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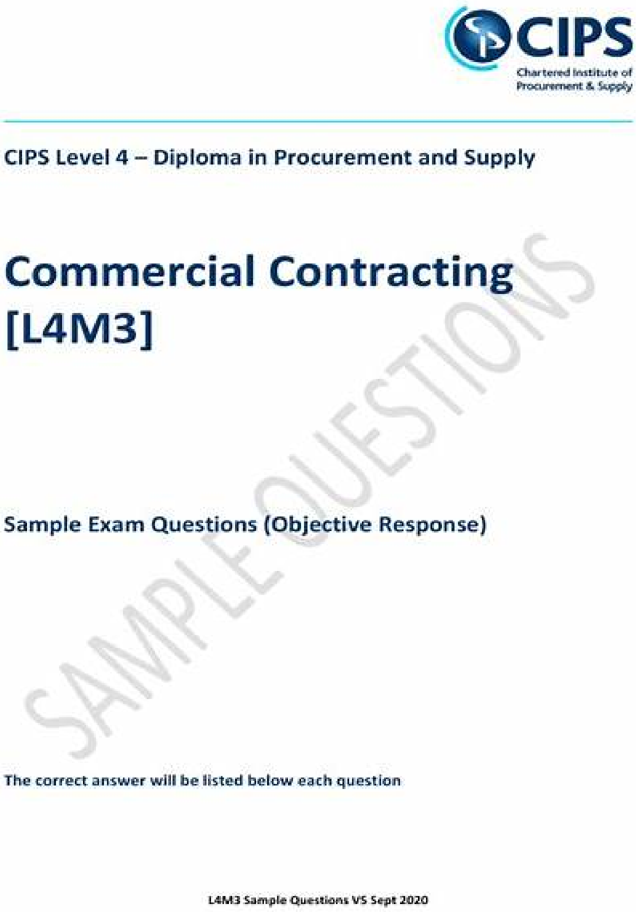
CIPS
Chartered Institute of Procurement & Supply

CIPS Level 4 – Diploma in Procurement and Supply

Commercial Contracting
[L4M3]

SAMPLE QUESTIONS

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 L4M3 Certification is a valuable qualification for procurement and supply chain professionals who are looking to enhance their knowledge and skills in commercial contracting. It provides a comprehensive understanding of the legal and commercial aspects of contracting, and is designed to equip professionals with the skills required to effectively negotiate and manage contracts with suppliers and other external parties.

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The Chartered Institute of Procurement and Supply (CIPS) is a globally recognized professional body that provides training and certification in procurement and supply management. One of the most popular courses offered by CIPS is the CIPS Commercial Contracting course, which enables professionals to develop their skills and knowledge to become effective negotiators and contract managers. The CIPS Commercial Contracting course is accredited by CIPS and it is an internationally recognized qualification in procurement and supply chain management.

CIPS Commercial Contracting Sample Questions (Q122-Q127):

NEW QUESTION # 122
A tire manufacturer entered into a contract with a distributor. In the contract, the distributor is prohibited from selling the tire under the price list. The distributor must pay $5 for each tire sold in breach. The amount of $5 is known as...?

- A. Penalty
- B. Liquidated damages
- C. Quantum meruit
- D. Caveat Emptor

Answer: B

Explanation:
This scenario is in fact based on a famous case law: Dunlop Pneumatic Tyre Company v New Garage & Motor co [1915] AC 79. In this case law, the House of Lords identified the clause as liquidated damages, and therefore enforceable.
However, if this case had happened in 2015 or afterwards, there would be some legal issues:
- The price agreement is prohibited by Competition Act 1998
- If the agreement is allowed by Competition Act, as in the case Cavendish Square Holding BV (Appellant) v Talal El Makdessi (Respondent), the clause can also be identified as a penalty and it is still enforceable.
Reference: CIPS study guide page 158-159
LO 3, AC 3.2

NEW QUESTION # 123
Which of the following are most likely to be liabilities of suppliers under a guarantee clause? Select

- A. TWO that apply
- B. Upgrading
- C. Installation
- D. Decommissioning
- E. Repair
- F. Replacement

Answer: E,F

Explanation:
A guarantee is an agreement given by a trader to a consumer, without any extra charge, to repair, replace or refund goods that do not meet the specifications set out in the guarantee. A guarantee is usually issued by the manufacturer of goods or by a trader that provides goods as part of a service - replacement windows, for instance. Generally, a guarantee provider undertakes to carry out free repairs, for a set period of time, for problems that can be attributed to manufacturing defects.
Reference:
- Guarantees and warranties
- CIPS study guide page 157-159
LO 3, AC 3.2

NEW QUESTION # 124
CMS Corp goes into a gainshare agreement with the contractor, EIP Ltd. Both parties agree that the final fee will be calculated on target cost - target fee basis. Which of the following will affect the final fee payable in this gainshare agreement? Select TWO that apply:

- A. Supplier share
- B. Final price
- C. Purchaser goodwill

- D. Actual cost
- E. Accrual expense

Answer: A,D

Explanation:
An incentive contract is a sub-segment of a fixed-price or cost-reimbursement contract when there are specific cost or time commitments that are desired for a project. The standard incentive contract will allow for a fixed price to be paid for work to be completed by a specific deadline and at a specific cost.
There are two major types of incentive contracts: Cost-plus-incentive fee and Fixed-price incentive (firm target) contracts. Both types have the same formula for calculating final fee and final price.
The target fee is the amount that will be paid if the actual costs (which can be proven) match thetarget costs The actual fee will be adjusted in proportion to the difference between the target cost and the actual cost. The usual calculation is:
Target fee + ((target cost - actual cost) x Supplier share) = final fee The final price then becomes:
Actual cost + final fee = final price
Reference: CIPS study guide page 185
LO 3, AC 3.3

NEW QUESTION # 125
A company is considering entering a new market. Which of the following are the external factors that influence the difference between cost and price of this company? Select THREE that apply

- A. Competitiveness of the market
- B. Procurement policy
- C. Process efficiency
- D. Threat of substitution
- E. Business strategy
- F. Relative bargaining power of supplier and purchaser

Answer: A,D,F

Explanation:
The difference between cost and price is profit. According to Michael E.
Porter, the profitability of an industry is shaped by five forces:
1. Competition in the industry
2. Potential of new entrants into the industry
3. Power of suppliers
4. Power of customers
5. Threat of substitute products
The Question: only mentions
external factor, then business strategy is not accepted.
Reference:
LO 3, AC 3.3

NEW QUESTION # 126
Which of the following is most likely to reduce ITT preparation time while maintaining the clarity of tendering documents?

- A. Eliminating pre-qualification stage from all tendering processes
- B. Standardising documentation whenever possible
- C. Monitoring usage
- D. Using request for quotation

Answer: B

Explanation:
One of the major disadvantages of tendering process is that it is lengthy, bureaucratic and slow. To reduce the preparation time, buying organisation can:
- Plan forward
- Standardise tendering documents (such as notices, terms and conditions,...) whenever possible

- Train procurement staff
- Write down policies for tender-waiver

Buying organisation should not eliminate the pre-qualification stage from all tendering processes. This stage is used as a filter to select the most competent suppliers for next stage in restricted tendering. To save time in this process, you can design a model questionnaire.
Reference: CIPS study guide page 5
LO 1, AC 1.1

NEW QUESTION # 127

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