

香港華人會計師公會會刊

馬炎輝題
一九六六

The
CHINESE ACCOUNTANT
1966



The Armorial Bearings of
THE SOCIETY OF CHINESE ACCOUNTANTS AND AUDITORS
Hong Kong

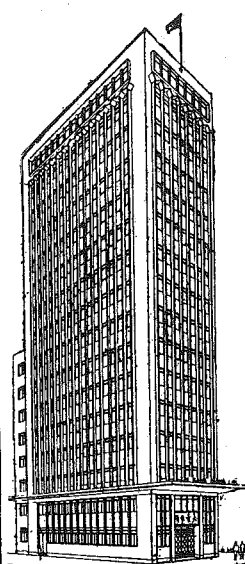
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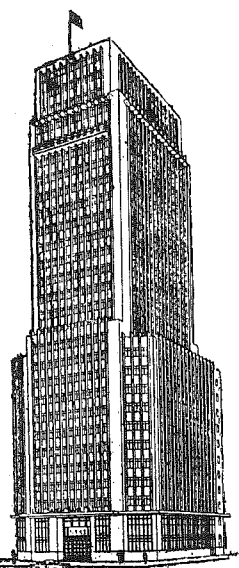
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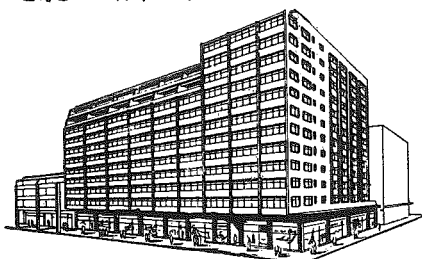
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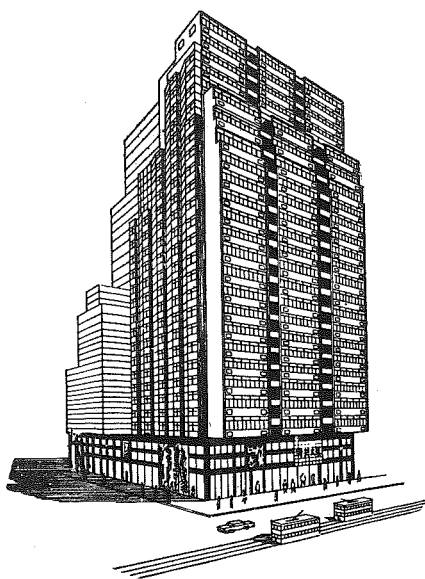
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First Chairman of the Society when it
was founded in 1913



Group photograph taken at the 52nd Annual General Meeting of the
Society held on December 15, 1965.

本會理監事玉照 (一九六六年)

Council Members of the Society. 1966



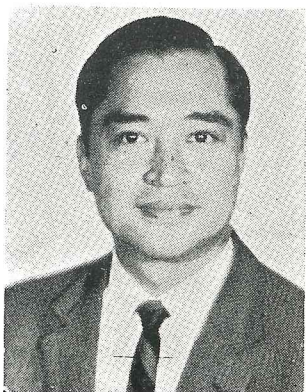
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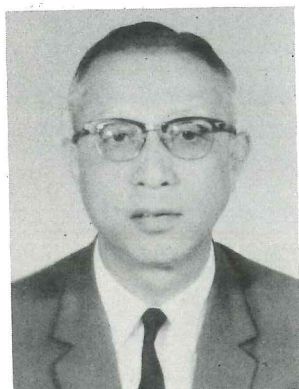


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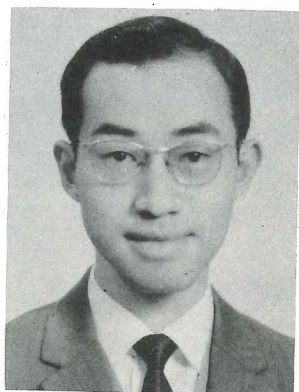


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歐陽亦芻
Auyang Yik Fung
Supervisor



Mr. Charles Mar Fan, Chairman, reports at the Annual General Meeting of the Society held on 15/12/65.



Mr. M. W. Kwan, Vice Chairman, speaking at the 1965 Annual General Meeting.



Mr. S. J. Wong Hon. Secretary, is seen reporting at the 52nd A.G.M.



Mr. J. M. Wong J.P., (centre) First Chairman of the Society 53 years ago, still showed keen interest in the Society. Others in the picture taken at the 52nd A.G.M. (L to R) were Messrs. C. P. Young, Jackin Poon, S.K. Leung, Chen Kang and John T.O. Wong.



Serious Resolute determination of voters for the General Council at the 52nd A.G.M.



Happy faces at the annual dinner of the 52nd A.G.M.

The Fourth Asian and Pacific Accountants Convention
in New Delhi



The Hon. Mr. P. B. Gajendragadkar, Chief Justice of India, is seen delivering his inaugural address.



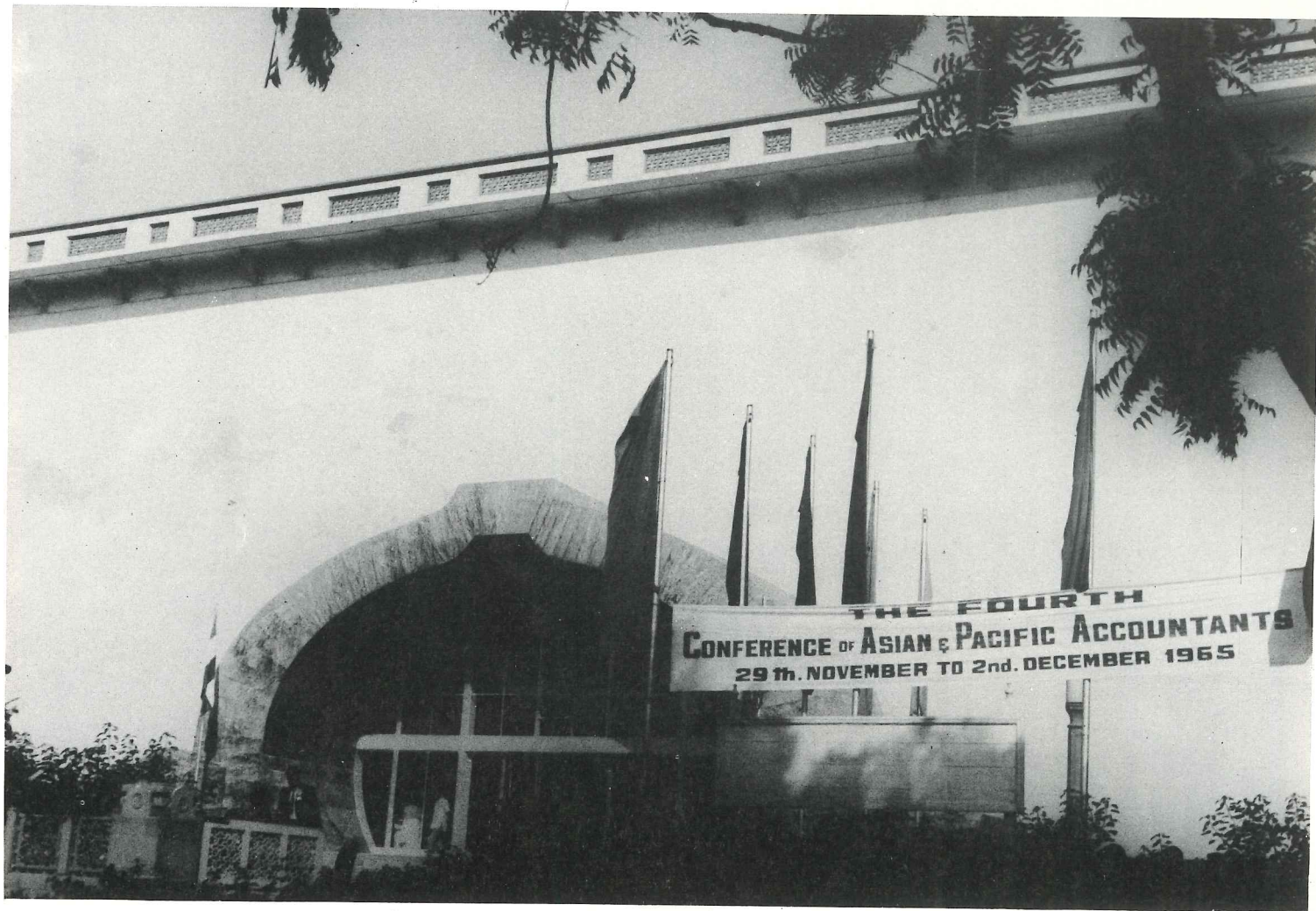
Leaders of all overseas delegations on the platform during the inaugural and closing sessions. Mr. Charles Mar Fan is seen 4th from left.



Mr. Charles Mar Fan speaking at the Conference.



Mr. Charles Mar Fan at the Overseas Delegations bench.



Facade of Viygan Bhawan Hall of Knowledge where the 4th
Conference of Asian & Pacific Accountants was held.



Full view of the Conference Hall.

PREFACE

Hong Kong has undergone fundamental and far-reaching economic and social changes since the end of the Pacific War in 1946. Although these changes have been brought about by circumstances arising largely from external events and influences, the pace of much of the local development which they have induced has been accelerated by the traditional ability of Hong Kong's people to adapt themselves quickly to a changing environment and eventually to become an integral part of it.

The enormous industrial expansion which has taken place in Hong Kong during the last decade or so provides an example of the way in which local people can identify themselves with changing conditions and, by their enthusiasm and hard work, help to speed up the very process of change. From almost total economic reliance on imports and re-exports of the products of other countries for over a hundred years, Hong Kong, in ten to fifteen years, has become an internationally known industrial producer. Hong Kong products have become well known in almost every country of the world and the local economy is now heavily reliant on industry. This metamorphosis could not have taken place so rapidly and so completely without the spontaneous participation and assistance of all sectors of the community.

Not the least among these is the sector which bears responsibility for accounting and auditing the Colony's financial, commercial, industrial and sometimes even social records. It is on the accountant, and his professional ability and code of ethics, that much of the Colony's business depends, for it is the accountant who must ensure that industrialists and men of commerce are kept aware of the state of their enterprises. It is very often the accountant to whom such men turn when seeking advice on such aspects of their businesses as viability and stability. That the advice given has proved effective and that the bond between the professional accountant and his client in Hong Kong is built on trust and friendship, there can be little doubt. The accountant has thus contributed much to the growth of the industry on which we all depend.

But much remains to be done. The industrial and economic face of the Colony is constantly changing. New enterprises emerge and established businesses expand. New techniques are tried, new machinery purchased, and new managerial skills are taught. The whole internal structure of this expanding industrial complex is forever improving to meet the pressures of a competitive world. In all this, the professional accountant has an honourable and important part to play. From my public association over many years with members of the accounting profession and from my personal observation of their skill and endeavour, I have no doubt that the business accounts and records of this Colony are in good hands.

I am grateful to the Chairman of the Society of Chinese Accountants and Auditors for giving me this opportunity of recording my appreciation of the work of the Society and its members and their contribution to the economic progress of Hong Kong.

D. R. Holmes

Director of Commerce and Industry

THE ARMS OF THE SOCIETY

Through our application in early 1962 to the College of Arms, we have since been granted and assigned the desired Arms and Crest unto the Society of Chinese Accountants and Auditors, Hong Kong, to be borne and used for ever hereafter by the Society on seals or otherwise according to the Laws of Arms. The Grant is recorded with pride as an indication that the Society has reached a significant stage in its history.

It is interesting to note that the College of Arms will not make a Grant without satisfying itself as to the standing and importance of the applicant, so that the Grant to the Society can be taken as evidence that it has satisfied the tests of the College.

In the course of arriving at a suitable design for the Armorial Bearings, considerable thought was given to the components which were ultimately incorporated into the design, so that they would be symbolic of the accounting profession of the Chinese Accountants and Auditors in Hong Kong, and at the same time conform with the standards laid down by the College of Arms.

The Armorial Bearings of the Society of Chinese Accountants and Auditors, Hong Kong, as shown in colour on the cover, were granted in December 1963, and recorded at the College of Arms, London. The dragon and the horse in the crest historize the Chinese saying of "unbending spirit", the book in between is suggestive of a traditional ledger. The abacus in the chief is the time-honoured computing device of Chinese origin, and the two sailing junks below symbolize the entrepot of Hong Kong. The scroll carries a motto in four ancient Chinese characters meaning that correct monthly and annual accounts are essential in accounting.

A reproduction of the Letter Patent (in which form notice of the Grant of Arms is officially conveyed) appears separately on another page herewith.

Perhaps a line or two to explain the significance and origin of a "coat of arms" may not be out of place here.

"The word "arms" relates to their original use on defensive armour and "coats of arms" were embroidered on the surcoat or camise worn over the armour. They are thought to have come into use in England first in the reign of Henry II and Richard I Coeur de Lion (12th century).

As long as knights were encased in plate from top to toe, coats of arms were the only sure means of identification and evidence of standing of the bearer. They became identified with their fame, eventually became hereditary and were subject to rules of descent and of honour and also to the laws of property.

They came rapidly into use in the 13th century, fostered by the diversions of the tournament, and were then mainly displayed on the shield, this being, of course, the most obvious piece of the defensive armour. They were, however, also displayed upon the breastplate, the surcoat and the housings of horses. They even came to be painted, enamelled and embroidered upon personal ornaments, furniture and weapons.

The whole of the heraldry of the kingdom was not placed under specific control until the reign of Richard III, when the heralds were incorporated into a College of Arms under the presidency of the Earl Marshal."

(Reference: "The Australian Accountant" January 1959)

Facsimile of the Armorial Bearings recently assigned by the College of Arms to the Society of Chinese Accountants & Auditors

THE FOURTH ASIAN & PACIFIC ACCOUNTANTS CONVENTION—1965

Charles Mar Fan, FACCA FCIS &c.

PRELIMINARY

The 4th Conference of Asian and Pacific Accountants (CAPA) was held in New Delhi, India, from November 29 to December 2, 1965, as scheduled.

As in the past two Conventions, the Society was invited to send a delegation to attend the Conference, but owing to business exigency causing the other intending delegates, only the writer was able to make the trip, as a representative of the Hong Kong Branch of the Association of Certified and Corporate Accountants as well as this Society, in his capacity as Chairman of both Associations.

He arrived in New Delhi by air on the early morning of November 28 and stayed at Ashoka Hotel. After attending the wreath laying ceremony at Rajghat and Shanti Vana, and a preliminary talk among the leaders of overseas delegates in the afternoon of November 28, the Conference was set in motion. In this preliminary talk, the procedures of conducting the meeting agenda were reviewed and decided upon.

The Conference was held at the Vigyan Bhavan (Hall of Knowledge) in Maulana Azad Road, New Delhi. It is a huge hall with a seating capacity of 1,500, and the assembly was fully packed on the opening day. The Conference was formally inaugurated by the Hon. Mr. P. B. Gajendragadkar, Chief Justice of India, after a welcoming address by the Conference Chairman, Mr. C. C. Chokshi, F.C.A.

At the outset, the Conference Chairman read a message from His Excellency, Mr. Lal Bahadur Shastri, the Prime Minister of India, and it is reproduced below:—

“The poverty and problems which afflict two-thirds of the human race, specially in Asia and Africa, are tremendous and the resources are limited. In this context, the Accountants and Financial Advisers have to perform an extremely important function. It assumes greater importance in the developing countries which are yet to establish higher techniques of Cost Accounting and Programme Evaluation and who have to face so many conflicting demands on their slender resources. I hope the Fourth Conference of Asian and Pacific Accountants will prove useful in this task.”

In his address of welcome, Mr. Chokshi emphasised, inter alia, the point of professional conduct between professional brethren in the following words:—

“It is recognised that accountancy is a social science too. At the core of all learned professions, there is a commitment to the conception

of public good and how best it can serve society. Our profession is no exception to this. The main objective of a profession is to make the contribution to society by rendering service. The profit motives goes into the background. It, therefore, becomes necessary to adhere strictly to a correct code of conduct. The concept of a correct code of conduct is two-fold.

"The first is the internal regulation of professional conduct between professional brethren which is governed by the rule of professional etiquette.

"The other and more important one is the conduct of a professional man in relation to society at large. Such conduct should constantly strive to enhance the public image of an accountant through the underlying objective of public good."

Inaugurating the Conference, the Honourable Guest Speaker called upon the accountancy profession to serve as an instrument to change the direction of transacting business which has to take in the socio-economic context of modern times. Mr. Gajendragadkar said, in part, all "liberal professions" — law and accountancy included — have to face with the prospects of regulation or socialisation if they do not respond properly to the challenges of a society undergoing profound socio-economic changes. The Chief Justice also reminded the auditors and accountants that they had a duty not only to their employers but to the society at large. They had a role in seeing that the activities of businesses and industries conform to public interest, but the role of accountants as servants to their employers was hardly suited to the present times, added Mr. Gajendragadkar.

Mr. A. K. Roy, Comptroller and Auditor General of India, and Mr. S. L. Kirloskar, President, Federation of Indian Chambers of Commerce & Industry, were the other two guest speakers in the inaugural session.

Suggesting that the Conference should devise a way for securing independence to the auditor in the private enterprise, Mr. Roy said that the auditor could not be objective to his certification of company accounts, so long as he was at the mercy of his employer. Although the law provides that auditors should be appointed not by managements but by shareholders, in practice, auditors are at the mercy of the managements. Even countries like the United States and the United Kingdoms, continued Mr. Roy, had a stake in the proper functioning of giant corporations. And it was essential that these corporations should bear "scrutiny by competent men without fear or favour" of the managements. It was up to the accountancy profession itself to ensure that it is able to perform its very important function "in an atmosphere of complete freedom not only in law but in substance", Mr. Roy added.

On the other hand, Mr. Kirloskar criticised some provisions in the Companies Act which related to the rights and powers of auditors. An auditor is supposed to be a "watchdog", not a "bloodhound"; but under the present provisions of the Companies Act he is certainly "more than a watchdog", he added.

PARTICIPATING COUNTRIES

The countries and the organisations participating in the Conference were:

AUSTRALIA:

The Australasian Institute of Cost Accountants, Melbourne
Australian Society of Accountants, Melbourne
The Institute of Chartered Accountants in Australia, Sydney

CANADA:

The Canadian Institute of Chartered Accountants, Toronto

CEYLON:

The Institute of Chartered Accountants of Ceylon, Colombo

HONG KONG:

The Hong Kong Branch of the Association of Certified & Corporate Accountants
The Society of Chinese Accountants and Auditors, Hong Kong

INDIA:

The Institute of Chartered Accountants of India, New Delhi
The Institute of Cost and Works Accountants of India, Calcutta

JAPAN:

The Japanese Institute of Certified Public Accountants, Tokyo
The All Japan Registered Public Accountants Association, Tokyo
The All Japan Institute of Certified Public Accountants, Tokyo

LEBANON:

The Middle East Society of Associated Accountants, Lebanon

MALAYSIA AND SINGAPORE:

The Malaysian Association of Certified Public Accountants, Kuala Lumpur
The Singapore Society of Accountants, Singapore

NEW ZEALAND:

The New Zealand Society of Accountants, Wellington

PHILIPPINES:

Philippine Institute of Certified Public Accountants, Manila

THAILAND:

The Institute of Certified Accountants and Auditors of Thailand, Bangkok

U.S.A.:

American Institute of Certified Public Accountants, New York
Financial Executives Institute, New York

There were 45 delegates from overseas (the bigger contingents were from Australia and the U.S.A.), and about a thousand accountants came from all parts of India, mostly from Bombay and Calcutta.

SESSIONS OF THE CONFERENCE

The opening session of the Conference ended up, after a coffee break, with a series of addresses to the gathering which the head delegate of each participating organisation from overseas was called upon to give.

The technical sessions started in the afternoon of November 29, and the synopsis of the business transacted thereat is given below for general information:

<u>Date</u>	<u>No. of Session</u>	<u>Subject</u>	<u>No. of Papers</u>
Mon. Nov. 29, p.m.	1st	Accounting	5
Tue. Nov. 30, a.m.	2nd	Auditing	4
Tue. Nov. 30, p.m.	3rd	Taxation	5
Wed. Dec. 1, a.m.	4th	Management Accounting	5
Thu. Dec. 2, a.m.	5th	Professional Development	5

The papers were not read but were aptly summarised by a rapporteur at each session. Besides, there were a Chairman, a co-chairman and a number of commentators remarking on the papers, and the explanatory replies by the authors. The session then concluded with a summary by the Chairman and a vote of thanks by one from the head table.

A couple of papers are reproduced elsewhere in this issue for the interest of our readers.

Although the sessions were lengthy and hndrum at times, the whole Conference period was not at all monotonous, for a variety of entertainments was arranged for all the participants in the forms of tea reception, musical recital, fashion shows and folk dances in the evenings. Lady visitors accompanying husbands to the Conference were also well looked after by a lady sub-committee.

Of the panel speakers on the papers, it was hard for the writer to forget one, a middle-aged lady who also being a chartered accountant herself, nearly brought the house down when she advocated the importance of professional development for women. She is Miss R. Sivabhogam from Madras.

The farewell session on December 2 was highlighted by the exchange of souvenirs between the head delegates from overseas and the Conference Chairman. Prior to this, Mr. Chester Bowles, the U.S. Ambassador to India, gave a talk on "U.S. Foreign Policy" which, being an entirely different sub ect,, caught the technically-minded gathering rather unexpectedly.

Summing up, the Chairman, Mr. C. C. Chokshi, said that the participants agreed that all activities relating to training and education of accountants should be broadened, so that this specialised profession could render greater service to its management. The important verdict was that professional accounting agencies should be the pioneer, especially in the developing countries, by assisting industrial managements to fulfill their social obligations to the community, Mr. Chokshi added.

Mr. N. Dandekar, F.C.A., M.P., another speaker at the concluding session, also emphasised the vital role of accountants in the newly developing countries, where public opinion against the private group was becoming pronounced.

THE NEXT CONFERENCE

At the end of the Conference, it was resolved by the head delegates that the 5th Conference of the Asian and Pacific Accountants be held at Wellington, New Zealand in March, 1968. It is hoped that there will be a larger delegation going there from Hong Kong.

CONCLUSION

As a whole, the Conference at New Delhi was a success in many respects and on behalf of the 2 Associations he represented, the writer records herein his grateful thanks to the sponsoring bodies — the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India — for the overwhelming hospitality, assistance and kindness extended to him during his brief stay in the Indian capital, and his sincere appreciation of the excellent way in which the Conference work was prepared and conducted.

The Institute of Chartered Accountants of India has made tremendous strides in recent years. It is a statutory body functioned since July 1, 1949 under an Act of Parliament and has its Regional Offices at Bombay, Calcutta, Madras and Kanpur and branches in many large cities throughout the Country. Its headquarters in New Delhi is a magnificent multi-storied building owned by the Institute, and its total membership stood in December 1965 at 7,291; 5,011 Associates and 2,280 Fellows. It also publishes a monthly journal entitled "The Chartered Accountant".

The Institute of Cost and Works Accountants of India has its headquarters in Calcutta and also possesses its own building. It was similarly enacted as a statutory body, established since May 28, 1959. Its constitution and set-up is analogous to the Chartered Institute aforesaid.

The objects, aims and achievements of the Convention, since the first Conference in Manila, were reviewed at some length by the head delegates at the conclusion of the meetings and the writer would wind up his report by quoting the relevant resolutions passed thereat as follows:—

"RESOLVED that the main objectives of CAPA be the bringing together of official representatives of the various professional bodies for discussing —

- (1) means of developing their own services to their own members and their own communities in education for accountancy including continuing education for professional men, in accounting research, in ethical professional conduct and associated activities.
- (2) means of developing professional standards, practice, and techniques at national and international levels.
- (3) separate from but associated with this provide opportunity for the participation of local members in the Conference wherever it may be held."

APPENDIX

A miniature facsimile of the printed greetings of the Society presented to the 4th CAPA is shown below:—

*The Society of Chinese Accountants and Auditors
Hong Kong*

Greetings

The Chairman, Council and Members of the Society of Chinese Accountants and Auditors, Hong Kong, extend their warmest greetings through their delegates, Mr. Charles Mar Fun, Chairman, and Mr. Peter Chan Po Fun, to the Fourth Conference of Asian and Pacific Accountants, to be convened in New Delhi, India, from 29th November to 2nd December, 1965.

They feel greatly honoured by being invited to the Conference whereat opportunity is accorded to practising and non-practising accountants in all lines of industrial and commercial undertakings and public and private enterprises, to discuss and exchange views on matters relevant to the accounting profession. The Conference, under the able leadership of experienced and learned men of the profession and through the co-operation and esprit de corps of the participants, will, they firmly believe, result in augmenting the fund of knowledge and promoting matters of common interest.

In token of our appreciation of the immense value of the Conference, they respectfully submit under separate cover a laudation in the Chinese language, and sincerely wish the greatest of success to the promoters, officers and committee members of the Conference and to all fellow delegates to the Conference.

November 29, 1965.

A TALK ON ACCOUNTANCY AS A CAREER

M. W. Kwan, M.B.E., F.A.C.C.A.

1. Accountancy as a Profession

All professions, said George Burnard Shaw, are a conspiracy against the laity. This was certainly the sentiment in his time when there was no problem that General Knowledge combined with Common Sense could not solve. Time has since changed and in the present age of specialisation, people rely more and more on the knowledge and expertise of the professions.

Accountancy as a profession is comparatively young having been organized as such only about 100 years ago. It owes its rise to prominence to (1) the advent of joint stock companies whose accounts are required by law to be audited by public accountants, (2) the growth of international trade involving intricacies of banking and exchange requiring the assistance of trained accountants, (3) the expansion of industry which in order to compete in the world market depends on cost accountants to arrive at the most economic cost of their products and (4) to the universal imposition of Income Tax which makes qualified accountants indispensable.

2. Life and Work

The accountant being charged with heavy responsibilities and entrusted with confidential matters must needs lead a sober life. His behaviour and general deportment must at all times be beyond reproach. An accountant over-indulgent in alcohol and other vices cannot remain in his profession for long however clever he may be. He must work unobtrusively, keeping mostly behind the scenes and his profession requires him to shun all publicity. He lacks the glamour of a barrister at court or the dignity of a judge on the bench. His work is never spectacular or dramatic and he leaves behind no edifice as monument to his genius.

In spite of all these shortcomings he occupies an established niche in the commercial world. His work is hard and unending but except on rare occasions his hours are regular and his remuneration adequate. But above all he has the self-satisfaction in that his work is impartial and his findings and reports are accepted with alacrity by opposing parties alike.

3. Scope and Opportunities

Accountants are broadly divided into two classes, public and commercial. The latter take up duties with business houses and in factories. Qualified accountants are generally given responsible positions as chief accountants. He is consulted on all financial matters and on account of his close touch with the activities of the business, the accountant has a better chance than most others for promotion to managerial positions and even to the Board of Directors. Many an engineer have complained about accountants being promoted over their heads in some essentially engineering establishments. In

fact accountants are much sought after for appointment as directors for their knowledge and training.

The accountant in industry has a most interesting job in controlling the cost of production. With an efficient cost system he pinpoints weaknesses and eliminates waste, and his value to industry is immeasurable.

In public institutions the strict control of expenditure and accurate budgeting often mean the survival and failure of the organisation.

In public practice, the accountant is held in esteem by his clients. He is called upon to check their accounts, prepare tax returns, appeal against excessive assessments, investigate irregularities and fulfill the statutory obligations of having their books audited in the case of limited companies. A client having out of necessity confided in his accountant is not likely to go to another and to start all over again. In fact the law does not encourage the change of accountants. Provided satisfactory service is rendered the number of clients increases naturally with time, and there is always room for new accountants.

4. Entry Qualifications

An accountant in training has to study besides bookkeeping and accountancy, tax laws, economics, finance, company law and a general knowledge of law relating to commerce. He must possess an aptitude for both science and arts. A liberal education is essential. An arts degree in economics accounting section, is a definite advantage but the minimum entry qualification is GCE with 5 O-level subjects in one sitting or 6 in two. English and Mathematics are compulsory. Until very recently the School Certificate was sufficient entry qualification in Australia. This has since been raised to Matriculation standard.

5. Training and Examination

There are 3 main professional associations of accountants recognized in Hong Kong and other Commonwealth Countries each being distinguished from the other by its training and/or examinations. They are the Chartered Accountants, Certified Accountants and Accountants of the Australian Society. The Chartered Accountants, in U.K. as well as in Australia require the service under articles of clerkship. A student with the minimum entry qualification will serve 5 years, and a graduate of a recognized university degree, three years. In return the student will receive guidance and practical training and a nominal remuneration, but the student must arrange for his own studies by correspondence course and for examinations. The examinations are held in U.K. and in Australia half yearly in two stages Intermediate & Final, the latter being divided into 2 parts. On passing all successive examinations and completing the required number of years of service under article as aforesaid, and payment of the prescribed fees the student emerges as a fully qualified Chartered Accountant. The disadvantage to the Hong Kong student is the requirement of his physical presence in U.K. or Australia involving immigration problems. A Chartered Account-

ant is in great demand as public accountants. However about two thirds enter Commerce and Industry.

The qualification of Certified Accountants may be attained overseas. While the same minimum qualifications are required on entry, no service under articles is required, provided that the student is engaged in work of general accountancy nature. There are the same examinations, Intermediate and Final, each in 2 parts. These are held in U.K. and in other overseas centres including Hong Kong. On passing the examinations, and completion of the prescribed period of work of general accountancy nature, 3 years in the case of graduates of recognized universities, HKU being one, and 5 years in the case of non-graduates; and sponsored by two other Certified Accountants the student will be admitted as a member of the Association. The HKU has made arrangements with the Association for integration of a number of subjects in its Economics Degree Course, so that graduates in this course will be granted partial exemption from the Intermediate Examinations. Certified Accountants are generally engaged in commerce and industry. But to qualify as public accountants, the candidate must show evidence of having served under a Public Accountant for 30 months. Both Chartered Accountants and Certified Accountants are recognized by Statute in U.K. as public accountants.

