

chapter

1

Introduction to the CGMA exam

Chapter learning objectives

- When you have completed this chapter, you will have an overview of the CGMA case study exam, its purpose, structure, marking and process involved.

1 Why a case study examination?

The CGMA exam is an integrated, comprehensive strategic case study that assesses the competencies required in today's business environment. The case study examination is an attempt to simulate workplace problem solving, and allows examiners to move one step closer to the assessment of competence than is possible with traditional objective test questions. It is a test of your professional competence.

The CGMA exam assesses

- your skills in areas such as research, synthesis, analysis and evaluation;
- your technical knowledge, and
- your skill in presenting and communicating information to users.

Because the examination tests a range of different skills, preparing for this examination needs to be different from studying for a 'traditional' examination. The purpose of this text is to suggest how you might prepare for the examination by developing and practising your skills.

2 Your role

The case study exam will be set within a simulated business context, placing the candidate in the job role matched to the competency level.

In the CGMA exam, the job role is that of a senior manager reporting to the CFO and interacting with other members of the senior management team within the organisation. Key elements of the case are likely to focus on the following:

- Advising top level management, as they set the strategy for the business.
- Analysing strategic options—the various courses of action the business can take—based on the organisation's environment and its current strategic position.
- Considering risks—they need to be identified, classified, evaluated and then managed and reported.
- Advising on where to source finance for the strategies.

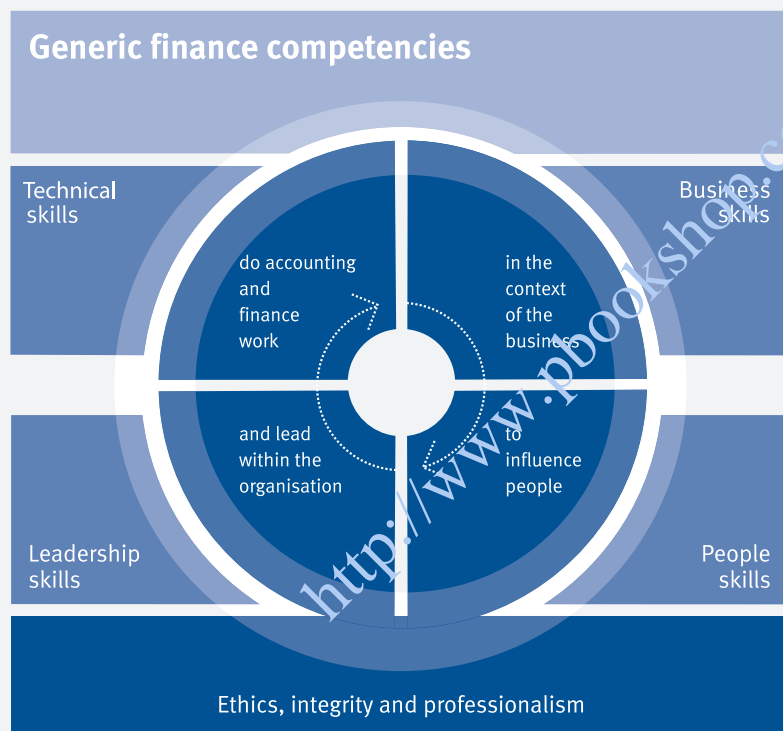
3 CGMA Competency Framework

AICPA and CIMA have developed the CGMA Competency Framework, which explains the skills finance professionals need in order to drive their organisation forward. This framework highlights the importance of not just accounting techniques but also wider business management skills. It also emphasises the need for complete integration of these many and varied skills. It is no longer sufficient for finance professionals to display only relevant technical ability.

The technical competencies are still important, but in addition, the accountant must have a good understanding of the organisation, its environment, and other relevant commercial knowledge. It is also important to possess the relevant people and leadership skills to ensure that technical and business knowledge is applied appropriately and effectively throughout the organisation.

The four generic competencies can be summarised as follows:

- Technical skills ('Apply accounting and finance skills')
- Business skills ('in the context of the business')
- People skills ('to influence people')
- Leadership skills ('and lead within the organisation')



For more on the CGMA Competency Framework, see www.cgma.org/competency-framework

The CGMA Competency Framework recognises that the relevance of each of these competence areas will depend on the level a professional has progressed to within the organisation. The importance of technical skills is very high at the foundational level but reduces as finance professionals advance in their careers. The importance of the other skills increases up to the advanced level and stays the same with business skills and people skills but increases with leadership skills.

The CGMA exam gives equal weight to each of the four areas of competency, reflecting the fact that in your role as a senior manager you need to balance a broad range of skills.

4 How the CGMA exam works

The CGMA exam is a computer-based examination lasting three hours. The case study exam is a series of sections that are comprised of scenarios and tasks that aim to integrate and apply competencies in all four knowledge areas of the competency framework.

