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Question 1

Question Type: MultipleChoice

In which of the following conditions, request for quotation produces the best results?

Options:

- A- With an ambiguous specification
- B- Under framework agreements
- C- Under a complex process
- D- With strategic items

Answer:

B

Explanation:

Request for quotation has valuable function when its use is properly controlled. It works the best under framework agreements where the contract terms are already fixed.

Question 2

Question Type: MultipleChoice

A procurement manager is preparing a long-term contract with a major supplier. She decides to use the variable pricing arrangement using price indices. The payment terms describe the circumstances and mechanism where the price is allowed to change. In order to successfully manage this type of contract, the buying organisation should have...?

Options:

- A- Good market knowledge
- B- Selection of base year
- C- Value for money
- D- Economy of scale

Answer:

A

Explanation:

There are several approaches to price adjustment for long-term contract. Describing circumstances and mechanism is one of them. Although this approach has some limitations, it is the best option. It relies on good market knowledge but provides the most equitable approach to satisfying the needs of the purchaser and the supplier.

LO 3, AC 3.3

Question 3

Question Type: MultipleChoice

Express terms in a contract are stated in which of the following? Select TWO that apply

Options:

A- Orality

B- Idea

C- Trade customs

D- Writing form

E- Statutes

Answer:

A, D

Explanation:

Express terms are the terms of the agreement which are expressly agreed between the parties. Ideally, they will be written down in a contract between the parties but where the contract is agreed verbally, they will be the terms discussed and agreed between the parties.

Implied terms are terms implied into the contract by the courts. They are not expressly set out in the contract but are taken to be as effective as if they were and as if they had been included from day one of the contract. The express terms and any implied terms together create the legally binding obligations on the parties.

- Contracts: Express and Implied Terms

- CIPS study guide page 126-132

LO 3, AC 3.1

Question 4

Question Type: MultipleChoice

Which of the following are reasons why a buying organisation adopts a model contract?

1. Extremely advantageous terms for buyer
2. Correct legal terminology
3. Supplier cannot make variation to the model form
4. Specific to industry

Options:

- A-** 1 and 2 only
- B-** 2 and 4 only
- C-** 2 and 3 only
- D-** 1 and 4 only

Answer:

B

Explanation:

Advantages for the use of model forms of contract include:

- * Helps to reduce the time and cost in contract development, particularly in detailed negotiation of terms and conditions.
- * Avoids starting from the beginning each time, avoids "re-inventing the wheel" each time.
- * Model contract forms may be widely accepted by both buyers and sellers across the industry or sector.
- * Model contract forms are even handed and designed to be fair to both parties in the contract.
- * Model contract forms include standard clauses that can be selected or deleted on an as required basis.
- * Model contract form's standard clauses are more likely to contain the correct legal terminology without recourse to third party experts.

Disadvantages of this type of contract include:

- * Terms may be less advantageous, than may be achieved through negotiations, particularly where there is one party who is much stronger than the other.
- * The generic contract may be difficult to adapt to the specific circumstances between two parties.
- * Terms may not necessarily include special clauses or requirements to cover a particular or unusual situation.
- * Legal advice and input may still be required, particularly where significant variations to the norm are required.
- * There may be costs associated with training staff in the detailed application of the model forms of contract.

- D5 Sample QUESTION and answer

- CIPS study guide page 147

LO 3, AC 3.1

Question 5

Question Type: MultipleChoice

Which of the following contracts would be best suited to a 'variable pricing' arrangement?

Options:

- A-** A contract for window cleaning during the next three months
- B-** A contract for road building estimated to take five years to complete
- C-** A contract for the supply of 100 printing machines to be delivered next month
- D-** A contract for the supply of lubricating oil for immediate delivery

Answer:

B

Explanation:

Variable pricing is suitable to situations when the cost of certain elements of the product fluctuate unpredictably. For road building, asphalt fluctuates regularly. Furthermore, 5 years are long period, then variable pricing is the most appropriate method to achieve value for money and control budget.

A contract for window cleaning during the next three months is a short-term service contract, fixed price is the most suitable method.

A contract for the supply of lubricating oil for immediate delivery is an one-off contract, only fixed price is applicable.

A contract for the supply of 100 printing machines to be delivered next month is also an one-off contract.

LO 3, AC 3.3

Question 6

Question Type: MultipleChoice

Which of the following are driving forces for increasing use of social and environmental criteria in specifications? Select TWO that apply.,

Options:

- A- Process efficiencies
- B- Stakeholder pressure
- C- Insufficient financial resources
- D- Scarcity of environmentally sustainable suppliers
- E- Carbon footprint measure

Answer:

A, B

Explanation:

Reasons for including social and environmental criteria may include the following:

- Expected Cost Savings and Financial Motives
- Management Support and Commitment
- Employees
- Altruistic Values

- Power Imbalances along the supply chain
- Image and Reputation
- Government Regulations
- Customers
- Competitors

Management, employees, government, customers and competitors are among the stakeholders that make pressures to the organisation on social and environmental criteria.

