[UPDATED 2023 Free CIPS L4M2 Exam Questions Self-Assess Preparation [Q10-Q31

[UPDATED 2023] Free CIPS L4M2 Exam Questions Self-Assess Preparation
L4M2 Free Sample Questions to Practice One Year Update

Preparing for the L4M2 exam requires a significant amount of study and practice. CIPS offers a variety of study materials, including textbooks, e-learning modules, and practice exams. Candidates should also seek out opportunities to gain practical experience in procurement and supply chain management, as this will help them to better understand the concepts covered in the exam.

CIPS L4M2 (Defining Business Needs) Exam is a certification exam designed for procurement and supply chain professionals who are seeking to enhance their knowledge and skills in defining business needs. L4M2 exam is part of the Chartered Institute of Procurement and Supply (CIPS) Level 4 Diploma in Procurement and Supply program, which is a globally recognized qualification for procurement professionals. L4M2 exam covers various topics, such as understanding business requirements, identifying stakeholders, and developing a business case, among others.

NEW QUESTION 10

Which of the following factors might prompt an organisation to procure an alternative product? Select THREE that apply:
* Brand loyalty
* Relative value to money between options
* Buying organisation’s propensities to change
* Easy access to distribution channel
* Threat of retaliation
* Switching cost

According to Michael Porter, the threat of substitution, 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.)
Reference:

LO 2, AC 2.2

NEW QUESTION 11

Which of the following agencies can produce a technical standard?
* House of Lords
* Marketing department
* BSI
* Department of State

Technical standards are often produced by a national or international body such as British Standard Institute (BSI) LO 3, AC 3.1

NEW QUESTION 12

Daytona Ltd is developing a new product which is more environmental friendly. Though the objectives are set, the project team has no idea on which functions will be customers’ favourites. Which of the following will help them decide the ‘should-have’ functions of the new product?
* Kano model
* Taguchi method
* Thomas-Kilmann model
* Six Sigma

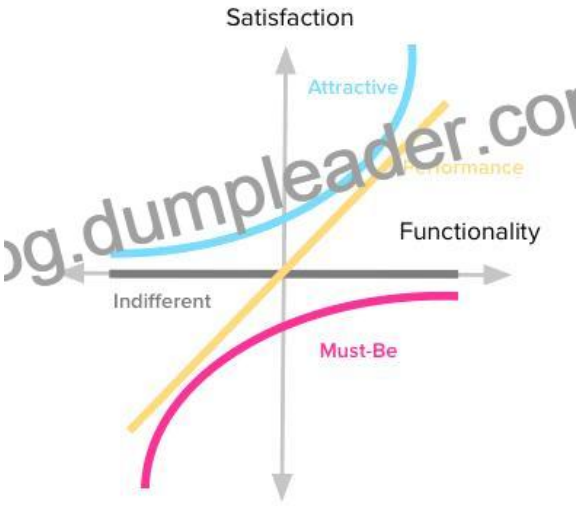
The Kano model is useful in gaining a thorough understanding of a customer’s needs. You can translate and transform the resulting verbatims using the voice of the customer table that, subse-quently, becomes an excellent input as the whatsin a quality function deployment (QFD) House of Quality.

The model involves two dimensions:

Achievement (the horizontal axis), which goes from the supplier didn’t do it at all to the supplier did it very well.

Satisfaction (the vertical axis), which goes from total dissatisfaction with the product or service to total satisfaction with the product or service.

Dr. Noriaki Kano isolated and identified three levels of customer expectations: that is, what it takes to positively impact customer satisfaction. The figure below portrays the three levels of need: expected, normal, and exciting.



The Thomas-Kilmann Conflict Mode Instrument (TKI) is a conflict style inventory, which is a tool developed to measure an individual’s response to conflict situations.

Genichi Taguchi, a Japanese engineer, proposed several approaches to experimental designs that are sometimes called “Taguchi Methods.” These methods utilize two-, three-, and mixed-level fractional factorial designs. Large screening designs seem to be particularly favored by Taguchi adherents.

Six Sigma is a method that provides organizations tools to improve the capability of their business processes. This increase in performance and decrease in process variation helps lead to defect re-duction and improvement in profits, employee morale, and quality of products or services.

Source:

– CIPS study guide page 171-172

– WHAT IS THE KANO MODEL?

LO 3, AC 3.4

NEW QUESTION 13

Which of the following specific markets is most likely to have the lowest entry barrier?
* Retail
* Manufacturing
* Financial
* Agriculture
* Services

Start-up costs are generally low in service industries, and the main requirement is a level of knowledge and skill in that particular

service.