The Australian Society is undergoing sweeping changes in its policy in the education and training of accountants. In fact it has already stopped the registration of new students from overseas. It seems that from now on to qualify for its membership one has to go to Australia and study first in Universities and Technical Colleges. In the latter case, the candidate must have passed the Matriculation Examinations. After passing the examinations of the universities and colleges, another qualifying examination by the Society will be required to entitle the students for membership.

It cannot be over stressed that service with qualified accountants, whether under articles or not, is the most important part in the training of accountants. The academic side of accountancy may be learned in Universities, Technical Colleges or Correspondence Institutes but the professional skill in handling accounts and clients, the practical application of accounting principles can only be gained by experience. This is the essential feature which sets the Chartered Accountants apart.

6. Local Professional Body

It has been suggested that the time is now ripe for the formation of a local professional body. The Australian Society is withdrawing from the scene leaving only the Association of Certified Accountants to carry on taking in new students in Hong Kong. The HKU already conducts a partially integrated course for the Association. A professional accountancy body on national basis may be set up and with the co-operation of the University, there is no reason why accountants cannot be qualified in Hong Kong. At the beginning, the locally qualified accountants may not be internationally recognized, but in time they should reach the same status as locally qualified doctors, engineers and architects.

THE ACCOUNTANT'S LIABILITY FOR NEGLIGENCE

By Poon Wing Cheung, LL.B Hons. (Lond.) A.A.S.A., F.C.I.S.

Previous to the decision of the House of Lords in Hedley Byrne & Co. Ltd. & Heller and Partners Ltd. [(1963) all E.R. 575] (hereinafter called Hedley Byrne's case) handed down on 28th May, 1963, the extent of an accountant's liability for negligence was governed by the principles established in the Court of Appeal Case, Candler V Crane Christmas & Co. [(1951) all E.R. 426].

Briefly the facts in Candler V Crane Christmas & Co. are as follows:

Crane, Christmas & Co. were instructed to prepare the accounts of a limited Company. They were aware that the accounts would be read by Mr. Candler who was asked to invest money in the Company. In reliance of the accounts, Mr. Candler invested money in the Company and suffered a loss as the Company went into liquidation. The information given in the accounts prepared by the accountants was inaccurate.

Action was taken against Crane Christmas & Co. by Mr. Candler on the following grounds.

- (1) the defendants were negligent.
- (2) the defendants were in breach of a duty as the Company's auditors.

It was held by the Court of Appeal that as there was no contractual relationship between the plaintiff and the defendants, the action must fail. Lord Denning L.J. gave a strong dissenting judgment which later became law in the Hedley Byrne's case.

As the law stood, though an auditor of a company might be liable to shareholders if he was negligent in performing his duties, he was not liable to third parties for negligent misstatements.

The protection against claims against accountants based on negligence was exploded by the reversal of the decision in Candler V Crane Christmas & Co. by the Hedley Byrne's Case. The latter case actually concerns bankers but the law laid down applies equally to other professional negligence.

In the Hedley Byrne's case, the point at issue was the liability of bankers for alleged negligent statements made by them when giving opinions relating to the standing and respectability of one of their customers.

The defendants who were merchants bankers had been negligent in the opinions they gave in the form of bankers' references. The plaintiffs were a company who acted in reliance of the references and suffered financial loss as a result though the references were not directly given to them. The learned trial judge McNair, J. found for the defendants on ground that there was no duty imposed by law to exercise care in giving the references to third parties. The Court of Appeal upheld the decision of Mc Nair, J. and the plaintiffs further appealed to the House of Lords.

The House of Lord affirmed the decision of the Court of Appeal but on a different ground. The ground of their decision was the existence of a clear disclaimer by the defendants, at the time they gave the reference, of any responsibility on their part, viz. "without responsibility on our part" when they gave an oral opinion and "without responsibility on the part of the bank or its officials" when they later gave a written reference.

The case shows that if there had been no disclaimer of responsibility by the defendants then it is possible that the House of Lords would have held the bankers liable provided they had been negligent.

After this decision, the law relating to professional negligence as expressed by the judges in this case may be summarised as follows:

- (1) The liability arises only from professional relationship;
- (2) It is immaterial that there is no contract, as the action may be based on tort and not contract;
- (3) The absence of fiduciary relationship does not affect such liability for negligence;
- (4) Even a voluntary act implies reasonable care;
- (5) It makes no difference whether the injury is caused by negligent words or deeds;
- (6) A disclaimer would be a good defence.

Therefore, independent of contract, there may be circumstances where information is given or where advice is given which establishes a relationship which creates a duty not only to be honest but also to be careful. It follows that it is now settled that if someone possessed of a special skill undertakes quite irrespective of contract, to apply that skill for the assistance of another person who relies on such skill a duty of care will arise. Even verbal advice or information falls within such principles.

This decision may come as a shock to the professional man, may he be a banker, solicitor, doctor or accountant and perhaps even a barrister (who formerly enjoyed the unquestioned privilege of immunity from any action for negligence, since there is no direct contractual relationship between a barrister and his clients). Any opinion which a professional man gives simply to oblige and even without any reward may result in his being sued for negligence if his views were expressed without care.

The liability of an accountant for inaccurate statements, reports, accounts etc. therefore would be determined by the rules stated above and if there is damage he would be liable for negligence.

- (a) He is liable if he has contracted to prepare such statement or give such advice or information.
- (b) He is liable if there is a fiduciary relationship between the accountant and the other party.
- (c) Finally, he is liable under the rule in *Hedley Byrne's* case if he has assumed responsibility for the accuracy of the document or statement, unless he has acted in such manner as would a reasoned qualified accountant i.e. in accordance with the accepted principles and standard of his profession in which case he would be absolved from negligence.

When approached for advice or information, an accountant can do either one of three things:

- (a) make the statement and assume the responsibility;
- (b) remain silent; or
- (c) insert a disclaimer in appropriate circumstances.

Accountants should, however, have no fear if they act in accordance with their professional standard but they are otherwise advised to say nothing or draw no documents or issue no statements unnecessarily and where possible do so expressly without responsibility.

The above represents a summary of the views expressed since the important decision in *Hedley Byrne's* case and may serve as a guide to accountants in this particular aspect.

THE LEGAL LIABILITIES OF APPROVED ACCOUNTANTS IN THE PRACTICE OF COMMONWEALTH PREFERENCE

By Peter P. F. Chan

LL.B., A.A.S.A., A.B.S.C., A.A.I.A., F.R.ECON.S., F.S.S.

There are many legal treaties on the rights and liabilities of auditors under the law relating to companies and there are many decisions of the courts on the subject. Although many practitioners agree that the statutes do not provide exactly what auditors may do, what they may not do, to what extent they may use their discretion, to what extent they are entitled to rely on the information supplied to them by the officials of the companies concerned, etc. the many judicial interpretation of the statutes, the application of common law principles and the decisions of judges have provided the accounting profession with a proper guide as far as their liabilities during the discharge of their duties as auditors are concerned.

On the other hand, however, cost accountants engaged in Commonwealth Preference work (hereinafter referred to as "approved accountants") are not so properly guided and there is a degree of correctness if one says that they are not guided at all. In Hong Kong, Commonwealth Preference itself contributes much to the prosperity of our industries, therefore, Commonwealth Preference work occasionally forms a great portion of the practice in some firms of accountants.

To the writer's best knowledge, there is no case ever decided in local courts and in English courts on the aspect of Commonwealth Preference concerning accountants' liabilities. There is, as a matter of fact, not even one single case decided on any dispute arising from Commonwealth Preference in English courts, (according to the latest available supplement to Halsbury's English Statutes). In the local papers, of course, we may read cases before the magistracies on breach of undertaking, fraudulent manipulation of documents to obtain Preference benefits. This does not concern nor have anything to do with approved accountants in the least, legally.

Liabilities of accountants in the practice of Commonwealth Preference seem to be different from those in the practice of auditing under company legislation. In the latter accountants are responsible to the members of the companies concerned and they are appointed (occasionally other than the first term in cases of new companies) by the members in general meeting. In law, it appears that the auditor is the agent of the members for such purposes. He is responsible to the members alone and never to the directors as directors. In the former, they are responsible to the Director of Commerce & Industry and or to the Commissioners at Customs & Excise. In law, therefore, it appears that the approved accountant is the agent of the factory for the purpose of presenting its application to the Director or the Commissioners and at the same time is the agent of the Director and the Commis-

sioners to carry out certain prescribed controls over such factories or otherwise to supervise the adhesion to prescribed procedures.

As the agent of the factory, the accountant would have liabilities actionable under contract and in tort. This seems to be an understandable legal status if not an "established" one. Under the law of contract, be it reduced in writing or otherwise, the accountant is bound to exercise reasonable care and diligence to present the factory's application for the approval of the Director and or the Commissioners as the case may be and to maintain such approval after such is obtained. In tort, the accountant is similarly bound. This tortious liability exists all the time even nothing is mentioned in the contract made between the factory and the accountant. Or perhaps even when the accountant has not been paid for his professional services.

Before being approved by the Director of Commerce & Industry or as a condition of such approval under the current legislation, and thence by the Commissioners of Customs & Excise, the accountant undertakes expressly or impliedly a number of things — to align his accounting practice to the principles outlined in notice 27A (an administrative guide under the Import Duties Act), to refuse cases where another branch of the factory client is represented by another firm of accountants in respect of Commonwealth Preference matters, etc. After approval as an approved accountant, and after submitting the initial application for his factory, the accountant makes further undertakings, for instance, to carry out regular and surprised visits to the factories, to control observation of the undertakings, if any, and to report irregularities. It is generally based on such undertakings that the factory is approved and its products are admitted to Preference benefits.

All these liabilities (in other sense, duties and obligations) to the Director of Commerce & Industry and to the Commissioners of Customs & Excise are almost always taken for granted by approved accountants, as the reasons for prescribing such undertakings are plainly understood and understandable. But what are the nature of such liabilities. There are four possibilities. The first consideration is that probably they are not arising from tort because such do not fit into the definition made by Sir Percy Winfield (Page 1 Clerk & Linsell on Tort) which is "Tortious liability arises from the breach of a duty primarily fixed by the law; such duty is towards persons generally and its breach is redressible by an action for unliquidated damages." The second consideration is that such liabilities arise from common law can be ruled out as Commonwealth Preference is a statutory creation (section 2 of the Import Duties Act). The writer does not mention the Importation and Exportation Ordinance, chapter 50 because such Ordinance and Regulations made thereunder regulate and administer Commonwealth Preference rather than create it. The third consideration is that such liabilities are statutory liabilities can also be ignored because there is no provisions in the British Import Duties Act nor in the Importation & Exportation Ordinance nor in the regulations made thereunder similar to section 131 in the Companies Ordinance, chapter 32 which regulate the duties and liabilities, perhaps also the rights of auditors. The remaining one would be contractual. There are five elements in establishing a legal contract — an agreement, a consideration,

intention of creating legal relationship, legal consent and for a lawful cause. The last three are obvious. An agreement consists of an accepted offer and the consideration is the approval given by one side, i.e. the Director or the Commissioners. On the other side, it appears that the factory through its agents, the approved accountants, observes the conditions and terms prescribed. The application for approval is the offer and the approval given is the acceptance.

Therefore it appears that the application for and grant of Commonwealth Preference benefit is technically a legal contract. It is different from an ordinary commercial one in that one contractual party is the Government of Hong Kong or the Government of United Kingdom. There is a further difference in that the factory's breach of the terms and conditions would subject itself to the penal provisions in the Ordinance or in the Act other than the damages arising from legal contracts. The administrative action by the Director or by the Commissioners is similar to refusal of one aggrieved party to a contract to make further contracts with the other party. The administrative action by the Director or by the Commissioners towards the approved accountants is similar. Perhaps the making of Regulation 4 and Regulation 5 in the Exporation (Certificates of Origin & Commonwealth Preference Certificates) Regulations, 1961 was based on such reasoning.

After the making of above mentioned Regulations in 1961 and ever since the enactment of the Import Duties Act 1958 and the earlier Acts (which created Commonwealth Preference) and of the Customs & Excise Act (which administer all kinds of importation and exportation), the power vested in the Director and the Commissioners is absolutely discretionary. Perhaps this is the reason why no case goes up to the high courts on Commonwealth Preference claims.

From the above it is reasonable to say that the approved accountant, on presentation of an application for Commonwealth Preference for his factory client, is automatically engaged in two contracts. He is the agent for both parties for different purposes. If he acts in the interest of both parties to the best of his ability, both contracts are legally discharged — the factory gets the Preference benefits and the Director or the Commissioners administer the Ordinance and the Acts to the interest of his or their Government.

By virtue of the nature of Commonwealth Preference claims, an approved accountant may face a dilemma where in his duties to the Director or the Commissioners may prove to be in conflict with the interests of the factory client (of course the word "interests" is used in its ordinary sense.) For example an approved accountant inspects his factory client's premises and finds some breach of the terms of approval. Under the implied or express term, the Director or the Commissioners requires or require him to make an immediate report. As said before, this is part of the legal contract. However, on the other hand, reporting the reach may deprive his factory client of Commonwealth Preference benefits. It is an obvious under-

standing that a factory would never engage an approved accountant to have its benefits cancelled as the contract aims at application for approval and maintenance of such approval. On the other hand it is a basic principle of law that it is no part of any party to any contract, whatever it may be, to be compelled to cheat a third party (the last element of a legal contract above referred to).

If the approved accountant says nothing, undoubtedly he would be in trouble. Legally he would be:—

- (a) liable for breach of his contract with the Director or the Commissioners; and
- (b) liable (perhaps to some degree criminally) for knowingly permitting a wrong to be committed and since he is responsible for correctness of the certificates already issued, for possibly being an party.

Other than the legal liabilities mentioned, his non-disclosure would probably amount to (a) professional negligence (b) professional inefficiency for failing to know the seriousness of the breach and may be (c) an act which ultimately leads to the acceptability of local documentation being prejudiced in other countries.

If the approved accountant fulfils the said obligation to make a report, he may or may not be subject to proceedings for breach of his contract with the factory. As said before, it is a clear and undoubted term on the contract that the accountant is engaged to obtain approval and not to cancel it. His position would appear equivocal to the public if the Director or the Commissioners subsequently rectifies the approval or if the breach is later found to be justified or excused.

His defence might be a claim that the contract with the factory is actually a contract whereby the approved accountant undertakes to make a contract with the Director or the Commissioners on behalf of the factory, therefore the reporting is part of the latter contract and is fulfilment of a condition to the approval so obtained. In regard to Commonwealth Preference for goods shipped to the United Kingdom, perhaps there is much stronger defence in that the reporting is for the purpose of the administration of the Import Duties Act as authorised agents of the Commissioners (see Section 4 of the Customs and Excise Act). There is however no such defence and protection in regard to Commonwealth Preference under the Importation and Exportation Ordinance Chapter 50 and the regulations made thereunder.

The importance of petitioning to the Director of Commerce & Industry for a provision in the Importation & Exportation Ordinance to render approved accountants immune from Court actions on their reports to him on preference matters or to render such reports privileged in law is not felt at the present day. In the writer's personal opinion, however, such provision may be desirable as it may contribute, perhaps to a small degree, to the better and more efficient administration of the Commonwealth Preference legislation.

AUDITOR'S RESPONSIBILITY WITH REFERENCE TO MANAGEMENT FRAUDS

P. J. Davidson

J. H. Jamison

Provided the auditor carries out his duties, exercising proper professional skill, he has no further responsibility with reference to management fraud.

AUDITING STANDARDS

2. The Institute of Chartered Accountants of India in a statement on auditing practices issued in 1964 on the question of fraud states:

"1.10. The duty of safeguarding the assets of a company is primarily that of the management, and the auditor is entitled to rely upon the safeguards and internal controls instituted by the management, although he will, of course, take into account any deficiencies he may note therein while drafting his audit programme. If an audit is to be conducted with the objective of discovering all frauds, in the first place it would take a considerable amount of time and it would not be possible to complete the audit within the time limit prescribed by law for the presentation of accounts to shareholders. Further, such an audit would have to involve a detailed and minute examination of all the books, records and other documents of the company, the cost of doing which would be out of all proportion to the benefits which may be derived by the shareholders. Finally, it must be recognised that even if such an examination were to be conducted, there would be no assurance that all types of frauds (of omission or commission, forgery, illegal receipts of commission etc.) would be discovered."

3. This basic standard has been laid down by a professional accountancy Institute in India, which is the country which has accepted responsibility for the organisation of the Fourth Conference of Asian and Pacific accountants.

4. The authors of this paper are both members of firms which practise as auditors in Australia. The Institute of Chartered Accountants in Australia, of which they are members, has issued a pronouncement on the question which can be accepted generally as being similar to that issued by the Institute of India. We are, therefore, on common ground as to standards with our host country and we know that many other country in the world through their accountants' Institutes accept a similar standard.

5. We quote from paragraph 13 of a statement on generally accepted principles of professional auditing practice issued by the Institute of Chartered Accountants in Australia in 1954:

"..... If fraud has taken place and is undetected by the auditor he is blame-worthy in the eyes of the law only so far as he has been negligent in determining the scope and character of his examination or in the conduct of such examination."

What we have to say later in this paper on standards of auditing refers to standards adopted by us in Australia following upon accepted principles in use in the United Kingdom and the United States of America. We believe these principles are generally accepted in many other countries in the world.

THE SOLUTION

6. The authors believe that if the question "Is the auditor responsible for management fraud" was put to accountants, shareholders, directors and others, a surprising number would say "Yes." We propose to dispel this view, if it exists, and to show:—

- (i) that the primary consideration for safeguarding the company's assets, and preventing errors and frauds, rests with the directors, and
- (ii) that it is the responsibility of the auditor to conduct his audit in a proper manner to ensure that the financial statements presented show a true and fair view and are not misleading.

DEFINITIONS

7. Our first step must be to define the terms of our subject with definitions of "responsibility" and "fraud." "Responsibility" is a "charge, trust or duty" or "being morally accountable for one's actions". It also can give rise to a liability. The Oxford English Dictionary delightfully describes "fraud" as being "the use of false representations to obtain an unjust advantage or to injure the rights or interests of another". In the context of our paper we must assume these rights to be those of the shareholders of the joint stock company, not the rights of third parties.

8. Our understanding of "management fraud" excludes minor peculations of cash and stock by company staff which cannot always easily be detected, nor always prevented. We consider that "management" includes directors; in other words, the type of company employee who is considered to be in a position of trust.

9. It is thus clear that in view of the world accepted standards and the definitions set out above, the auditor will have no liability in respect to fraud provided he fulfills his obligations as an auditor.

10. We suggest that rather than say that the auditor has no liability regarding fraud, provided he carries out his duties as auditor exercising the degree of care, skill and diligence necessary in the particular circumstances of the audit which he is conducting that the emphasis should be put the other way to say that it is the auditor's responsibility or obligation to conduct his audit with the object of ensuring that the balance sheet or other statement of accounts on which he is reporting shows a true and fair view and is not misleading. In carrying out his responsibility in this way he knows that it is the primary responsibility of the directors of the company to safeguard the company's assets.

OBJECTS OF THE AUDIT

11. To carry out the main object of the audit the auditor must, in understanding the business and the system of controls authorised by the directors, cover the following aspects:

- (a) Make an examination of the system of book-keeping, accounting and internal control to ascertain whether it is appropriate to the business, and to conduct such tests and enquiries as are necessary to ascertain whether the system is being properly carried out, so as to be in a position to form an opinion as to whether reliance can be placed on the records as a basis for the preparation of accounts.
- (b) Compare the balance sheet and profit and loss account or other statements with the underlying records to see if they are in accordance therewith.
- (c) Verify the existence of the assets and their appropriate value and the amount of the liabilities appearing in the balance sheet; and
- (d) Verify that the results shown by the profit and loss account are fairly stated.

12. It is the auditor's responsibility in exercising proper professional skill to reduce the detailed checking to a minimum. To carry out more work than is required for a competent auditor to arrive at a valid opinion on the accounts is a violation of his professional responsibilities and is a waste of the client's money.

13. The examination of the whole system of controls, established by the directors and management in order to carry on the business of the company in an orderly manner, is necessary to secure as far as possible the accuracy and reliability of those records and the safeguarding of its assets. If the enquiry reveals that the system is sound in principle and the limited tests of the day-to-day transactions carried out indicate that it is carried

out in practice, then no useful purpose is served by increasing the detailed checking. In these circumstances if an isolated fraud occurs outside the scope of the tests, then the auditor cannot be held responsible. If, however, the system is not sound or the tests reveal that it is not being properly carried out, then it is necessary to form an opinion before a decision can be made as to the nature and extent of the further detailed checking, if any, which should be carried out in order to determine the reliability of the records.

INTERNAL CONTROL

14. It is the responsibility of the auditor to point out to the company any weaknesses in the system of internal control revealed by the examination of that system or which are disclosed in the subsequent tests. These weaknesses should be reported to the directors in writing, supported by an interview.

15. Reporting of weaknesses in internal control in no way absolves the auditor from discharging his responsibility to report to the shareholders. If there are weaknesses of such a nature and the auditor cannot satisfy himself that the accounts give a true and fair view, then his report to the

shareholders must say so. Where it appears that weaknesses of this nature exist they must be taken up with the company as soon as practicable and the possibility of the need for a qualification must be explained.

FINANCIAL STATEMENTS

16. It is also the auditor's responsibility to verify the assets appearing in the balance sheet and the examination of the system of internal control and the assurance that it is sound and is carried out in practice, is the first step for ensuring the reliability of the records as a basis for the preparation of the accounts. Other aspects to be covered in the verification of assets are:

- (a) That all the assets appearing in the balance sheet exist and that they are the property of the company.
- (b) That none of the assets have been charged or pledged unless that fact is clearly shown on the face of the accounts.
- (c) That the expenditure on fixed assets which has been capitalised during the year is properly verified; that the fixed assets have been properly depreciated and that the assets which have been disposed of, destroyed or lost have been eliminated.
- (d) That the shares in and loans due from subsidiary companies are at the value at which they appear.
- (e) That each of the current assets has a current value equal to the value at which it appears in the balance sheet.

17. It is the responsibility of the auditor to direct his audit to verify liabilities or contingent liabilities:

- (a) That all liabilities of the company have been included, not only verifying those included in the records, but making sure that none have been omitted by error or intention.
- (b) That adequate provision for known or expected losses has been made.
- (c) That all contingent liabilities have either been provided for or referred to in a note.

18. It is the responsibility of the auditor to satisfy himself that the results shown are true and fair and that they are the profits or losses of the period. In particular, he must examine to ascertain:

- (a) Whether reserves or provisions relating to previous years have been transferred to the credit of the profit and loss account for the current year.
- (b) Whether the reserves are being manipulated by transferring profits or losses from one year to another. For example, in altering bases of making provisions or valuing stock.
- (c) Whether the accounts are prepared on a consistent basis.
- (d) The sources from which the profits arise.

QUALIFIED REPORTS

19. It is the responsibility of the auditor to qualify his report to the shareholders in the following circumstances:

- (a) If he has been unable to verify the ownership, existence or value of any of the assets.

- (b) If he has been unable to verify the amount of liabilities.
- (c) If he has not obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit.
- (d) Proper books of account have not been kept by the company, or if proper returns adequate for the purposes of his audit have not been received from branches not visited by him.
- (e) Generally, if the balance sheet and/or profit and loss account do not give a true and fair view of the state of the company's affairs and of the results for the accounting period.

20. If the auditor has doubts as to the truth and fairness of the financial statements he must either:

- (i) state that he has been unable to satisfy himself, or
- (ii) state what is, in his opinion, the true state of affairs.

In these circumstances he must not, because he has doubts, merely accept the position as presented by the directors. This may particularly arise through a failure to face up to a realistic statement of a true and fair position resulting from special pressures caused either by a national or internal economic recession or by a desire to present a too favourable picture for personal purposes.

21. Before a qualification is made the reasons for the qualification must be discussed with the directors.

OBLIGATIONS

22. We mentioned in paragraph 6 that a number of people consider that the auditor is responsible for fraud. In writing this paper, we have taken what we consider to be a positive view, and also the view adopted by a number of accounting institutes in making their statements on auditing standards, i.e., that in talking of responsibility, we should look to what the auditor should do to do his job properly.

23. It could be suggested that examples of situations where the auditor could be held responsible may assist in an understanding of what we have written. We consider that it is most difficult to set out in precise terms examples which we could hold out as clear cut cases of auditor's responsibility. The point is, of course, that there would always be a number of questions which the qualified reader of the example would want to know in order to consider his agreement or otherwise with our view.

24. If the auditor is to properly discharge his obligations and responsibilities with reference to management fraud, he must himself carry out an efficient audit in the manner as summarised in the foregoing paragraphs. His position must be considered in relation to his obligation to his client, to himself and to the public. It is our firm and considered view that the auditor should see that the directors of his client company are aware of their responsibilities in regard to the establishment of a system of internal control appropriate to that business. We further believe that it is the auditor's responsibility to advise the directors of the controls appropriate to the business.

25. The professional accountant, which includes those in public practice and those in commerce, must have a comprehensive knowledge of the techniques of their profession and an understanding of appropriate statutes. This includes an understanding of the statements made from time to time by Institutes. Accountants must have a knowledge of management controls appropriate to particular businesses and in sympathy with the objectives of such businesses.

26. Accountants must prepare to develop the technical standards of their professional bodies, their own technical standards and to see that once established, these standards are adhered to in practice.

27. What should be done to improve our standards? Professional standards as promulgated by accounting institutes should be taken as minimum standards and each member must see that his own standards are higher. We have this responsibility to ourselves as a profession. We should aim for the highest possible level of recruitment to the ranks of the profession, a strong emphasis on professional training and higher academic standards.

28. We suggest to accountants in public practice, that the role of the auditor should not be left to staff alone; the audit function joins together the skills of accounting, a knowledge of business judgment and the integrity of a professional man in public practice. To that extent, principals of firms must at all times participate and be aware of advances in technical standards in accounting and the supervision and participation in audit assignments which gives rise to the forming of an opinion.

29. All accountants have some obligation to make the public aware of the responsibilities of various parties in connection with management fraud. We have discussed the responsibilities of directors and management, and at some length the responsibility of the auditor. It is in the best interests of all—companies, shareholders and auditors, that the public be aware of these responsibilities. This will be best achieved by the further development of technical standards, universally accepted and carried out in practice by auditors, and by making the public aware of the purpose of the audit report.

30. In these terms then, our understanding of responsibility at least includes the exercising of due care and skill in arriving at an audit opinion. When considering the subject of the auditor and fraud, most discussion centres around "liability". We consider that the liability of the auditor is part of his responsibility. Liability can only be determined in specific circumstances, and is usually the result of case law. Responsibility, however, has to us a far wider meaning, and must take into account the generally accepted standards of performance of professional accountants in an Institute, in a country and more particularly, the personal standards of each individual practitioner.

31. We believe that the acceptance by the accounting profession of obligations as opposed to liabilities will ensure the dynamic development of our technical standards as auditors, our professional standing in the community, and our service to commerce.

AN APPROACH TO COST ACCOUNTING

M. W. Kwan, M.B.E., F.A.C.C.A.

1. The Meaning of Cost

The Shorter Oxford Dictionary gives the meaning of "cost" as the price paid for a thing.

This simple definition is adequate for the consumer when he buys his daily necessities from the local retailer.

However a commodity has to pass through many stages from its raw state to the consumer and at each stage it will have a different price, therefore a different "cost", since each possessor of it will have added certain handling expenses such as delivery and storage charges and probably an element of profit as well.

This leads to a more elaborate definition of "cost" as recommended by the Institute of Chartered Accountants in England & Wales.

Cost includes all expenditure incurred directly in the purchase or manufacture of the stock and bringing it to its existing condition and location together with such part, if any, of the overhead expenditure.

The same Institute in another report defines "cost" as the total valuation of all expenditure incurred in connection with a specific activity such as the production of goods or the provision of services.

Thus the term "cost" when applied to merchandise means the total expenses required to bring the goods purchased to the point where they are to be used, and when applied to the manufacture of goods means the sum of all expenditure for materials, labour and other factors employed in their production.

The second aspect of "cost" forms the subject of the present paper.

2. Cost Ascertainment

The ascertainment of the cost of production of goods and provision of services with a reasonable degree of accuracy and in sufficient detail is a fundamental necessity for sound conduct of manufacturing and productive operations.

Financial accounting at best gives the general results of trading of a business for any given period and the general position at the end of that period. This information is generally given after a lapse of time when all outstanding transactions are brought into account.

Cost accounting, on the other hand furnishes the management of an undertaking with up-to-date detailed information with regard to cost of each individual article or class of goods and the percentage of profit or loss resulting from each trading operation.

Cost ascertainment through a system of cost accounting confers the following benefits:

- (a) To arrive at the cost of production of every job, operation, process or department and develop cost standards.
- (b) To provide actual figures of cost for comparison with estimates and to serve as a guide for future estimates or tenders, and to assist the management in their price fixing policy.
- (c) Where Standard Costs are prepared, they show what the cost of production should be with which the actual costs may be compared.
- (d) To indicate to the management any inefficiencies and the extent of various forms of waste.
- (e) To indicate where articles or components can be bought more advantageously than made.
- (f) To provide a perpetual inventory of stores and other materials.
- (g) To determine the basis for valuation of stocks and work-in-progress.
- (h) To provide data for periodical Profit & Loss Accounts and Balance Sheets at such intervals as may be desired during the financial year.

3. Cost Centres and Cost Units

Cost ascertainment and the control of costs are achieved by relating the various items of expenditure to specially selected cost centres and cost units appropriate to the undertaking.

A Cost Centre is a natural division of an undertaking for cost finding purposes. It may be (a) a location, such as factory, depot, worksite, shop, store, service department, etc., (b) an item of equipment or a group of machines, such as one machine, boiler installation, compressor plant, etc., or fleet of delivery vehicles, etc. or (c) a person whose work cannot be identified with any particular location or equipment, such as production engineers, inspectors etc.

The first step in the allocation of expenses is to the various cost centres into which the undertaking is divided. A cost centre may only be on paper. Machines of one type may be scattered through the factory or in different buildings, but may be grouped on paper for costing purposes.