The exam consists of:

- pre-seen material issued approximately seven weeks in advance of the exam day, supplemented by
- additional previously unseen material given to you in the exam room.

There will be several sections, comprising the following:

- Scenarios—information and updates regarding situations in which the company finds itself
- Tasks—work you will need to carry out based on the new situation

5 The pre-seen material

The pre-seen material is released approximately seven weeks before each CGMA exam. This material is approximately 15 exhibits that provide an extended overview about a business organisation. You will be taking on the role of a senior management accountant who works for the organisation, and your responses to the tasks will usually be addressed to your superior.

The pre-seen information for the CGMA practice exam (which concerns a retailer with a long history who has recently moved into on line retailing) is as follows:

- An introduction to the company, its history, strategy, products, market, structure and processes
- Industry analysis
- Risk factors
- Mission statement and strategy
- Directors biographies
- Financial statements for current and previous years—including notes to the accounts
- Corporate Social Responsibility Report
- Company press release
- Business news extract
- Competitor analysis

- Share price of two comparator companies
- Extracts of financial statements for two competitor companies

The purpose of giving you access to this information in advance of the exam is to enable you to prepare notes, analyse and become very familiar with the organisation(s) and industry described. Remember, you have the role of a senior manager within this organisation and so you should use the pre-seen material to gain the background knowledge of someone in this situation in real time.

Suggested approach to analysing the pre-seen information:

1. Detailed exhibit by exhibit analysis

As you review each exhibit, ask yourself questions about what each piece of information means and what the implications of it might be for the organisation. Try to consider why the examiner might have provided this information.

2. Technical analysis

Apply technical skills you have gained throughout your education and practical experience. Here are some suggestions of analyses you could perform:

- Ratio analysis of financial statements and financial plans
- Business strategy analysis, including generation of strategic options
- Management accounting analysis, including costing, pricing and performance measurement

It is important to bear in mind that this analysis will aid your understanding of the case study, but you should not be determined to include the analysis in your responses unless clearly relevant to the requirement.

3. Researching the industry involved

To ensure you have a good understanding of the context of the case, you could carry out some wider reading including researching the industry in which the organisation operates. For example, you could look at some of the real life key players and see what strategies they are adopting. Also consider key trends within the industry and the risks that have to be addressed. Finally, you could consider what impact the economic climate or broader business influences (such as the political or regulatory environments) may be having on the industry.

You should not aim to spend too much time on this research as the pre-seen should be sufficient for your understanding of the industry. However a general appreciation of the 'real-world' should help to ensure you give sensible, commercial responses.

4. Overall position analysis

Once you have completed all of the above, you should be able to stand back and see the bigger picture of the organisation within the case material. You should complete a position audit, including a SWOT (strengths, weaknesses, opportunities, threats) analysis so you have a clear understanding of where the organisation is and where it might want to go.

5. Identification of key issues

Using your SWOT analysis, you should now be able to identify a short list of key issues facing the organisation. An appreciation of these will assist you in understanding the issues introduced in the unseen material in the exam.

6 The unseen material

In the examination you will be provided with the following:

- An on-screen version of the pre-seen material
- Additional unseen material, which contains both scenarios (new information) and tasks (what you need to do).
- An on-screen calculator
- Space to complete your answers

The unseen material will be a continuation of the pre-seen and will usually bring the scenario up to date. The unseen may focus on a number of issues that appeared in the pre-seen or it may just focus on one or two; either way it will provide the basis for the content of your answers.

A common mistake made by weaker exam takers is that they place too much emphasis on their analysis of the pre-seen material and do not develop the information in the unseen material adequately. The key points you make in your answer should be driven by the new information and specific tasks in the unseen material.

7 Scenarios

Each section in the unseen material will begin with a brief 'announcement' of a situation or issue that has arisen and created the new scenario. This trigger will set the scene for the task, and provide an introduction to the work that you are required to complete.

The information may be in the form of a briefing by your superior, a newspaper article, some financial information or extracts from internal reports. You will be expected to integrate this new information with the analysis you have performed on the pre-seen material to produce a coherent and well informed response.

When you proceed to the screen on which you will type your response these new scenarios will be available as 'reference material' along with the pre-seen information.

Here is an example of a scenario from the practice exam:

e.g

Example scenario from practice exam

Scenario 1

Today is 16 May 2015. You are a senior manager advising Judith, the new group chief executive, on issues relating to shareholders. The current position is as follows:

Cast is a private company and so its shares are not freely traded. The company was established as a family business, but there are now 40 shareholders. There are no close family ties holding the shareholders together. Over the years the shares have changed hands because of inheritance. The present shareholders are not closely related.

The only significant shareholder is Arnold, who is the great grandson of the shopkeeper who founded the business. Arnold owns 30 per cent of Cast's shares.