LO 2, AC 2.1

NEW QUESTION 14

Which of the following are the fair and reasonable comparators in price analysis? Select TWO that apply:
* Pricing formula
* Price indices
* Strike price
* Cost driver
* Competitive bidding
Price Analysis is the process of deciding if the asking price for a product or service is fair and rea-sonable, without examining the specific cost and profit calculations the vendor used in arriving at the price. It is basically a process of comparing the price with known indicators of reasonableness. When adequate price competition does not exist, some other form of analysis is required. Some reasons that could affect adequate price competition are: specifications are not definitive, tolerances are restrictive, or production capacity limits those eligible to bid.

Examples of other forms of price analysis information include:

* Analysis of previous prices paid

* Comparison of vendor’s price with the in-house estimate

* Comparison of quotations or published price lists from multiple vendors

* Comparisons with government agencies (such as GSA in the US) published prices A strike price is the set price at which a derivative contract can be bought or sold when it is exercised. For call options, the strike price is where the security can be bought by the option holder; for put options, the strike price is the price at which the security can be sold. Strike price is also known as the exercise price.

A cost driver is the direct cause of a cost and its effect is on the total cost incurred. For example, if you are to determine the amount of electricity consumed in a particular period, the number of units consumed determines the total bill for electricity. In such a scenario, the number of units of electricity consumed is a cost driver.

Reference:

LO 1, AC 1.2

NEW QUESTION 15

Sabic is a petrochemical manufacturer. It wants to digitalise its operation and is looking for new IT system. The procurement manager approaches this matter with a through-life specification. He supposes that stating “good quality” in the specification will be enough for quality standard section. Is the procurement manager’s thought appropriate?
* Yes, because the specification should be concise.
* No, because “good quality” is an in-house jargon that suppliers are not familiar with
* Yes, because IT sector has its own standard of quality, therefore, suppliers may deliver good quality without any further
Explanation:
* No, because “good quality” is very ambiguous for suppliers to identify Sabic’s re-quirement
Specifications for through-life contracts must be clear. They should use precise technical language and avoid any ambiguity as much

as possible. In most cases, ‘good quality’ is ambiguous. The con-tractor doesn’t know exactly which product the buying organisation needs and how to supply that product.

Other notices for description of requirement are:

– Short and simply description

– Clear definitions at the beginning of the documents

– Clarify abbreviations (if any), but abbreviations should be avoided as much as possible

– Avoid any ‘slang’

– Use imperative forms of language whenever possible.

LO 3, AC 3.2

NEW QUESTION 16

What does the acronym RAQSCI stand for?
* Relationship, Ability, Quality, Service, Cost, Innovation
* Regulatory, Availability, Quality, Service, Cost, Innovation
* Regulatory, Availability, Quantity, Sustainability, Inventory
* Regulatory, Ability, Quality, Service, Cost, Inventory
* Relationship, Availability, Quantity, Sustainability, Cost, Innovation

RAQSCI stands for Regulatory, Availability, Quality, Service, Cost, Innovation.

LO 1, AC 1.1

NEW QUESTION 17

To improve the productivity, Plantation Ltd is planning to purchase a tractor, which it has never bought before. The project must be quick to catch up with the next growing season. Leanne, a jun-ior procurement staff at the company, assumes that she could skip market analysis stage to save time. Is this assumption reasonable?
* No, the company assesses supplier’s performance solely based on market analysis
* Yes, Leanne just needs to purchase the tractor from her friend’s company
* No, market analysis will inform the company of the pricing as well as latest technology trends
* Yes, the company has extensive experience in purchasing tractor

Market analysis is a stage in CIPS Procurement and Supply Cycle. This stage informs the purchaser about the number of suppliers, the average pricing, and product trends. Even urgent purchase should undergo market analysis. Without undertaking this stage, the buying organisation may not purchase the right product, or they may purchase at higher price.

Reference:

LO 2, AC 2.1

NEW QUESTION 18

Company A sells a product for $100. The total unit variable costs are $60. Fixed costs as in its ac-count are $20,000. How many products does the company have to sell to achieve break-even point?

* 600
* 550
* 400
* 500

Break even point = Fixed costs/(Price-variable cost). In this case, break even point = 20,000/(100-60) = 500 Reference:

LO 1, AC 1.2

NEW QUESTION 19

Buyers are more powerful than the supplier when they are purchasing from monopoly market. Is this statement true?

