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Question 1

Question Type: MultipleChoice

Why should the buying organisation require the supplier to carry out acceptance testing?

Options:

A- To get the approval from the senior management

B- To check whether the product matches the specification

C- To compare between the account payables and account receivables

D- To see whether the supplier engages in unethical business practice

Answer:

B

Explanation:

Acceptance testing, in the context of the engineering and software industries, is a functional trial performed on a product or prototype before it is put on the market or delivered, to decide whether the specifications or contract have been met. It also makes sure the quality and design of the product meet both contractual and regulatory obligations in terms of functionality, usability, durability, and safety.

If a product is found to be unacceptable at this stage, it can be sent back for modification, debug-ging, repair, or re-design before it can become a costly undertaking for the producer, as would be the case in a product recall.

- CIPS study guide page 134-135

- Acceptance Testing (investopedia.com)

LO 3, AC 3.2

Question 2

Question Type: MultipleChoice

When a procurement manager considers a substitution, the number and nature of additional func-tions that substitute provides should be taken into account carefully. Which of the following ratio could help the procurement manager to make the right decision?

Options:

A- Value to price ratio

B- Price to Earnings ratio

C- Reserve requirement ratio

D- Price to book value ratio

Answer:

A

Explanation:

One product substitutes for another if it offers buyers an inducement to switch that exceeds the cost or overcomes the resistance to doing so. A substitute offers an inducement to switch if the substitute provides the buyer with more value relative to its price than the product currently being used. There is always some cost of switching to a substitute because of the disruption and potential reconfiguration of buyer activities that must result, however. The threat of a substitute will vary depending on the size of the inducement relative to the required switching costs.

In addition to relative value to price and switching cost, the pattern of substitution is influenced by what I term the buyer's propensity to switch. Faced with equivalent economic inducements for substitution, different buyers will often evaluate substitution differently. The threat of substitution, then, is a function of three factors:

* The relative value/ price of a substitute compared to an industry's product

* The cost of switching to the substitute

* The buyer's propensity to switch

Porter, Michael E.. Competitive Advantage: Creating and Sustaining Superior Performance (p. 278). Free Press. Kindle Edition.

The price-to-book ratio compares a company's market value to its book value. The market value of a company is its share price multiplied by the number of outstanding shares. The book value is the net assets of a company.

The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

The reserve ratio is the portion of reservable liabilities that commercial banks must hold onto, rather than lend out or invest. This is a requirement determined by the country's central bank, which in the United States is the Federal Reserve. It is also known as the cash reserve ratio.

LO 2, AC 2.2

Question 3

Question Type: MultipleChoice

To strengthen its market presence, ABC Group decided to develop a new product. A cross-functional team was formed to discuss the scope and the functions of the product. They will also survey the potential customers to see what they like, what they love, and what they dislike. What is this process called?

Options:

A- Value analysis

B- Cash flow analysis

C- Product standardisation

D- Value engineering

Answer:

D

Explanation:

As you can see from the scenario, ABC Group is developing the new product. It might be using value engineering. The latter sentences confirm this: the cross-functional team in ABC is mapping the functions and surveying the customers. Their method is known as Kano model.

LO 3, AC 3.4

Question 4

Question Type: MultipleChoice

Which of the following problems may be identified as closed problems? Select TWO that apply:

Options:

A- A cyber attack takes down whole company's IT system

B- Shortage of key medicines in healthcare industry

C- There are not enough data for procurement analytics

D- Logistics costs incur a large portion in wholesale prices

E- The suppliers don't comply with the company's policy on underage labour.

Answer:

A, B

Explanation:

Closed problem is something happens that should not have happened. To solve this type of prob-lem, procurement professional should find a way to correct the situation or try to adapt to it. On the other hand, open ended problem is a obstacle to your short-term objective. You will need to overcome this obstacle.

Shortage of key medicines is a situation in which procurement must find a substitution or try to save the current stock.

In case of cyber attack, procurement should find a way to recover the IT system as soon as possible.

Otherwise, 'There are not enough data for procurement analytics' is an open-ended problem be-cause it prevents company to conduct procurement analytics (an objective).

'Logistics costs incur a large portion in wholesale prices': In this situation, logistics costs are hur-dles that prevent companies to reach lower wholesale.

'The suppliers don't comply with the company's policy on underage labour': In this situation, pro-curement should seek ways to help supplier comply with the company's labour policy.

LO 1, AC 1.1

Question 5

Question Type: **MultipleChoice**

Which of the following may allow suppliers free to choose the materials, manufacturing process or delivery process?

Options:

A- Performance specification

B- Design specification

C- Technical specifications

D- Conformance specification

Answer:

A

Explanation:

The Performance Specifications define what the system being designed must do, and not how it must do it. In this step a list of needs and wants should be created. The needs are customer requirements, while the wants are engineering desires. If a buyer adopts performance specification, the supplier will be free to choose how to make and deliver the product.

A technical specification document outlines how you're going to address a technical problem by designing and building a solution for it.

A design specification is a detailed document providing a list of points regarding a product or pro-cess. For example, the design specification could include required dimensions, environmental fac-tors, ergonomic factors, aesthetic factors, maintenance that will be needed, etc. It may also give specific examples of how the design should be executed, helping others work properly (a guideline for what the person should do).

With conformance specification the buyer says what they want and how they want it and the supplier has to meet this

LO3, AC 3.1

Question 6

Question Type: **MultipleChoice**

Which of the following can cause overhead variance? Select TWO that apply:

Options:

A- Rising production worker's wage rate per hour

B- Decrease in production volume

C- Spike in material price

D- Decreasing packaging costs

E- Spike in monthly leasing fee

Answer:

B, E

Explanation:

Overhead variances arise when the actual overhead costs incurred differ from the expected amounts. Managers want to understand the reasons for these differences, and so should consider computing one or more of the overhead variances described below. Each of these variances applies to a different aspect of overhead expenditures. It is not necessary to calculate these variances when a manager cannot influence their outcome.