A cost unit is a unit of production. Where similar articles are produced for separate orders, or separate projects are undertaken, the cost units are divided into jobs, contracts, or batches. Where identical types of goods are produced continuously as in mass production or where the activity to be costed is the provision of a service and not the manufacture of a product, the cost units are divided into convenient quantities, such as "per ton output", "per 1,000 bricks", "per ton-mile", "per kilowatt-hour", etc.

4. Elements of Cost

For costing purposes, all expenditure can be analysed into the follow-

ing elements of cost:

- (1) Prime Cost comprising items of direct expenditure which can be allocated to cost centres or cost units as follows:
 - (a) Direct materials used in the final product and forming part of it.
 - (b) Direct labour cost attributed to altering the construction, composition or condition of a product.
 - (c) Direct expenses incurred in a specific cost centre or cost unit.
- (2) Overhead Expenses comprising indirect expenditure on materials, labour and expenses, incurred for the undertaking as a whole and which requires to be apportioned to Cost Centres and Cost Units on some equitable basis.

Overhead Expenses may be sub-divided into:

- (a) Production Overheads,
- (b) Administration Overheads and
- (c) Selling & Distribution Overheads.

Factory or Works Cost is the aggregate of Prime Cost and Production Overheads. Total Cost of Sales is the aggregate of Factory Cost, Administration Overheads and Selling and Distribution Overheads.

5. Allocation of Prime Cost

- (1) Direct Materials.

In practice all materials issued from store or delivered by a supplier to a worksite are treated as "direct" in the first instance and can be allocated to a Cost Centre or Cost Unit (such as the job, contract, process, etc.). To facilitate the correct allocation of all materials whether they may be raw materials, components, parts, consumable stores, packing materials, etc., it is essential that the costing system provides for the following.

- (a) Buying and Stores control, preferably kept in the form of perpetual inventory records according to type of materials.
- (b) A method of valuing purchases and calculating a unit of cost.
- (c) Proper records for requisitioning and issuing all materials to production.
- (d) The pricing and valuation of all issues from stores to production.
- (e) Control over wastage and a method of charging this cost to production.
- (f) Control over materials scrapped and sold.

- (2) Direct Labour.

Direct labour cost proper is that part of the wages attributed to altering the construction, composition, or condition of a product. All other labour cost (whether wages or salaries) should be allocated to some cost centre or cost unit in the first instance. For

example, foremen and supervisory staff to a specific shop or floor space, tool makers to the tool room, administrative staff to secretarial, sales, accounting department, etc.; such item may then forms part of the overhead of the cost centre and will have to be apportioned to production on some basis.

To facilitate allocation of labour costs, the costing system should provide for the following:

- (a) A proper system of time recording and time booking of all labour employed capable of reconciliation with the total wages paid.
 - (b) Methods of remuneration of all workers giving rewards for increased production where appropriate.
 - (c) Correct evaluation of labour costs to enable these to be allocated to cost centres and cost units.
 - (d) Adequate control over idle time and a method for charging this cost to production.
- (3) Direct Expenses.
These are incurred in a specific cost centre or cost unit. The extent to which expenses can be treated as "direct" depends on the degree of sub-division into cost centres or cost units.

6. Overhead Expenses

Overhead Expenses (sometimes called indirect expenses or establishment charges) are normally sub-divided according to the main departmental divisions of activity of the undertaking as follows:

- (1) Production Overheads (works or factory expenses or oncost) are all expenses incurred in processing and manufacturing the products, other than prime costs which have been allocated direct to cost centres or cost units. In manufacturing undertaking these expenses form the largest part of total overheads and usually include indirect expenditure incurred up to the time the products are completed, have received their primary packing and are ready for distribution. In the financial accounts these expenses are normally shown in the Manufacturing Account to show with the prime cost, the total cost of production. These expenses include:
 - (a) Factory rent, rates, lighting, heating, power & fuel.
 - (b) Depreciation, repairs and maintenance of factory, plant, machinery, equipment, building etc.
 - (c) Salaries and wages of technical directors, works manager, supervisory staff and indirect workers.
 - (d) Expenses of subsidiary production departments, services and cost centres, such as buying, stores, planning, progress, inspection, time keeping, boiler house, tool room, canteen, welfare, etc.
 - (e) Consumable stores and other indirect materials, abnormal

wastage, rejects, abnormal idle time etc.

- (f) Insurance of factory buildings, plant, equipment, stores, etc.
- (g) General factory expenses, such as stationery, telephone, postage, cleaning etc.

(2) Administration Overheads

These are all expenses of direction and control of an undertaking which cannot be identified with a single department or activity and which benefit or are applicable to the undertaking as a whole. In the financial accounts these expenses are normally shown in the Profit and Loss Account as deduction from the gross profit to arrive at the net profit or loss of the undertaking.

(3) Selling & Distribution Overheads

These are often combined but can be separately defined. Selling expenses are the costs incurred in promoting sales and retaining custom. Distribution costs are those costs incurred after the articles are in a saleable condition, in placing the articles in the possession of customers. Also included are the costs of transporting articles to central or local storage to facilitate sales. Primary packing is considered a part of production cost, whereas the cost of packing for transport is a cost of distribution.

Both the costing of Administration and of Selling and Distribution overheads are generally neglected for lack of suitable units of measurement. They form part of the cost of sales rather than the cost of production.

7. Apportionment & Absorption of Overheads

As a general rule the ascertainment of the costs of materials and direct labour can be satisfactorily accomplished. However the allocation and apportionment of overheads to production and the most reliable means of recovering them in the costs of various units produced present more difficult problems. This importance has increased in magnitude with the advancement of industrial methods which usually involve machines and plant of high capital value so that the production overhead expenses tend to exercise a greater influence on cost than wages. Today there are numerous examples of overheads assuming even greater proportions as compared with periods when labour, and not mechanisation, was the predominant agent of product.

The apportionment of overhead expenses to prime cost may be done by:

- (1) Actual cost rates which are obtained by dividing the actual cost to be absorbed by the actual quantity of the base chosen, i.e. prime cost, wages, labour hours, machine hours etc.
- (2) Predetermined cost rates which are calculated in advance by

dividing the predetermined cost to be absorbed by the predetermined quantity of the base chosen. This can be calculated during the preparation of the budget.

8. Methods of Costing

The general principles of costing are fundamentally the same for all types of industrial activity, and for all forms of costing, but the methods employed vary according to the nature of the industry and organisation and methods of each business.

Methods of costing may be broadly divided into two classes according to the type of production within a factory —

(1) Job Costing is the name given to a range of costing systems where individual orders are executed, and all costs incurred in doing the work are chargeable to the job or contract which is itself the unit of output. Where output takes the form of long-term contracts, it is often broken into batches as separate units. The range includes Job Costing, Contract Costing and Batch Costing.

(2) Unit Costing, formerly known as "Output" or "Single Output", is the name given to a range of costing systems where the unit of output is not clearly defined and where the output is a continuous flow incapable of being separated into distinct job units. An arbitrary cost unit such as "per ton of Coals" or "per 1,000 bricks" is taken for the purpose of allocation of costs to output. The range includes (a) Unit Costing where the activity costed is the production of goods, (b) Operating Costing where the activity costed is the provision of services, (c) Operation Costing where a continuous flow of operation prevents the product to be costed according to jobs or batches and (d) Process Costing where the original material may pass through a number of processes taking a different form at each and often simultaneously producing valuable by-products.

Both Job Costing and Unit Costing presuppose one cost unit being established for the type of production within a factory. Where there are a variety of components separately produced and subsequently assembled in a complex production (e.g. motor cars, aeroplanes), a succession of Job Costing and/or Unit Costing methods are used to form what is known as Multiple or Composite Costing.

Other terms used in costing, such as Uniform Costing, Standard Costing, Marginal Costing are not methods but techniques of costing chiefly concerned with budgetary control. Uniform Costing is usually adopted by individual trades to afford easy comparison within the same trade. Standard Costing is the determination of costs of standard products in standard quantities under standard conditions. This is used as a standard with which actual costs are compared. Any difference, known as variance, is investigated and reconciled, and in the process, weaknesses and waste are discovered. Marginal Costing helps the management to fix a level of output to ensure maximum return for the assets employed.

PROCESS COSTING IN A SPINNING FACTORY

By C. C. Ho, A.C.W.A., A.A.S.A.

In former times, a manufacturer could make a profit out of his production much more easily than at present. He fixed his price on the basis of estimated cost and as there was no competition, he could mark his price high enough to give him a profit. But nowadays, the position has completely changed. The competition is so keen that a manufacturer has to cut down his price as much as possible before he can maintain his position in the market. The selling price is therefore fixed by the market instead of by the manufacturer as before. Since the profit to be earned is the excess of selling price over the cost of production, a manufacturer must therefore cut down his cost before he can make a profit.

Costing is the technique of ascertaining the cost of production, to bring to light any inefficiency and wastage that may have occurred in the factory so as to enable the manufacturer to make any improvement that may be required. Such improvement will normally reduce the cost of production. It will also provide accurate cost information on which the manufacturer may fix his selling price and determine the production policy of the factory.

Spinning is the first stage of manufacture in the textile industry through which cotton yarn is produced. From a technical point of view, cotton yarn is manufactured in continuous processes whereby the product of one process is carried forward as raw material to the next where labour is added to turn it into another form of material to be carried forward to the third process and so on until finished. By the nature of these processes, spinning is most suitable to have a form of process costing in determining its cost of production.

Process cost accounts are kept in respect of each process in the order in which the raw cotton is processed, i.e. Blowing, Carding, Drawing, Simplexing, Spinning and Winding. Each account is self-contained. When the goods are completed at the last process, they are transferred to a Cotton Yarn Account.

Before the system is planned, the exact layout and the sequence of operations in the factory must be thoroughly considered. The first complicated problem facing the planning is the determination of the standard production (in pounds) in each process because its degree of accuracy will greatly affect the value of the labour and overheads absorption rates discussed in the later paragraphs. Two different units of measurement are used in spinning. One is the weight measurement in pounds for recording the raw cotton and the cotton yarn produced, while the other is the linear measurement in hanks for recording the length of slivers produced in each process. If the cost record is to give the cost information process by process then a common unit of measurement must be used (1) for recording the input of production in each process, (2) for the absorption of labour and overheads costs and (3) for comparison purpose. The weight measurement

is more suitable as it is commonly used. So all the slivers recorded in hanks must be converted to pounds before their cost is ascertained. One hank is equivalent to 840 yds. The weight per hank of sliver is different in each process being less and less as production proceeds when the sliver has been drawn smaller. The correct weight can be determined by a formula and is, for technical reasons, expressed in grains. There are 7,000 grains in a pound. So the weight of one hank of sliver is the number of grains in 840 yds. When the number is divided by 7,000, it gives the weight in pounds per hank of the sliver. It is clear that a lot of calculation is necessary when the standard production in pounds of sliver produced in each process is required to be determined.

A further problem is the recording of cotton waste produced during manufacture. It is a by-product of production and is usually re-used. Only superfluous quantity or those not suitable are sold. In case the waste is re-used, it is treated as raw cotton irrespective of where it is obtained. The quality of the waste from each and every process is different, being inferior at the start and better at the end, so the price is also different. Besides the amount of waste from one process is different from that of another, different grade of raw cotton also produces different grade of waste. In order to arrive at the accurate cost of production, detailed record of the quantity of waste from each grade and from each process must be kept, so that their correct cost can be credited in the Work-in-progress Account.

Material, labour and overheads are the three elements of cost. As the overheads are more complicated to be ascertained, they will be discussed first in the following paragraphs.

OVERHEADS

The overheads in this kind of factory which uses heavy machineries are usually very high because the depreciation charges and repairs and maintenance costs are expensive. In order that they may be correctly allocated to production, the method of cost centres allocation is used. The factory is first divided into cost centres, both for services and production. Each cost centre bears the expenses that have been incurred in it. The expenses such as manager's salary, factory cleaning expenses, staff welfare expenses, being general nature, are put under service cost centres which can be classified into Management, Building, Production and Store and Maintenance. The overheads in these centres will be reallocated to production cost centres on appropriate basis as in Table I.

Any expenses which are directly incurred in any production cost centre are completely charged to it. Examples are foremen's salary and the depreciation of machinery installed in that particular cost centre. These directly incurred expenses together with the amount of expenses reallocated from the service cost centres are absorbed by the processed products at a rate per pound of output calculated by dividing such expenses over the standard production. The total overheads to be absorbed in one particular

cost centre equals to its production multiplied by its rate. Such overheads absorbed are debited to the Work-in-progress Account and constitute one of the elements of cost of production. Table II shows the production cost centre overheads together with the names of the centres in the order in which the raw cotton is processed.

LABOUR

According to the requirement in each particular process, some of the workers are paid on time basis e.g. in the blowing process, while others are paid on piece rate basis e.g. in the carding process and still others are paid according to the number of machines a worker is required to attend e.g. in the spinning process. The rates are usually fixed depending on the quality of the cotton and the amount of exertion required on the work. But whatever the method of remuneration may be, the total labour cost required in each process in respect of each kind of yarn is found by the rate of wages paid multiplied by the time, by the output or by the total number of machines required to attend respectively. The most important point to remember is to find out the common basis of remuneration, i.e. the remuneration per pound of output, otherwise the labour cost cannot be conveniently allocated.

When the total labour cost of each kind of yarn manufactured in each particular process is found, it is then divided by the relevant standard production to arrive at a rate per pound of processed product. Similar with overheads, the labour cost of a cost centre to be absorbed equals to its production multiplied by the rate. The labour cost so absorbed will be debited to the Work-in-progress Account.

MATERIAL

It is lucky that there is only one kind of material being used i.e. raw cotton, and so the accounting work is simple. Raw cotton may be of many different grades depending on the quality. The mixture required to produce a particular kind of cotton yarn may contain raw cotton of different grades and so of different prices. Accurate records are required to be kept in the factory of the constituents of the mixture so that correct cost of cotton consumed can be recorded in the accounts.

A lot of cotton waste, about 12% of the total input, is being produced during the whole course of manufacture. This waste is treated as raw cotton and is re-used for production normally for inferior grade of yarn. The price of the waste is usually determined according to market value and its cost is credited to the Work-in-progress Account as a deduction of cost of production.

The above paragraphs only set out primarily the important points to be considered when planning the costing system in a spinning factory and a great amount of details have been omitted. I shall deeply appreciate any comments from our members or any persons interested so that the costing technique in this industry may be further advanced.

Table I

SERVICE COST CENTRE OVERHEADS

Expenses	Management	Building	Production & Store	Maintenance
Management Salary	\$22,000			
Rent		\$48,000		
Technician Salary			\$15,000	
Store Service Charges			5,000	
Spare Parts				\$7,500
Maintenance Workers Salary				2,500
	\$22,000	\$48,000	\$20,000	\$10,000

Table II

PRODUCTION COST CENTRE OVERHEADS RATES

BUDGETED BASE								
No. of Workers	100 Workers		10	20	15	10	40	15
Floor area	12,000 Sq. ft.		2000	1000	600	1400	5000	2000
Estimated % of service	100%		5%	15%	15%	15%	40%	10%
Expenses	Amount	Basis of Apportionment	Blowing	Carding	Drawing	Simplexing	Spinning	Winding
Management service	\$22,000	No. of Workers	\$ 2,000	4,000	\$ 3,000	\$ 2,000	\$ 8,000	\$ 3,000
Building service	48,000	Floor area	8,000	4,000	2,400	5,600	20,000	8,000
Production & store service	20,000	Estimated	1,000	3,000	3,000	3,000	8,000	2,000
Maintenance	10,000	Estimated	500	1,500	1,500	1,500	4,000	1,000
Others	23,300	Direct	1,800	5,000	4,000	3,500	6,000	3,000
	\$123,300		\$13,300	\$17,500	\$13,900	\$15,600	\$46,000	\$17,000

PROFITABILITY AS A TOOL IN PRODUCT PLANNING

J. R. M. Wilson

As accountants, we are all familiar with the concept of profitability and profits. We know that profits represent the excess of sales or other income over costs for a period. We recognize that the profitability of an enterprise can be measured in any one year as a percentage of the capital investment, and that the trend of profits over a period of years can give an indication as to change in profitability. In making these judgments we have developed tools, which we call accounting principles, to match costs against revenue in order to ensure that all costs and revenues are accounted for and that the basis of allocation from year to year is consistent.

Accountants are primarily interested in corporate profits in order to show shareholders, creditors, and management the over-all profitability of the enterprise. Their accounting conventions are, therefore, developed from a comprehensive view point, and if these conventions or principles meet the test of fairness in this context they qualify as being satisfactory.

Product planning belongs to the world of marketing — a world inhabited by experts who want to determine which products should be produced, which lines pushed, which ones discontinued. The inhabitants of this world of product planning may on the surface seem to be strangers to us accountants. But different though our ways may be, our lines of endeavour frequently cross. They too are familiar with profits — and their decisions are based on how to increase the corporate profit, preferably immediately, but also over the long terms. They must persuade management to make one choice and not another — and promise them that in so doing they will increase the company's profits. But at the year end, it is the accountants who tally up the over-all result according to their own rules and prove or disprove the wisdom of their decisions. So, whether they like it or not, product planning decisions will have to meet the test of over-all corporate accounting practices.

In making decisions about products, however, marketing experts must look at the effect each alternative proposal will have on the corporation's profits. Again, profits must be the excess of sales over costs — but the costs must be those allocated to each product. Here the product planner looks to the accounts kept by the company and finds them woefully inadequate for his purpose. For, to find the cost — or incremental cost — to be attributed to a new product or a change in product mix is not something which all corporate accounts record. Not that the information is not contained in the records — it may well be, but it is not developed in a form which can be readily utilized. And the result is that the man responsible for product planning condemns the company's accounting system — and its accountants — as failures. In many cases the failure to have the information

needed is due to a lack of understanding by accountants as to what is needed. In other cases, of course, it is the inability of the marketing expert to make use of, and adapt, the information that is there. But we are accountants — and while it might be more fun to berate the marketing experts who are not with us — I suggest we devote our efforts to finding out what they want, why ordinary accounting conventions fail them, and what we can do to help them.

Product planning is only occasionally a problem for a new business which is about to be born. In such cases, of course, there are no books of account — and both the product planner and the accountant are dealing with a budgeting problem. Here the accountant's role is one of ensuring that estimates of sales and costs are reasonable, that no costs are overlooked, and that the proposed business has the necessary financial capacities to meet the expected volume of business.

Most product planning, however, is done within existing business. These businesses have plants fully or only partially used, employees, products or product lines and customers. In such cases the product planning revolves around a consideration of various alternative courses of action. For example:

Should a certain new product be produced and marketed?

Should the company sell lines allied to those it presently manufactures?

Should the number of models and styles of certain products be many — or few?

Should some of the present products be sold in greater volume by a reduction in selling prices or by increasing salesmen's commissions?

Should the products be sold further afield? Exported?

Should some of the present products or product lines be discontinued?

And, while not strictly within the usual definition of product planning, a related question is bound to come to mind:

Should sales be made directly to users, through wholesalers and dealers, or by sales agents?

In each case, the test will be what the effect of this should be on the company's profits this year and in the long run. And profits are still the difference between selling price and costs.

Now, the company's records probably show the cost of each product which is sold. Accountants have devised cost systems to get such information because we need it in order to prepare a proper inventory value for financial statement purposes. And sometimes this information has proved useful to management when it shows that selling prices are out-of-line with costs. Yet valuable though these cost accounts may be, they fail to provide a sure tool for measuring profitability in product planning for several reasons:

First, they are blunt tools at best. For inventory purposes, it is sufficient to know that on-costs or overhead are applied on an equitable basis to all products. Thus, we find in some factories that overhead on a plant-wide basis is applied as a percentage of labour or material costs. If this seems too arbitrary; e.g., because of varying use of machinery in different departments, a different rate is developed for each department. But it is still a cost which contains a certain amount of averaging. Unconsciously, I suppose, we recognize that this will not necessarily give an accurate cost for each product, but it does not worry us if one item in the inventory is slightly over and another slightly under what a more sophisticated system might show. The "overs" will probably offset the "unders" and give us a fair total inventory figure. To the product planner, however, there is no such consolation. If he decides to increase or reduce the production of a certain product he needs to know the effect on total cost of this. For instance, if dye costs in a woollen mill average 5% of raw material costs, the inventory will probably be properly priced if this rate is used for costing purposes. But if it turns out that blue dyes cost 2% and red dye cost 10% of material cost, a decision to push one colour over the other must take this variance into account.

Secondly, factory costs of products are over-all costs — they include material, labour and overhead. They include a blend of direct costs and fixed costs. And a change in product planning which will affect total production must be concerned primarily with what it will attract or eliminate in the way of direct costs only. For instance, if a company makes and sells 100,000 units of a product at a selling price of 10 Rupees each and the factory cost is 8 Rupees each, it will show a profit of 2 Rupees per unit, or a total of 200,000 Rupees. If market analysis shows that by reducing the selling price by 10% to 9 Rupees it will be possible increase sales by 50%, the 8 Rupee cost is no guide as to what decision should be made. On the 100,000 sales volume, of course, the profit will be reduced from 200,000 Rupees to 100,000 Rupees if the selling price is reduced by 10%; but the incremental profit on the next 50,000 units must be based on the difference between the 9 Rupee selling price and the additional direct costs which will be incurred to produce these 50,000 units. If these should be only 6 Rupees per unit, the additional profit would be 3 Rupees per unit, or a total of 150,000 Rupees. In terms of product planning, therefore, the change would increase profits from 200,000 Rupees to 250,000 Rupees and may well be warranted. So, even the most elaborate cost accounting system fails as a tool in product planning unless variable and fixed costs can be segregated. And finally, our accumulation of inventory costs stop when the product reaches the factory door. In considering profit plans, however, the marketing expert must know all the costs which must be met before the sale is completed. As accountants, we consider these to

be period costs rather than product costs and for good reason. But for product planning decisions, the allocation of costs of warehousing, selling, delivery, and collecting the accounts are fundamental. The costs beyond the factory door are often very substantial indeed and sometimes even more than the cost to produce the product. In addition they vary tremendously by product, by sales area, by customer and by volume of sales. It is little help to tell a manufacturer in Delhi that his average cost of selling and warehousing is 20% of selling price if he is deciding whether to increase his sales effort to small-order customers in Delhi or to large volume buyers in Calcutta. To know which is the better alternative he must know the relative sales price he can obtain and the relative costs of shipping, warehousing, and selling attributable to each category of customers. Here again it is not just the over-all costs of serving such customers which he must know — it is the incremental costs which would be incurred.

Having recited the inadequacies of ordinary accounting records for measuring profitability in product planning, I do not suggest that we should scrap them just to please the marketing experts, even though some of the latter would probably think this was a good beginning. On the contrary, I suggest that we should remember that our primary responsibility is to measure the profit of the enterprise as a whole and in order to improve our performance in this area we should put our first efforts towards refining generally accepted accounting principles. Over the past 100 years — and particularly over the past 20 years — the accounting profession has made giant strides towards making the concept of annual net profit more meaningful and more comparable. But I need not tell this Conference that we have not ploughed the last furrow in this field — nor that the end of the field is still a long way ahead of us.

Rather than divert corporate accounting to become a handy tool for product planners — or others in the area of management — we must remember that shareholders and creditors also have an interest in the proper summation of accounting transactions, and unless we satisfy their needs there will be no money available to pay salaries to the management or the product planners. And, of course, there will be no proper check on the over-all results of their decisions.

This conclusion, of course, does not mean that we should be blind to their needs and, in fact, if we know what they want it should be possible for accountants to be of enormous help to them. One way I have already hinted at — if you can call the oft-repeated remarks about incremental costs a hint. I think we should be sure that cost systems are designed to show both direct costs and fixed costs. This does not mean that we should necessarily value our year end inventories on the basis of direct costs—a matter on which accountants have differing opinions. But it does mean that where a factory cost system is designed to show total cost, it should also be designed to

show an analysis of total costs between those which are variable and those which are fixed. If it is, it will still give us the information we need for inventory valuations and at the same time provide product planners and management with essential information they need for considering alternative operating decisions.

Nor should we stop this analysis at the factory door. There is no reason why we can't determine the total of warehouse, selling, and administration expenses and at the same time analyze them between variable or direct and fixed costs.

Another help we can provide is to ensure that the costs are constantly up-dated during the year to reflect significant changes in material and labour costs. Year-end costs may be of major importance to accountants, but it is today's or tomorrow's cost which it is necessary to know if the right decisions are to be made in the area of product planning. But, of course, it should only be necessary to change costs for major changes — the third decimal point in a cost figure is seldom of significance in determining selling prices or selling policies.

If we accept these criteria we will go far to meet the criticisms of our friends in the marketing area by providing them with the basic information they need to measure profitability. But I have never thought that the role of the accountant should be limited to that of provider of information that the marketing man might need. On the contrary, I should think that when we have the kind of accounting system which provides the basic information, we can then join forces with him in measuring the effect on profits of his product planning. Together we can be much more effective than either of us can be alone.

To begin with, let us acknowledge that the marketing expert should be the one to measure the effect on the market of changes in the product line, selling price or variations in quality. While we may accept him as an expert in these areas, I hope he will let us look over his shoulder so that we can apply our own analytical training to his problems to see whether there are any unwarranted hypotheses or any over-looked costs or revenues inherent in his basic assumptions (And, so far as that goes, I hope he will look over our shoulders when we are working on his problem to make sure that we have not overlooked anything. Of course, it may not be a bad thing if each of us checked the other's arithmetic.) Once the marketing expert—or product planner — has outlined the alternatives available, however, the accountant should be able to take over or, at least, tell him where the information can be found and how it should be used.

I suspect that a good deal of product planning has been unsuccessful because at this point the product planner and the accountant have not joined up as a team. In consequence, many costs may have been overlooked — and

not through any lack of imagination on the part of the marketing expert, but rather through a lack of understanding of the company's entire cost structure. I have referred to the quite proper emphasis that the marketing expert places on incremental costs in reaching his decisions. But sometimes there are incremental costs which he may not appreciate; e.g.,

The effect of a change on the income taxes payable; in my country at least, accounting income and taxable income are not synonymous and it is never safe to assume that an increase in one will be reflected in an identical rise in the other.

The fact that some fixed costs may also be incremental; i.e., they don't stay fixed for long, if variable costs rise. A larger volume may soon demand a new factory, a larger sales staff may result in an increase in the sales manager's salary or the appointment of an executive assistant (and maybe both), and improved corporate profits may mean that the President and Directors' salaries also rise.

Some costs are not reflected in the accounts. For example, we don't charge interest on the shareholder's equity, but if they are looking for—or can get elsewhere — say, a 10% return on their capital, any change in product plans should allow for a 10% interest cost inherent in increased plant facilities, inventories, and accounts receivable.

Many variable costs are only directly variable based on the present product plan. For example, if a company ordinarily has a 1% bad debt experience, it might be right to assume that a variation in sales of present products to present customers would result in direct variations of this proportion in bad debt expense. But if the product planning involves increased or reduced sales to other than the average customer the variation may be markedly different.

And so on, and so on.

I merely cite these four examples to emphasize that profitability as a tool in product planning requires the co-operation of the accountant and the product planner if the final decision is to be the right one.

While I have discussed this problem in terms of the marketing expert and the accountant, I only do so because in this way the two roles can be separately viewed. In many cases, of course, one person must combine both functions, particularly in smaller businesses where the accountant must do the planning or in some businesses where the accounting function is primitive and the marketing expert must be his own accountant. The latter situation will not be represented at this Conference. In the case of the former, however, where the accountant must develop the company's product plans on his own, it is well to remember our limitations in this area. Particularly, we should not assume volume changes based on proposed price changes or probable sales of a new product or probable sales of existing products in a new

area based on the opinion of salesmen or management without factual data to support it. Salesmen or management are much too likely to be overly optimistic as to the effects of a change or, occasionally, persuaded that nothing new can be tried successfully. We cannot all be marketing experts, but we can use some of their tools. Market surveys or sample runs of new marketing techniques or products in a limited, but representative, area can be organized by any of use to see what the effect of various changes will probable be on demand for the company's product. With this information, the measurement of the effect of a change on profitability should not be too difficult; but without a firm foundation we have only developed a mathematical answer to a non-existent problem and the changes we suggest may reduce, rather than increase, the company's profits.

Throughout this paper I have spoken in terms of measuring profitability as though it were possible to make a choice between two or more decisions in the area of product planning and have assumed that the one which added the most to the company's profits was necessarily the right one. This, you will recognize, is an over-simplification for product planning must look not only to the effect on this year's profits but also to what effect it will have on the profits of future years. Also, it cannot be carried on in an atmosphere of "Let's change this and assume everything else will remain unchanged." In business, nothing remains unchanged for long, and we must remember that even though a change in product planning this year may not in itself improve profits, it may be an essential defence against perils the company may face in future years. If, for instance, you had been building steam locomotives and you recognized that railways were going to convert to diesel power, you would be very interested in product planning in terms of having the company in business 5 years hence — even if the immediate result may be to accept a reduction in profits over the next few years.

Subject to these qualifications, then, (and as fellow accountants you will appreciate the need for qualifying statements from time to time) the measurement of profitability is an essential tool in product planning. It needs different—and sometimes more sophisticated techniques of costing—than accountants need for corporate purposes. But there is nothing about these techniques that an accountant cannot master and, teamed up with a marketing expert, the accountant can make a contribution to product planning that should ensure sound decisions based upon facts. And maybe this is our most important role—for in the world of figures we are the high priests of facts.

(The foregoing two papers, namely: "Auditor's Responsibility with reference to Management Frauds" and "Profitability as a Tool in Product Planning", which were among others discussed at the 4th CAPA—1965 in New Delhi, are reproduced here for the benefit of our readers with kind permission of the Conference Committee.—Ed.)

HOW TO OVERCOME OFFICE TROUBLES

Wong Shang Jen

Life is sweet if we are not confronted by Troubles and it is practically impossible in our daily connections with human beings not to be challenged by Mr. Trouble, the devil, in various ways from time to time unless every one of us, starting from our professionals, will try our best efforts not to permit any chance to Mr. Trouble to peep into nor to interfere with our business and it is just for this reason that this article is written.