* False, the buyer will be unable to track and manage supplier’s performance
* False, buyer will lack negotiating power on cost if the supplier has a monopoly in the market
* True, suppliers in monopoly market produce homogenous products
* True, in monopoly market, buyer’s switching costs from the incumbent supplier to an-other are relatively low

A monopoly is a market with a single seller (called the monopolist) but with many buyers. In this market, the bargaining power of supplier is higher than of buyer since the supplier is the only seller.

Reference:

– CIPS study guide page 88-92

– Bargaining Power of Suppliers – Factors that Give Suppliers Power (corporatefinanceinsti-tute.com)

– Monopoly – Understanding How Monopolies Impact Markets (corporatefinanceinstitute.com) LO 2, AC 2.2

NEW QUESTION 20

This is the information on an organisation’s activities over the past year

* Sale were $5,000,000. The value of accounts receivable was $450,000 at the start of the year and $525,000 at the end of the year

* The value of direct costs was $2,500,000 and 75% of this was bought on credit

* Indirect costs were $3,000,000 and 25% of this was bought on credit

* During the year the organization spent $1,500,000 on new assets and sold $150,000 of old assets. $1,000,000 of the spend on assets was funded by a bank loan

* The organization declared a dividend of $200,000 at the end of the year but this was not paid for another two months

* Opening balance was $175,000

Which of the following is the bank balance of that organization at the end of the year?

* $1,675,000
* $1,875,000
* $1,700,000
* $2,025,000

In this question, you should understand the concept of cash flow and formula of cash flow. Cash flow calculates the physical money moving in and out a company’s bank balance. The cash flow from sale activity is:

cash flow from sale = account receivable at beginning of the year + revenue – account receivable at the end of the year = $450,000 + $5,000,000 – $525,000 = $4,925,000

75% of direct costs was bought by credit, therefore, the company spent 25% on direct cost: -$2,500,000*25/100 = -$625,000

25% of indirect costs was bought on credit. Cash flow out on indirect costs is: -$3,000,000*75/100 = -$2,250,000 Company spent $1,500,000 on new assets funded by a loan of $1,000,000. Cash flow out from this activity is -$500,000 Company received $150,000 from selling old assets Dividends have not been paid for another 2 months, thus, they are not accounted as cash flow out.

The bank balance at the end of the year is: $175,000 + $4,925,000 – $625,000 – $2,250,000 – $500,000 + $150,000 = $1,875,000 LO 1, AC 1.4

NEW QUESTION 21

Which type of specification is less time-consuming to develop?
* Outcome-based specification
* Design specification
* Conformance specification
* Technical drawings

There are two major types of specification: conformance and performance specifications. They have the following characteristics:

Performance specification	Conformance specification
· Focus on outputs · Sets out result to be achieved · Supplier produces using its own technology and knowhow · When issue arises, supplier is legally liable	· Focus on inputs · Buyer proves specific methods, processes, material properties, brand etc · Supplier produces strictly according to the specification prescribed by the buyer · When issue arises, buyer is legally liable

Since performance specification is often a list of outputs or outcomes, it usually takes less time to develop than conformance specification.

NEW QUESTION 22

Which of the following might be consequences of over-specification? Select TWO that apply:
* Reducing motion waste
* Higher cost due to inessential features
* Limiting competition in supply market
* Lack of essential features
* Better contract management

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 Reference:

LO 3, AC 3.3

NEW QUESTION 23

Which of the following may allow suppliers free to choose the materials, manufacturing process or delivery process?
* Performance specification
* Design specification
* Technical specifications
* Conformance specification

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 Reference:

LO3, AC 3.1

NEW QUESTION 24

Interserve is a construction contractor in UK. When receiving a huge and complex project, Inter-serve’s procurement manager assesses the risks by quantifying them and recommends other stake-holders to plan mitigating actions. Is the procurement manager’s action justified?
* No, because no risks can be quantified, therefore the procurement manager’s action is impossible.
* Yes, because procurement manager needs to assess the risks to prioritise and mitigate any potential risks
* Yes, because all the risks should be quantified and eliminated completely before they happen
* No, because embedding the risk into pricing will decrease the company’s competitiveness

Assessing the risks by quantifying them should be done. Even with qualitative risk assessment, quantifying is still important since risks need to be prioritised.

Risk assessment can be qualitative or quantitative. Perform qualitative and perform quantitative risk analysis are two processes within the project risk management knowledge area, in the planning process group. While qualitative risk analysis should generally be performed on all risks, for all projects, quantitative risk analysis has a more limited use, based on the type of project, the project risks, and the availability of data to use to conduct the quantitative analysis.

