Partners, this cocktail is an excellent opportunity to learn from experts of Workplace Cultures. Please bring your friends and peers along and enjoy this networking opportunity.

Fee:	Free of Charge
Venue:	CMA Australia Office 12/F Tai Yip Building, 141 Thomson Road, Wanchai, HK
Registration:	Email your full name and phone number to info@cmaaustralia.org or contact Ms Shirley Yu at 2574 1555 to reserve a seat.

"Passport to Success" Seminar & Information Day at HKIVE Shatin Campus
Saturday, 16 June 2012, 10:00am to 4:00pm

As one of the Founding Organisations of the "Professional Alliance Round Table", CMA Australia will participate in the "Passport to Success" Seminar & Information Day at HKIVE Shatin Campus on 16 June 2012. This event is tailored for fresh graduates, job finders and especially to this year's HKDSE graduates. In this whole day career path-finding event, guest speakers will be sharing their professional experience focused in areas of business administration, finance, accounting, and financial planning. Advising graduates of programs leading to these professional qualifications. There are also information booths to answer enquiries and to provide programs information.

Founding / Participating Organisations include:

- CMA Australia
- The Association of International Accountants
- The Hong Kong Management Association
- The Institute of Financial Accountants
- The Institute of Financial Planners of Hong Kong
- London Chamber of Commerce and Industry

Please forward this news to your friends, especially those who would like to find out more about the Accounting / Financial Planning career pathways.

Fee:	Free of charge
Venue:	HKIVE Shatin Campus, 21 Yuen Wo Road, Shatin, New Territories
Registration:	www.pro-alliancehk.com/registration
Enquiries:	Contact Ms Shirley Yu at 2574 1555

MBS Business Summit 2012—World Economy Outlook: What's Next

12 July 2012, 9:00am— 2:00pm, S421, Hong Kong Convention and Exhibition Centre

CMA Australia is proud to be a supporting organization of The MBS Business Summit 2012 organized by Manchester Business School (MBS) Alumni Association (China).

The European financial crisis not only impacted the western economies over the past year but is has also deeply affected the confidence of global markets. In view of this timely economic issue, the MBS Business Summit-cum-luncheon aims to provide insights on the current and medium term outlook for the world economy, risks and potential opportunities for investors and the trend of emerging Asian economies.

Date:	Thursday, 12 July 2012
Time:	9:00am— 2:00pm
Venue:	S421, Hong Kong Convention and Exhibition Centre, Wanchai, HK
Fees:	HK$1800 (members of supporting organizations)
Registration:	http://www.mbs.edu.hk/summit2012.html
Enquiries:	Summit Secretariat, Ms Fiona Ng—2823 1230

MEMBERSHIP

Annual Subscription Fee 2012/2013

CMA Australia members should have received the Annual Subscription Notice 2012/2013 sent directly from the Australia Head Office.

Should you wish to settle the fees in Hong Kong dollars (HK$1900 for CMA status; HK$1700 for AMA status) by cheque payable to "CMA Australia" or by cash (over our HK office reception counter), please contact our Secretariat at 2574 1555.

Member-Get-Member Campaign

CMA Australia members are invited to refer your friends, colleagues or peers to join CMA Australia **from now to 1 July 2012**. For each successful nomination, you will be entitled for 2012-2013 membership subscription discounts*.

Step 1: Nominate prospective candidates

Step 2: Candidates to submit the application and program enrolment form (together with your nomination form)

Step 3: For each successful nomination, the Nominator will entitle to the following discounts*:

Please also note that the CMA Program & Application Fees will be increased from HK$22,000 to HK$28,000 from the September 2012 intake onwards. Candidates who are referred by our students / members may be entitled to the current rates.

For more information, please contact us at 2574 1555.

CONDUCTED / ATTENDED EVENTS

Lunch Seminar - How to strengthen the export credit risk control by accounts receivable management

Co-organized by CMA Australia, EOS Hong Kong and Ascent Partners, this lunch seminar was successfully held at CMA Australia Hong Kong Office on 18 May 2012. Our guest speaker, Mr Cobe Tsang, Managing Director, Sales and Marketing of EOS, has illustrated methods to strengthen Accounts Receivable Management (ARM) in his presentation. Mr Tsang has also shared with participants how ARM helps minimizing export credit risk of a company and how it reinforces companies' liquidity for further development.

Meeting with the Institute of Public Accountants (IPA), Australia

A meeting was held between The Institute of Public Accountants (IPA), Australia and CMA Australia at the Hong Kong office in May 2012.

The aim of this meeting is to enhance co-operation opportunities between the two professional bodies. Both bodies have shown interest to explore the arrangement for CMA Australia members in Hong Kong to obtain the IPA membership under a special admission pathway (and vice versa). More information will be provided to members once it is available.

(Left: Mr Arthur Burt, Executive General Management, Divisional Operations, IPA; Middle: Mr Andrew Conway, Chief Executive Officer, IPA; Right: Mr Allen Wong, Chief Executive -Greater China, CMA Australia)

Member's Article

We have great pleasure to share an article written by Professor Ted Chen, Professor & Head of Department of Accounting, Hong Kong Shun Yan University, who is also a Foundation CMA Member. This article has also been published recently in the ICMA's On Target Online Journal (issue 7).

Having received his degrees from McGill University (B.Com.), the University of British Columbia (M.B.A.) and the University of Hong Kong (Ph.D), Professor Ted Chan has taught at the University of British Columbia, Simon Fraser University and Trinity Western University in Canada. He has contributed to international academic refereed as well as practice journals. In 2003, Chen was honored by the Certified Management Accountants Society of Canada as a Fellow and by the Association of International Accountants in the United Kingdom as an honorary fellow member for his international contribution to the accounting profession. In 2010, he was honored by the Certified Management Accountants in Australia as a Foundation Member in Hong Kong. As a practicing Certified Management Accountant in Canada, he is also a Fellow of the Hong Kong Institute of Directors.