The word "Trouble" means Calamity, Disturbance or Uneasiness. It is true as our Chinese saying goes, "There is no way to Calamity or Blessing, unless we ask for it."

Most of our trouble arise from human relation. When dealing with people, we must remember that we are dealing with creatures of emotion, creatures bristling with prejudice and motivated by pride and vanity. Instead of condemning them, let us try to understand them; instead of hating them, let us try to love them. It will breed sympathy, tolerance and kindness. "To know all is to forgive all."

A. Dealing with Clients

A practice cannot be set up without clients — the people who pay — whose affairs and interests require the utmost devotion and attention of practitioners. It is very important for us to maintain personal contact with our clients, for the goodwill depends on good relationship. Always be alert and firm with our own standing in dealing with people. A little too soft or too frail on our parts might lead us involved in trouble; because when people were in trouble, they would be looking for scapegoats.

In the course of interviewing a client, never discuss with him about any other client's affairs, less he should suspect that his privacy may in future be disclosed in the same manner by you to some one else, and thus affect his confidence toward you. Try to remember the name of your client, for to him his name is the sweetest and most important. Be a good listener, and avoid arguing with him on business over which he has practical experience, less you should show off your own ignorance. Almost every man you meet feels himself superior to you in some way, and a sure way to his heart is to let him realise in some subtle way that you recognise his importance in his little world.

The proper charging of fees to client should be fair and reasonable both for the practitioner and the client. If the fees charged is too low the practitioner must have courage to raise it. In doing so, you must discuss the matters over with your client beforehand. Do not try to force the way out in case he would disagree. Respect his view this time and ask him to concede to yours in the next payment. In most cases you may succeed in raising the fees without offending him.

Don't give sure answer or plausible advice to client where you have no confidence in the case concerned or the outcome of the event is uncertain. An unreliable advice is no better than a deceit, for the client who comes to consult you will believe in you and rely on you. For the sake of your own conscience and mercy on your client, be honest to him.

During the course of your work, you would ask for further information and explanations. No matter whether you ask your client to come over to your office or you go over to his side, you should first be sure that your list of questionnaire is complete. There is nothing so disgusting your client as obtaining information bit by bit and at different times.

Be interested personally in your client's business. Be sure to file documents or returns for your client to the proper authorities within the statutory time limit, and to attend promptly to his instruction and requirement.

We, accountants, are often confronted by our clients queries such as "Other accountants can do it, why not you?" or "Mr. So & So had succeeded in it, why did you fail?" Some of these may be tricks, others may be true. If they were tricks, never mind them. If they were true, we should approach the problems objectively and sought the advice of the experts, and try to find out the facts and see how it should be done. During the course of our investigation, we must see things from comprehensive points of views, particularly from our clients' point of view, and also look at them from different angles. We should also have a sense of proportion by taking into account of all the important factors in the problem and to attach to each its due weight. The answer we have thus found may either convince our clients or change our own mind.

B. Dealing with Associates and Other People

In dealing with associates and other people, we must be respectful and avoid futile argument. For your reference, I quote a passage from "The mind in the Making" by Harvey Robinson.

"We sometimes find ourselves changing our minds without any resistance or heavy emotion, but if we are told we are wrong, we resent the imputation and harden our hearts. We are incredibly heedless in the formation of our beliefs, but find ourselves filled with an illicit passion for them when anyone proposes to rob us of their companionship. It is obviously not the ideas themselves that are dear to us, but our self-esteem which is threatened....The little word "my" is the most important one in human affairs, and properly to reckon with it is the beginning of wisdom....We like to continue to believe what we have been accustomed to accept as true, and the resentment aroused when doubt is cast upon any of our assumption leads up to seek every manner of excuse for clinging to it. The result is that most of our so-called reasoning consists in finding arguments for going on believing as we already do."

It was also stated by Ben Franklin, "I made it a rule to forbear all direct contradiction to the sentiments of others, and all positive assertion

of my own. I even forbade myself the use of every word or expression in the language that imported a fixed opinion, such as "certainly," "undoubtedly", etc., and I adopted, instead of them, "I conceive", "I apprehend", or "I imagine" a thing to be so or so; or "it so appears to me at present". When another asserted something that I thought an error, I denied myself the pleasure of contradicting him abruptly, and of showing immediately some absurdity in his proposition; and in answering I began by observing that in certain cases or circumstances his opinion would be right, but in the present case there appeared or seemed to me some difference, etc. I soon found the advantage of this change in my manner; the conversations I engaged in went on more pleasantly. The modest way in which I proposed my opinion procured them a readier reception and less contradiction: I had less mortification when I was found to be in the wrong, and I more easily prevailed with others to give up their mistakes and join with me when I happened to be in the right."

But, if you were wrong, admit it. It is much easier to listen to self-criticism than to bear condemnation from other's lips. Say about yourself all the derogatory things you know the other person is thinking or wants to say, he will most likely take a generous and forgiving attitude.

No matter what you do and how you do you cannot satisfy everybody. We have difference of interest between the government and the governed like the inland revenue department and the tax payers. Though we have difference of views in religions and difference of opinion in each matter yet we love peace and comfort. It is nothing wrong to disagree with others, because each has his own faith, standing, interest, and ideas, but we must bear in mind a wise saying "If we have to disagree let us disagree without being disagreeable". With this guiding principle of life we could avoid much unhappy experience in dealing with people. This is especially true to people growing old without adequate understanding of their age and that is why so many parents grow more disagreeable for they have not acquired the art of love and usually expect their children to adopt their old ways. If we could only learn to be sweet, friendly and helpful, the passing of years would not be so lonely. It is important that we should watch ourselves carefully, so that we would not be disagreeable, when we disagree. If we are wanted to be around with the people, it is their respect to us, we would respect ourselves by joining them.

C. Dealing with Staff

The principal should make every effort to instill into the heads of his staff a sense of responsibility and acquaint them with the standard and requirement of the firm. In doing so the principal must be gentle and friendly.

"If a man's heart is rankling with discord and ill feeling toward you, you can't twin him to your way of thinking with all the logic in Christendom. Scolding parents and domineering bosses and husbands and nagging

wives ought to realise that people don't want to change their minds. They can't be forced or driven to agree with you or me. But they may possibly be led to, if we are gentle and friendly, ever so gentle and ever so friendly."

The sun can make you take off your coat more quickly than the wind; and the kindliness, the friendly approach can make people yield more readily than all the bluster and storming under the sun. So with men, if you want to win them to your cause, first convince them that you are their friend.

If your subordinate is wrong, he may not know it, so don't condemn him, but try to understand him and find out the reason why he did so, try honestly to put yourself in his place. Once you become aware of the cause, you may forgive the effect. It is dangerous to jump into hasty conclusion for the sake of the sufferer and your own conscience. If your subordinate's negligence has to be put right, do it courteously and privately in order to save his face and without hurting his pride. However, if he has done good work, don't forget hearty appreciation and inspiration, which may stimulate his latent potentiality.

Proper encouragement by way of financial reward and promotion are essential and regular attention should be given to reviews of staff salaries. The people can be led readily if they show you their respect which can be gained by your respecting them.

D. Criticism

All of us in our lives are subject to all sorts of criticism, some of which are sincere, some malicious. If we are able to take criticism, our lives would be happy and enjoyable; otherwise it would be very discouraging.

When we are criticised, we should not jump into conclusion. We must first examine whether the criticism is fair or not. There is no perfection in the world. One's personality has its merits and also defects. As the Chinese saying, "An echo from an empty valley must have its cause". First we must be calm and grateful for the person who takes time to criticise us, to give us a lesson and to show us a better way of life. His ultimate aim is supposed to want us to be perfect. In most cases the opinion of an outside mind comes closer to the truth about us than that of our own.

On the other hand, people in society usually envy other's prosperity and despise poverty. If you were successful and had committed a slight thoughtless mistake, injurious rumours would immediately be passed on to your associates and then spread wide in society. Under this circumstance, you cannot help people from criticising you but you must determine not to let the unjust condemnation disturb your mind but try to swallow it with a broad smile. Never be bothered by what people say, so long as you know in your conscious mind that you are right.

In dealing with ourselves, we must be reasonable, for no human being is perfect. If we are reasonably perfect, we should be grateful.

In dealing with others, never criticise them behind their backs as much as we can.

E. Allocation of Duties and Office Organization:

A good general does not shoot every enemy with his own gun. His duty it is to train every soldier of his to be capable of shooting the enemies as much as he could himself but with a number greatly multiplied in quantity. Similarly, a good manager is not the one who does everything industriously by himself, else he would eventually be driven by a sense of worry, anxiety and fatigue. He should possess the power of organizing a full scheme to promote the general efficiency of every member of his staff and to train them in various types of work within the scope of their interest, experience and education, allocate them appropriate duties and always under close supervision, rank over rank. Before they can be entrusted with responsibilities, he should see who is more capable and trustworthy to the job irrespective of their relationship with the directors or even with himself.

His organization should be broken down to sections or divisions in charge of a more capable and better paid leader with a sufficient number of assistants under him. He should keep an eye to the result and output of work of everybody, and as an encouragement to all his staff, promote whoever he finds outstanding or more reliable amongst them without simultaneous consideration of their merit and seniority. Prejudice must be forgotten else the whole company would be ruined.

I know an accountant who always over works himself with a typewriter by his side. Whenever he has found errors in the accounts coming up to him, like typographical or arithmetical errors, he just erases them off and amends the accounts himself. When the accounts are out of balance, he helps to balance them. His assistants on the other hand have long been so indulged that they always work carelessly, for they know that their boss will amend all the errors when they are found. No matter how many assistants the accountant employs, he is always as busy as ever with a typewriter by his side. He is good in one man's duty, but not as a good boss. His staff are spoilt and mistakes will unceasingly repeat, and unless they are never overlooked else they are there at the expense of somebody.

F. To Get Rich Quick, A Dangerous Idea

"By human obligations I mean the ability to behave in a reasonable way, to observe restraint so that restraints do not have to be imposed, to be able to think clearly and objectively so that false doctrines cannot gain ground. I believe that it also means the ability to see through non-senseand the feeling that it is a duty to resist it," said Duke of Edinburgh. One of the dangerous non-sense of professional class is to get rich quick.

Once "richness" is taken as the object of a man's future, it drives him feverish in seeking business, overtaxing himself by hard working; it also drives him to forget himself, his friends and even his family. Occasionally, losing one case or two would make him mad, frustrated, and his behavior just like a child losing his new toys. Meanwhile he is not unaware of the dangerous consequence. Then comes worry, fear, anxiety and other emotional conflicts. In other words, he has taken a wrong aim of life,

getting rich quick, which leads him to fall into the trap of blunders and negligence, and would cause concern of his friends, his professional body or the authorities. We may say that avarice is the main cause of negligence and that if there were no avarice, there would not have been inexcusable negligence.

There is a difference between a profession and a business, in that the former renders proper and efficient service at a reasonable charge and the latter seeks profits in various ways.

Prosperity is the result of success and success is the result of work. If we want success we have to pay for it, we have to give the most efficient services which we are capable, to render more services and better services than that which is expected of us in the capacity of an accountant, a lawyer, a doctor or an architect etc. In physics we have a law, "for every action there is an equal and opposite reaction." In life, "the more we give the more we shall receive." If we want more money we have to pay more, and better services. In other words, our income varies in direct proportion to the quantity & quality of our services rendered. We must also realise that no wealth or position can last long, unless they are built on truth and justice. Therefore we shall engage no dealing which does not benefit all whom it affects. If our service rendered is satisfactory, the public will appreciate it, and our clients would become our voluntary business agents to introduce us to other new clients without expecting anything in return; our practice will soon start to grow like a rolling snow-ball.

Be attentive to what you are doing. Let not reward be the impulse of your work. Do well always and reward will come spontaneously.

G. Fear

Many men give way to fear, some cannot even perform their duties faithfully. Certain professionals have the experience and knowledge to understand that they are absolutely right in their applications to the Authorities, but are disapproved. They grumbled but lack of the courage to speak up, explain, nor to fight for the benefit of their clients. Their lives seem always be clouded with fear. In fact "the only thing that we have to be afraid of is fear itself. What causes fear? Robinson said that fear is caused by ignorance and uncertainty. Ignorance simply means not knowing; uncertainty means not being sure. It is quite possible in almost every situation to find out what you do not know and what you are not sure of through books and professional advice. However, many of the professional men are satisfied with the status quo in their professional skill & knowledge because they are too busy or too lazy in keeping them abreast with time.

"Learning is like a junk sailing against the current. If it is not moving forward, it must go backward."

Another factor for fear is timidity. The remedy is to substitute your attitude of confidence for timidity. In doing this you first figure out the harmful effects of timidity to your career and personality, and with a strong desire to get rid of it. Repeat your desire in your mind again and again until

you feel that needs for improvement is stronger than the pleasure of keeping the habit. And then again and again you declare to yourself that you like people, like to talk to them, your timidity would soon fade away, and you will find yourself have more courage and confidence.

H. To Face Failure and Inevitable

And yet, there are circumstances which are beyond our control. The answer to this is to prepare for the worst. Here are some technique in preparing for the worst which may possibly happen:

- (1) To analyse the situation and find out what the worst could possibly happen as a result of failure, we have
- (2) To prepare to accept it if necessary, and finally,
- (3) To devote ourselves calmly to improve the worst that we had already been prepared to accept.

During the course of analysing and improving the situations, great effort must be paid. One may have the insight into the situations which one had never aware of it before and with which one may turn the failure into a success.

Of course there are some misfortunes that cannot be changed, but the way we ace it up is dependent on our inner attitude. We can met it courageously or we can allow it to overwhelm us. We can become its masters or its victims. The outcome depends mostly on ourselves. It may turn your hairs into grey over night if you resist; and yet you are not totally defeated, for you can still have a chance to win a victory over yourself by accepting the situation philosophically. To be able to do so when caught by surprise is that you must have a sense of detachment which means being willing to take whatever comes, the good and the bad, the rough and the smooth.

"The turbulent billows of the fretful surface leave the deep parts of the ocean undisturbed; and to him who has a hold on vaster and more permanent realities, the hourly vicissitudes of his personal destiny seem relative insignificant thngs. The really religious person accordingly unshakable and full of equanimity, and calmly ready for any duty that the day may bring forth."

"For every ailment under the sun, there is a remedy or there is none; if there be one, try to find it; if there be none, never mind it," and so "do you best and leave the result to the lips of god."

The above are the general attempts to overcome the emotional upset, worry, frustration and failure of professional men. Whatever we do in the course of our trade, they must be within the bounds of laws, morals and principles.

For our accounting profession, the watch words are integrity, independence and competence. We must hold dear in our hearts the trust of the Government and the confidence of the public placed on us. Whatever our interest and duty come into conflict in the course of our trade, duty must come first.

商品價格市道觀微

劉仲謙

一種商品，通常有兩個格價存在。其一為買家願購之價格，其一為售家願售之價格。其始二者互相爭持，彼此堅持原價，交易乃難成。其次互相讓步，購者願出稍高之價，售者願受稍低之價，使價格達於平衡、而達成交易。交易達成之後，購者得商品以償其慾望。至於售者獲盈利抑或遭損失，與購者無關。彼對於此點，實漠不關心也。茲試舉一例，以說明之。

設使在一小社會中，有五十人對於購買大餅之需求，其情況如下：

10人：如果大餅每斤一元，每人每五天願購二斤；如果大餅每斤價低過一元，則每人每五天願購五斤。（以下均以每五天計）

10人：如果大餅每斤一元，每人祇願購一斤。如果大餅每斤半元：或在半元以下，則每人願購五斤

10人：如果大餅每斤半元，每人祇購四斤。如果大餅每斤三角五分，則每人願購大餅五斤。

10人：如果大餅每斤半元，則各人均不買；如果每斤三角五分，則每人買四斤；如果每斤二角半，則每人買五斤。

10人：如果每斤三角五分，則每人買二斤；如果每斤二角五分，則每人買五斤。

由上觀之，可知大餅價格下降，則能引起買胃加強。茲列表如下：

大餅每斤價格	\$1.00	則可售出	30	斤
“ “	\$.50	則可售出	140	斤
“ “	\$.35	則可售出	210	斤
“ “	\$.25	則可售出	250	斤

以上為買方願出之價格。現吾人可反觀售方之價格又如何。假設製造大餅之人，共有五家。每家每五天可製成大餅125斤，其生產成本如下：

每斤	\$.75	\$.35	\$.25	\$.22	\$.20
大餅售價在 \$1.00 之時，	則每家均能製成大餅出售。				
大餅售價在 \$.50 之時，	則第一家不能競爭，須退出此業。				
大餅售價在 \$.35 之時，	則第一家及第二家均不能競爭，均須退出此業。				
大餅售價在 \$.25 之時，	則第一家第二家及第三家均不能競爭，均須退出此業。				

此時祇餘第4家及第5家可以繼續經營。因其出產成本在 \$.22及 \$.20也。因此，

大餅每斤 \$1.00 之時，	有625斤大餅可以出產待售。
大餅每斤 \$.50 之時，	有500斤大餅可以出產待售。
大餅每斤 \$.33 之時，	有375斤大餅可以出產待售。
大餅每斤 \$.25 之時，	有250斤大餅可以出產待售。

由此可見價格愈低降，則大餅之生產量愈減，因製餅之人，見無利可圖，被迫退出該業。由此生產量遂減少矣。

如將買家願出之價，及售家願受之價，列成一表，則其情況，可窺見如下：

	製餅者願製成	購餅者願購買
大餅每斤 \$1.00	625 斤	30 斤
“ \$.50	500 斤	140 斤
“ \$.35	375 斤	210 斤
“ \$.25	250 斤	250 斤

由上表觀之，大餅之最高需求量为250斤。製成大餅超過250斤之額，將無人過問。蓋以消化量計算，50人於5天內消化大餅250斤：即每人每日消化大餅一斤，已達到其所需要之飽和點。因大餅與普通奢侈品不同，每人不能逾量享用。製餅者雖欲以低過成本之價格出售，亦不可能。由此可知製餅者必須因應市面之需求，而決定其生產量，不能隨意盡量生產。因每種商品，必因有需求而後能招致供應。如祇注意供應而不審度需求之程度，則必陷於供過於求之困境。有時將價格降低亦未必能獲得購主。經營商業者，苟能懷於此中三昧，則趨吉避凶，其庶幾乎！否則一蹶而不可復振，悔無及矣。

工商署特惠稅通告摘錄

馬炎璋

查有關工商署特惠稅公告，本會前數期均有報導。茲將自本會一九六三年金禧特刊付梓後該項通告之較為重要者，畧及數事，以供參攷。

- (1) 一九六四年初，該署重申以前訓示。着各廠商於申請辦理特惠稅時，須將有關帳冊單據傳票等交由該署檢定之執業會計師審核，加以記號，以便該署稽核人員隨時檢查。而申請120證書時，更應將生產記錄帳冊交上述會計師查核，毋得或違。又如會計師不遵照廠方帳冊核計成本者，有被檢控之虞。
- (2) 由一九六四年三月起，婆羅洲沙勞越政府，對本港製造之單車內外呔及橡膠輾褥進口，已准享受特惠稅優待。但須有百份之五十聯邦成份。
- (3) 由一九六四年四月一日起，所有英國 E120特惠稅證，須將英國海關及本港工商署所發之登記號碼與會計師證書號數詳細列明，否則概不受理。
- (4) 關於外工 (Outworkers) 與判工 (Sub-Contractors) 之定義，時或混淆不清，該署特作如下解釋：—
 - (a) 凡受僱於僱主但在其註冊廠址以外工作並受其管理而獲酬者，當外工論。
 - (b) 凡自行僱用工人代他人製造成品，而所得工資包括一部利潤或連工包料者，當判工論。但在廠商僱用外工或判工前，均須由其會計師代向工商署請准方可。
至於輸往英屬（不包括英國本土）產品成本計算方式其中之判工工資，以前除其供料成本外，可獲百份之七十五當為聯邦或本港成份。惟由一九六四年五月起，此百份比已提高至百份之一百。
- (5) 關於甄審辦理特惠稅工作之會計師，除前有嚴格規定外，該署於一九六四年六月後闡釋其起碼程度如下：—
 - (1) 申請人必須係一及格會計師，曾在本港執業為第一部檢定及格核數師或在此部核數師事務所工作三年；
 - (2) 在上述三年或以後，曾辦理特惠稅工作六個月；
 - (3) 在申請時係執業會計師。
- (6) 查特惠稅保證書 (Preference Undertakings) 係廠商用以向工商署或英國海關保證採用某一種或多種英國或聯邦主要原料製造，俾其產品得享受聯邦特惠稅之合法契約。但根據該署檢查結果，發現有些廠商，不遵守保證書內所載辦理，殊為不合。故於一九六四年末及六五年初再行三令五申，着各廠商重視此項合法保證書。不得有違。倘以後發覺有冒犯者，決繩之於法，希各廠商特別留意云。
- (7) 由一九六五年二月十九日起，輸往曲島（南太平洋近紐西蘭）之本港產品，其聯邦成份，已由百份之五十減為百份之二十五。故對本港向該地輸出，不無少補。
- (8) 會計師辦理特惠稅所用之單據文件，日積月累，地方所限，收貯困難。故其保存期間，殊感躊躇。該署特於一九六五年十月通告規定如下：凡在港內外買賣單據及棉織品聯邦證書，須保存三年。其他特惠稅證件，最少要保留十八個月。

珠算英用法 (Abacus in English)

劉仲謙

珠算英用法，即用英文打算盤，驟觀之，此法頗難，因歷來甚少人嘗試；其實甚為容易，因為珠算乃一種易學，易記之計算方法。用英文打算盤，愚意以為須依照口訣，而口訣須具備下列條件。

- (一) 須簡明易記可誦。
- (二) 須配合撥珠動作。
- (三) 須根據數理寫成。

根據以上標準，作者曾將珠算全部口訣，譯成英文，運用起來，與用中文口訣，絕無二致。許多用過的人，都認為非常容易。從前外國人運用算盤之困難，希望因此而得到解決。

現在且談用英文打算盤的方法。

加法 (Addition)

加法口訣有四種，茲譯如下：

(A) 本位上下珠够加。(Readings when there are sufficient upper beads and lower beads for the addition)

- 一上一 To add one, one on.
- 二上二 To add two, two on.
- 三上三 To add three, three on.
- 四上四 To add four, four on.
- 五上五 To add five, five on.
- 六上六 To add six, six on.
- 七上七 To add seven, seven on.
- 八上八 To add eight, eight on.
- 九上九 To add nine, nine on.

(B) 本位下珠不够加。(Readings when the lower beads are not sufficient for the addition)

- 一下五去四 To add one, five repulses four.
- 二下五去三 To add two, five repulses, three.
- 三下五去二 To add three, five repulses two.
- 四下五去一 To add four, five repulses one.

(C) 本位上下珠够去。(Readings when there are sufficient upper beads and lower beads to be put off to make up a figure greater than 10.)

- 一去九進一 To add one, nine off, forward one.
- 二去八進一 To add two, eight off, forward one.
- 三去七進一 To add three, seven off forward one.
- 四去六進一 To add four, six off, forward one.
- 五去五進一 To add five, five off, forward one.

六去四進一 To add six, four off, forward one.

七去三進一 To add seven, three off, forward one.

八去二進一 To add eight, two off, forward one.

九去一進一 To add nine, one off, forward one.

(D) 本位下珠不够去。(Readings when there are insufficient lower beads to be put off to make up a figure greater than 10.)

六上一去五進一 To add six, one repulses five, forward one.

七上二去五進一 To add seven, two repulses five, forward one.

八上三去五進一 To add eight, three repulses five, forward one.

九上四去五進一 To add nine, four repulses five, forward one.

減法 (Subtraction)

減法口訣有四種，茲譯如下：

(A) 本位上下珠够去。(Readings when there are sufficient upper beads and lower beads for the subtraction.)

- 一去一 To subtract one, one off.
- 二去二 To subtract two, two off.
- 三去三 To subtract three, three off.
- 四去四 To subtract four, four off.
- 五去五 To subtract five, five off.
- 六去六 To subtract six, six off.
- 七去七 To subtract seven, seven off.
- 八去八 To subtract eight, eight off.
- 九去九 To subtract nine, nine off.

(B) 本位下珠不够去。(Readings when there are insufficient lower beads for the subtraction.)

- 一上四去五 To subtract one, four repulses five.
 二上三去五 To subtract two, three repulses five.
 三上二去五 To subtract three, two repulses five.
 四上一去五 To subtract four, one repulses five.

(C) 本位上下珠够容所得差數 (Reading when there are sufficient upper beads and lower bead to accommodate the difference.)

- 一退一還九 To subtract one, ten concedes to nine.
 二退一還八 To subtract two, ten concedes to eight
 三退一還七 To subtract three, ten concedes to seven.
 四退一還六 To subtract four, ten concedes to six.
 五退一還五 To subtract five, ten concedes to five.
 六退一還四 To subtract six, ten concedes to four.
 七退一還三 To subtract seven, ten concedes to three.
 八退一還二 To subtract eight, ten concedes to two.
 九退一還一 To subtract nine, ten concedes to one.

(D) 本位下珠不够容所得差數 (Readings when there are insufficient lower beads to accommodate the difference.)

- 六退一下五去一 To subtract six, ten concedes to four, four, five repulses one.
 七退一下五去二 To subtract seven, ten concedes to three, three, five repulses two.
 八退一下五去三 To subtract eight, ten concedes to two, two, five repulses three.
 九退一下五去四 To subtract nine, ten concedes to one, one, five repulses four.

乘 法 (Multiplication)

乘法口訣一種，即九因歌。

一一如一	One one, one.
一二如二	One two, two.
一三如三	One three, three.
一四如四	One four, four.
一五如五	One five, five.
一六如六	One six, six.
一七如七	One seven, seven.
一八如八	One eight, eight.
一九如九	One nine, nine.
二二如四	Two two, four.
二三如六	Two three, six.
二四如八	Two four, eight.
二五一十	Two five, ten.
二六一十二	Two six, twelve.
二七一十四	Two seven, fourteen.
二八一十六	Two eight, sixteen.
二九一十八	Two nine, eighteen.
三三如九	Three three, nine.
三四一十二	Three four, twelve.
三五一十五	Three five, fifteen.
三六一十八	Three six, eighteen.
三七二十一	Three seven, twenty-one.
三八二十四	Three eight, twenty-four.
三九二十七	Three nine, twenty-seven.
四四一十六	Four four, sixteen.
四五二十	Four five, twenty.
四六二十四	Four six, twenty-four.
四七二十八	Four seven, twenty-eight.
四八三十二	Four eight, thirty-two.
四九三十六	Four nine, thirty-six.
五五二十五	Five five, twenty-five.
五六三十	Five six, thirty.
五七三十五	Five seven, thirty-five.
五八四十	Five eight, forty.
五九四十五	Five nine, forty-five.
六六三十六	Six six, thirty-six.
六七四十二	Six seven, forty-two.
六八四十八	Six eight, forty-eight.
六九五十四	Six nine, fifty-four.

七七四十九 Seven seven, forty-nine.
 七八五十六 Seven eight, fifty-six.
 七九六十三 Seven nine, sixty-three.

八八六十四 Eight eight, sixty-four.
 八九七十二 Eight nine, seventy-two.

九九八十一 Nine nine, eighty-one.

除 法 (Division)

除法分爲

(A) 一個位除法 (Division with a Divisor of one digit.)

(B) 兩個位除法 (Division with a Divisor of two digits.)

(C) 三個位或三個位以上除法 (Division with a Divisor of three or more digits.)

(A) 一個位除法 (Division with a Divisor one Digit.)

一個位除法口訣有九種，卽由一歸至九歸

一歸口訣

逢一進一 Meeting one, forward one.
 逢二進二 Meeting two, forward two.
 逢三進三 Meeting three, forward three.
 逢四進四 Meeting four, forward four.
 逢五進五 Meeting five, forward five.
 逢六進六 Meeting six, forward six.
 逢七進七 Meeting seven, forward seven.
 逢八進八 Meeting eight, forward eight.
 逢九進九 Meeting nine, forward nine.

二歸口訣

二一分作五 One by two, five.
 逢二進一 Meeting two, forward one.

逢四進二 Meeting four, forward two.
 逢六進三 Meeting six, forward three.
 逢八進四 Meeting eight, forward four.

三歸口訣

三一三剩一 One by three, three, one.
 三二六剩二 Two by three, six, two.
 逢三進一 Meeting three, forward one.
 逢六進二 Meeting six, forward two.
 逢九進三 Meeting nine, forward three.

四歸口訣

四一二剩二 One by four, two, two.
 四二分作五 Two by four, five.
 四三七剩二 Three by four, seven, two.
 逢四進一 Meeting four, forward one.
 逢八進二 Meeting eight, forward two.

五歸口訣

五一分作二 One by five, two.
 五二分作四 Two by five, four.
 五三分作六 Three by five, six.
 五四分作八 Four by five, eight.
 逢五進一 Meeting five, forward one.

六歸口訣

六一下加四 One by six, four left.
 六二三剩二 Two by six, three, two.
 六三分作五 Three by six, five.
 六四六剩四 Four by six, six, four.
 六五八剩二 Five by six, eight, two.
 逢六進一 Meeting six, forward one.

七歸口訣

- 七一下加三 One by seven, three left.
 七二下加六 Two by seven, six left.
 七三四剩二 Three by seven, four, two.
 七四五剩五 Four by seven, five, five.
 七五七剩一 Five by seven, seven, one.
 七六八剩四 Six by seven, eight, four.
 逢七進一 Meeting seven, forward one.

八歸口訣

- 八一下加二 One by eight, two left.
 八二下加四 Two by eight, four left.
 八三下加六 Three by eight, six left.
 八四分作五 Four by eight, five.
 八五六剩二 Five by eight, six, two.
 八六七剩四 Six by eight, seven, four.
 八七八剩六 Seven by eight, eight, six.
 逢八進一 Meeting eight, forward one.