- Drivers and Barriers to the Adoption of Sustainable Procurement in SMEs
- CIPS study guide page 95-96

LO 2, AC 2.1

Question 7

Question Type: MultipleChoice

Which of the following regulates barriers to the provision of services between countries?

Options:

A- CISG

B- GATS

C- ADA

D- Incoterms

Answer:

B

Explanation:

- The General Agreement on Trade in Services (GATS) is a treaty of the World Trade Organization (WTO) that entered into force in January 1995 as a result of the Uruguay Round negotiations. The treaty was created to extend the multilateral trading system to service sector, in the same way the General Agreement on Tariffs and Trade (GATT) provides such a system for merchandise trade.
- CISG is the Vienna Convention on Contracts for the International Sale of Goods. This is a voluntary treaty under United Nations Commission on International Trade Law (UNCITRAL). The purpose of the Vienna Convention is to set out a framework for international transactions based on a uniform approach. It establishes substantive rules that regulate the duties and obligations of both parties, including the delivery of goods, contract formation, and remedies for breach of contract.
- The Incoterms or International Commercial Terms are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) relating to international commercial law. They are widely used in international commercial transactions or

procurement processes and their use is encouraged by trade councils, courts and international lawyers. A series of three-letter trade terms related to common contractual sales practices, the Incoterms rules are intended primarily to clearly communicate the tasks, costs, and risks associated with the global or international transportation and delivery of goods. Incoterms inform sales contracts defining respective obligations, costs, and risks involved in the delivery of goods from the seller to the buyer, but they do not themselves conclude a contract, determine the price payable, currency or credit terms, govern contract law or define where title to goods transfers.

- ADA is Anti-Dumping Agreement (Implementation of Article VI of the GATT).

LO 1, AC 1.3

Question 8

Question Type: MultipleChoice

Which of the following is always automatically considered as a contract?

Options:

A- Call-off

B- Framework arrangement

C- Performance management framework

D- Framework agreement

Answer:

A

Explanation:

- A call off or a term contract is one which exists for a fixed period of time, rather than for a specific purpose
- A formal framework agreement does have some legal standing but it is not a contract, primarily because there is no consideration involved, but it is an overarching (or umbrella) agreement under which contracts can be created (this holds true in English law but may not be right in other jurisdiction)
- A framework arrangement is a rather loose set-up, without any legal standing. It usually occurs when an organisation has decided for itself to limit the number of suppliers it is willing to work with and, through a purely internal process, sets up an approved list of such suppliers.
- A performance management framework including KPIs and targets, the assessment scheme and incentives, disincentives, bonuses and penalties. It is a schedule to a contract and only legally binding if it is referred from contract clauses.

LO 1, AC 1.3

Question 9

Question Type: MultipleChoice

Under hire purchase agreement, when will the ownership of asset legally belong to the purchaser?

Options:

- A- When the final instalment is paid
- B- When the purchaser takes possession of the asset
- C- When the down payment is made
- D- When the agreement is signed

Answer:

A

Explanation:

Hire purchase is an arrangement for buying expensive consumer goods, where the buyer makes an initial down payment and pays the balance plus interest in installments. Ownership is not transferred until the end of the agreement, hire purchase plans offer more

protection to the vendor than other sales or leasing methods for unsecured items. That's because the items can be repossessed more easily should the buyer be unable to keep up with the repayments.

The answer is 'When the final instalment is paid'.

- Hire Purchase Agreements

- CIPS study guide page 70

LO 1, AC 1.3

Question 10

Question Type: MultipleChoice

Company A buys a lorry from Company B on hire purchase. During the contractual period, Company A makes default in paying the instalment. Company B has...?

Options:

A- The right to take repossession of the lorry

- B-** The option to repossess the lorry
- C-** No right to take repossession
- D-** Company B has to approach the court

Answer:

A

Explanation:

Hire purchase is an arrangement for buying expensive consumer goods, where the buyer makes an initial down payment and pays the balance plus interest in installments. Ownership is not transferred until the end of the agreement, hire purchase plans offer more protection to the vendor than other sales or leasing methods for unsecured items. That's because the items can be repossessed more easily should the buyer be unable to keep up with the repayments.

The answer is that Company B has the right to take repossession of the lorry.

- Hire Purchase Agreements

- CIPS study guide page 70

LO 1, AC 1.3

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