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CIPS Level 4 – Diploma in Procurement and Supply

Commercial Contracting [L4M3]

Sample Exam Questions (Objective Response)

The correct answer will be listed below each question

L4M3 Sample Questions V5 Sept 2020

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CIPS Commercial Contracting Sample Questions (Q129-Q134):

NEW QUESTION # 129

Maximum Score 1

Procurement professionals must have an awareness of labour standards and environmental, social and governance issues when contracting with suppliers. Which TWO of the following are relevant for consideration?

- A. Warranty
- **B. Modern Slavery**
- C. Indemnity
- **D. Sustainability**
- E. ISO 9000 accreditation

Answer: B,D

Explanation:

Modern Slavery (C) and Sustainability (D) are core social and environmental issues under ESG and ethical procurement policies. Indemnity and warranty are legal clauses, not social or environmental considerations.

Reference: CIPS L4M3 Commercial Contracting - "Ethical and responsible contracting (CSR, ESG, Modern Slavery)."

NEW QUESTION # 130

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

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

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.

Reference: CIPS study guide page 172-183

LO 3, AC 3.3

NEW QUESTION # 131

When should liquidated damages clauses be written into a contract?

- A. When the court approves the damages amount before the contract is executed.
- **B. When the loss to the innocent party will be either too uncertain or too difficult to calculate.**
- C. When the breaching party wants to exclude all its liabilities
- D. When the innocent party wants to punish the breaching party.

Answer: B

Explanation:

Liquidated damages are presented in certain legal contracts as an estimate of otherwise intangible or hard-to-define losses to one of the parties. It is a provision that allows for the payment of a specified sum should one of the parties be in breach of contract.

Liquidated damages are meant as a fair representation of losses in situations where actual damages are difficult to ascertain. In general, liquidated damages are meant to be fair, rather than punitive.

Limitations of Liquidated Damages

It is possible that a liquidated damages clause might not be enforced by the courts. This can occur if the monetary amount of liquidated damages cited in the clause is extraordinarily disproportional to the scope of what was affected by the breached contract. Such limitations prevent a plaintiff from attempting to claim an unsubstantiated exorbitant amount from a defendant. For instance, a

plaintiff might not be able to claim liquidated damages that amount to multiples of its gross revenue if the breach only affected a specific portion of its operations. The concept of liquidated damages is framed around compensation related to some harm and injury to the party rather than a fine imposed on the defendant.

The courts typically require that the parties involved make the most reasonable assessment possible for the liquidated damages clause at the time the contract is signed. This can provide a sense of understanding and reassurance of what is at stake if that aspect of the contract is breached. A liquidated damages clause can also give the parties involved a basis to negotiate from for an out-of-court settlement.

Reference:

- Liquidated Damages
- CIPS study guide page 158-159
- LO 3, AC 3.2

NEW QUESTION # 132

A construction company wishes to place the contract for the building of a new hotel to a principal contractor using a model form contract. Which of these is an advantage of using a 'model form contract'?

- A. Legal advice is still required if significant amendments or variations are to be made to the contract
- **B. It avoids the requirement to create complex contracts each time but can be adapted to suit particular circumstances**
- C. Formulae or indices can be included to assess any additional supplier's claims for contract price adjustment
- D. Incentive payment terms can be included to reward the supplier for attainment of cost savings

Answer: B

Explanation:

The main advantage of a model form contract is:

- * The parties do not need to draft a complex contract from scratch each time,
- * While still allowing some adaptation to suit the particular project.

This is exactly what option C states.

Options A and B can be features of many contracts (not unique advantages of model forms). Option D is true in practice (you still need legal advice for major changes), but it is not an advantage.

Reference: CIPS L4M3 Commercial Contracting - Model form contracts in construction and engineering.

NEW QUESTION # 133

Which of the following statements is FALSE on contracts for the leasing of assets?

- **A. The ownership of leased asset is transferred to the lessee at the end of the period**
- B. In lease agreement, the possession and right of use of an asset are transferred to the lessee
- C. The party responsible for maintenance, insurance and taxes is subject to negotiation
- D. The lessee may bear some risks of ownership, such as the liability to insure the asset

Answer: A

Explanation:

A lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset.

Some characteristics of Leases are:

- The right to use the lessor's asset is granted in exchange for a fee called the lease payment.
- The lease payments are usually paid in installments.
- Leases may be long- or short-term.
- At its inception a lease agreement constitutes a mutually unperformed contract Though the ownership of the asset is not transferred to the lessee, some responsibilities and risks do. The lessor and lessee may negotiate on who is responsible on maintenance, insurance, etc.

Reference: CIPS study guide page 67-69

LO 1, AC 1.3

NEW QUESTION # 134

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