九歸口訣

- 九一下加一 One by nine, one left.
 九二下加二 Two by nine, two left.
 九三下加三 Three by nine, three left.
 九四下加四 Four by nine, four left.
 九五下加五 Five by nine, five left.
 九六下加六 Six by nine, six left.
 九七下加七 Seven by nine, seven left.
 九八下加八 Eight by nine, eight left.
 逢九進一 Meeting nine, forward one.

(B) 兩個位除法 (Division with a Divisor of two Digits)

兩個位除法，即由一歸一除起，至九歸九除止。除應用一歸至九歸之口訣外，另須用「除數」之左第二位數，乘已得之「商」數，得「積」數，然後將此「積」，由「被除數」之「除數」減去之。(Multiply the quotient by the figure on the remaining digit of the divisor to arrive at a product, and deduct the product, so obtained, from the remaining part of the dividend.)

如依上節所乘得之「積」太大，不能由「被除數」之「餘數」減去，則可知用「歸」求得之「商」太大，應將商之一部份，復回到「被除數」去。復回之法，乃將減少之「商」，乘「除數」左起第一位之數，得「積」，然後將「積」復回到「被除數」去。

(When the product obtained in the aforesaid way is greater than, and cannot be deducted by, the remaining part of the dividend, it tells that the temporary quotient is too great and should be reduced. Any figure so reduced in the quotient is to be reverted to the dividend in as many times as the first left digit of the divisor indicates.)

如「被除數」比較「除數」小，則須用撞歸口訣。

一歸一除至一歸九除撞歸口訣

- 見一無除作九一 Seeing one, no deduction, nine, one.
 無除起一下還一 No deduction, one reverts to one.
 無除起二下還二 No deduction, two reverts to two.
 無除起三下還三 No deduction, three reverts to three.
 無除起四下還四 No deduction, four reverts to four.

二歸一除至二歸九除撞歸口訣

- 見二無除作九二 Seeing two, no deduction, nine, two.

無除起一下還二 No deduction, one reverts to two.

無除起二下還四 No deduction, two reverts to four.

無除起三下還六 No deduction, three reverts to six.

三歸一除至三歸九除撞歸口訣

見三無除作九三 Seeing three, no deduction, nine, three.

無除起一下還三 No deduction, one reverts to three.

無除起二下還六 No deduction, two reverts to six.

四歸一除至四歸九除撞歸口訣

見四無除作九四 Seeing four, no deduction, nine, four.

無除起一下還四 No deduction, one reverts to four.

五歸一除至五歸九除撞歸口訣

見五無除作九五 Seeing five, no deduction, nine five.

無除起一下還五 No deduction, one reverts to five.

六歸一除至六歸九除撞歸口訣

見六無除作九六 Seeing six, no deduction, nine, six.

無除起一下還六 No deduction, one reverts to six.

七歸一除至七歸九除撞歸口訣

見七無除作九七 Seeing seven, no deduction, nine, seven.

無除起一下還七 No deduction, one reverts to seven.

八歸一除至八歸九除撞歸口訣

見八無除作九八 Seeing eight, no deduction, nine, eight.

無除起一下還八 No deduction, one reverts to eight.

九歸一除至九歸九除撞歸口訣

見九無除作九九 Seeing nine, no deduction, nine, nine.

無除起一下還九 No deduction, one reverts to nine.

此外尚有一種口訣，應用之將「積」數由「被除數」之「餘數」減去。

(附註，此處所指之「積」，請參看本段「兩位除法」第一節所解釋之「積」。) 此種口訣如下：

一一除一	One one, deduct one.
一二除二	One two, deduct two.
一三除三	One three, deduct three.
一四除四	One four, deduct four.
一五除五	One five, deduct five.
一六除六	One six, deduct six.
一七除七	One seven, deduct seven.
一八除八	One eight, deduct eight.
一九除九	One nine, deduct nine.
二一除二	Two one, deduct two.
二二除四	Two two, deduct four.
二三除六	Two three, deduct six.
二四除八	Two four, deduct eight.
二五除十	Two five, deduct ten.
二六除十二	Two six, deduct twelve.
二七除十四	Two seven, deduct fourteen.
二八除十六	Two eight, deduct sixteen.
二九除十八	Two nine, deduct eighteen.

其餘類推，至九九除八十一止。

(C) 三個位或三個位以上之除法 (Division with a Divisor of three or more Digits)。

三個位或三個位以上之除法，與兩個位除法相同，但第一次將「積」由「被除數」之「餘額」減去之後，仍須依次將新得之「積」，又由「被除數」之「餘額」依次減去之，（附註：此處所指之「積」，請參看「兩個位除法」第一節，所解釋之「積」。）

To perform a division with a divisor of three or more digits on the abacus is the same as to perform a division with a divisor of two digits, except going on one further step, or more further steps as the case requires, to deduct the product, (obtained by the way described in "Division with a Divisor of two Digits") of the further digit, or digits consecutively, of the divisor and the first digit, or the consecutive digits, of the quotient. Readings applicable to a division with 1 to 9 as the first left digit of a divisor of two digits, are also applicable to a division with 1 to 9 as the first left digit of a divisor of three or more digits.

飛 歸 (Swift Division)

飛歸口訣祇適用於某一除數不能移用於另一除數。飛歸運用起來比較快捷，但因口訣不能移用，多位者尤難記憶，故此法殊不適宜應用。例如一歸二除之飛歸口訣如下：

Swift Division is seldom used but it is very convenient for those who have to make divisions very often with a certain divisor. The divisor is frequently used in their trade or business.

見一無除八零四 Seeing one, no deduction, eight-O-four.

逢十二進一 Meeting twelve, forward one.

逢二十四進二 Meeting twenty-four, forward two.

逢三十六進三 Meeting thirty - six, forward three.

逢四十八進四 Meeting forty-eight, forward four.

逢六十進五 Meeting sixty, forward five.

逢七十二進六 Meeting seventy-two, forward six.

逢八十四進七 Meeting eighty four, forward seven.

逢九十六進八 Meeting ninety-six, forward eight.

定 單 位 法

(A) 加數定位法 (The Way to Read a Sum)

加數單位，由計算開始，至計算完畢，無變更。
(The unit digit in a sum remains unchanged throughout the process of the operation.)

(B) 減數定位法 (The Way to Read a Difference.)

減數單位，由計算開始，至計算完畢，無變更。
(The unit digit in a difference remains unchanged throughout the process of the operation.)

(C) 乘數定位法 (The Way to Read a Product.)

用單位數或任何位數乘，所得之積，在原柱讀大一個位，或與乘數之位數類推。

(When the multiplier is in unit or in any digit, the unit row, where the multiplicand stood, represents one digit or any digits correspondingly greater in the product.)

(D) 除數定位法 (The Way to Read a Quotient.)

用單位數或任何位數除，所得之商，在原柱讀細一個位，或與除數之位數類推。

(When the divisor is in unit or in any digit, the unit row where the dividend stood, represents one digit or any digits correspondingly smaller in the quotient.)

DEPARTMENTAL INTERPRETATION & PRACTICE NOTES

NO. 1 TO NO. 4

NO. 1

PROFITS TAX

REF. NO. IRO/14/02

INLAND REVENUE DEPARTMENT,
Central Government Offices,
Tenth floor, — West Wing,
Ice House Street,
HONG KONG
27th January, 1964.

Gentlemen,

**Valuation of Stock-in-Trade and
Work-in-Progress**

Instances have recently been discovered where the valuation of the stock and work in progress shown in a taxpayer's annual accounts has not been acceptable for tax purposes. Additional assessments and action under Section 80 have followed these discoveries as it was felt that there was no reasonable excuse for not advising the Assessor of the specific nature of the values used when estimating or valuing stock below cost or market value.

2. The correct valuation of stock and work in progress each year is important for many obvious reasons; the argument that an incorrect value in one year can be adjusted by a proper valuation in a subsequent year is not a valid one for tax purposes.

3. However, it seems that in some cases there may not have been a clear understanding as to what valuation are acceptable for tax purposes as distinct from those acceptable to Auditors as a matter of practical commercial accounting.

4. Guidance as to the best accountancy practice was given in Recommendation No. 22 issued in November 1960 by the Council of the Institute of Chartered Accountants in England and Wales. This publication has been reproduced in professional journals and is available at price One Shilling from the Institute.

5. These recommendations were largely acceptable to the U.K. Board of Inland Revenue, and the Revenue viewpoint was very fully explained by a spokesman in a paper (under the title "The Relationship between the Inland Revenue and the Accountant as regards Stock Valuation") read before a Student Society of the Institute in October 1961 — reproduced in "The Accountant" of 17th February, 1962. Many members of the profession will have this publication.

6. Recommendation No. 22 is also broadly acceptable to the Inland Revenue Department in Hong Kong, and similar views are held on the tax position generally to those expressed in the paper referred to above. In

considering these questions, I have also had my attention drawn to the Statement by the Institute of Chartered Accountants entitled — “General Principles of Auditing — Stock-in-Trade and Work in Progress” issued on 15th March, 1962. This statement is available for purchase at One Shilling and has also been reproduced in professional journals.

7. Without attempting to reiterate the whole of the ground covered by the publications and documents referred to above, I would like to say that a mutual understanding of the generally accepted accountancy principles, and where these might not be acceptable in determining profit for tax purposes, would not only avoid future difficulties as between the Revenue and taxpayers, but would also improve relationships between the Department and practitioners.

8. Directions are being issued to all Assessors regarding the generally accepted accountancy principles as in Recommendation 22, and they will look to see indications whether these are being followed in the presentation of accounts and computations for Profits Tax.

9. Where however the basis adopted for valuation of stock-in-trade and work in progress is one which is not acceptable for tax purposes, I would ask that this be made apparent in returns and the necessary adjustment made in the computation. As to what this adjustment should be, is a matter for agreement with the Assessor.

10. In Recommendation 22, under the heading — “Description in the Annual Accounts” it is pointed out that —

- (a) the expression “market value” is not an appropriate description as it does not indicate whether it refers to net realisable value or replacement price, and
- (b) such terms as “at or under cost” or “as valued by the company’s official” are also not suitable;

so where terms such as these are used in the prepared accounts, then it should be made clear to the Assessor exactly what basis of valuation has been used. It is proposed to incorporate in the forms of return for Corporation Profits Tax and Business Profits Tax, provision for stating the precise basis of valuation of stock-in-trade, and if this cannot be done in the forms for 1964/65 year of assessment, then a separate questionnaire will be enclosed in appropriate cases.

11. There are no statutory provisions as to the basis or principles of stock valuation for tax purposes other than Section 15C, operative on cessations, so ordinary commercial principles and practice have first to be looked at. Further guidance can be found in the decided cases. As was stated in *Whimster v. C.I.R.* 12 T.C. 813, the general basis for commercial accounting is to value stock at cost or market value whichever is the lower.

12. The basic Revenue view is that “cost” means the actual or historical cost, and as set out in Recommendation 22, this includes all expenditure

incurred directly in the purchase or manufacture of the stock and the bringing of it to its existing condition and location, together with such part, if any, of the overhead expenditure as is appropriately carried forward in the circumstances of the business instead of being charged against the revenue of the period in which it was incurred.

13. It is accepted that there may be practical difficulties in arriving at actual or historical cost, and for that reason some other method may have to be used. For example, where the adjusted selling price method has been adopted, the reasons for desiring to continue on this basis should be given, and there should be indicated (a) the nature and amount of expenses deducted as necessary to bring the goods to their saleable condition and location (such as commission, transportation and other selling expenses) and (b) the deduction for the estimated margin of profit. Again, in the case of slow moving stocks, e.g. spare parts or books, it is not sufficient that arbitrary reduction be made from original cost. The Revenue asks that the trader apply his knowledge and experience in the trade, to make a genuine estimate of the loss reasonably expected to arise from ultimate sale in his market.

14. The Courts have also ruled on certain methods of valuation —

- (i) The case of Ahmedabad New Cotton Mills Ltd. v. Bombay Commissioners of Income Tax, 8 A.T.C., 575; confirmed that the same general basis of valuation should be applied at the beginning and end of each accounting period.
- (ii) C.I.R. v. Cock Russell & Co. Ltd., 29 T.C. 387, established the right to apply cost or lower market value to individual items of stock.
- (iii) In Minister of National Revenue v. Anaconda American Brass Ltd., 34 A.T.C. 330, the L.I.F.O. method of determining cost was rejected by the Privy Council.
- (iv) In Patrick v. Broadstone 35 T.C. 44, the base stock method was rejected, even though it was accepted as sound commercial practice in the cotton spinning trade.
- (v) The Duple Motor Bodies case stressed the importance of consistency in the basis of valuation of stock and work in progress. The Courts however, in refusing to decide between the rival claims of direct cost and oncost as a broad principle, found that the direct cost method, which had been consistently applied in the past, was one of the methods recognized as sound accountancy practice and saw no reason in the circumstances of that case, to compel a change to the oncost basis.

15. These decisions have not removed all grounds for differences of opinion, but they have made it clear that there can be no one universal basis of valuation for all cases, and that the basis must be considered in

relation to the circumstances of each business.

16. In broadly covering some of the major aspects of this question, I am merely outlining what has been the basic policy and practice of this Department all along, in the hope, as mentioned earlier, that this will help in avoiding future misunderstanding. I intend shortly to address you further, more particularly with regard to certain aspects of the valuation of work in progress in the building and engineering trades.

17. I propose also to consult from time to time with the local professional and representative bodies on other aspects on which there may be divergence of opinion or differences in practice as between accounting and taxation treatment. This I feel sure will lead to better understanding and a mutual saving of time and correspondence in agreeing assessments.

18. Where it is found that any of your clients have adopted an approach to the valuation of their stock-in-trade and work in progress which is not in keeping with or acceptable as a proper taxation practice, it is asked that your clients take the opportunity of making an early voluntary disclosure as to any resultant understatement of profit, so as to avoid the full impact of the panel provisions of the Ordinance.

19. Where an adjustment is made in the next return for the change from a non-valid basis to a valid basis of valuation, the question of penalties will not normally arise unless there has been what I may regard as deliberate or wilfully misleading irregularities.

20. There will not normally be any review of back years unless the apparent loss to the Revenue is likely to be substantial. In cases where it is necessary to look at past liabilities, it may be possible to agree that these be regarded as covered by what would be the uplift in the opening valuation of the year of change and to therefore leave the opening figure and the earlier years undisturbed.

21. Generally it is intended that there be a reasonable approach to this question, primarily to establish a common understanding of the basic principles from a tax viewpoint and to secure a better degree of accuracy in returns. It is not proposed to embark on any form of general witch hunt, or to expect a strict application of the full requirements in small and unimportant cases. It is recognized that many small concerns may not have adequate costing records and the Department has no desire to attempt to impose requirements which will require an increase in staff or costs.

Yours faithfully,

A. D. DUFFY,

Commissioner of Inland Revenue.

NO. 2 PROFITS TAX

(1) Whereas Section 17(1)(c) of the Inland Revenue Ordinance prohibits the deduction for Profits Tax purposes of any expenditure of a capital nature, Part VI provides for the granting of capital allowances in respect of (a) Industrial Buildings, (b) Commercial Buildings and (c) Machinery and Plant.

(2) This paper is a summary of the Departmental practice and interpretation of the provisions relating to (A) Industrial Buildings and (B) Commercial Buildings. A separate paper will follow regarding machinery and plant.

PART A — INDUSTRIAL BUILDINGS ALLOWANCES

(3) Trades which Qualify

An industrial building or structure is defined in Section 40 as meaning "a building or structure used by the owner thereof —

- (a) for the purposes of a trade carried on in a mill, factory or other similar premises; or
- (b) for the purposes of a transport, dock, water or electricity undertaking; or
- (c) for the purposes of a trade which consists of the manufacture of goods or materials or the subjection of goods or materials to any process; or
- (d) for the purposes of a trade which consists in the storage —
 - (i) of goods or materials which are to be used in the manufacture of other goods or materials; or
 - (ii) of goods or materials which are to be subjected in the course of a trade to any process; or
 - (iii) of goods or materials on their arrival by sea or air into the Colony; or
- (e) for the purposes of the business of farming."

Except for "(e) the business of farming", it is only trades which qualify. Of the trades specified, the type most frequently met with is "(c) for the purposes of a trade which consists in the manufacture of goods or materials or the subjection of goods or materials to any process." This is wider than "(a) a trade carried on in a mill, factory or other similar premises." It should not be thought that in order to qualify, a trade must involve a manufacturing process. For example, a motor-repair workshop has been held to qualify, as the trade involved the subjection of goods or materials to a process by the application of machines and hand tools.

In order to come within (d) of the definition, it should be noted that the trade itself must be one of storage. Godowns or warehouses for the storage of goods or materials for sale or for use in the trade or business of the storer, which does not itself qualify, would not rank for allowances.

(4) Buildings which Qualify

The allowances apply to all buildings and structures used in qualifying trades other than the stated exceptions, which will be dealt with later.

The words "buildings and structures" are not defined, so they must be given their ordinary meaning. In practice the term "structure" is interpreted as covering artificial works that are not commonly regarded as buildings, such as walls, bridges, dams, roads, dry docks and tunnel linings.

In addition, the practice is to regard boundary walls, railway sidings and other works forming part of the premises as qualifying for the allowances.

Any buildings or structures provided for and in use for the welfare of workers, or for the housing of manual workers, employed in the specified trades, will also rank for allowances.

(5) Buildings excluded

Excluded from the allowances are any buildings or structures in so far as they are in use as a —

- (i) dwelling house (other than for housing manual workers),
- (ii) retail shop,
- (iii) showroom,
- (iv) hotel, or
- (v) office.

In practice, where the cost of construction and the part of a building which is excluded does not exceed 10% of the total cost of the building, the whole building is regarded as qualifying. Otherwise an apportionment is made so as to bring in only the cost of the part which does qualify.

(6) Expenditure which Qualifies

The annual allowances of 2% (initial allowances are not now granted) are based on the "capital expenditure incurred on the construction of the building or structure." This will not include the cost of the site or the preparation and levelling of the land. There may be included, however, the expenditure on the ordinary work done preparatory to laying foundations, and the cost of laying drains, sewers and water-main to serve the building.

(7) Persons entitled to the Allowance

Annual allowances are granted to any person who is entitled to an interest in an industrial building or structure, where that interest is the relevant interest in relation to the capital expenditure incurred on the construction of that building or structure.

In practice the effect of the words "used by the owner thereof" as inserted in the definition in Section 40 by the 1955 Amendment, is taken as limiting the allowances to —

- (a) the owner of an industrial building occupied by himself, if he either incurred capital expenditure on the construction of the building or acquired directly or indirectly the relevant interest of a person who did incur that expenditure;
- (b) a lessee of an industrial building, occupied by himself, if he incurred the cost of constructing it on the leased land or acquired directly or indirectly the relevant interest of a person who incurred the cost whilst holding that interest.

No allowances are due to a lessee who merely pays rent and/or a premium for the lease of a building and who has not himself incurred capital expenditure on construction or acquired the relevant interest of a person who did incur such expenditure. Any capital expenditure by a lessee must be such as to create a building or structure capable of separate ownership in order to qualify for allowances. Expenditure on what are merely improvements or alterations to an existing structure would not rank for allowances to a lessee.

(8) Relevant Interest

"Relevant Interest" is determined at the time when the capital expenditure is incurred. It is defined in Section 40 as meaning—

"in relation to any expenditure incurred on the construction of a building or structure the interest in that building or structure to which the person who incurred the expenditure was entitled when he incurred it."

A relevant interest can be acquired where the person who incurred the expenditure sells the whole of his interest, not just part. For example, A holds a lease of land from the Crown for 99 years. He gives B a lease for 50 years and B erects an industrial building thereon at a cost of \$100,000. After some time B assigns the balance of his lease to C, who acquires the relevant interest which B had in the capital expenditure incurred on the construction of the building. C is entitled to annual allowances calculated under Section 34(2)(b), and also to balancing allowances at the expiration of the lease under Section 35(1)(b). If, however, B merely sub-let the premises to C for a term of years, the relevant interest would not pass and no one would be entitled to any industrial building allowances.

(9) Annual Allowances

Annual allowances are computed as laid down in paragraphs (a) and (b) of Section 34(2), and, depending on the circumstances, are either—

- (a) 2% of the capital expenditure on the construction of the building, if the relevant interest in such expenditure has not been sold after it was first used, or
- (b) if such interest has been sold since it was first used, then the fraction of the "residue of expenditure after the sale" as is the number of years of assessment from that in which the buyer is entitled to an annual allowance, to the fiftieth year after the year in which the building concerned was first used.

Three conditions must be fulfilled before a person is entitled to annual allowances for any year of assessment:—

- (1) The building must be in use as an industrial building at the end of his basis period of assessment;
- (2) He must be entitled to an interest in the building at the end of the basis period for that year of assessment;
- (3) That interest must be the relevant interest in relation to the capital expenditure for which allowances are claimed.

(10) "Residue of Expenditure"

This term is defined in Section 40, as the original cost of the building reduced by any initial, annual and balancing allowances actually made and as increased by any balancing charges. A notional allowance is deemed to have been made for any year in which no annual allowance could be made.

(11) Balancing Allowances and Charges

Where any of the following events occur:—

- (a) the relevant interest in the building is sold,
- (b) the claimant's interest in the building was leasehold and the lease expires, or
- (c) the building is demolished, destroyed or it ceases altogether to be

used,
a balance is struck between the residue of expenditure immediately before the event and the sale price, insurance, salvage or compensation moneys (if any). If the residue exceeds the sale price or other moneys the difference is allowed as a balancing allowance. If the difference is the other way, it forms a balancing charge.

No charge or allowance falls to be made unless the building was an industrial building at the time of the event giving rise to the charge or allowance. The charge is made or the allowance is given for the year of assessment in the basis period for which the event occurred, but not by reason of any event occurring after the fiftieth year when building was first used.

PART B — REBUILDING ALLOWANCES — COMMERCIAL BUILDINGS OR STRUCTURES

(12) Buildings which qualify

For the purposes of Section 36 of the Inland Revenue Ordinance a "commercial building or structure" is any building or structure which does not qualify as an industrial building under the Ordinance, and which is used by the owner for the purposes of his trade, profession or business.

The first requirement is therefore whether the building is used by the owner for the purposes of his trade, profession or business. If so, the second question is does the building qualify as an industrial building? (See notes in Part A re Industrial Buildings). If it is not an Industrial Building or Structure and is used for the owner's trade, profession or business, then it is a "commercial building or structure" and qualifies for a "rebuilding allowance". If only part of a building is so used, then that part of the building only will qualify for allowances.

(13) Rebuilding Allowance

A rebuilding allowance of $\frac{3}{4}\%$ of the capital expenditure on the cost of construction is granted for each year of assessment while the building is so used at the end of the basis period of the year of assessment.

As with industrial buildings, the allowance is based on the capital expenditure incurred on the construction — see para. 6 in Part A above.

The allowance is an annual allowance and there is no special initial allowance or any balancing allowance or charge.

(14) Persons entitled to the Allowance

The allowance extends to any person (which includes a company, partnership or body of persons) who owns and is using the building or structure for the purposes of his trade, profession or business, and is deducted in ascertaining the amount of profits subject to Profits Tax.

The allowance is not limited to the person who incurred the capital expenditure. Any person who subsequently acquired the ownership of the building could qualify for the allowance, but it would still be based on the original cost of construction, plus, of course, the cost of any alterations, improvements or additions.

A. D. DUFFY,

Commissioner of Inland Revenue.

**NO. 3
PROFITS TAX**

INTERPRETATION & PRACTICE CIRCULAR NO. 16/6

SUBJECT: Apportionment of Expenses

(1) Section 16(1) of the Inland Revenue Ordinance provides that in ascertaining the assessable profits of any year there shall be deducted outgoings and expenses wholly and exclusively incurred in the production of the profits chargeable to tax. It might be said that the phrase "wholly and exclusively" could be taken as only authorizing the deduction of expenses which were "exclusively" or solely incurred in the production of profits brought into charge and that if such expenses were incurred partly for any other purpose then they were not deductible at all. In practice however this has never been treated as allowable to the extent to which they are incurred in producing taxable profits. This means that there are disallowed, firstly any expenses which are not incurred in the production of the taxable profits, and secondly, a proportion of those expenses which are incurred partly in the production of taxable profits and partly for other purposes. This is a question of fact to be decided according to the circumstances of each case and to the type of business. The same question has arisen in the U.K. and elsewhere and the Courts have not attempted to lay down any general rules of apportionment but have approved various methods according to what will best meet the circumstances and type of each business. In Hong Kong this question has presented special problems by reason of the charge to tax being limited to the profits arising in Hong Kong from the carrying on of business in Hong Kong and to the exclusion of dividends from any liability to tax. Consideration has to be given to each case so as to achieve an apportionment which is reasonable and equitable both to the taxpayer and to the Revenue.

(2) Special care must be taken to ensure that there is consistency of practice in the Department and the following general rules are circulated for guidance of Assessing Officers:—

- (a) If a concern is deriving trading profits partly within the Colony and partly outside the Colony—

Expenses directly attributable to the profits arising outside the Colony are to be disallowed and an apportionment made of such expenses as are partly one and partly the other. The basis of such apportionment may be on turnover or sales or such basis as is most appropriate to the activities of the business.

- (b) If a concern is deriving profits from trading and also from investments in the form of dividends, two questions arise—

(i) Has there been any charge for interest on money borrowed and used for the purpose of acquiring the investments? If so, the interest charge is not allowable.

(ii) What proportion of the activities of the concern is involved in the management and supervision of the investment portfolio and the collection of dividends? Unless this is likely to be relatively appreciable no attempt is to be made to treat any proportion of the administration and general expenses as applicable to the receipt of the non-taxable dividends.

- (c) If a concern, apart from any other profit-earning activities is engaged in share-dealing, then—

- (i) No attempt is to be made to split any interest paid in respect of the investments and the whole sum should be allowed as against the profits arising from the buying and selling of stocks and shares and no portion treated as applicable to the earning of the non-taxable profits from dividends.
 - (ii) In these cases there is usually a large portfolio which would involve time and expense in supervision and management. Only a small fraction of such expenses however would be disallowed as applicable to the earning of the non-taxable dividends.
 - (d) Where there is a substantial investment portfolio, which would involve a degree of supervision and management, as well as clerical and accounting records it is a question of ascertaining the direct expenses and of allocating a proportion of the management, clerical and general expenses properly attributable to those activities. Where this is not ascertainable, it is necessary to arrive at an approximate estimation. It has been found that a reasonable measure is something less than the charge made for the management and supervision of portfolios constituting Unit Trusts or Funds. The Trustees of these types of Funds are usually entitled to make an initial management charge of approximately 3% on the initial offer price, a sales charge of from 5% to 10% on all sales of units plus a half-yearly service charge which may vary from 3/16ths or $\frac{1}{2}$ of 1%, i.e. 6/16% or 1% per annum, of the average value of the Fund.
 - (e) Using the above rates as a guide, and where no other ready and reasonable basis can be proposed by a taxpayer, the Department is regarding $\frac{1}{2}\%$ of the average cost of the investment portfolio, as representing an estimate of the cost of managing and supervising a large and varied portfolio and this amount is disallowed as having been incurred not in producing the taxed profits, but in deriving the non-taxable dividends. Where however, the portfolio is not solely for investment purposes and the concern is also share-dealing, then only $\frac{1}{4}$ th of $\frac{1}{2}\%$ is regarded as a measure of the expenses attributable to the non-taxable dividends. In the cases where this approach has been made to this problem it has generally been found to be acceptable to the taxpayer.
 - (f) Any cases not falling within the above divisions should be brought to the attention of C.A. (C.P.T.) and/or C.A. (B.P.T.) so that a suitable directive can be issued.
- (3) The above rules codify the existing practice followed by Assessors and would not be changed by the amendments at present proposed to the Ordinance.
- (4) If, however, the appeal to the Privy Council in the Mutual Investments case is not successful, then in all cases where there are outstanding assessments and unsettled appeals for years of assessment prior to 1964-65, these should be finalized without any allocation or disallowance of interest or other expenses in respect of Hong Kong dividends. If the appeal decision is in favour of the Commissioner, then the cases may be finalized on the basis set out in para. 2 above.
- 23rd June, 1964.

NO. 4
PROFITS TAX
ASCERTAINMENT OF PROFIT AND THE
VALUATION OF WORK-IN-PROGRESS
IN
BUILDING AND ENGINEERING CONTRACTS,
PROPERTY DEVELOPMENTS AND PROPERTY INVESTMENT
CASES

1. These notes deal with the above subjects as one, because there are aspects which are inter-related although at the same time there are special features of each.

2. With the low rate of tax in Hong Kong and the fact that the standard rate applies in most cases, there are many instances where there is very little or no difference in the ultimate tax position even though there may not have been a strict application of proper taxation principles in the ascertainment of profit or in the valuation of work-in-progress. In these cases of course there would be no purpose in requiring a strict application of those principles.

3. Nevertheless there are cases where the application of proper principles will have an appreciable bearing on the ultimate tax position. For this reason it is desirable that these principles be stated, together with an indication as to what is the Departmental policy and practice.

(A) BUILDING AND ENGINEERING CONTRACTS

4. Normally the profit from these types of contracts will only be brought into computation for tax when the contract is completed and the amount of profit can be ascertained.

5. Where the particular job or project extends over two or more years it may be appropriate in some cases to consider the spreading of the profit backwards over the period of the contract. If there is done the spreading needs to be as far as possible on a basis that is fair and equitable according to the circumstances and nature of the contract. Where the contract provides for progress payments based on some measure of the work done or the stage of completion reached, then such payments provide a reasonable basis of apportionment of the ultimate profit.

6. Where the profit is not spread backwards, there is need to see that no undue understatement of profit arises by reason of the failure to take into account as work-in-progress, overhead expenditure properly attributable to the uncompleted contract or project.

Overhead Expenditure

7. The overhead expenditure to be included in cost of work-in-progress, should when appropriate include all direct and variable expenses attributable to the contract. These would also include expenses of the site office and the cost of preparation of any plans, estimates and tenders for the job.

8. In the Notes No. 1 dealing with the valuation of stock generally, reference was made to Recommendation No. 22 by the Council of the Institute of Chartered Accountants in England and Wales, and I quote from paras. 4 and 9(f) thereof.