Qualitative Risk Analysis

A qualitative risk analysis prioritises the identified project risks using a pre-defined rating scale. Risks will be scored based on their probability or likelihood of occurring and the impact on project objectives should they occur.

Probability/likelihood is commonly ranked on a zero to one scale (for example, .3 equating to a 30% probability of the risk event occurring).

The impact scale is organizationally defined (for example, a one to five scale, with five being the highest impact on project objectives – such as budget, schedule, or quality).

A qualitative risk analysis will also include the appropriate categorization of the risks, either source-based or effect-based.

Quantitative Risk Analysis

A quantitative risk analysis is a further analysis of the highest priority risks during a which a numerical or quantitative rating is assigned in order to develop a probabilistic analysis of the project.

A quantitative analysis:

– Quantifies the possible outcomes for the project and assesses the probability of achieving specific project objectives

– Provides a quantitative approach to making decisions when there is uncertainty

– Creates realistic and achievable cost, schedule or scope targets

In order to conduct a quantitative risk analysis, you will need high-quality data, a well-developed project model, and a prioritized lists of project risks (usually from performing a qualitative risk analysis).

Reference:

LO 3, AC 3.3

NEW QUESTION 25

Which of the following can directly affect labour variance? Select TWO that apply:
* Wage rate per hour
* Inflation
* Company’s budget
* Overhead expenditure
* Overtime

Labour variance refers to a situation in which actual costs of labor differ from projected or budgeted labor costs. This concept is most commonly applied in manufacturing environments.

Labour variance either results from efficiency or rate discrepancies. Efficiency variance results when actual time worked is more or less than budgeted time for a project. Rate variance means you paid more per hour worked than expected. This may occur with overtime pay or when you have higher paid employees on a project than projected. Labour variance is fairly typical, but modest variance is usually not a big factor in manufacturing, because materials and other production costs are often much higher.

LO 1, AC 1.4

NEW QUESTION 26

Despite of better improvement rates than other types of benchmarking, functional benchmarking still has downsides. Which of the

following is most likely to be a disadvantage of functional benchmarking?
* Legal issues regarding intellectual property
* Unfair competition
* Difference of corporate cultures across companies
* Benchmarking can only be undertaken within an industry

Functional benchmarking is a comparison to similar or identical practices (e.g., the picking process for assembling customer orders, maintaining inventory controls of spare computer parts, logistics to move operational forces, etc.) within the same or similar functions outside the immediate industry. Functional benchmarking might identify practices that are superior in your functional areas in whatever industry they may exist. Functional benchmarking would be accomplished at the federal level by comparing the IRS collections process against those of American Express. Comparing copper mining techniques to coal mining techniques is an example in the private sector.

Benefits

– Provides industry trend information

– Quantitative comparisons

– Better improvement rate

Challenges

– Diverse corporate cultures

– Great need for specificity

– Not invented here. syndrome

– Common functions can be difficult to find

– Takes more time than internal or percent

– Must be able to visualize how to adapt the best practices

Source: USN Benchmarking Handbook

LO 1, AC 1.3

NEW QUESTION 27

A procurement manager is writing a conformance specification for a non-core component. She thinks that if the requirements in specification are higher than ISO standards, her company can achieve greater cost-savings. Is the procurement manager’s opinion correct?
* No, because higher specification may incur additional costs for the buyer
* No, because higher requirements in specification, the greater bargaining power of buying organisation
* Yes, because optimising the specification is the only method to achieve value for money
* Yes, because higher requirements will help buying organisation find the best supplier

The specification that is produced too detailed will incur unnecessary cost because it does not allow suppliers to use their expertise in finding the most efficient way to produce it.

‘No, because higher requirements in specification, the greater bargaining power of buying organi-sation’: more detailed specifications could tighten the supplier base and potentially leave buying organisation with fewer potential supplier. This may reduce buyer’s bargaining power in negotia-tion.

‘Yes, because higher requirements will help buying organisation find the best supplier’: in some circumstances, higher requirements will lead to smaller supplier base. In the worst scenario, there is no supplier who has capability to carry out those requirements

‘Yes, because optimising the specification is the only method to achieve value for money’: There are other methods to achieve cost saving and value for money, inter alia, volume concentration, relationship restructuring, etc.

