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CIPS Commercial Contracting Sample Questions (Q83-Q88):

NEW QUESTION # 83

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...?

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

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.

Reference:

LO 3, AC 3.3

NEW QUESTION # 84

Which of the following is most likely to be an one-off contract?

- A. Framework Agreement for supply of mono-crystalline silicon
- **B. Contract for construction of a power plant**
- C. Franchise Agreement
- D. Commercial lease agreement of an office building

Answer: B

Explanation:

One-off contracts are used where a supplier is only needed for a single activity unlikely to be repetitive, and where the need of the buyer is concrete and finite. Among the answers, only construction for power plant is one-off since the work is non-repetitive and the need is clearly defined.

A framework agreement is an agreement between one or more businesses or organisations, "the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price and, where appropriate, the quantity envisaged".

A Commercial Lease Agreement is a contract used when renting business property to or from another individual or company. It gives the tenant (or renter) the right to use the property for business purposes during the term of the lease in exchange for payment to the landlord.

A franchise agreement is a legally binding document that outlines a franchisor's terms and conditions for a franchisee. Every franchise is governed by these terms, which are generally outlined in a written agreement between both parties.

Reference: CIPS study guide page 55-58

LO 1, AC 1.3

NEW QUESTION # 85

Which of the following are implied terms in sales contracts? Select THREE that apply.

- **A. Fitness for purpose**
- B. Mode of transportation
- **C. Risk transfer**
- D. Customer satisfaction
- **E. Transfer of ownership**
- F. Payment method

Answer: A,C,E

Explanation:

Generally, under the Sale of Goods Acts (in UK, Singapore, Australia,...) or Commercial Codes (in France, Germany, Vietnam,...), the sale contracts have the following implied terms:

- the seller has the right to sell the goods. This is also a condition of the contract
- the goods are free from undisclosed security interests
- the goods supplied under the contract will be reasonably fit for any purpose which the buyer made known to the seller
- sales of unseen goods will be of merchantable quality, and match their description and conform with a sample.
- Passing of risk
- Passing of possession and title

Reference: CIPS study guide page 126-132

LO 3, AC 3.1

NEW QUESTION # 86

Which of the following are reasons why a purchaser wants to embed a subcontracting clause into the main contract? Select TWO

that apply:

- A. To induce the conflicts between the main contractor and subcontractors
- B. To reduce the main contract complexity
- C. To condemn whole liabilities to subcontractors
- **D. To keep main contractor liable**
- **E. To improve supply chain transparency**

Answer: D,E

Explanation:

There are number of reasons why the purchaser will want to control the supplier's subcontracting:

- Supply chain transparency: Normally the purchaser has invested a lot of effort into selecting the right contractor. However, the main contractor's selection of subcontractor might not be in such careful manner, which may result in poor performance. Purchaser must know who subcontractors are. Controlling the subcontracting process can help the purchaser control the outcome.
- Contract terms: the purchaser's requirements must be reflected in the subcontracts. The subcontracting clauses may require the main contractor to do this.
- Liability: the main contractor may subcontract the whole or a part of its liabilities. Subcontracting clause may bind the contractor to be liable with the work, it cannot just blame the subcontractor for any faults.

Reference:

LO 3, AC 3.2

NEW QUESTION # 87

Under English law's general legal principles of contract formation, which of the following are likely to be offers? Select TWO that apply.

- A. Advertisement
- B. Catalogue
- C. Invitation to tender
- **D. Quotation**
- E. Purchase order

Answer: D

Explanation:

An offer is a full statement of what the offeror is willing to provide and the terms by which they are willing to provide it.

There are some statements that are not offers:

- Invitation to treat: this states that a person or organisation is willing to enter into discussions about the possibility of a deal, but does not confirm a willingness to be bound by any terms mentioned. Catalogues, goods on display and ITTs are invitation to treat. Civil law countries may have different perspective on this matter. Article 2:201 (3) of The Principles of European Contract Law states: 'A proposal to supply goods or services at stated prices made by a professional supplier in a public advertisement or a catalogue, or by a display of goods, is presumed to be an offer to sell or supply at that price until the stock of goods, or the supplier's capacity to supply the service, is exhausted.' Learners are advised to look at their countries' legislation for more information on offer and acceptance.
- Declaration of intention: this is defined as an aim or a plan.
- A 'mere puff' (or boast): this is anything which is not intended to be taken literally or seriously, such as many advertisement.
- Provision of information: merely provides information, but provider does not confirm willingness to be bound.

Reference:

LO 1, AC 1.2

NEW QUESTION # 88

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