“para. 4. The elements making up the cost of stock are:—

- (a) direct expenditure on the purchase of goods bought for resale, and of materials and components used in the manufacture of finished goods
- (b) other direct expenditure which can be identified specifically as having been incurred in acquiring the stock or bringing it to its existing condition and location; examples are direct labour transport, processing and packaging
- (c) such part, if any, of the overhead expenditure as is properly carried forward in the circumstances of the business instead of being charged against the revenue of the period in which it was incurred.”

“para. 9(f) Long-term contracts

In businesses which undertake contracts extending over a period of years the normal tendency is to include overhead expenditure in work in progress except where it is considered to be irrecoverable. If overheads are not included in work in progress on such contracts the accounts for the early years may indicate losses followed by unduly large profits in the years when the contracts are completed. This would be a wholly unrealistic presentation in relation to a contract showing a normal profit.”

9. In including any proportion of fixed overheads, it is agreed that there are circumstances when this may need to be adjusted by reference to the normal level of activity.

Retention money and maintenance period

10. Where the terms of a contract provide for the retention of a percentage of the contract price until the end of the maintenance period this will not involve either

- (a) an extension of the date of completion of the contract, or
- (b) the exclusion of the retention moneys from the profits brought into computation at that stage.

11. The contract is regarded as being completed when a final certificate is issued by the supervising architect or consulting engineers. The retention moneys are a delayed payment for the work done to that stage and are withheld as security for the making good of any defects that may appear during the maintenance period. If nothing occurs during the maintenance period it cannot be said that any portion of the profit was derived during that period. It is necessary, however, to see that any expenditure, including a due proportion of overhead, incurred during that period is allowed in such a way as not to produce an inequitable result. This can be done by either

- (a) including it in the expenditure deducted in arriving at the ultimate profit, where such profit is being spread backwards,
- (b) allowing it in the period in which it was actually incurred as a deduction against profits of subsequent activities, or
- (c) if there are no or insufficient subsequent profits, bringing it in as if it had been incurred during the period of the contract.

12. If the circumstances are such as to warrant the adoption of

alternative (c) then it is agreed that earlier assessments may be reopened.

13. A person would of course, be regarded as still carrying on business during the maintenance period, even if there were no other activities or no maintenance expenditure.

(B) PROPERTY DEVELOPMENT

14. This has become a major activity in Hong Kong over recent years and appears certain to continue for some time. For the purposes of these notes, "property development" is treated as being development for profit by sale; development for an income return from leasing or letting or otherwise by use in a trade or business is treated as "property investment."

15. It is common practice for agreements for sale of the developed property by flats or units to be entered into before or during construction. These normally provide for payment of a deposit and instalments, with a provision that failure to meet any payments due under the agreement will result in the forfeiture of all payments made.

Date of Commencement

16. Where a person first enters into a property development project, he is regarded as having commenced business for the purposes of Section 18 of the Inland Revenue Ordinance when he takes the first clear step towards that end. This may be the date of acquisition of the site, or if the land has been held for some time, when some definite move is made towards development.

Ascertainment of Profit—Deduction for cost

17. If a property has been held for some time and it is established that it was not acquired with the intention of development or re-sale, then the practice is not to restrict the deduction for the cost of the property to the amount actually paid at the time of original purchase (plus any additions), but to admit the valuation of the property as at the date there was a clear indication of the change of intention in regard to the property.

When is profit brought in

18. Notwithstanding that agreements of sale are entered into and payments are received prior to the completion of the building, the profit on sale is regarded as only arising when the contract is capable of completion by performance and the purchaser can be given possession. The sale is therefore regarded as taking place when the Occupation Permit is issued by the Building Authority.

19. If the sales are in either cash or extended terms, the amount of proceeds in either case to be brought in at this stage in determining the profits is based on the cash price only. Instalments are treated as including an element of interest (which is only assessable when paid or credited) representing a proportion of the excess of all payments over the cash price.

Overhead Expenditure

20. In many cases the period covered by a development project will extend over two or more years of assessment. The same considerations will apply as to when and if so to what extent, overhead expenditure should be included for tax purposes in cost of work-in-progress, as in the case of

building contractors. Here again it may not be the general practice to carry forward any of the overhead expenses in the developer's accounts or to treat only some as in the nature of oncost. This may be accepted when there is relatively little effect on the over-all tax position, but the Revenue must reserve the right to examine the position more closely where circumstances so require.

21. Where it is appropriate that overhead expenditure should be carried forward, this may include expenses of arranging and providing finance, including interest up to the date the property is available for sale.

(C) PROPERTY INVESTMENT

22. Where a person incurs expenditure on the acquisition and construction of a property which is to be used for the purposes of his trade or business, or for the production of income by way of rents, it is of primary importance that all expenditure in the nature of capital expenditure is correctly treated for taxation purposes.

23. In such cases therefore, it is always necessary that there be a strict application of proper principles in distinguishing between revenue and capital expenditure.

24. Where the person is carrying on business and there is already an established organization, it is necessary to see that all overhead expenditure, including administration expenses, correctly attributable to the acquisition of the site and the construction of the property, is properly capitalized. These will include finance expenses up to the date when the property is capable of being used for the production of profits. This will usually be the date of the Occupation Permit or the date from which rent is first receivable. After that date interest is correctly a revenue charge.

25. The remuneration of employees and staff directly engaged on the planning, construction and fitting up of the property should also be included in the expenses charged to the cost of the property.

CONCLUSION

26. The practice of the Department is not to insist upon a strict application of the full requirements and principles in small cases, or where there can be little or no effect on the ultimate over-all tax position.

27. It is realized that the level of expenditure in Hong Kong on detailed costing and accounting is not relatively high and that detailed allocation of oncosts may not be made throughout the year.

28. Where the method of accounting in use results in a distortion of the true and fair profits for tax purposes, then it is expected that necessary adjustments will be made in the returns and computations. Where detailed costing records are not available and the cost of work-in-progress is based solely on direct costs, then a reasonable estimate should be made of the indirect expenses and general overhead properly attributable to the cost of production and work-in-progress.

A. D. DUFFY,

Commissioner of Inland Revenue.

2nd September, 1964.

TAXATION CASES

The following precis are from local cases decided in Court and may prove of interest to our readers.

SALES COMMISSION

Rico Internationale Ltd.

v.

Commissioner of Inland Revenue.

Full Court of Hong Kong — 11th June 1965

Before: Mr. Justice Scholes, Mr. Justice Blair-Kerr and Mr. Justice Macfee

Sales Commission: paid to a foreign corporation of the same constitution and board as the paying company in Hong Kong in such deductible for tax purposes.

FACTS

The appellant company exported goods to the U.S.A. where they were sold by an American corporation whose shareholders and directors were the same as the appellant. The appellant paid over to the American corporation \$759,924 as sales commission which absorbed all the profits of the appellant and this sum was sought to be deducted as an expense under section 16(1) of the Inland Revenue Ordinance, Cap. 112, as being wholly and exclusively incurred in the production of profits.

The Assessor allowed a deduction of \$107,220 and disallowed \$652,704. On appeal to the Commissioner, the deduction was increased to \$625,030; the balance of \$134,894 being disallowed.

On appeal to the Board of Review the whole sum of \$759,924 was allowed to be deducted.

On appeal to a judge of the Supreme Court the decision of the Commissioner was restored.

The appellant company then appealed to the Full Court.

DECISION

- Held: (i) The onus was on the appellant to show that the Commissioner was wrong;
- (ii) There was no evidence to show that the allowable deduction should be more than \$625,030. There was no agreement which bound the appellant to pay the sum paid to the American corporation.

Appeal dismissed.

Per Curiam: Mr. Justice Blair-Kerr —

"In this case, Rico Internationale Corp. was not a subsidiary of the appellant in the legal sense; and, of course, there was no agreement of any kind between them and the appellant about the quantum of commission. But this does not detract in any way from the value of the decision of the Marshall Richards case (1956) 36 T.C. 511. The Board of Review should have considered what proportion, if any, of the payments to Rico Internationale Corp. as for the purpose of financing *their* operation expenses and what proportion was wholly and exclusively incurred in the production of profits for the appellant. I agree with the learned judge in the court below that the appellant made a profit. I am in doubt that their ultimate object was to transfer every cent of that profit to Rico Internationale. I agree that it would have been open to the Assessor, and the Commissioner, in all the circumstances, to have formed the opinion that the transaction was artificial within the meaning of section 61 and to have disregarded it entirely. The Assessor, and the Commissioner, would have been entitled to look at the transaction as a whole and to have taken into consideration the appellant's ulterior object as well as considering, on the evidence which the appellant chose to produce, whether any portion of the expenditure was in fact deductible under section 16. I do not agree that, for the purpose of section 61, the Assessor must have formed the opinion that a transaction is wholly artificial, in the sense that this epithet applies to every item of the expenditure, before he is entitled to disregard it. The Assessor is entitled to look at the whole transaction in the light of surrounding circumstances.

EXPENSES FOR NON-ASSESSABLE PROFITS

Mutual Investment Company Limited

v.

Commissioner of Inland Revenue

Full Court of Hong Kong — 25th January, 1964

Before the Chief Justice, Sir Michael Hogan and Mr. Justice Rigby

Trading results consisting of chargeable and non-chargeable profits: Whether expenses to be so apportioned and disallowed in connection with non-chargeable profits excluded from assessment.

FACTS

The appellant was incorporated in Hong Kong in 1956 and acquired investments in the form of shares in other companies. Up until the year to March 31, 1959, its only income was by way of dividends and a small amount of bank interest. For the Years of Assessment 1956/57 to 1959/60 it was assessed as being under no liability to tax. During the year to March 31, 1960, it borrowed money which it in turn lent out on interest to another company. There have been no other activities entered into by the appellant and there have been no additions or changes in the share investments. During the years to March 31, 1960 and 1961, the appellant received income from dividends and interest and incurred certain expenditure. In accordance with Section 26(a) of the Inland Revenue Ordinance, the dividend profits were excluded from the assessable profits for the purpose of assessing the profits liable to tax. After adding back the items of expenditure which he considered not allowable as deductions for tax purposes, the Assessor apportioned the balance of the expenses in the proportion of the non-assessable income (i.e. the dividends) to the total income, and disallowed the sum so calculated as being expenses applicable to the production of non-assessable income.

At the Appeal to the Commissioner, the Assessor having reconsidered the apportionment of the expenses was prepared to amend the assessments to allow the whole of the interest paid as a direct charge against the interest received; and to treat an amount of \$100 paid as a gratuity to an employee among the balance of apportionable expenses. The item of "Depreciation" in the accounts related to a motor car which the appellant claimed was used in the business in the years 1959/60 and 1960/61.

The first part of the appeal is concerned with this motor car. The Commissioner was of opinion that the above amounts "were correctly disallowed because it would be difficult to see how a car was used for the purpose of the company's trade as evidenced by" the facts that during the years in question the company received income only from dividends and interest. The Board remitted the assessment to the Commissioner to make a definite finding of fact as to whether the car was so used.

The second part of the appeal is concerned with the Board's reversal of the decision of the Commissioner whereby he disallowed certain expenses on the ground that they were not applicable to the production of assessable income.

Upon appeal to the Supreme Court by the Commissioner, the part of the decision of the Board which was remitted to the Commissioner to hear further evidence was confirmed, but that which annulled the Commissioner's assessment was not.

The appellant appealed to the Full Court.

DECISION

Held, reversing the judgment of the Lower Court, that "these dividends are part of the profits of the company and would only be excluded from such profits by the operation of some statutory provision. Under the provisions of the Ordinance they are to be excluded from the assessable profits. There is nothing to say that they are to be excluded from the chargeable profits. The Ordinance indicates that chargeable profits and assessable profits are not the same thing and the terms of the Ordinance do not seem to us to show that the only distinction between them is that assessable profits are limited by prescribed terminal points. Indeed if the only difference between chargeable and assessable profits is the period within which they are made, then one would expect to find, in the definition of assessable profits, the expression 'chargeable profits' or its equivalent where, in fact, 'net profits' appears."

PRINCIPLES AND DICTA

"We, like the judges in Hughes's case, reach this conclusion with no sense of satisfaction because we can see no reason, logical, ethical or otherwise, why expenses incurred in earning profits which are not going to bear tax, should be deducted from those profits which are made assessable, but under the provisions of the Ordinance, as amended in 1956, we can find no basis for excluding them."

(The decision will mean that the Inland Revenue Department will no longer be able to disallow a portion of expenses claimed on a basis proportionate with dividends earned by a company, but see ORD. 28 of 1964—Ed.)

PROTECTIVE ASSESSMENTS

Mok Tsze Fung

v.

Commissioner of Inland Revenue

Supreme Court of Hong Kong — May 17, 1962

Before Mr. Justice Mills-Owens

Additional assessments: onus resting upon appellant to adduce evidence: whether additional assessments justified if appellant failed to do so.

FACTS

The appellant was carrying on the business of dealing in landed property over a number of years, in respect of which various assessments to Business Profits Tax were raised from time to time by the Assessor, commencing with an assessment for the year 1951/52.

In December 1958 the Assessor, made further assessments, which were referred to as "protective assessments", as follows:—

Year of Assessment	Additional Assts.	Original Assts.
1956/57	HK\$1,000,000	\$ 88,294
1957/58	150,000	202,624
1958/59	1,600,000	532,429

Tax for 1956/57 and 1957/58 had actually been paid.

On appeal under S.64 of the Inland Revenue Ordinance, the Commissioner revised the assessments in dispute as follows:— Y/A 1956/57 \$218,323; 1957/58 \$402,624 and 1958/59 \$732,429, each of which includes an amount of \$200,000 for "Protective Assessment". As the appellant adduced no evidence before the Board, the appeal thereto failed.

DECISION

Held, upholding the Board's determination in favour of the Commissioner, that "there was overwhelming material to justify the raising of the additional assessments by the Assessor, and in turn by the Commissioner, and that such assessments were not required to be made by way of invoking S.59(2). Nor were they required to be based on legal proof of actual profits in the amount of the additional assessments. The circumstances afforded every justification for raising additional assessments in very substantial amounts and the appellant, I consider, may count himself fortunate that the Commissioner took the course of requiring the Assessor to maintain

his assessments. It was for the appellant to adduce evidence before the Board in order to discharge the onus resting upon him, and on his failure to do so the Board was entitled, indeed bound, to reject his appeal.

The appeal was therefore dismissed with costs to the Respondent.

PRINCIPLES AND DICTA

Per curiam: "I might add that certain passages in the case stated might be taken to indicate that the Assessor is put strictly to proof of his assessment on the hearing before the Commissioner. As I have indicated, I would not take this to be so. It might well be impossible for the Assessor to prove facts justifying his assessment in the precise amount thereof, or, indeed, in any particular amount. The law allows him to 'estimate', or, as the case may be, to assess 'according to his judgment', and if he were to be required to prove his assessment strictly his powers would, for practical purposes, be nullified. He is, in the words of Vaisey J. quoted above, not required to prove the exact quantity or quality of the profits or other income not disclosed by the taxpayer. If he has evidence available for the hearing before the Commissioner and fails to adduce it he runs the risk that the Commissioner may accept uncontradicted evidence adduced by the appellant and also the risk that he, the Assessor, may not be permitted to tender the evidence on an appeal to the Board (S.65(5)). But the greater risk lies with the appellant. He runs the risk, if he fails to adduce certain evidence before the Commissioner, of being unable to tender that evidence before the Board for the purpose of discharging the onus resting upon him. In the absence of any evidence from either side the Board will be left in the position of having to decide simply whether as a matter of law the assessment as reviewed and revised by the Commissioner should stand as being a proper exercise of his powers of assessment, that is to say, whether he has acted properly or otherwise:— vide *Gramini* case; *Earl of Beatty v. C.I.R.* If, however, either party tenders evidence before the Board, it must, as any fact-finding tribunal must, find the facts on its view and hearing of witnesses and be prepared to state the facts for the purpose of an appeal to the Supreme Court. In the present case, no evidence was called before the Board and in the result the Board correctly limited itself to the question whether the additional assessments were justified in law on the admitted state of facts appearing from the Commissioner's decision, and, in my view, the Board correctly decided the questions raised by the case stated, but, as I have indicated, I would not agree with the view which the Board appeared to take that the assessor is put strictly to proof of his assessment on the hearing before the Commissioner."

To wind up this topic on taxation, the following cases are taken from the "Digest of Tax Cases" with kind permission of the Institute of Taxation, England, to whom the Society is greatly indebted:—

LAND SOLD BY DEVELOPMENT COMPANY

ORCHARD PARKS LTD. v. POGSON

High Court of Justice (Chancery Division)—20th November, 1964

Before Mr. Justice Buckley

Property-dealing: company formed| for development of
garden suburb: project abandoned: drainage difficulties:
land let: subsequent sale by compulsory purchase order:
whether profit assessable to Income Tax.

FACTS

The company was incorporated in 1933 with a view to developing a considerable area of land as a garden suburb. That land cost £40,500 in 1933. Certain drainage difficulties arose and apart from relatively small sales of houses built by the company, its activities for many years were confined to letting the land. In 1961 this land was sold to the Hull Corporation by way of a compulsory purchase order, for £500,000. The question at issue was whether the profit on this transaction was of a trading nature or whether it was the realisation of an asset consisting of property which had been let for many years.

DECISION

Held, that on the evidence, the Special Commissioners were fully entitled to arrive at the conclusion that the transaction was of a trading nature.

PRINCIPLES AND DICTA

Counsel for the appellants relied strongly on the case of *Edwards v. Bairstow & Harrison*. Mr. Justice Buckley said that he did not consider that this case effected any revolution in taxing law as regards decisions of Commissioners. The court in that case had found that there was no evidence which could have supported the conclusion at which the General Commissioners had arrived. In the present case however, there was "ample material upon which the Special Commissioners could reach the conclusion that they

did reach." It followed, said the learned judge, that the Special Commissioners' findings were such that he ought not in any way to disturb.

CASE REFERRED TO

Edwards v. Bairstow & Harrison, 1956, 36 T.C. 207.

INCOME FROM RACE HORSES

NORMAN v. EVANS

High Court of Justice (Chancery Division)—25th November, 1964

Before Mr. Justice Buckley

Horse-racing: farmer leasing race-horses and receiving half of all sums arising to the lessee upon the horse winning races: whether these sums assessable to Income Tax.

FACTS

The respondent was a farmer but also bred race-horses, some of which he leased to other persons for use in horse races. Included in the conditions he was to receive half of any winnings arising to the lessee by reason of the horse winning races. The question at issue was whether these winnings were liable to Income Tax in the hands of the farmer and horse-breeder.

DECISION

Held, that as the sums in question came to the respondent not by his racing his own horses direct, but through a business agreement where the racing was undertaken by another person, they were annual profits or gains within the charges of Case VI of Schedule D of the Income Tax Act, 1952.

PRINCIPLES AND DICTA

The learned judge said that he understood it is the practice of the Inland Revenue to treat any profits which an owner may make from winnings of his race-horses as not being income assessable under the Income Tax Acts. The case is, however, different if the moneys in question do not result from the taxpayer's own activities. The profits did not arise from a mere recreational activity but from a businesslike transaction between the respondent and the lessees and were therefore liable to assessment to Income Tax. For these reasons, the General Commissioners came to the wrong conclusion and the assessments made under Case VI of Schedule D were upheld.

DATE OF COMMENCEMENT

AERASPRAY ASSOCIATED LTD. v. WOODS

High Court of Justice (Chancery Division)—27th November, 1964

Before Mr. Justice Buckley

Succession: gap in trading due to Easter holiday: whether appellant company took over before 6th April or subsequently.

FACTS

The appellant company took over a business from another company and the records showed that there was an intention for a take-over to be made on the 31st March, 1953, or the next day, the 1st April, 1953. The company's works were actually closed on the 1st and 2nd April, 1953, the 3rd was Good Friday and the works remained closed until the 7th April. The first cheques drawn on the new company (the appellant) bank account was on the 16th April, 1953. The correspondence with the Inland Revenue was on the footing that the old company had ceased to trade on the 31st March and the new company had taken over on the next day, the 1st April, 1953. The appellant company contended that the original intention of take-over from the 31st March, 1953, was immaterial and that it was in fact some date after the 5th April, 1953, there being a "hiatus" between the trading of the two companies.

DECISION

Held, that there was no such "hiatus" and that the appellant company took over the business on the 31st March or the 1st April.

PRINCIPLES AND DICTA

Figures showing the effect of the two different contentions by the appellants and the respondent were not produced, the argument being confined to the actual date of take-over. The learned judge said that the fact that no purchases or sales were made owing to the holiday period or for other reasons did not indicate that the appellant company ought not to be regarded as having been engaged in a trade from the moment it took over the business. The minutes of the company and other evidence showed that the purchase of the business by the new company had in fact been made on the 31st March, 1953. Mr. Justice Buckley also said that stocktaking was an ordinary incident of carrying on a business and that neither this work nor the holiday season meant that there was no business carried on in the legal sense at all.

NOTES & COMMENTS

9th INTERNATIONAL CONGRESS OF ACCOUNTANTS

The society has received an invitation, not only to attend the 9th International Congress of Accountants in Paris in 1967, but also to submit a paper and rapporteur for certain technical session thereat. The relevant letters are appended to these Notes and Comments for general information.

It is hoped that as many members of the Society as possible will be able to participate at this important and professional function.

THE 4TH CONFERENCE OF ASIAN AND PACIFIC ACCOUNTANTS

The Society was represented by Mr. Charles Mar Fan at the 4th Conference of Asian and Pacific Accountants held in New Delhi, India from November 29 to December 2, 1965. His report appears elsewhere in this issue.

NEW MEMBERS

Since the last issue of 1963, when 70 were listed, the roster of the Society now soars above the 100th mark. Our new entrants are:

Messrs. Lo Wan-Tsu, Leung Cheuk Wai, Joseph Lee Sze-Nuen, Philip Lee Chiu-Tsun, Wong Min-Kien, Fung Shiu-Lam, Ho Man Chuen, Wun Ying-Leung, Lam Ming-Kwong, Chu Wing Cheong, Walter Ma King-wah (1964), Kenneth Lo Koon-wing, Fung Yun-ye, Chan Cheong-foon, Fung Chun-chung, Law Man-chiu, Lok Hon-yip, Mrs. Li Chan Mei Lee, Miss Lee Shau-mi (1965), Messrs. Selwyn Mar, Dennis Chan, Tam Wah Kai, Wong Sze Hang, Lam Wai Hay and P. Lee Ping-Fun (up to April, 1966),

to whom the Society's warmest welcome and best wishes for the success are offered.

AUTHORISED AUDITORS BOARD

All the unofficial members of the Authorised Auditors Board were re-appointed and Mr. R. E. Loureiro was formally appointed Secretary to the Board. We offer Mr. Loureiro our heartfelt congratulations. The constitution of the Board presently stands as follows:—

Registrar of Companies (Chairman, ex officio)
Accountant-General (ex officio)
Commissioner of Inland Revenue (ex officio)
Hon. S. S. GORDON, C.A.
Hon. Fook-Shu LI, O.B.E., B.A., F.C.A., J.P.
Charles MAR FAN, Esq., F.A.C.C.A., F.A.S.A., F.C.I.S.
WONG Peng-Cheung, Esq., M.A. (Cantab.), F.C.A.
S. J. COOKE, Esq.
F. D. HAMMOND, Esq., M.A. (Cantab.), LL.B., J.P. (to be a member and Legal Adviser)
R. E. LOUREIRO, Esq., A.C.I.S., A.A.S.A. (Secretary)

ELECTIONS IN OTHER KINDRED SOCIETIES

Mr. C. G. Smith, C.A., has been elected President of the Association of Chartered Accountants in Hong Kong for 1966.

Mr. Charles Mar Fan, FACCA FCIS &c., has been elected Chairman of the Hong Kong Branch of the Association of Certified and Corporate Accountants for 1964/65 and 1965/66.

Mr. A. D. Duffy, A.C.I.S., Commissioner of Inland Revenue, was elected Chairman of the Association of Chartered Secretaries in Hong Kong for 1966. His predecessors for 1965 and 1964 were Messrs. F. L. Salway and Charles Mar Fan respectively.

Mr. E. L. Lawrence was elected Chairman of the Hong Kong District Society of Incorporated Secretaries for 1966.

To the above-mentioned gentlemen, we offer our sincere congratulations.

MEETING PLACE OF THE SOCIETY

As from March 1964 the monthly luncheon meetings of the General Council and the members of the Society have been regularly held at Lingnan Club, On Lok Yuen Building instead of Wing On Mess Hall. The dates for these meetings are now changed from Saturday to second last and last Wednesday respectively.

THE ARMORIAL BEARINGS OF THE SOCIETY

It is with great pleasure to record the Grant of the Armorial Bearings of the Society by the College of Arms, London. The Certificate of Registration reads as follows:

"TO ALL AND SINGULAR to whom these Presents shall come, Sir Anthony Richard Wagner, Knight Commander of the Royal Victorian Order, Garter Principal King of Arms, Sir John Dunamace Heaton-Armstrong, Knight Member of the Royal Victorian Order, Clarenceux King of Arms and Aubrey John Toppin, Esquire, Commander of the Royal Victorian Order, Norroy and Ulster King of Arms, Send Greeting WHEREAS Charles Mar Fan, Gentleman, Chairman of the Council of THE SOCIETY OF CHINESE ACCOUNTANTS AND AUDITORS, hath represented unto The Most Noble Bernard Marmaduke, Duke of Norfolk, Knight of the Most Noble of the Garter, Knight Cross of the Royal Victorian Order, Earl Marshal and hereditary Marshal of England and One of Her Majesty's Most Honourable Privy Council that The Society of Chinese Accountants and Auditors, whose Registered Office is situate in the Colony of Hong Kong was founded in the year 1913. That among the objects of the said Society are the acquisition and dissimulation of the knowledge of the profession of accountancy, the establishment of the rules pertaining to professional practice and the settlement of disputes among members in the practice of their profession. That the management of the said Society is vested in a Council which said Council is desirous that the Common Seal of The Society of Chinese Accountants and Auditors should contain fit and proper Armorial Bearings

and he therefore as Chairman, hath requested the favour of His Grace's Warrant for Our granting and assigning such Armorial Ensigns as may be proper to be borne and used for the Society of Chinese Accountants and Auditors on Seals or otherwise according to Laws of Arms. AND FORASMUCH as the said Earl Marshal did by Warrant under his hand and Seal bearing date the Twentieth day of August last authorize and direct Us to grant and assign such Armorial Ensigns accordingly KNOW YE THEREFORE that We the said Garter, Clarenceux and Norroy and Ulster in pursuance of His Grace's Warrant and by virtue of the Letters Patent of Our several Offices to each of Us respectively granted do by these Presents grant and assign the Arms following for THE SOCIETY OF CHINESE ACCOUNTANTS AND AUDITORS that is to say:—ARGENT WATER BARRY WAVY IN BASE GULES AND OR TWO CHINESE JUNKS RESPECTANT AND RECEDING ALSO GULES ON A CHIEF OF THE LAST A CHINESE ABACUS OR AND for the Crest On a Wreath Or and Gules A CHINESE ACCOUNT BOOK OPEN PROPER SUPPORTED BY A CHINESE DRAGON AND A HORSE OR as the same are in the margin hereof more plainly depicted to be borne and used for The Society of Chinese Accountants and Auditors on Seals or otherwise according to the Laws of Arms IN WITNESS whereof We the said Garter, Clarenceux and Norroy and Ulster Kings of Arms have to these Presents subscribed Our names and affixed the Seals of Our several offices this Twentieth day of December in the Twelfth year of the Reign of Our Sovereign Lady Elizabeth the Second by the Grace of God of the United Kingdom of Great Britain and Northern Ireland and of Her other Realms and Territories Queen, Head of the Commonwealth, defender of the Faith and in the year of Our Lord One thousand nine hundred and sixty-three."

A reproduction of the aforesaid Certificate appears elsewhere in this issue.

CHRISTMAS CARDS

The Society in 1964 printed, for the first time, for sale to members at cost, Christmas cards featuring its armorial bearings in multi-colours. The printing was repeated with equal success in 1965.

GOLD BADGES

To commemorate the Grant of the Armorial Bearings of the Society, a quantity of 18k solid gold badges in the form of a replica of the Arms were ordered for sale to the members at cost. They were very well received. Any member who wishes to have one will please apply to the Hon. Treasurer of the Society for the time being.

COMMITTEE TO ADVISE ON ORDINANCE

His Excellency the Governor, Sir David Trench, has appointed a committee to consider and advise on certain matters connected with the Inland Revenue Ordinance.

When presenting this year's (1966) budget, the Financial Secretary said that Government was about to set up a committee to advise on a number of matters of a technical or controversial nature which had been raised by

professional or commercial bodies but on which it had not been possible to take decision for incorporation in the previous year's Inland Revenue Amendment Bill.

The committee appointed by the Governor has the following terms of reference:

"To consider and advise in certain matters connected with the Inland Revenue Ordinance which have been raised by the Commissioner of Inland Revenue, the Hongkong General Chamber of Commerce and certain other bodies."

The Governor has appointed the following members to the committee:—

The Financial Secretary (ex officio) Chairman
The Commissioner of Inland Revenue (ex officio)
Mr. J. W. Cairns, C.A.
Mr. G. C. Grimmett, Crown Counsel
Mr. J. B. Hart, A.C.A.
Mr. Charles Mar Fan, FACCA FCIS FTII
The Hon. P. C. Woo, O.B.E., LLB.(Lond.), Ph.D.(Lond.), and
Mr. E. S. Thomas (Secretary)

THE PROPOSED ESTABLISHMENT OF THE HONG KONG SOCIETY OF ACCOUNTANTS

It is also learned with interest that a working party has been formed to consider the feasibility of establishing a local accountancy examining body with official recognition.

The members of the working party are:—

The Hon. F. S. Li, O.B.E., F.C.A., J.P.
C. G. Smith, Esq., C.A.
W. K. Thomson, Esq., O.B.E., M.A., LL.B., J.P.
A. D. Duffy, Esq., A.A.S.A., J.P.
A. G. Hutchinson, A.A.S.A.
Charles Mar Fan, Esq., F.A.C.C.A., F.A.S.A.
M. W. Kwan, Esq., M.B.E., F.A.C.C.A., A.A.S.A.