Reference:

LO 3, AC 3.1

NEW QUESTION 28

A charity is reviewing their spend and budget after an operation in flooded areas. They realise that the operators save money against the budgeting plan. This saving is known as…?
* Negative budget
* Positive variance
* Negative variance
* Positive budget

The difference between the actual spend and budgeted spend is known as variance. The formula for variance is:

Variance = Actual spend – Budgeted spend

Variances can be adverse/unfavourable or favourable ie they can be positive or negative.

Be very careful with these terms. A positive or a negative variance may be favourable or it may be adverse/ unfavourable.

Adverse variances

Adverse variances are those variances that are unfavourable to the firm. Examples would be sales below plan; costs above budget, cash receipts lower than expected, and overtime payment more than forecast.

Favourable variances

Favourable variances are those variances that are beneficial to the business. Examples would be sales ahead of plan, costs below budget, and wages below forecast.

Positive variance

A positive variance occurs where ‘actual’ exceeds ‘planned’ or ‘budgeted’ value. Examples might be actual sales are ahead of the budget.

Negative variance

A negative variance occurs where ‘actual’ is less than ‘planned’ or ‘budgeted’ value. Examples would be when the raw materials cost less than expected, sales were less than predicted, and labour costs were below the

budgeted figure.

When the operators create saving, it means that the Actual spend is less than Budgeted spend. Therefore the variance is negative.

Reference:

– Variance analysis

– CIPS study guide page 57-59

LO 1, AC 1.4

NEW QUESTION 29

Which of the following are the focuses of ISO 14001:2015?
* 1. Life cycle

2. Process

3. Capacity

4. Information security

2 and 4 only
* 1 and 2 only
* 2 and 3 only
* 3 and 4 only
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 14001:2015 helps an organization achieve the intended outcomes of its environmental man-agement system, which provide value for the environment, the organization itself and interested parties. Consistent with the organization’s environmental policy, the intended outcomes of an environmental management system include:

* enhancement of environmental performance;

* fulfilment of compliance obligations;

* achievement of environmental objectives.

ISO 14001:2015 is applicable to any organization, regardless of size, type and nature, and applies to the environmental aspects of its activities, products and services that the organization determines it can either control or influence considering a life cycle perspective. ISO 14001:2015 does not state specific environmental performance criteria.

ISO 14001:2015 can be used in whole or in part to systematically improve environmental manage-ment. Claims of conformity to ISO 14001:2015, however, are not acceptable unless all its require-ments are incorporated into an organization’s environmental management system and fulfilled without exclusion.

In conclusion, ISO 14001:2015 focuses on: management system (including roles, leadership and processes) and the life cycle of

product or service. Life cycle is defined as “consecutive and inter-linked stages of a product (or service) system, from raw material acquisition or generation from natural resources to final disposal. […] The life cycle stages include acquisition of raw materials, design, production, transportation/ delivery, use, end-of-life treatment and final disposal.” The answer is process and life cycle.

Reference:

– ISO 14001:2015 Environmental management systems – Requirements with guidance for use LO 3, AC 3.1

NEW QUESTION 30

GSC Ltd is a manufacturer of car parts. To accommodate growing demands of electric cars, the company is developing a new component which requires different type of steel. The project team estimates that the component will be ready for production in 1.5 years. Until then, they need to keep the production busy.

After checking the inventory records, the production team sees that the company has 3 months of stock. The lead time for each batch is two months. Which of the following should be a priority ac-tion of the company?
* Create new specification to new supplier
* Standardise the specification
* Create new specification to current supplier
* Make a call-off order to current supplier

The scenario is very long with many distracting data. Students need to read carefully and use their experience to solve this problem.

The company is developing a new component which requires different type of material. But this component will not be available for mass production in 1.5 years. This means the company still needs to produce the current components with current materials until the development is finished. They must continue purchase the materials from current supplier through call-off orders. This situation is an example of straight re-buy.

Reference:

LO 1, AC 1.1

NEW QUESTION 31

One of the disadvantages of using standards in specification is that…
* Standards lengthen the time to produce a specification
* Standards tend to be rigid and they often don’t encourage innovation
* Standards don’t allow the buyers to add health and safety requirements into the specification
* Standards tend to be inaccurate and ambiguous, causing confusion among suppliers

Using standards in specification is very convenient. They reduce the time and effort to produce. They tend to be very accurate with correct technical terminologies. They are well recognised and accepted by a wide range of suppliers and buyers. However, since a standard is very specific, complex and lengthy, it requires a lot of time to be drafted and approved. Therefore, standard tends to be static and don’t encourage innovation. It may also not accommodate latest technology and trends.

Reference:

LO 3, AC 3.1

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