Fixed Overhead Spending Variance

The fixed overhead spending variance is the difference between the actual fixed overhead expense incurred and the budgeted fixed overhead expense. An unfavorable variance means that actual fixed overhead expenses were greater than anticipated. The formula for this variance is:

Actual fixed overhead - Budgeted fixed overhead = Fixed overhead spending variance

The amount of expense related to fixed overhead should (as the name implies) be relatively fixed, and so the fixed overhead spending variance should not theoretically vary much from the budget.

Fixed Overhead Volume Variance

The fixed overhead volume variance is the difference between the amount of fixed overhead actually applied to produced goods based on production volume, and the amount that was budgeted to be applied to produced goods. For example, a company budgets for the allocation of $25,000 of fixed overhead costs to produced goods at the rate of $50 per unit produced, with the expectation that 500 units will be produced. However, the actual number of units produced is 600, so a total of $30,000 of fixed overhead costs are allocated. This creates a fixed overhead volume variance of $5,000.

Variable Overhead Efficiency Variance

The variable overhead efficiency variance is the difference between the actual and budgeted hours worked, which are then applied to the standard variable overhead rate per hour. The formula is:

Standard overhead rate x (Actual hours - Standard hours)

= Variable overhead efficiency variance

A favorable variance means that the actual hours worked were less than the budgeted hours, resulting in the application of the standard overhead rate across fewer hours, resulting in less expense being incurred. However, a favorable variance does not necessarily mean that a company has incurred less actual overhead, it simply means that there was an improvement in the allocation base what was used to apply overhead.

Variable Overhead Spending Variance

The variable overhead spending variance is the difference between the actual and budgeted rates of spending on variable overhead. The variance is used to focus attention on those overhead costs that vary from expectations. The formula is:

Actual hours worked x (Actual overhead rate - standard overhead rate)

= Variable overhead spending variance

A favorable variance means that the actual variable overhead expenses incurred per labor hour were less than expected.

In the study guide, CIPS splits overhead variance into volume and expenditure variance. They can be understood as variable and fixed overhead variance respectively.

- CIPS study guide page 59

- What are overhead variances? --- AccountingTools

LO 1, AC 1.4

Question 7

Question Type: **MultipleChoice**

Total cost of ownership of a solar panel is $5,000 and it is expected that the panel will make a sav-ing of $1,000 each year. So it would take 5 years for the benefits to repay the investment. Therefore, the firm plans to keep the solar panel for at least 5 years. Is payback period calculation right for making the business decision?

Options:

A- Yes, because it takes everything into account

B- No, because payback period can be only used to calculate the depreciation of a fixed asset

C- No, because payback period doesn't take into account price fluctuations

D- Yes, because payback period shows how long the firm recovers the investment

Answer:

D

Explanation:

There are many factors that need to be considered when making a business decision. Costs and benefits are among those factor. To estimate the length of time in which an investment reaches a break-even point, businesses often use the payback period. The payback period refers to the amount of time it takes to recover the cost of an investment.

'Yes, because it takes everything into account': It ignores the time value of money (TVM), unlike other methods of capital budgeting such as net present value (NPV), internal rate of return (IRR), and discounted cash flow.

'No, because payback period doesn't take into account price fluctuations': Though it doesn't take into account price fluctuation, payback period is still useful in financial and capital budgeting.

'No, because payback period can be only used to calculate the depreciation of a fixed asset': Payback period only calculates the length of time in which the benefits of a charge repay its costs.

LO 1, AC 1.3

Question 8

Question Type: MultipleChoice

Which of the following might be consequences of over-specification? Select TWO that apply:

Options:

A- Reducing motion waste

B- Higher cost due to inessential features

C- Limiting competition in supply market

D- Lack of essential features

E- Better contract management

Answer:

B, D

Explanation:

Over-specification can cause problems to buying organisation, include the following:

- Higher expense due to unnecessary features embedded into the product

- Stifle competition because higher requirements will lead to fewer suppliers in the market are able to supply

- Harder to evaluate the trade-offs between different features and attributes in the specification

LO 3, AC 3.3

Question 9

Question Type: MultipleChoice

XYZ Ltd is a large supermarket chain which operates mainly in the UK and Europe. Their custom-ers are increasingly concerned about sustainability. Therefore, procurement manager is required to source the products from suppliers who have good environmental performance. Which of the fol-lowing can be an assurance that the supplier has procedures and policies to enhance its environmental performance?

Options:

A- ISO 14001:2015 certificate

B- ISO 13485:2016 certificate

C- ISO 22716:2007 certificate

D- ISO 9001:2015 certificate

Answer:

A

Explanation:

ISO 9001:2015 specifies requirements for a quality management system.

ISO 14001:2015 specifies the requirements for an environmental management system that an or-ganization can use to enhance its environmental performance. ISO 14001:2015 is intended for use by an organization seeking to manage its environmental responsibilities in a systematic manner that contributes to the environmental pillar of sustainability.

ISO 22716:2007 gives guidelines for the production, control, storage and shipment of cosmetic products. These guidelines cover the quality aspects of the product, but as a whole do not cover safety aspects for the personnel engaged in the plant, nor do they cover aspects of protection of the environment.

ISO 13485:2016 specifies requirements for a quality management system where an organization needs to demonstrate its ability to provide medical devices and related services that consistently meet customer and applicable regulatory requirements.

LO 3, AC 3.1