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CIPS L4M3 (CIPS Commercial Contracting) Certification Exam is designed for procurement and supply chain professionals who are interested in enhancing their knowledge and skills in commercial contracting. CIPS Commercial Contracting certification exam is part of the CIPS (Chartered Institute of Procurement and Supply) qualifications and is recognized globally. The CIPS L4M3 Exam covers a range of topics related to commercial contracting, including contract management, contract law, and negotiation skills.

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CIPS Commercial Contracting Sample Questions (Q42-Q47):

NEW QUESTION # 42

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

- 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.

Reference:

LO 1, AC 1.3

NEW QUESTION # 43

Maximum Score: 1

An urgent component requirement needs to be purchased to meet the timescales of a project. A supplier proposes using its standard terms and conditions. What risk to the buying organisation could this bring?

- A. A breach of the supplier's internal financial controls
- **B. Contract conditions that are favourable to the supplier**
- C. Contract conditions that are favourable to the buyer
- D. A breach of competition laws

Answer: B

Explanation:

Supplier standard terms and conditions are drafted:

- * To protect the supplier's interests,
- * To limit the supplier's liability,
- * To secure favourable payment and performance conditions for the supplier.

If the buying organisation accepts these without negotiation (especially in a rush), it risks ending up with contract conditions that are favourable to the supplier (D) and less favourable protections for itself.

Reference: CIPS L4M3 Commercial Contracting - Battle of the forms and risks of accepting supplier-drafted terms.

NEW QUESTION # 44

Which of the following will be included in a conformance specification?

1. Brand names
2. Description of the operating environments
3. Chemical formulae
4. Required safety level

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

Answer: D

Explanation:

According to CIPS, there are two main types of specification:

- Conformance specification - is more output driven as it outlines the product details exactly which may include the material, dimensions, tolerances, source, ingredients, packaging, storage of the part or material.
- Performance specification - is more output driven in terms of what the part or material must achieve.

Among the four options, only 2. 'Description of the operating environments' and 3.'Chemical formulae' are possible components of a conformance specification. Brand names can be a part of a performance specification, according to a document published by CIPS and NIGP.

Graphical user interface, text, application Description automatically generated

□ Reference:

- CIPS study guide page 8-10
- Knowledge Byte - Specification Development
- Principles and Practices of Public Procurement: Specifications

LO 1, AC 1.1

NEW QUESTION # 45

Blakenall District Hospital (BDH) is a large hospital that is a major part of the government's health service.

Purchasing staff are in the habit of placing many long-term contracts with suppliers and sub-contractors.

Whilst these contracts are usually carried out successfully, prices are often paid that are well over budget. The purchasing manager is concerned to find that, in some cases, members of staff are forcing suppliers to accept fixed price contracts. The policy has caused several problems such as some suppliers refusing to deal with BDH and a few going out of business mid-way through performing a contract with BDH. This is due to fluctuating market prices of materials. The procurement manager suggests supplier to adopt variable pricing arrangement with price index. Is this a right course of action?

- A. Yes, this type of arrangement would provide absolute certainty when budgeting
- B. No, variable pricing would only benefit the suppliers
- C. Yes, this pricing arrangement would reimburse the fluctuation of material prices
- D. No, price adjustment should be applied to short-term supply contract only (3-month duration or less)

Answer: C

Explanation:

Procurement staff in the Hospital is forcing suppliers into fixed price contract. If the costs generally rise, supplier may operate at a loss. This situation can disrupt the relationship, that is the reason why some suppliers refusing to deal with BDH and a few going out of business mid-way.

Alternative methods could be variable pricing arrangement. This method would reimburse the fluctuation of market price. It will also benefit buyer if the market price drops. This type of arrangement should be applied to long-term contracts (i.e. 18 months or more).

Reference: CIPS study guide page 179-184

LO 3, AC 3.3

NEW QUESTION # 46

Bandpro is a reseller of branded computer products to the private and public sector. The procurement team must purchase 500 items each day solely by multiple phone calls and emails to suppliers. Due to this practice, it takes a lot of time to track and collect relevant documents. Some important documents even get lost, which makes procurement audit more burdensome. Which of the following would increase the robustness of audit trails in procurement activities?

- A. Rectify non-compliant activities
- B. Every evidence must be recorded by paper
- C. Spend less time on auditing procurement procedures
- D. Adopt e-procurement

Answer: D

Explanation:

Audit trail is a chronological record the sequence of events connected to a given transaction, such as a purchase of raw materials, payroll disbursements, or a detailed financial statement. The record includes all the source documents connected to the transaction, providing context and clarity in the event a review is required. The more comprehensive the documentation, the more effective the audit trail is when used to create financial reports, verify information, and ensure compliance while eliminating fraud.

In the scenario, the procurement team gets the quotation from phone calls and emails which have weak audit trails and lack of transparency. One solution may be increasing the use of e-procurement system.

Reference:

- What is an audit trail?
- CIPS study guide page 6-7

LO 1, AC 1.1

NEW QUESTION # 47

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