Aside from being an academic, Chen has served on various committees and boards of professional accounting bodies in Hong Kong and Canada as well as providing consultancy services to a variety of industries. He has held middle to senior management positions in a spectrum of Canadian industries, including retail and distribution, automotive manufacturing, oil, forest, banking, insurance, real estate and public practice.

The Dilemma of Measurement in Financial Reporting

By Professor Theodore T.Y. Chen

The Measurement Problem

Those of us working in accounting realize that the numbers reported in financial statements may not be precise as a result of estimates. On the other hand, readers of financial statements could be laymen to the accounting profession and would likely construe that these numbers are accurate to the last dollar. The fact that it is not uncommon to see amounts reported in thousands of dollars instead of to the last dollar in financial statements is an indication that to do otherwise, could indicate to the readers a degree of precision which is not there.

Examples of estimates include allowance for uncollectible accounts, allowance for depreciation, allowance for warranty, disclosure of contingent liabilities, etc. Contingent liabilities may or may not have to be disclosed, depending on the level of probability that the contingency would materialize. If the probability is remote, no disclosure is required and if it is probable, disclosure would then take place by means of a footnote, the estimate of which would be based on legal advice. Only when the probability is most likely would journal entries be required, hence affecting both the balance sheet and income statement.

The primary culprit of the measurement problem comes from estimated allowances as a result of observing the matching principle under generally accepted accounting principles (GAAP), whereby estimated expenses not necessarily incurred must be matched with revenues in the same accounting period as these expenses have helped to generate the reported revenues. This paper provides a closer, but brief, discussion of two of such allowances, namely allowance for uncollectible accounts and allowance for depreciation.

The Case of Uncollectible Accounts

The allowance for uncollectible accounts is estimated in one of two ways, the percentage of net credit sales and the aging method. Because of its simplicity, the former is used by more companies than the latter. Each method is based on a different philosophy from the other. In the case of the percentage of net credit sales, it is assumed that the uncollectible portion of receivables varies with net credit sales and that this percentage can be estimated based on past experience. In the case of the aging method, it is assumed that the longer one waits, the probability of the account being a bad debt gets higher and that such probabilities can be estimated for the various ranges of days outstanding. The method then bears no direct relation to the amount of credit sales although it is conceivable that receivables vary in direct proportion to credit sales.

A superficial comparison of the two methods shows that the aging method is more superior as it is based on past experience pertaining to uncollectible accounts under the assumption that if an account remains unpaid for a longer period of time, then it is more likely that it will be delinquent. On the other hand, both methods generate inaccurate results as the estimates are based on past experience and past performance is no indication of future performance. We can see that in 2008, the global financial tsunami caused financial institutions to under-estimate uncollectible allowance, causing phenomenal losses in that year. We can also see that in the purchase of investment funds, there is always a disclaimer indicating that past performance is no indication of future performance.

In addition to the aforementioned, the estimation process for both methods is highly subjective resulting in even more measurement problems. As in each year, the actual percentage of net credit sales for bad debt is different and the same applies to the percentages used for each category of collection period, there is no consistent method used by companies world-wide as to how the estimated percentages are arrived at.

Another drawback relates to the use of the aging method when applied to small and medium size enterprises (SMEs) whereby the customer base is relatively small and is concentrated in a small number of large accounts as in the case of Hong Kong. These customers tend not to pay up when the receivable is due and could drag on for another one or two months to settle their obligation. However, they always pay their bills. Hence, this pattern of payment defeats the assumption underlying the aging method.

The Case of Depreciation

Depreciation is like the allowance for uncollectible accounts in two ways in that the economic life of the long-term asset and its residual value must be estimated, hence its subjectivity and that it is done in observance of the matching principle. However, unlike the allowance for uncollectible accounts, depreciation serves yet another important function, in that it is an allocation of the historical cost of a long-term asset over its useful or economic life as the economic benefits of the asset to a company is long term. On the other hand, depreciation can be used as a tool for earnings management in that the accounting choice can be legitimately made to suit the aspirations and needs of the company. For stable revenue-generating assets, the use of the straight-line method tends to stabilize income, while accelerated methods such as the double-declining balance method (DDB) would be beneficial for early tax write-offs and for assets that generate more revenue in the earlier years. It too has an income stabilizing effect in that the repairs and maintenance expenses in the later years tend to offset the decline in depreciation expenses. The units-of-production method is based on the assumption that an asset depreciates in accordance with usage, considering only the physical wear and tear, but not the obsolescence factor. The expenses track the revenues closely and have a stabilizing effect as well.

The earnings management function of depreciation resembles that of inventory methods based on cost flow assumptions. As inflation takes place more frequently than deflation, the use of the first-in first-out method impresses the Board of Directors and aggressive investors seeking significant capital gains in their investments. The use of the last-in first-out method reports less earnings and is a tax-savings device and hence, cannot be used in Canada. The use of the weighted average method stabilizes earnings and appeals to investors who wish to see stable earnings growth and to avoid significant fluctuations.

Concluding Remarks

The above discussion shows that estimates made on a subjective basis to satisfy the matching principle creates a measurement problem in the financial statements. On the other hand, independent auditors of financial statements never guarantee the accuracy and precision of the numbers presented in these statements. They only vouch on the fairness of the presentation and the consistency in the approach that these numbers have been prepared. As such, readers should not rely solely on the numbers reported in the financial statements of only one year or one accounting period, but to compare the operating results of the company over several years or accounting periods to detect a trend, if any. It is advisable to seek expert advice on computed financial ratios for liquidity, solvency, etc., and to detect a trend as well from these ratios.