the salary of employees who know how to use them. Because these are usually used by large companies, they are invariably for larger-value transactions.

- **Cost** – Each of the hedging techniques has a cost – some are visible, some are hidden. The option premium, for example, can be clearly seen. However, you must realise that all techniques come with a cost and the forward contract costs, for example, are simply factored in to the spread on the rate quoted – for instance it is worse than it could be due to the cost being included. (You didn’t think that Thomas Cook and the Post Office really offered “free commission” on your holiday currency, did you?) However, some techniques are cheaper than others. Generally futures or forward rates will be one of the cheaper techniques while options are often the most expensive. (Because rather than fixing the rate you are receiving a minimum, which could get better...) Futures can be cheaper than a forward contract due to its standardisation.

- **You must realise that all techniques come with a cost. Generally, futures or forward rates will be one of the cheaper techniques while options are often the most expensive**

- **The money market hedge should be relatively cheap** – Exchanging currency at spot should be cheaper than at a forward rate, but there will be administration costs to consider: taking out a loan in dollars and opening a pounds sterling bank account. Depending on the size of the company, opening a foreign currency bank account, particularly for a loan, can be problematic.

  Options are usually the most expensive hedging technique for two reasons – the prices charged by the counterparty and the management time involved in dealing with the more complex technique.

**Conclusions**

In our example, USB appears to be a relatively large company, being incorporated (like a UK plc). For this reason it may be happy to use any of the techniques. However, if it is actually quite small, and lacks experience in hedging, it may prefer to avoid the future and option techniques.

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**Paper T4 (part b)**

**The Seven Deadly Sins of a Case Study**

Don’t miss the killer issue. Don’t ignore the numbers. Don’t yield to indecision. Take heed of these pitfalls and you’ll be ready to crack the T4B Case Study

By David Harris
Chartered management accountant, freelance lecturer and management consultant

Most of the articles that have been written about the T4B Case Study tell you, sometimes at great length, what you should do. This one is different – it’s a summary of the main things you shouldn’t do. I call these the seven deadly sins – seven ways to show your marker that you aren’t to be trusted as a qualified management accountant. These are the things that make markers nervous, and nervous markers don’t like giving marks.

**1 Not recommending anything**

The main cause of this is just poor time management. The problem with recommendations is that they come at the end of the report. So if you run out of time (and don’t have an “exit strategy”) you may never get round to recommending anything. This is a shame, because a report with no recommendations has no value. The whole reason for asking you to produce a report is to get your advice.

Your exit strategy should be to stop writing one hour from the end of the exam, leave a few blank pages, and then write your recommendations (adding clear and detailed explanations and justifications – see below). Once you’ve done that, spend the remaining time “filling in the gaps”, including part (b). You should adjust your style, writing more or less detail for each point you cover, depending on how large the gaps are and how little time you have left.

A report with clear recommendations, but which is a little “light” on content in the middle, has a lot of value. A report with no recommendations has no value at all.
2 Changing your mind
Some reports start off by heading in a particular direction. They then, at some point, seem to change direction entirely. This leads to the recommendations not being clearly based on the identification and analysis of the issues, and/or the evaluation of potential solutions. Maybe you had “a good idea” part way through writing your report. Maybe you decided that you had made a mistake, and that the option you planned to recommend wasn’t actually the best one. Either way, the report just ends up looking confused and incoherent. The marking grid contains a lot of marks for logic. You’ve just lost most of them.

The process of writing a report has three stages: planning, implementation and review. First, you should do a plan for what your report will cover and how each issue is developed into a recommendation. Once you’ve finished your plan, write the report you planned to write. In the review stage, you should check that you have implemented your plan (i.e. that you have written the report you planned to write).

If you want to produce a report that earns high marks for logic, do your plan, then execute that plan. Don’t change your mind partway through writing your report. If you have a “good idea”, forget you had it. If you think you’ve made a mistake, forget it. Write the report you planned to write, and it will have a better “storyline” and earn better marks for logic.

3 Missing the ‘killer’ issue
Some issues are just really important. Some issues are so important, they have to be dealt with first (or second), or the business is unlikely to survive. One of the most common is cash flow. Many organisations go out of business due to insolvency, despite being profitable. If cash flow is an issue in the case, and you don’t rank it first or second, in your list, you’ve missed the point. Why bother solving the other problems? The company might be dead before it gets a chance to implement your recommendations.

