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## CIPS Whole Life Asset Management Sample Questions (Q63-Q68):

### NEW QUESTION # 63

Assuming that all other factors are constant except one, the net present value of a capital expenditure increases when...?

- A. Net cash flow during a time period increases
- B. The discounted rate increases
- C. The initial cost of a project increases
- D. Cash outflow during a time period increases

**Answer: A**

Explanation:

Net present value (NPV) is the 'today' net value that deprives from 'future' cash flow of an investment or a capital purchase.

The following formula is used to calculate NPV

Chart Description automatically generated with low confidence

Where:

$R_t$  is the net cash flow (cash inflow - cash outflow) during the period  $t$   $i$  is the discount rate  $t$  is the number of time periods As you can conclude from the above formula, the net present value increases when the numerators (net cash flows) increase and/or denominators  $(1+i)$  decrease. So the correct answer should be "Net cash flow during a time period increases" The purpose of this exercise is to help you identify the factors that influence the net present value and how to increase/decrease NPV in real-world scenario.

### NEW QUESTION # 64

Which of the following is an acquisition cost under the concept of the total cost of ownership?

- A. Down time and overhaul cost
- B. Installation and commissioning cost
- C. Servicing and repair cost
- D. Consumables and energy cost

**Answer: B**

Explanation:

Acquisition costs include all expenses incurred to bring an asset to its operational state, such as installation and commissioning. These costs are essential to the total cost of ownership (TCO) in whole-life asset management, helping organizations understand the full initial investment required to make the asset usable.

### NEW QUESTION # 65

The minimal total cost is always achieved when there is only one warehouse. Is this statement true?

- A. Yes, because warehouse overheads are fully utilised
- B. No, fewer warehouses may lead to increasing transport costs
- C. Yes, because the operation cost for warehouse reaches minimal level
- D. No, more warehouses will reduce the cost of storage

**Answer: B**

Explanation:

The total cost of storage consists of two different costs:

- The cost of warehouses: each one has a different cost, and each has the cost of stock-holding and stock management included
- The transport costs: the total transport cost reduces as further warehouses mean shorter final delivery to the customers.

Depending on each situation, the optimal number of warehouses varies. Generally, more facilities will increase the cost of warehouses while reduce the transport costs and vice versa.

Reference:

**NEW QUESTION # 66**

Which of the following is a main objective of just-in-time?

- A. Leveraging economic order quantity
- B. Higher safety stock
- C. Better demand forecasting
- **D. Waste reduction**

**Answer: D**

Explanation:

JIT, often referred to as the Toyota production system (TPS), originated in Toyota's manufacturing plants in Japan in the early 1970s. It was first introduced by the organisation's owner, Taiichi Ohno. The prime goal of JIT is the achievement of zero inventories.

The just-in-time objectives of eliminating waste can be summarised in the 'five zeros: zero defects, zero set-up times, zero inventories, zero handling and zero lead times.

**NEW QUESTION # 67**

Which of the following statements represent a definition for 'obsolescence' in inventory management? Select TWO that apply.

- **A. The users of the items no longer need them**
- B. The forecasts for the items have exceeded demand
- **C. The previous technology has been replaced**
- D. The previous supplier has been replaced
- E. The usage of the items has decreased

**Answer: A,C**

**NEW QUESTION # 68**

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