Readers may recollect that in our last issue of 1963, the need in Hong Kong for the establishment of her own examining body of professional accountants was envisaged by Mr. W. J. Drysdale, F.A.S.A., then Commissioner of Inland Revenue, when he spoke at a reception held by this Society to bid him farewell upon his retirement. He also urged all the practising accountants in the Colony to step forward with a view to implementing this noble achievement. This need was accentuated by the Australian Society of Accountants which had forewarned discontinuance of its examinations in Hong Kong centre from 1970.

COMPARISON OF COLLECTIONS OF REVENUE

In view of the welcome reception of the "Rising Barometer of Revenue" shown in the last issue of this Journal, it is thought desirable to continue our issue for the information of our readers, both overseas and at home, so as to impart to them the realization how the economic growth of Hong Kong has been achieved since 1947/48.

Year of Assessment (3)		Nature of Tax	Year of Assessment (3)	
1947/48	1957/58		1963/64	1964/65
\$	\$		\$	\$
6,419,695	54,108,434	Corporation Profits Tax	138,238,435	168,010,306
4,366,928	18,615,190	Business Profits Tax	45,220,991	49,505,085
728,062	15,034,473	Salaries Tax	31,795,711	37,608,343
14,354	1,459,009	Personal Assessment	5,683,931	7,616,949
374,389	3,744,699	Interest Tax	15,337,485	18,692,744
2,231,532	18,712,092	Property Tax	68,570,798	77,847,830
14,134,960	111,673,897	Total Earnings & Profits Tax	304,847,351	359,281,257
2,437,732	16,533,943	Estate Duty	22,541,394	24,722,067
10,886,544	26,114,082	Stamp Duty	62,651,974	74,834,438
4,352,187	11,465,211	Entertainments Tax	21,897,094	25,365,607
3,346,665	10,570,767	Betting Duty	23,836,283	22,971,393
450,006	2,132,795	Public Dancing Halls Tax	3,170,091	3,495,980
(1)	6,381,546	Business Registration	2,513,701(2)	2,814,096
35,608,094	184,872,241	Total Revenue collected	441,457,888	513,484,847

Notes

- (1) Business Registration Ordinance was not enacted until May, 1962.
- (2) The decrease was caused by the reduction of registration fee from \$200 to \$25 as from February 6, 1959.
- (3) Year of Assessment runs from April 1 to March 31.

THE UNITED COLLEGE, CHINESE UNIVERSITY OF HONG KONG

Upon accepting the invitation of the United College, Chinese University of Hong Kong, the General Council of the Society, at a meeting held on February 9, 1966, nominated Mr. Charles Mar Fan to represent the Society at the Board of Trustees of the said College.

VISIT OF JAPANESE ACCOUNTANTS

A group of Japanese tax accountants and auditors arrived in the middle of January 1966 for a brief visit to meet Hongkong accountants, and to study the local taxation system.

The group of 23, members of the Osaka United Associations of Taxation Accountants, were led by Mr. Ryuta Fujihara, President of the Association.

At the lunch party given by the visitors at Hongkong Hilton on January 15, some members of the Society were invited, including Messrs. Charles Mar Fan, M. W. Kwan, S. J. Wong, C. C. Tsao, T. K. Lo, S. K. Leung, Norman Mar Fan, Auyang Yik Fung and Chen Kang. At the meeting, questions on Hongkong Taxation were answered by Mr. Lo.

Mr. Fujihara said the Japanese Diet would be considering proposal for the reduction of tax in Japan from April 1 this year.

SALARY COMMISSION

A Salary Commission was set up by the Government in 1965, and it is pleased to record that Mr. M. W. Kwan, O.B.E., F.A.C.C.A., Vice-Chairman of the Society, was appointed a member of the Commission.

DEPARTMENTAL RULINGS

A number of explanatory notes on the administration and interpretation of the Inland Revenue Ordinance have been made available to practising accountants from time to time, and members of the Society welcomed and appreciated this wise and cooperative move of the authority concerned.

**ANNUAL REPORT OF THE SOCIETY FOR THE YEAR
ENDED 30TH SEPTEMBER, 1963
THE SOCIETY OF CHINESE ACCOUNTANTS & AUDITORS
HONG KONG**

(Founded in 1913)

Hon. Permanent President: Hon. Sir T.N. Chau, Kt., C.B.E., J.P.,
Barrister-at-law

Hon Vice President: Hon. F. S. Li, O.B.E., B.A., F.C.P., J.P.

Office Bearers for 1963

Chairman: Charles Mar Fan

Vice-Chairman: Kwan Man Wai, M.B.E.

Council:	Charles Mar Fan	Kwan Man Wai
	Wong Shang Jen	Tso Chak Chun
	Lo Tze Kwai	Li Shu Fong
	Lau Chung Him	Leung Sik Kwan
	Tam Wai Sun	Thong Ko Sine
	Chen Kang	

Hon. Auditors: Ling Man-I Sanford Y. T. Yung

Committee Chairman: Lo Tze Kwai (Taxation)
Lau Chung Him (Publication)
Li Shu Fong (Social)
Leung Sik Kwan (Membership)

Adviser: Tam Wai Sun

Hon. Treasurer: Tso Chak Chun

Hon. Secretary: Wong Shang Jen

Report of the Council and statement of accounts for the year ended September 30, 1963 for presentation at the annual general meeting of members of the Society of Chinese Accountants & Auditors to be held at Wing On Life Bldg., Hong Kong on Tuesday, December 17, 1963 at 6.30 p.m.
Gentlemen:

Your Council takes much pleasure in submitting herewith its annual report covering its term of office and a statement of accounts for the year ended Sept. 30, 1963.

MEMBERSHIP

Your Council is pleased to report that, during the year altogether ten members were admitted. They are Messrs. Ho Choi Chiu, Winston S. L. Poon, Robert C. Y. Kwan, Chan Fook Man, Lin Tek Chang, Peter Y. K. Chan, Watt Hung Chow, Li Chiu To, Anthony Au-Yeung Fu & Wong Peng Cheong. The Council extends a warm welcome to these new members and hopes that their association with the work and activities of the Society will be a rewarding experience for us all.

Mr. Tsi Wen-Zi resigned his membership and his resignation was accepted with regret.

After making allowances for admissions and resignation the total membership at December 1, 1963 was 82 as compared with 73 of the previous year.

MEETING & ACTIVITIES

The following events highlighted the activities of the year:—

GOLDEN JUBILEE

As announced in our last report, the most significant event of the Society took place in the evening of November 1, 1963 at the Wing On Mess Hall (not City Hall as originally planned), when the glory of its Golden Jubilee was crowned laurel and its name handed down to prosperity. Over a hundred of members and their ladies, and guests attended the dinner party to commemorate and immortalise the event. A full report and a number of pictures taken on the occasion are included in our Golden Jubilee Journal.

SOCIAL EVENT

A farewell party was held at Wing On Mess Hall on July 12, 1963 in honour of Mr. W. J. Drysdale to tender him the best wishes for a well-earned retirement from the Hong Kong Government as Commissioner of Inland Revenue, and at the same time to welcome his successor, Mr. A. D. Duffy. Attending the function were a large number of members and their ladies, and a review thereof together with snapshots also appears in the Society's Golden Jubilee Journal.

THE CREST OF THE SOCIETY

As reported last year, our application for the registration of the Society's crest is making strides, and it is hoped that the matter will be finalised very shortly.

HONORARY VICE PRESIDENT

It is with pleasure to record that Honorable Fook-Shu Li, O.B.E., B.A., F.C.A., J.P., Member of the Legislative Council, Hong Kong Government, Principal of Messrs. F. S. Li & Co., Chartered Accountants, has kindly accepted our invitation to be the Honorary Vice President of the Society. To Honorable Li, we extend our heartiest welcome and appreciation.

It is therefore hoped that the Society's activities will be more inspired and enlivened by his association.

FIRST CHAIRMAN 50 YEARS AGO

As a mark of esteem and admiration to the first chairman of the Society 50 years ago, and in appreciation of his effort to grace the Golden Jubilee Celebration in his 87th year, Mr. J. M. Wong, J.P., was granted, as from 1963, an honorary life membership and free participation in the Society's activities of all descriptions.

AMENDMENTS TO COMPANIES ORDINANCE

The Society received a circular letter from the Registrar General dated October 18, 1962 inviting our views as to necessary amendments to the Companies Ordinance, and submitted its recommendation after having obtained due consideration of members.

WORKING PARTY'S REPORT ON SUB-DIVIDED BUILDING

In response to the Colonial Secretariat's letter of January 29, 1963, the Society appointed a Sub-Committee comprising Messrs. S. K. Leung, T. K. Lo and Lau Chung Him to study and make recommendation on the Report, and their joint commentary was forwarded to the Authorities concerned.

SUMMER RECESS

The Society did not take summer recess during the year, owing to pressure of the Golden Jubilee business preparations.

TAXATION FORUM

As in previous year, discussions on taxation matters under the direction of Mr. T. K. Lo have been held on the last Saturday of each month at the Wing On Mess Hall, Wing On Life Building, since March 1963, because of the removal of the Chinese Bankers' Club where the forum used to be held regularly in the past.

COUNCIL MEETING

Similarly, Council meetings were regularly held on the second last Saturday of every month at the same place as the Taxation Forum was held.

ACCOUNTS

The Income & Expenditure Account for the year to September 30, 1963 and Balance Sheet as at that date are herewith presented for adoption by members. The surplus of HK\$1,949.23, as shown therein, has been transferred to Accumulated Fund.

ACKNOWLEDGMENTS

Your Council wishes to record its gratitude to the Chairman for his faithful and unremitting efforts and precious time to make the Golden Jubilee Celebration a success. To him again, and Mr. Lau Chung Him for the excellent work in editing "The Chinese Account Golden Jubilee Journal", to Mr. Li Shu Fong, his invaluable assistance in making available to the Society a congenial meeting place on all occasions, and to Mr. Kwan Man Wai for providing each of us with a copy of "Recommendation No. 22", by the Institute of Chartered Accountants, and another on "Stock Valuation — The Revenue's View".

The Council is also greatly indebted to the Sub-Committees for their valuable contribution to the work of the Society.

Last but not least, the Council hereby gratefully acknowledges the constant support given by all members to the Society's activities throughout the year under review, and looks forward to the continuation thereof in the years to come.

A MERRY CHRISTMAS & A HAPPY & PROSPEROUS NEW YEAR
TO YOU ALL.

Charles Mar Fan

Chairman

Wong Shang Jan

Hon. Secretary

December 17, 1963

THE SOCIETY OF CHINESE ACCOUNTANTS AND AUDITORS, HONG KONG

Income and Expenditure Account for the Year Ended 30th September, 1963.

Allowances to Bookkeeper & Messenger ..	\$ 200.00	Annual Subscriptions from members	
Printing & Stationery	84.60	(75 @ \$30.00)	\$ 2,250.00
Postage & Telegrams	146.10	"Chinese Accountants 1961" Account	14.00
Social Expenses:—		Investment Income:—	
Farewell Dinner to Commissioner of		Dividends received	\$714.00
Inland Revenue & Annual General		Less: Bank Charges	2.16
Meeting Dinner	461.80		711.84
Solicitors' fee:—			
Drafting letter to Registrar of			
Companies	50.00		
Sundry Expenses	10.20		
Depreciation on —			
Duplicator	\$54.25		
Library Account	19.66		
	<u>73.91</u>		
	\$ 1,026.61		
Balance, being Excess of Income over			
Expenditure	1,949.23		
	<u>\$ 2,975.84</u>		
			<u>\$ 2,975.84</u>

THE SOCIETY OF CHINESE ACCOUNTANTS AND AUDITORS, HONG KONG

Balance Sheet as at 30th September, 1963.

ACCUMULATED FUND

Balance at 1st October, 1962	\$12,894.43
Add:—	
Entrance Fees — 6, @ 50.00	300.00
Excess of Income over Ex- penditure for Year to Date	1,949.23
	<u>\$15,143.66</u>

LIBRARY FUND 1,03000.
CURRENT LIABILITIES

Subscriptions in advance	\$ 90.00
Advertisement in advance	100.00
	<u>\$ 190.00</u>
	<u><u>\$16,363.66</u></u>

Mar Fan, Charles, Chairman.

FIXED ASSETS

	Balance at 1/10/62	Depreciation for Year	
Duplicator	\$542.46	\$ 54.25	\$488.21
Library Books	78.66	19.66	59.00
	<u>\$621.12</u>	<u>\$ 73.91</u>	<u>\$547.21</u>

SHARE INVESTMENT, at cost
420 Shares in Hongkong Electric Co., Ltd. \$11,338.00
(Market value: \$11,508.00)

CASH AT BANK \$ 4,478.45

\$16,363.66

Wong Shang Jen Hon. Secretary
Tso Chak Chun Hon. Treasurer

AUDITORS' REPORT

We have examined the above Balance Sheet of THE SOCIETY OF CHINESE ACCOUNTANTS & AUDITORS, HONG KONG for the year ended 30th September, 1963 and have obtained all the information and explanations we have required. In our opinion the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Society's affairs as at 30th September, 1963, according to the best of our information and the explanations given to us and as shown by the books of the Society.

Hon. Auditors, Yung Yung-Tao, Sanford; Ling Man-I
Hong Kong: 23rd November, 1963.

ANNUAL REPORT OF THE SOCIETY FOR THE YEAR

ENDED 30TH SEPTEMBER 1964

- Hon Vice President: Hon. Sir T. N. Chau, Kt., C.B.E., J.P.,
Barrister-at-law
- Hon Permanent President: Hon. F. S. Li, O.B.E., B.A., F.C.P., J.P.
- Office Bearers for 1964**
- Chairman: Charles Mar Fan
- Vice-Chairman: Kwan Man Wai, M.B.E.
- | | | |
|----------|------------------|------------------|
| Council: | Charles Mar Fan | Kwan Man Wai |
| | Wong Shang Jen | Tso Chak Chun |
| | Lo Tze Kwai | Li Shu Fong |
| | Lau Chung Him | Leung Sik Kwan |
| | Chen Kang | Poon Wing Cheung |
| | Peter P. C. Wong | |
- Hon. Auditors: Ling Man-I Norman Mar Fan
- Committee Chairmen:
- | | |
|--|--|
| | Lo Tse Kwai, Poon Wing Cheung (Research) |
| | Li Shu Fong, Chen Kang (Social) |
| | Lau Chung Him (Publication) |
| | Leung Sik Kwan (Membership) |
- Adviser: Peter P. C. Wong
- Hon. Treasurer: Tso Chak Chun
- Hon. Secretary: Wong Shang-Jen

Report of the Council and statement of accounts for the year ended September 30, 1964 for presentation at the annual general meeting of members of the Society of Chinese Accountants & Auditors to be held at Wing On Life Building, Hong Kong on Friday, December 11, 1964 at 6.30 p.m.

Gentlemen:

Your Council takes great pleasure in submitting herewith its annual report covering its term of office and a statement of accounts for the year ended September 30, 1964.

MEMBERSHIP

Your Council is pleased to report that, during the year altogether 11 members were admitted. They are Messrs. Lo Wan-Tsu, Leung Chuek Wai, Joseph Lee Sze-Nuen, Philip Lee Chiu-Tsun, Wong Min-Kien, Fung Shiu-Lam, Ho Man-Chuen, Wun Ying-Leung, Lam Ming-Kwong, Chu Wing-Cheong and Walter Ma King-Wah. The Council extends its warm welcome to these new members and hopes that their association with the work and activities of the Society will be a rewarding experience for us all.

The Society feels honoured to record that Mr. Charles Mar Fan, Chairman of the Society, was elected Chairman of both the Hong Kong Association of the Chartered Institute of Secretaries and the Hong Kong Branch of the Association of Certified & Corporate Accountants in 1964. It is

indeed a unique occasion for a man to hold the chairmanship of 3 professional bodies at the same time.

The Hon. F. S. Li, O.B.E., B.A., F.C.A., J.P., the Society's Vice Honorary Permanent President, and Messrs. Charles Mar Fan & Wong Peng Cheong were reappointed to the Authorised Auditors Board during the year. To these gentlemen your Council offers the heartiest congratulations. It is also gratifying to observe that they are all members of the Society, and their re-appointment reflects an impressive bearing on the Society's status which we members should cherish and uphold.

MEETING & ACTIVITIES

The following events highlighted the activities of the year:—

(1) The Society's Armorial Bearings

It gives your Council great pleasure to report that the Armorial Bearings of our Society were granted in December 1963 and recorded at the College of Arms, London. The official painting of the Arms was received on May 5, 1964 whilst the Letters Patent assigning the Armorial Bearings followed on June 2. These two historical records are now exhibited at this meeting and as decided by your out-going Council, will hereafter be displayed at the office of the Chairman until we have permanent premises of our own.

(2) 1964 Christmas Cards

As the first venture in the history of the Society, your Council printed a quantity of Christmas Cards for 1964, featuring our registered Armorial Bearings in multi-colours. They were sold to the members at cost.

(3) Gold Badge of the Society

To commemorate the grant of the aforesaid Armorial Bearings, your Council is also pleased to report that a number of 18K-Gold Badges in the form of a replica of the Arms has been made for sale to members at cost at \$20 each. It is the wish of your Council that every member should possess one, not only to identify his membership of the Society, but also to show that the wearer belongs to a Society of recognised professional accountants to whom the Arms have been officially granted and registered.

(4) Taxation Forum

As in previous years, members meetings on taxation matters under the direction of Mr. T.K. Lo have been held monthly. In January and February, they took place at Wing On Life Building on last Saturday of the months. For the convenience of some members, the place for the meeting has since been changed to Lingnan Club, 25, Des Voeux Road, Central, and the date altered to the last Wednesday of each month.

(5) Council Meetings

Similarly, council meetings were held on the second last Saturday in January, and February at Wing On Life Building, but from March onward

they were held at Lingnan Club on the second last Wednesday of each month.

(6) Adjustment of professional fees

In view of the general rise in rent, salaries and other office overheads in recent years a Special-Committee was appointed by the Council to study whether it was desirable to raise the scale of fees to cope with the changing conditions. The Special Committee was made up of Messrs. Chen Kang, T. K. Lo, Poon Wing Cheung & Norman Mar Fan, and through their recommendations the following resolutions were passed at a members' meeting on May 27, 1964:

- (1) The minimum fee for an annual audit (an honorary audit excepted) shall be \$600.00.
- (2) The fee for B.P.T. return shall be, in principle, not less than \$300.00. In exceptional circumstances or for a very small and simple case, it shall not be less than \$200.00.
- (3) Separate fees shall be charged for other Returns, namely: Personal Assessment, Salaries Tax, Interest Tax, Employer's Return, Etc.
- (4) Where individual circumstance renders the above recommendations impractical, it is recommended that a minimum increase of 25% over the existing fees be made as an alternative.
- (5) A minimum increase of \$100.00 for each category of costing work shall be made over the existing annual fee. London and Commonwealth costings shall be regarded as separate categories.

All members are expected to abide by the above resolutions accordingly.

(7) Translation of the I.R. Form 277

For the convenience of members, I.R. Form 277 on "Valuation of stock in hand and Work in Progress" was translated by the Research Committee from English to Chinese and the printed copies of the translation were for sale to members at cost.

(8) 4th Asian & Pacific Accounting Convention

An invitation has been received by the Society to attend the 4th Asian & Pacific Accounting Convention to be held from November 29 to December 1, 1965 in New Delhi, India. As our Chairman, Mr. Charlts Mar Fan, who is also Chairman of the Hong Kong Branch of the Association of Certified & Corporate Accountants, has accepted to represent the latter body at the Convention, your Council has deputed our Vice-Chairman, Mr. M. W. Kwan, to stand for him. The tentative list of members of the Society to attend the Conference consists of Messrs. M. W. Kwan, Peter Chan Po Fan and Lau Chung Him.

(9) 9th International Congress of Accountants

As a result of our first participation in the 8th International Congress

of Accountants in New York in 1962, whereat Messrs. Charles Mar Fan & Lau Chung Him represented the Society, the Society has again received an invitation to attend the 9th Congress to be held in Paris in September, 1967. The invitation has been accepted, and arrangement for delegates to attend same will be notified to all members in due course.

(10) Official Correspondence

During the year under review, The Society was asked by the Financial Secretary and the Commissioner of Inland Revenue to comment on certain matters in connection with the proposed amendment to the Inland Revenue Ordinance and taxation. The requests had been circulated to members and their views submitted to the authorities for consideration.

(11) Incorporation of the Society

This matter has been in the hands of our Research Committee for some time, and it is hoped that the incorporation of the Society under the Companies Ordinance will be finalised very shortly.

(12) The Society's Own Premises

This question was posed to the General Council during the year under review and a divided opinion was expressed owing to cost of maintenance and upkeep. However, if a suitable place can be located, the members will be consulted accordingly.

(13) Acknowledgment

Mr. Charles Mar Fan has donated a two-shelf steel book case to the Society in commemoration of its Golden Jubilee. For this generous gesture, the Council offers him its grateful thanks.

Thankful acknowledgment is also due to the Commissioner of Inland Revenue for occasionally sending to the Society and its members informative and instructive circulars regarding taxation matters.

On behalf of the members of the Society, we say "Thank You" to all Council Members and Sub-Committee Members for their untiring and valuable contributions to the Society.

Last but not the least, the Council hereby gratefully acknowledges the unremitting support given by all members to the Society's activities throughout the year under review and looks forward to its continuation in the years to come.

A MERRY CHRISTMAS AND HAPPY AND PROSPEROUS NEW YEAR TO YOU ALL.

Charles MAR FAN, Chairman.

WONG Shang-Jen, Hon. Secretary.

December 11, 1964.

THE SOCIETY OF CHINESE ACCOUNTANTS AND AUDITORS, HONG KONG

Income and Expenditure Account for the Year Ended 30th September, 1964.

Expenditure		Income	
Allowances to Bookkeeper & Messenger ..	\$ 200.00	Annual Subscriptions from members	
Printing & Stationery	545.00	(86 @ \$30.00)	\$ 2,580.00
Postage & Stamps	296.60	Investment Income:—	
Cost of D/D No. L — 4050 on London to		Dividends Received	\$855.00
College of Arms — £28-2-10.	454.30	Less: Bank Charges	2.26
Cost of Printing "Chinese Accountant Golden Jubilee"	\$3,828.30		852.74
Less: Advertisement		Balance, being Excess of Expenditure Over	
Income ... \$2,350.00		Income	1,575.47
Less: Sundry Receipt 321.00	2,671.00		
	1,157.30		
Golden Jubilee & Annual Meeting Expenses			
Less Receipts	1,749.75		
Gifts & Wreaths	104.20		
Sundry Expenses:			
Donations	\$ 50.00		
Tips	50.00		
Counsel Fee (Linklaters & Paines — £20-0-0.)	323.49		
Misc. Expenses	14.00		
	437.49		
Depreciation on —			
Duplicator	\$ 48.82		
Library Account	14.75		
	63.57		
	<u>\$ 5,008.21</u>		
			<u>\$ 5,008.21</u>

THE SOCIETY OF CHINESE ACCOUNTANTS AND AUDITORS, HONG KONG

Balance Sheet as at 30th September, 1964.

LIABILITIES

ACCUMULATED FUND

Balance at 1st October, 1963 \$15,143.66

Add:—

Entrance Fees—11, @ \$50.00 550.00

\$15,693.66

Less:—

Excess of Expenditure over

Income for year to date .. 1,575.47 \$14,118.19

LIBRARY FUND 1,030.00

ACCOUNT PAYABLE 99.00

\$15,247.19

ASSETS

FIXED ASSETS

Balance at Depreciation

1/10/64

for Year

Duplicator \$488.21 \$ 48.82 \$ 439.39

Library Books . 59.00 14.75 44.25

\$547.21 \$ 63.57 \$ 483.64

SHARE INVESTMENT, at cost

577 shares n Hongkong Electric Co., Ltd.

(Market value: \$14,713.50) 12,118.00

CASH AT BANK 2,645.55

\$15,247.19

WONG Shang Jen, Hon. Secretary

TSO Chak Chun, Hon. Treasurer

AUDITORS' REPORT

We have examined the above Balance Sheet of THE SOCIETY OF CHINESE ACCOUNTANTS & AUDITORS, HONG KONG for the year ended 30th September, 1964 and have obtained all the information and explanations we have required. In our opinion the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Society's affairs as at 30th September, 1964, according to the best of our information and the explanations given to us and as shown by the books of the Society.

LING Man-I

Hon. Auditors: **Norman Francis MAR FAN**

Hong Kong: 25th November, 1964.

**ANNUAL REPORT OF THE SOCIETY FOR THE YEAR
ENDED 30TH SEPTEMBER 1965**

Hon Permanent President: Hon. Sir T. N. Chau, Kt., C.B.E., J.P.,
Barrister-at-law

Hon Vice President: Hon. F. S. Li, O.B.E., B.A., F.C.P., J.P.

Office Bearers for 1965

Chairman: Charles Mar Fan

Vice-Chairman: Kwan Man Wai, M.B.E.

Council:	Charles Mar Fan	Kwan Man Wai
	Wong Shang Jen	Tso Chak Chun
	Lo Tze Kwai	Li Shu Fong
	Lau Chung Him	Leung Sik Kwan
	Chen Kang	Poon Wing Cheung
	Norman Mar Fan	

Hon. Auditors: Jackman Choy Tam Wai Sun

Committee Chairmen: Lo Tse Kwai, Poon Wing Cheung (Research)
Li Shu Fong, Chen Kang (Social)
Lau Chung Him (Publication)
Leung Sik Kwan (Membership)

Hon. Treasurer: Tso Chak Chun

Hon. Secretary: Wong Shang-Jen

Report of the Council and Statement of accounts for the year ended September 30, 1965 for presentation at the annual general meeting of members of the Society of Chinese Accountants & Auditors to be held at Wing On Life Building, Hong Kong on Wednesday, December 15, 1965 at 6.30 p.m.

Gentlemen:

Your Council takes great pleasure in submitting herewith its annual report covering its term of office and a statement of accounts for the year ended September 30, 1965.

MEMBERSHIP

Your Council is pleased to report that during the year eight members were admitted, viz.-Messrs. Kenneth Lo Koon-wing, Fung Yan-ye, Chan

Cheong-foon, Fung Chun-chung, Law Man-chiu, Lok Hon-yip, Mrs. Li Lee-mei and Miss Lee Shau-mi. What a joy we have to express in the admittance of two lady members for the first time in the Society's 52 years' history! The Council extends its warm welcome to all the new members and hopes that their association with the work and activities of the Society will be an asset to the Society.

Mr. Chan Kam-cheong resigned from membership of the Society after joining the government services. His resignation was accepted by the Council with regret.

A roster showing a total of 97 members is attached herewith for your scrutiny.

OBITUARY

The Council has to record an expression of deep regret on the death of Messrs. Edward Ma Pui-hung and Tang Yau-ting, and offers profound sympathy to the survivals of both families in their bereavement. The Chairman and the secretary represented the Society to attend both funerals.

MEETING & ACTIVITIES

The following events highlighted the activities of the year —

(1) 1965 Christmas Cards

The Council ordered to print a quantity of Christmas cards for 1965 featuring our registered armorial bearings in multi-colours. They are sold to members at cost price.

(2) Taxation Forum

As in previous year members' meetings on taxation matters under the direction of Mr. T. K. Lo were held monthly at Lingnan Club, every last Wednesday of the month.

(3) Council Meetings

Similarly, Council meetings were held on every second last Wednesday of the month at Lingnan Club.

(4) The Fourth Asian & Pacific Accounting Convention

In our last report it was stated that three delegates from our Society would attend the Convention in New Dehli, India commencing from November 29 to December 1, 1965. Eventually, our Chairman, Mr. Charles Mar Fan, offered himself as the only delegate, has started on his way on Novem-

ber 27. He is also the only person from Hong Kong participating the Convention. "Uneasy lies the head that wears a crown"; our Chairman has devoted much of his valuable time and at his own costs for the sake of the Society and the accounting professionals of Hong Kong as a whole. Such public spirit and enthusiasm as his merits the highest appreciation and applause. He carried with him two beautiful china plates as a token of our Society's congratulation to the Convention, one bearing the Society's emblem and the other printed with its good wishes. Your Secretary representing the Society went to see him off the Kai Tak airport that day. May his journey be a happy and fruitful one!

ACCOUNTS

The balance sheet as at September 30, 1965 and the income and expenditure account for the year then ended are presented herewith for adoption by members in the general meeting. The surplus of HK\$3,597.86 has been transferred to the accumulated fund.

ACKNOWLEDGEMENTS

Your Council wishes to record its gratitude to the chairman, the only delegate for his representing the Society at his own costs at the fourth Asian and Pacific Accounting Convention, to Mr. Lau Chung-him for his invaluable assistance in making available to the Society, a congenial meeting place for all occasions, and also to the generosity of the following members who donated a sum of \$1,395.47 to meet the deficit of the Society in 1964, viz.— Messrs. Charles Mar Fan, Peter P.C. Wang, Tso Chak-chun, Lau Chung-him, Leung Sik-kwan, Chan Kang, Poon Wing Cheung, Norman Mar Fan, Ling Man-I, Li Shu-fong and Wong Shang-jen.

Your Council is also greatly indebted to the sub-committees for their valuable contribution to the work of the Society, particularly to Mr. T. K. Lo, who has taken the lead in our monthly taxation forum in the past several years.

Last but not the least, the Council gratefully acknowledge the constant support given by all members to the Society's activities throughout the year and looks forward to their unfailing efforts in the future.

May the council take this opportunity to wish you all, our dear members,
A MERRY CHRISTMAS AND A PROSPEROUS NEW YEAR!

Wong Shang Jen

Hon. Secretary.

THE SOCIETY OF CHINESE ACCOUNTANTS AND AUDITORS, HONG KONG

Income and Expenditure Account for the Year Ended 30th September, 1965.