There isn’t always a killer issue, but most times there’s one that should really be in your top two.

'Some issues are just really important. If cash flow is an issue in the case, and you don't rank it first or second, you've missed the point'
If you rank it third or fourth, you’ll probably get two marks out of five for prioritisation. If you don’t deal with it at all, you may become eligible for another attempt at the exam.

4 Ignoring the numbers
Would you hire a management accountant who won’t do numbers? Candidates who do no calculations are either scared to try, or know they’re incompetent. Either way, that’s not a good signal to give to someone whose job it is to determine whether you are fit to be called a chartered management accountant.

Your calculations don’t have to be “correct”. They don’t even have to be very good. They do, however, have to be there. This is a test of professional competence in management accounting. Your report must look like it was written by a CIMA member, albeit a CIMA member who is under a lot of stress and time pressure. Your report should not look like it was written by an ill-prepared CIMA student.

5 Ignoring the pre-seen material
“The unseen material will clearly signal the four issues to be included in my report, so I can forget everything I learned from my analysis of the pre-seen material. In fact, analysing the pre-seen material is really a waste of time.”

Many students have said this to me, and gone on to fail a mock exam. They identified the right issues, prioritised them quite well, evaluated the options poorly, and recommended solutions that this organisation just wouldn’t, or couldn’t, implement. Either that, or their analysis and solutions were simplistic and unrealistic.

The pre-seen material gives you the history, structure and culture of the organisation. These are the things that, along with an understanding of stakeholders, make your recommendations capable of being implemented. The pre-seen material, together with your investigations into the real industry, is what allows you to propose workable and practical solutions. There’s no point recommending that the organisation does something that others have tried and which has failed. Strategies that do not gain stakeholder support will fail.

6 Ignoring the unseen material
Before you go into the exam, you already understand the issues facing the organisation. You already have several great ideas for how to improve performance, or to solve major problems. You’ve practised writing your report several times. All you have to do is write it again, don’t you?

The whole reason for the unseen material is that it makes it impossible for you to prepare your report in advance. Most, if not all, of the major issues will be clearly indicated by the unseen material. They may not all be new, but the unseen material will resolve many of the issues “left over” from the pre-seen material, elevate the importance of others, and add in a new one (or more).

You should “bring forward”, from the pre-seen, all the facts that remain relevant after you have read the unseen material. Your report should be based on everything you know about the industry and the organisation.

7 Failing to clarify and justify recommendations
“It’s obvious why I recommended that, isn’t it?” To some extent, the logic of your report, and the arguments in it, will support your recommendations. However, as the author of the report, you may be assuming that the reader is as familiar with the arguments as you are.

Help your reader to understand. Say what you recommend, then explain why. Don’t assume the reader understands – they may have missed something in your report or, more likely, you may think you’ve written something when you actually just thought it.

Also, the organisation needs more than just what and why. Tell them how – describe the practical steps. Indicate who should do those things. Tie your recommendations back to your prioritisation, by telling them by when.

There are 30 marks available for recommendations (as ten of them are for the second task). Should the recommendations section comprise one third of your report? No. Should it contain one third of the value of your report? Yes.

In conclusion...
The assessment criteria, published by CIMA, are a guide to the markers. Their job is to assess your competence, not your ability to pass exams. Avoid the seven deadly sins. Don’t make them nervous about allowing you to use the designation “chartered management accountant”.

‘Would you hire a management accountant who won’t do numbers? Candidates who fail to include calculations are either scared to try, or know they are incompetent’
Editor’s Note:
In March 2012 an article by David Harris entitled “The seven deadly sins of a case study” was published in the Study Notes section of Financial Management magazine. This article was a light hearted piece offering the author’s personal advice and guidance to students sitting T4 part B. Whilst finding most of the article very useful for students, the case writer feels that some sins are deadlier than others and for this reason would like to offer some additional advice and clarification to students around two of the “sins” in particular.

