

**CIPS Level 5 – Advanced Diploma in
Procurement and Supply
Module 3 – Managing Contractual Risk**

SAMPLE EXAM QUESTIONS

OBJECTIVE RESPONSE QUESTIONS AND ANSWERS

The correct answer will be identified as [key]

Q1. Where a subsidiary company is bidding for a contract but it has a poor credit rating, the procurement organisation could obtain which of the following from the parent company to reduce the risk?

a. Guarantee

b. Indemnity

c. Insurance

d. Resolution

LO: 1

AC: 1.2

Q2. A large manufacturing company has begun a project to increase the size of their premises. The procurement team has estimated that if the main supplier fails to complete the project on schedule it will incur costs and losses of \$20,000 per day for every day there is a delay.

It should use which of the following clause in the contract with the supplier?

a. Indemnity

b. Liquidated damages

c. Public liability

d. Warranty

LO: 1

AC: 1.2

Q3. A buyer has not been managing contract delivery since the agreement was created a year ago. The supplier has not been delivering what was required, although the procurement organisation has been paying its monthly invoices for the last year.

In all likelihood the courts would regard this situation as ...

- a. a counter offer
- b. a material breach
- c. acceptance by performance**
- d. an unacceptable variation

LO: 1

AC: 1.1

Q4. Which of the following will terminate an offer?

- 1. Acceptance
 - 2. Consideration
 - 3. Revocation
 - 4. Intention
-
- a. 1 and 2 only
 - b. 1 and 3 only**
 - c. 2 and 4 only
 - d. 3 and 4 only

LO: 1

AC: 1.1

Q5. The general principle relating to penalty clauses is that they must be which of the following to be legally enforceable by the courts?

1. Reasonable in the context of the losses incurred
2. An adequate punishment for the supplier's failure
3. Enough to justify any legal action against the supplier
4. Sufficient compensation relative to the damages suffered

a. 1 and 2 only

b. 2 and 3 only

c. 3 and 4 only

d. 1 and 4 only

LO: 2

AC: 2.3

Q6. A buyer is seeking to include a clear regime within the contract to act as a lever to encourage the supplier to focus on achieving the stated performance measures. Should they consider using service credits?

a. Yes, these encourage suppliers to achieve stated measures

b. Yes, they are a form of unliquidated damages that will punish poor performing suppliers

c. No, they relate to bonus payments to suppliers and can be expensive to implement

d. No, service credit regimes are generally viewed as penalties by the courts and cannot be enforced

LO: 3

AC: 3.1

Q7. Specific performance is always a legal right for the buyer in the event of a supplier breach of contract. Is this correct?

- a. Yes, for any breach the supplier can be forced to deliver the contract
- b. No, it only applies to contracts for the provision of services
- c. No, it is only available when there is no other remedy
- d. Yes, but only when it is expressly agreed between buyer and supplier

LO: 3

AC: 3.2

Q8. Which of the following are recognised conflict resolution approaches? Select **THREE** that apply.

- a. Investigation
- b. Liquidation
- c. Negotiation
- d. Litigation
- e. Arbitration
- f. Mediation

LO: 2

AC: 2.2

Q9. Regional Social Housing (RSH) is a public body which operates within a strictly regulated environment. It is under close public scrutiny in terms of how it manages its finances. It has a contract in place with a facilities management provider (FM). It is a five year contract and year two has just commenced. Within its regulations RSH is allowed to make some changes to contracts once awarded. There has been a recent change in safeguarding legislation which has necessitated a change in the contract. An initial meeting has taken place between RSH and the supplier. Which of the following are required to enable the change to go ahead (assume RSH can make this change within the procurement regulations)?

1. Contract variation clause
2. Indemnity from FM's parent
3. Agreement of all parties
4. Assessment of unliquidated damages

a. 1 and 2 only

b. 1 and 3 only

c. 3 and 4 only

d. 2 and 4 only

LO: 1

AC: 1.1

Q10. A large insurance company, InsCover (IC), has a number of issues with some of its suppliers in respect of specific contractual terms.

Supplier A – this is a high risk/value supplier and IC is keen to achieve a win/win outcome. The dispute relates to a long overdue invoice which the supplier claims should have been settled three months ago.

Supplier B – this is a transactional supplier that provides routine supplies. IC has a number of options and could switch supply easily. There is an issue relating to damage caused to IC property when the supplier recently made a delivery.

Supplier C – this is an important supplier and IC is keen to find a solution even if they have to meet mid-way to do so. The relationship is worth preserving. The issue relates to IC's claim for predetermined compensation for the supplier failing to deliver part of its obligations.

Supplier D – an initial meeting has taken place but IC did not have sufficient information to seek resolution. So both parties agreed to call a recess and will reconvene soon to finish the discussion. The issue is about the supplier's use of a third party to fulfil part of the contract

For each of the suppliers, you are required to match the conflict resolution approach and the contractual issue. Choose from these options and drag and drop your answers into the table below. [8]

You can only use each option once.

Conflict resolution approach	Contract term
Avoid	Liability
Collaboration	Liquidated damages
Compete	Payment
Compromise	Subcontracting

Supplier	Conflict resolution approach	Contract term
A		
B		
C		
D		

[KEY]

Supplier	Conflict resolution approach	Contract term
A	Collaboration	Payment
B	Compete	Liability
C	Compromise	Liquidated damages
D	Avoid	Subcontracting

Key L5M3 - 1.2.1, 1.2.4, 1.2.5 & 2.3.1 short scenario classification

LO: 1 and 2

AC: 1.2 and 2.3