Expenditure		Income	
Allowance to Bookkeeper & Messenger	\$ 200.00	Annual Subscriptions from members (94 @ \$30.-)	\$2,820.00
Printing & Stationery	120.10	Contribution Received	1,395.47
Postage & Stamp	142.90	Investment Income:—	
Cost of Printing—X'mas Cards ...	\$1,638.00	Dividends Received	\$ 923.20
Less Receipt of Sales	\$1,500.00	Less Bank Charges	2.31
	\$ 138.00		920.89
Annual Meeting Expenses	802.30		
Gifts & Wreaths	30.00		
Sundry Expenses:			
Tips	\$ 50.00		
Car Fare	0.20		
	50.20		
Depreciation on			
Duplicator	\$ 43.94		
Library Account	11.06		
	55.00		
Balance, being Excess of Income over Expenditure	3,597.86		
	<u>\$5,136.36</u>		<u>\$5,136.36</u>

THE SOCIETY OF CHINESE ACCOUNTANTS AND AUDITORS, HONG KONG

Balance Sheet as at 30th September, 1965

LIABILITIES ACCUMULATED FUND

Balance at 1st October 1964	\$14,118.19
Add:	
Entrance Fees — 11 @ \$50 ..	550.00
Excess of Income over Expenditure for year to date	3,597.86
	<u>\$18,266.05</u>
LIBRARY FUND	1,030.00
ACCOUNTS PAYABLE	358.20
ADVANCE RECEIPT	60.00

FIXED ASSETS

	Balance at 1/10/1964	Depreciation for year	
Duplicator	\$439.39	\$ 43.94	\$ 395.45
Library Books ...	44.25	11.06	33.19
	<u>\$483.64</u>	<u>\$ 55.00</u>	<u>\$ 428.64</u>
SHARE INVESTMENT			
at cost			
577 shares in Hong-kong Electric Co., Ltd. (Market Value \$13,790.30)			12,118.00
SUBSCRIPTION RECEIVABLE ...			60.00
STOCK OF MEMBER'S GOLD BADGES:—			
Cost	100 pcs.	\$1,744.00	
Less Sales	56 pcs.	1,120.00	
		<u>624.00</u>	
Balance in hand ..	44 pcs.		624.00
CASH AT BANK			<u>6,483.61</u>
			<u>\$19,714.25</u>

AUDITOR'S REPORT

We have examined the above Balance Sheet of THE SOCIETY OF CHINESE ACCOUNTANTS & AUDITORS, HONG KONG for the year ended 30th September, 1965 and have obtained all the information and explanations we have required. In our opinion the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Society's affairs as at 30th September, 1965, according to the best of our information and the explanations given to us and as shown by the books of the Society.

Hong Kong: 18th November, 1965.

Hon. Auditors. Jackman Choy
Tam Wai Sun

The Office-bearers and Committeemen of the Society

1913—1966

Year	Chairman	Vice Chairman	Hon. Secretary	Hon. Treasurer	Committee Member	Hon. Auditors
1913	J. M. Wong	(Note 1)	Fung Lok Yuen	(Note 1)		
1914-1932	(Note 1)					
1933-1940	(Note 2)					
1941-1945	(Note 3)					
1946	Lau Yuk Wan	J. M. Wong	Wai-Sun Tam	Man I-Ling	Lam Cho-Hing Li Tung, P. C. Kwok, K. L. Young, Wing-Seen Wong	John T. O. Wong & Y. Y. Wang
1947	Lau Yuk Wan	J. M. Wong	Wai-Sun Tam	Man-I Ling	Lam Cho-Hing Li Tung P. C. Kwok, K. L. Young Wing-Seen Wong	John T. O. Wong & C. C. TSO
1948	Wing-Seen Wong	Wai-Sun Tam	C. C. Tso	Man-I Ling	J. M. Wong Lau Yuk Wan Li Tung Li Shu Fong K. L. Young	P. C. Kwok & Lam Cho-Hing
1949	Wing-Seen Wong	Wai-Sun Tam	C. C. Tso	Man-I Ling	J. M. Wong Lau Yuk-Wah Li Tung Li Shu Fong P. C. Kwok	Lam Cho-Hing & K. L. Young
1950	Wing-Seen Wong	Wai-Sun Tam	C. C. Tso	Li Shu Fong	Charles Mar Fan Thomas Le C. Kuen J. M. Wong Lau Yuk-Wan P. C. Kwok	Man-I Ling K. L. Young
1951	Wing-Seen Wong	Wai-Sun Tam	C. C. Tso	Fung On	P. C. Kwok Thomas Le C. Kuen Lau Yuk-Wan Charles Mar Fan Man-I Ling	Li Shu Fong & Kwan Man-Wai

Year	Chairman	Vice Chairman	Hon. Secretary	Hon. Treasurer	Committee Member	Hon. Auditors
1952	Wing-Seen Wong	Wai-Sun Tam	C. C. Tso	Fung On	Kwan Man-Wai Lau Yuk-Wan Thomas Le C. Kuen Mankwan Wong Charles Mar Fan	Li Shu Fong & J. M. Wong
1953	Wing-Seen Wong	Wai-Sun Tam	C. C. Tso	Fung On	Kwan Man-Wai Lau Yuk-Wan Thomas Le C. Kuen Mankwan Wong Charles Mar Fan	Li Shu Fong & J. M. Wong
1954	Wing-Seen Wong	Wai-Sun Tam	C. C. Tso	Fung On	Charles Mar Fan Kwan Man-Wai Mankwan Wong Wong Shang-Jen Lau Yak-Wan Thomas Le C. Keun Man-I Ling	Li Shu Fong & J. M. Wong
1955	Wai-Sun Tam	Charles Mar Fan	C. C. Tso	Fung On	Wing-Seen Wong M. W. Kwan Man-I Long Li Shu-Fong Wong Shang-Jen Ka-Yau Chan Lau Chung-Him	Leung Sik-Kwan & Jackman Choy
1956	Wai-Sun Tam	Charles Mar Fan	C. C. Tso	Fung On	W. S. Wong S. K. Leung Li Shu-Fong Wong Shang-Jen M. W. Kwan Lau Chung-Him T. K. Lo	Man-I Ling & Ka-Yau Chan

Year	Chairman	Vice Chairman	Hon. Secretary	Hon. Treasurer	Committee Member	Hon. Auditors
1957	C. C. Tso	Charles Mar Fan	M. W. Kwan	Fung On	Wing-Seen Wong W. S. Tam Man-I Ling Li Shu-Fong S. K. Leung Ka-Yau Chan Wong Shang-Jen	Lau Chung-Him & Jackman Choy
1958	Charles Mar Fan	C. C. Tso	Wong Shang-Jen	Stephen Law	M. W. Kwan Fung On J. K. S. Thong S. K. Leung Li Shu-Fong Jackman Choy Man-I Ling	Ka-Yau Chan & Ed. P.H. Ma
1959	Charles Mar Fan	M. W. Kwan	Wong Shang-Jen	C. C. Tso	Lau Chung-Him Li Shu-Fong Fung On T. K. Lo S. K. Leung W. S. Tam J. K. S. Thong	Stephen Law & W. S. Wong
1960	Chas. Mar Fan	M. W. Kwan	Wong Shang-Jen	C. C. Tso	Lau Chung-Him T. K. Lo Li Shu-Fong S. K. Leung J. K. S. Thong Mankwan Wong W. S. Tam	Jackman Choy & Stephen Law
1961	Chas. Mar Fan	M. W. Kwan	Wong Shang-Jen	C. C. Tso	Lau Chung-Him T. L. Lo Li Shu-Fong S. K. Leung W. S. Tam J. K. S. Thong Jackman Choy	Stephen Law & Man-I Ling

Year	Chairman	Vice Chairman	Hon. Secretary	Hon. Treasurer	Committee Member	Hon. Auditors
1962	Chas. Mar Fan	M. W. Kwan	Wong Shang-Jen	C. C. Tso	Lau Chung-Him T. K. Lo Li Shu-Fong S. K. Leung W. S. Tam Chan Kang Jackman Choy	Man-I Ling & J. K. S. Thong
1963	Chas. Mar Fan	M. W. Kwan	Wong Shang-Jen	C. C. Tso	Lau Chung-Him T. K. Lo Li Shu-Fong S. K. Leung W. S. Tam Chen Kang J. K. S. Thong	Sanford Yung & Man-I Ling
1964	Chas. Mar Fan	M. W. Kwan	Wong Shang-Jen	C. C. Tso	T. K. Lo, Poon Wing Cheung, Li Shu-Fong Chen Kang, Lau Chung Him, S. K. Leung P. C. Wong (adviser)	Ling Man, I & Norman Mar Fan
1965	Chas. Mar Fan	M. W. Kwan	Wong Shang-Jen	C. C. Tso	T. K. Lo, Poon Wing Cheung, Li Shu-Fong Chen Kang, Lau Chung Him, S. K. Leung & Norman Mar Fan	W.S. Tam & Jackman Choy
1966	Chas. Mar Fan	M. W. Kwan	Wong Shang-Jen	C. C. Tso	T. K. Lo, Poon Wing Cheung, Ronald F. S. Li, Lau Chung Him, S. K. Leung Li Shu-Fong Chen Kang	Norman Mar Fan & Auyang Yik Fung

- NOTES 1. Owing to loss of records, no particulars are available. According to reliable sources, Mr. J. M. Wong, J. P., had been Chairman of the Society for over 10 years during this period.
2. In the wake of the loss, the only scanty information available to us is that, for a few years, the late Mr. Lau Yuk Wan was Chairman of the Society, Mr. Li Tung was twice Hon. Secretary, Mr. Lam Cho Hing three times Hon. Treasurer, and Mr. Kwok Yam Kai, Hon. Secretary for once.
3. Thereafter, there has been no further enlightenment, except that, during the Second World War, the late Mr. Lau Yuk Wan was still the Chairman.

本會歷屆職員暨理監事芳名一覽表 (1913-1966)

年 份	主 席	副主席	義務秘書	司 庫	監 事	理 事	(次序不分先後)		
一九一三 一九一四 至 一九三二 一九三三 至 一九四零 一九四一 至 一九四五	黃茂林	(註一)	馮樂園	(註一)			(註一：案卷遺失，無從查考，據聞該十餘年間，黃茂林先生均任主席云)		
							(註二：案卷不全，祇查得該數年間，劉毓芸先生均任主席，李桐君兩任秘書，林藻慶君三任司庫，及郭蔭溪君一任秘書而已)		
							(註三：案卷遺失，無從查考，據聞該數年戰爭期間劉毓芸先生仍任主席云)		
一九四六	劉毓芸	黃茂林	譚維新	凌文義	黃電安 王繼玉	林藻慶 楊光露	李 桐 黃永善	郭佩璋	
一九四七	劉毓芸	黃茂林	譚維新	凌文義	黃電安 曹澤泉	林藻慶 楊光露	李 桐 黃永善	郭佩璋	
一九四八	黃永善	譚維新	曹澤泉	凌文義	郭佩璋 林藻慶	黃茂林 李樹芳	劉毓芸 楊光露	李 桐	
一九四九	黃永善	譚維新	曹澤泉	凌文義	林藻慶 楊光露	黃茂林 李樹芳	劉毓芸 郭佩璋	李 桐	
一九五零	黃永善	譚維新	曹澤泉	李樹芳	凌文義 楊光露	馬炎璋 劉毓芸	李卓權 郭佩璋	黃茂林	
一九五一	黃永善	譚維新	曹澤泉	馮 安	李樹芳 關文偉	郭佩璋 馬炎璋	李卓權 凌文義	劉毓芸	
一九五二	黃永善	譚維新	曹澤泉	馮 安	李樹芳 黃茂林	關文偉 黃文衰	劉毓芸 馬炎璋	李卓權	
一九五三	黃永善	譚維新	曹澤泉	馮 安	李樹芳 黃茂林	關文偉 黃文衰	劉毓芸 馬炎璋	李卓權	
一九五四	黃永善	譚維新	曹澤泉	馮 安	李樹芳 黃茂林	馬炎璋 劉毓芸	關文偉 李卓權	黃文衰 凌文義	王尙仁
一九五五	譚維新	馬炎璋	曹澤泉	馮 安	梁錫鈞 蔡澤民	黃永善 王尙仁	關文偉 陳嘉有	凌文義 劉謙仲	李樹芳
一九五六	譚維新	馬炎璋	曹澤泉	馮 安	凌文義 陳嘉有	黃永善 關文偉	梁錫鈞 劉仲謙	李樹芳 盧子葵	王尙仁
一九五七	曹澤泉	馬炎璋	關文偉	馮 安	劉仲謙 蔡澤民	黃永善 梁錫鈞	譚維新 陳嘉有	凌文義 王尙仁	李樹芳
一九五八	馬炎璋	曹澤泉	王尙仁	羅思雲	陳嘉有 馬沛洪	關文偉 李樹芳	馮 安 蔡澤民	湯高新 凌文義	梁錫鈞

本會歷屆職員暨理監事芳名一覽表(續) (1913-1966)

年 份	主 席	副主席	義務秘書	司 庫	監 事	理 事
一九五九	馬炎璋	關文偉	王尙仁	曹澤泉	羅思雲 黃永善	劉仲謙 李樹芳 馮 安 盧子葵 梁錫鈞 譚維新 湯高新
一九六零	馬炎璋	關文偉	王尙仁	曹澤泉	蔡澤民 羅思雲	劉仲謙(出版組) 盧子葵(稅務組)) 李樹芳(交際組) 梁錫鈞(會員 組) 湯高新 黃文袞 譚維新
一九六一	馬炎璋	關文偉	王尙仁	曹澤泉	羅思雲 凌文義	劉仲謙(出版組) 盧子葵(稅務組)) 李樹芳(交際組) 梁錫鈞(會員 組) 譚維新 湯高新 蔡澤民
一九六二	馬炎璋	關文偉	王尙仁	曹澤泉	凌文義 湯高新	劉仲謙(出版組) 盧子葵(稅務組) 梁錫均(會員組) 譚維新(顧 問) 陳綱 蔡澤民
一九六三	馬炎璋	關文偉	王尙仁	曹澤泉	容永道 凌文義	劉仲謙(出版組) 盧子葵(稅務組) 李樹芳(交際組) 梁錫鈞(會員組) 譚維新(顧 問) 陳綱 湯高新
一九六四	馬炎璋	關文偉	王尙仁	曹澤泉	凌文義 馬明璋	劉仲謙(出版組) 盧子葵 潘永祥 (研究組) 李樹芳 陳 綱(交際 組) 梁錫均(會員組) 黃秉章 (顧問)
一九六五	馬炎璋	關文偉	王尙仁	曹澤泉	譚維新 蔡澤民	劉仲謙(出版組) 盧子葵 潘永祥 馬明璋(研究組) 李樹芳 陳 綱 (交際組) 梁錫均(會員組)
一九六六	馬炎璋	關文偉	王尙仁	曹澤泉	馬明璋 歐陽亦凡	劉仲謙(出版組) 盧子葵 潘永祥 李福兆(研究組) 李樹芳 陳 綱 (交際組) 梁錫均(會員組)

本表編列，因初期案卷遺失，而年代湮遠，資料難於查考，故由本會誕生至一九四五年，三拾餘年間人事紀錄，祇得從畧，抱歉殊深。幸由一九四八年起，已有案卷可稽，編纂較易，倘有錯漏或會友間有知之較詳者，希不吝賜教，使此表得趨完善，幸甚幸甚。編者謹識。

(1966 年 9 月)

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(Arranged in Alphabetical Order)

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- ⑮ CHAN, Wing Hong (陳榮康)
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20 *Cheng Chun Wang, 鄭振榮*

21 *Cheng Bun Bun 鄭振彬*
22 CHENG, Hsueh Shi (鄭學熙)
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HO Kwong Ngok 何光岳

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會計師會盛事 (一)

第四屆亞洲區及太平洋區會計師會議，於一九六五年十一月廿九日在印度新德里舉行。本會製備精美瓷碟一座致送，以表賀忱。碟上髹書祝詞一首，由本會研究組長盧子葵教授撰文，徐淡文君楷書，由馬炎璋主席親自帶往新德里致送。茲將該瓷碟內祝詞錄后：

維

公元一九六五年十一月廿九日第四屆亞洲區及太平洋區會計師會議在印度新德里開幕，福音遠播，欣忭莫名，際此高軒章服，一時之彥碩聯翩，定卜鶴舉鴻騫，八極之黎元是賴。謹貢燕詞，藉伸賀悃，其詞曰：

會計惟當	古訓孔彰	六府三事	用建綱常
公帑斯裕	通工惠商	雖邦佐治	法美意良
爰及近代	民主丕張	國際貿易	經濟相將
集思廣益	濟濟一堂	遙瞻天竺	瑞氣悠揚
嘉猷懋績	昭示周行	澤流寰宇	鴻業無疆

香港華人會計師公會同人敬賀
主席馬炎璋暨全體

財 富 錄

· 耕 丁 ·

工欲善其事，必先利其器。

— 孔 子 —

不違農時，穀不可勝食也。數罟不入洿池，魚鼈不可勝食也。斧斤以時入深林，材木不可勝用也。

— 孟 子 —

There can be no economy where there is no efficiency.

— Ib. To Constituents, 1868

So long as all the increased wealth which modern progress brings goes but to build up great fortunes, to increase luxury and make sharper the contrast between the House of Have and the House of Want, progress is not real and cannot be permanent.

— Henry George 1839-1897

會計師會盛事(二)

The following are three of the many correspondence received from the 9th International Congress of Accountants, Paris, and referred to in the "Notes and Comments" ante.

NINTH INTERNATIONAL CONGRESS OF ACCOUNTANTS

PARIS 1967

PARIS le 3 AOUT 1964
109, boulevard Malesherbes (8e)
Tel. LAB. 81-44

Monsieur le Président,

J'ai le plaisir de vous informer que le IXème Congrès International de Comptabilité se déroulera à Paris, salle PLEYEL, du 7 au 12 Septembre 1967 inclus.

Il aura pour thème l'étude prospective de la profession: "Les nouvelles frontières de la Comptabilité".

Sur les six jours du Congrès, deux journées entières le Samedi 9 et le Dimanche 10 Septembre seront réservées aux visites et aux excursions touristiques.

Tous les Instituts, Associations et Groupement français de Comptabilité préparent, dès à présent, la reception des congressistes.

J'espère vivement, que de nombreux collègues relevant de votre Association, puissent venir en 1967 à Paris, où ils seront, soyez en assuré, les bienvenus.

Je vous serais reconnaissant de bien vouloir porter cette information à la connaissance de vos membres par la voie de vos journaux professionnels et d'adresser à mon Secrétariat un exemplaire concernant cette insertion.

Vous m'obligeriez en me communiquant également, pour mise à jour de notre fichier:

- le nom et l'adresse de votre Association;
- son numéro de téléphone;
- son adresse télégraphique;
- les noms, prénoms et fonctions des membres du bureau.

Veuillez agréer, Monsieur le Président, l'assurance de mes sentiments confraternellement dévoués.

Monsieur le Président
The Society of Chinese Accountants
and Auditors
c/o Charles Mar Fan & Co.
9, Ice House Street, Room 108
HONG KONG

Le Président,
F. M. RICHARD

NINTH INTERNATIONAL CONGRESS OF ACCOUNTANTS
PARIS 1967

PARIS, 30 JUIL. 1965
109, boulevard Malesherbes (8e)
Tél. LAB. 81-44

Dear Sir:

By letter dated March 1, 1965, which enclosed two appendices, I sent you information concerning the program of the Ninth International Congress of Accountants to be held in 1967.

I requested you to provide me with your valuable support by participating in the preparation of one or several national reports, relating to one or more of the fourteen discussion topics listed on an appendix to the letter first mentioned.

Numerous Institutes and Associations have already notified me the topics they have selected and the names of reporters appointed.

I should be very much obliged if you would expedite the designation of your national reporters and advise me of the topics which will be covered in their names and addresses.

Indeed, the reports prepared and written in the language of origin, translated in English or in French, must be received by March 1, 1966, at the latest.

Should your decisions in this respect not yet be final, I would nevertheless appreciate your informing me of the current status of your progress (topics already assigned to reporters, the latter's names and addresses, and topics which, you hope, will be handled by other reporters still to be appointed), or of your plans and the length of time which will be necessary to carry them out.

I thank you in advance for your kind cooperation..

Sincerely yours,
F. M. Richard,
President.

Monsieur le Président
The Society of Chinese Accountants
and Auditors
G.P.O. Box 15222
Hong-Kong

9TH INTERNATIONAL CONGRESS OF ACCOUNTANTS

Paris, Feb. 2nd 1966

Dear Sir :

Please find enclosed the provisional time schedule of the 9th International Congress of Accountants which will be held in Paris from the 6th to the 12th of September 1967.

I would very much appreciate your doing the following :

- 1.—Publish this provisional time schedule in the next number of your professional brochure or information bulletin.
- 2.—Invite your fellow-members who plan on attending the Congress to make known to you their names, addresses and the number of persons who will accompany them.
- 3.—Send me on April 15, 1966, a schedule showing the information referred to in paragraph 2 above. I shall then be in a position to mail them information on the Congress and a registration form.

You will, of course, be kept informed in the same manner and you will receive registration forms for those of your fellow-members not yet registered who would subsequently decide to attend the Congress; however, these registrations will be honored only to the extent of the then available places.

Very truly yours,

F. M. Richard

President

The Society of Chinese Accountants
and Auditors,
HONG KONG

9TH INTERNATIONAL CONGRESS OF ACCOUNTANTS**PARIS 1967****PROVISIONAL TIME SCHEDULE****Theme of Congress:** "The New Horizons of Accounting".**Wednesday, September 6:**

Evening

Cocktail offered by the Committee to the participants and their wives.

Thursday, September 7:

Morning

Official opening.

Afternoon

General meetings.

Evening

Concert or music-hall for the participants and their wives.

Friday, September 8:Morning and
afternoon

General meetings.

Saturday, September 9 and**Sunday, September 10:**

One or two-day accompanied excursions at the participants choice:

Loire Chateaux, French Riviera,
Champagne area, Vichy, a thermal
resort,

or free time

Monday, September 11:

Morning

Group meetings (20 to 30 persons)

Afternoon

General meetings.

Evening

Dinner offered to official delegates.

Tuesday, September 12:

Morning

General meetings

Afternoon

Official closing

Evening

Buffet-dance.

A special program for wives, including a lunch, high-fashion show, visits of monuments and museums, sight-seeing tours, etc, will take place during the meetings.

EDITORIAL NOTES

It is gratifying to see the successful publication of this edition notwithstanding that it has been somewhat delayed by incorporating the Report on the 4th Conference of Asian and Pacific Accountants held in New Delhi, India, in 1965.

The intervening period since our last issue of 1963 has been eventful, and reference to the Society's Annual Reports, and the Notes and Comments herein contained may prove of interest.

We are grateful to all contributors for helping us with informative and interesting articles, and our sincere appreciation and thanks are also due to the Hon. D. R. Holmes, C.B.E., M.C., E.D., Director of Commerce & Industry Department, Hong Kong, for his excellent Preface, to the Conference Committee of the 4th CAPA, and the Institute of Taxation, U.K., for allowing us to reproduce their materials of interest.

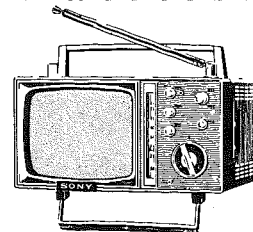
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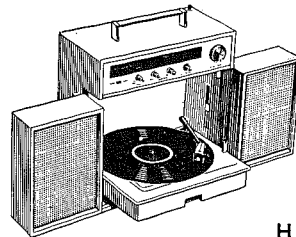
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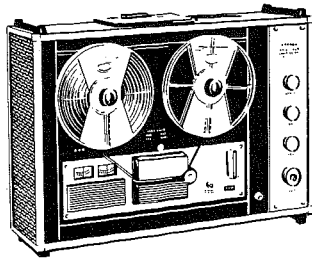
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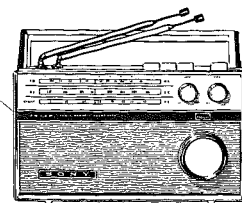
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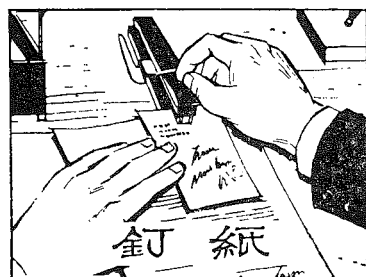
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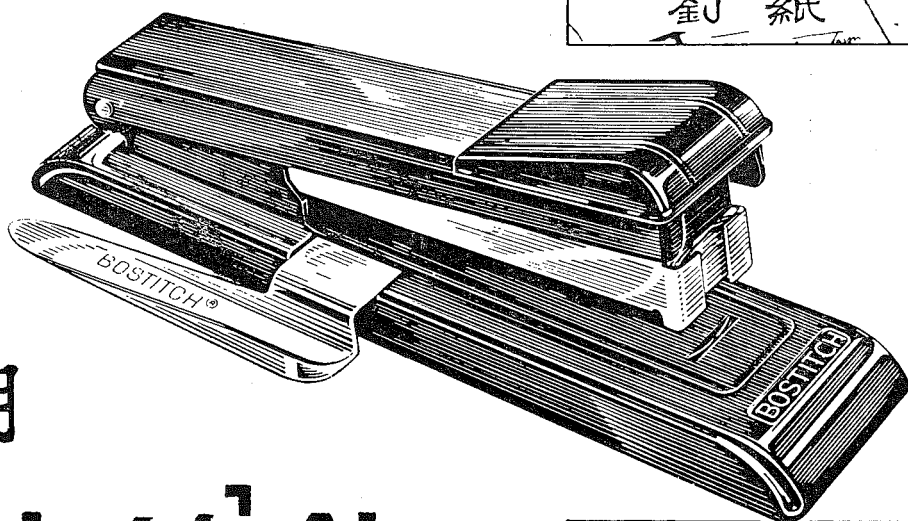
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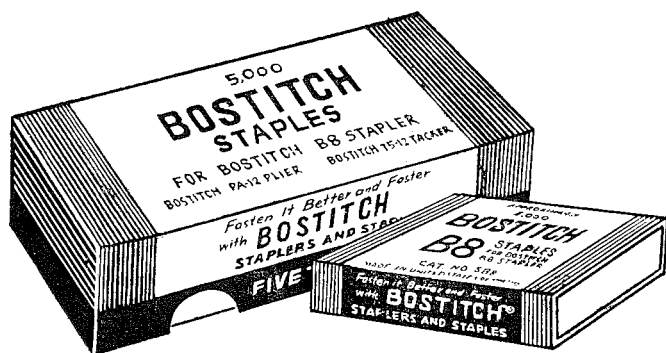


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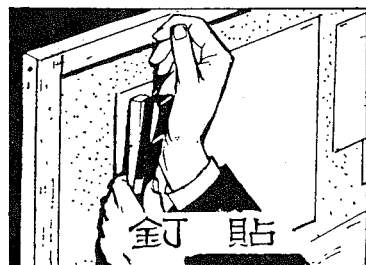


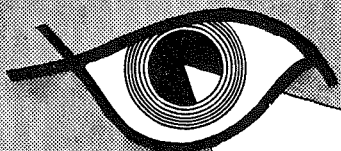
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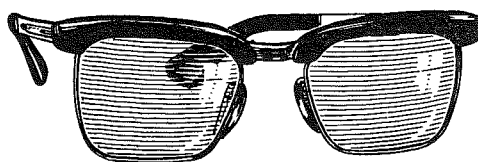
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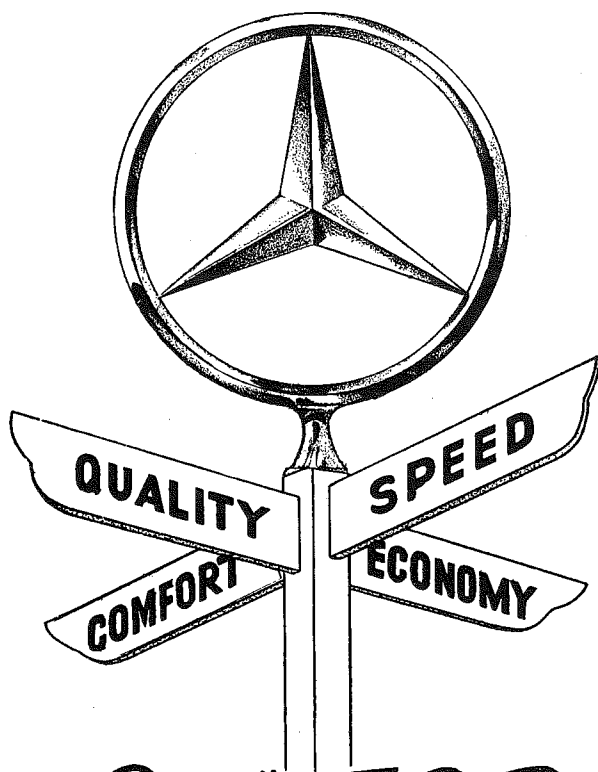
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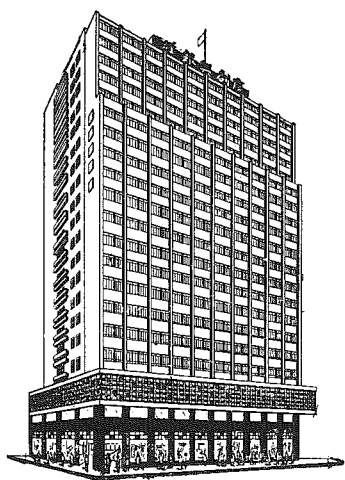
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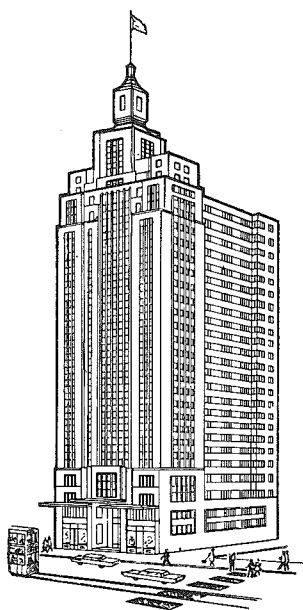
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