Cast's constitution forbids the sale of shares to anyone other than an existing shareholder. That creates two problems. First of all, shareholders cannot liquidate any of their shareholding unless they can find a willing buyer amongst the other shareholders. There is a feeling that the few sales that have occurred have tended to be for less than the real value of the company's shares. Secondly, there is a tax charge when shares change hands because of inheritance. This requires a fair value to be negotiated with the tax authorities and that has created significant problems over the past few years.

Several shareholders believe that Judith's appointment is an ideal time for Cast to seek a stock market quotation. The company is large enough to be in the top 250 companies in its national stock exchange in the event that it is quoted. These shareholders have written to the company with a formal request that the directors begin the process of seeking a quotation. Arnold is aware of this request and has spoken to Judith to express his reluctance to see the company seek a quotation.

Judith has asked you to step into her office to discuss something important.

8 Tasks

Within each section of the examination, in amongst the scene setting information, there will be a task or tasks that someone, usually your superior, will ask you to perform.

These tasks will require different types of response, although usually reports and emails. If the task does not specify the form of response then this will usually mean that an email response is sufficient.

There is a time limit attached to each task and an onscreen timer will show you the time remaining for the task you are working on. Once you have submitted a task (or the time limit is reached, whichever is sooner) **you will not be able to return to that task**. If you still have time remaining you will be prompted to confirm you wish to move on to the next task before the previous task is completed and locked. This should reduce the problem of not completing the paper but does mean you will need to be disciplined when attempting each task.

The practice exam comprises tasks for preparing the following:

- A briefing note covering the analysis of stakeholders affected by a business decision
- A briefing note suggesting a strategy for dealing with major shareholders
- A paper discussing the suitability of a range of company valuation models
- A paper covering the governance issues associated with company floatation
- A paper covering the ethical implications for the company in relation to its employment practices
- A paper covering the implications of the resistance of a major shareholder and the employment practices for a share issue price

Here is an example of a task from the practice exam:

e.g

Example task from the practice exam

Task 1a

Judith hands you a copy of a letter which can be accessed in the reference material above.

Reference material—letter

To the board of Cast,

We write as the owners of more than 40 per cent of Cast's equity.

Our company has had a long and distinguished history. It had humble beginnings, but through hard work and imaginative management it has grown from a single shop to one of the country's leading retailers.

In the past, we have prided ourselves on being one of the country's largest unquoted companies. We have valued our independence and the freedom to take decisions without being held accountable to a widespread and transient body of market participants. Unfortunately, we no longer feel that the advantages of our unquoted status outweigh the disadvantages. We believe that Cast cannot expand unless we seek a stock market quotation.

We urge the board to commence the process of registering the company with the stock exchange. Clearly, this will be a challenging and expensive process. We believe that the costs will be more than compensated by the benefits.

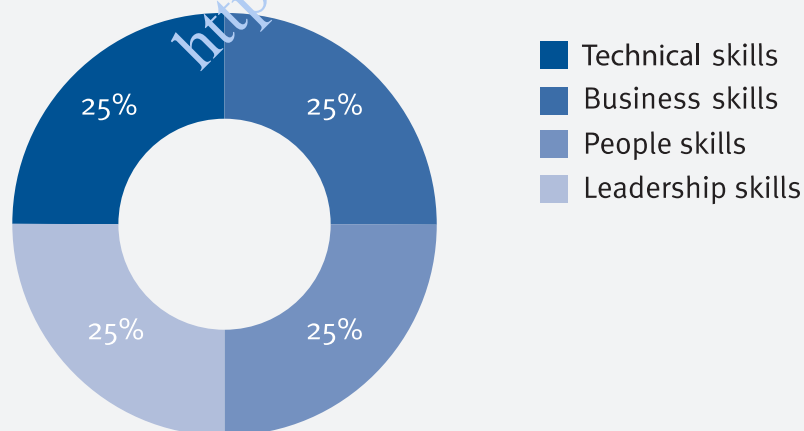
Yours sincerely,

Simon and eight other shareholders.

9 Marking the CGMA exam

The CGMA exam will be marked against the competencies summarised in section 2 of this chapter.

For the strategic level the weightings applied to these competencies are shown in the following diagram:



- Technical skills—25%
- Business skills—25%
- People skills—25%
- Leadership skills—25%

The following two chapters will explain further how these competencies relate to the specific areas of management accounting knowledge tested in the CGMA exam and will also show the importance of integrating your knowledge where possible and appropriate. You can also see in chapter 11 how the competencies are applied in the marking of the practice exam.

10 Summary

You should now have a basic understanding of how the case study exam works. All of the ideas presented in this chapter will be explored further in the remainder of this course.

Next Steps

1. It is a good idea to register for the free practice exam. Practicing with this exam will help you gain familiarity with the key features, format, and types of questions that will be asked on the case study exam. All the relevant materials from the practice exam have been reproduced in this textbook, but it is important to recognise that the CGMA exam is a dynamic assessment, and very different from traditional exam formats.

For more information and to register, see www.cgma.org/exam.