Sin No. 4. Ignoring the numbers

The article stated that “Would you hire a management accountant who won’t do numbers? Candidates who do no calculations are either scared to try, or know they’re incompetent. Either way, that’s not a good signal to give to someone whose job it is to determine whether you are fit to be called a chartered management accountant. Your calculations don’t have to be “correct”. They don’t even have to be very good. They do, however, have to be there”.

The T4 case writer agrees, of course, that candidates do need to prepare calculations. After all, how can you analyse the financial impact of the issues and advise the Board without the relevant financial analysis? Indeed, the preparation of a range of accurate supporting calculations is fundamental to the candidate’s analysis of the issues in the case. The financial analysis should also help candidates to prepare commercially sensible recommendations (which are worth 20 marks in Logic). However, the case writer disagrees with the comment that the calculations “don’t have to be correct or even very good”, as flawed calculations could lead to incorrect analysis and subsequently poor recommendations.

If the calculations prepared are “not very good” and contain errors and omissions, then these incorrect calculations could result in candidates accepting a proposal that is not financially sound, or rejecting a course of action which met the criteria for acceptance.

Supporting calculations are awarded marks in the criterion of Application but it should be remembered that the calculations are fundamental to help candidates to analyse the issues in the case (worth 20 marks in Judgement) and to prepare commercially sensible recommendations (worth another 20 marks in Logic – part (a)). Therefore, if the calculations are “not very good” it will severely impact on candidates’ ability to earn high marks in Judgement and Logic. These 3 criteria (Application, Judgement and Logic) carry over 50% of the total marks available. This demonstrates the importance of preparing sound supporting calculations as these should form the basis of the analysis and the justification of the chosen courses of action.

In summary, it is vitally important that a range of accurate supporting calculations are prepared in the T4 exam. This should demonstrate the candidate’s competence as a management accountant. Without reasonably sound calculations, how is the candidate going to convince the case writer and the marking team that he or she is competent?

Sin No. 2. Changing your mind

The article stated that “If you want to produce a report that earns high marks for Logic, do your plan, then execute your plan. Don’t change your mind partway through writing your report. If you have a “good idea”, forget you had it. If you think you’ve made a mistake, forget it. Write the report you planned to write, and it will have a better “storyline” and earn better marks for Logic”.

The T4 case writer disagrees with the comments “if you have a good idea, forget you had it” and “if you think you’ve made a mistake, forget it”. The case writer is fully aware of how time pressured the T4 exam is and the need to write a comprehensive report that meets all the needs of all 9 of the assessment criteria in a 3 hour exam time period. However, within that 3 hour period, as candidates write their reports, new ideas and better understanding will come into their minds. All new ideas and better understanding of the impact of the problem or new proposal in the case study should be welcomed and NOT ignored.

Whilst it is important to prepare an exam plan, there is a need to be flexible and adapt your answer to meet new ideas that you may gain whilst writing your report. The case writer is not suggesting that you totally change your mind and write recommendations on issues that you had not previously discussed, but candidates should never ignore a good idea.
The criterion of Logic (part (a)) rewards candidates for writing commercially sensible clear recommendations. To gain high marks, the recommendations for each issue should be clear, well justified, include the financial justifications, and also include the follow-on actions required to make the recommendations happen. However, a commercially poor recommendation, such as rejection of a sensible and financially sound proposal, will earn low marks.

The case writer would like to stress that marks are awarded based on the recommendations themselves and the justification for the recommendations. Whilst recommendations should follow on smoothly from the earlier analysis of the issues, there is always a need to utilise any good ideas that occur to candidates during the 3 hour exam period.

The case writer advises that candidates should include a note in their report stating that they are concerned that something, such as the result of their calculation for a particular issue, looks wrong. This would at least demonstrate that the candidate has identified that perhaps he or she has made a mistake. Therefore, if a candidate has made a mistake, then he or she should not forget about it.

Conclusion

In order to pass the case study exam there is a need to prepare a range of accurate supporting calculations to underpin the analysis of the issues in the case and to form a sound foundation for the recommendations.

In respect of the recommendations, candidates need to state clearly why particular recommendations are being made, the reasons for why each course of action has been chosen, together with clear action points for their implementation.

Candidates need to demonstrate to the case writer their competence as management accountants in order to pass the case study exam. Sound numerical calculations and well justified recommendations are two of the most important aspects to prove (or to disprove) whether they are competent to become a qualified management accountant.