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
Q1. Which of the following is a provision in a contract under which one party commits to compensate the other for any harm or loss arising out of the contract?

a. **Indemnity**

b. Intellectual property

c. Liquidated damages

d. Warranty

LO: 3  
AC: 3.2  
Correct answer: A

Q2. Which of the following are likely to feature within an output-specification?

1. Product functions  
2. Technical inputs  
3. Performance requirements  
4. Conformance standards

a. 1 and 2 only  
b. 2 and 3 only  
c. 1 and 3 only  
d. 2 and 4 only

LO: 1  
AC: 1.1  
Correct answer: C
Q3. A procurement manager has negotiated a firm fixed price throughout the contract duration of two years. Was this the right thing to do?

a. No, because even with these contracts the pricing can change
b. No, because this is an unfair term and therefore is not legally binding
c. Yes, because this has provided certainty and so is an aid to budgeting
d. Yes, because this type of pricing will always be better than a spot price

LO: 3  
AC: 3.3  
Correct answer: C

Q4. Ace Group is seeking to encourage one of its key suppliers to improve its contract delivery performance. Ace Group wants to encourage the supplier to identify cost savings and ways to enhance quality. Which of the following would help?

a. Gainshare
b. Indexation
c. Liquidated damages
d. Service credits

LO: 3  
AC: 3.3  
Correct answer: A

Q5. When is the best time for the buyer’s express terms to be provided to the supplier in a competitive bidding process with negotiation?

a. At the contract kick off meeting
b. When the negotiation is nearing completion
c. With the contract award notification
d. As part of the invitation to tender

LO: 3  
AC: 3.1  
Correct answer: D
Q6. Which of the following are often used in conjunction with service level agreements (SLAs) as part of the performance management regime to encourage the supplier to meet the buyer's requirements?

a. Service guarantees
b. Service credits
c. Service warranties
d. Service penalties

LO: 2  
AC: 2.2  
Correct answer: B

Q7. A major public body maintain a large and diverse property estate comprising more than 100 buildings in multiple locations around the country. To maintain this property estate, which of the following is likely to be the most effective arrangement between the organisation and suppliers?

a. Framework agreements
b. One off purchases
c. Spot transactions
d. Purchase orders

LO: 1  
AC: 1.3  
Correct answer: A
Q8. A large manufacturing group is going through a period of investment under which a number of its facilities will close on a short-term basis for re-fit and upgrade works to be undertaken. The CPO is concerned about the impact on the organisation's ability to meet customer orders should any of the work carried out by suppliers overrun. In respect of this particular concern, the CPO should consider using which of the following contractual terms with these suppliers?

a. Insurance  
b. Force majeure  
c. Liquidated damages  
d. Jurisdiction

LO: 3  
AC: 3.2  
Correct answer: C

Q9. Which of the following will typically be included with the invitation to tender (ITT)? Select the THREE that apply?

a. Specification  
b. Purchase order  
c. Terms and conditions  
d. Requisition  
e. Performance measures  
f. Mandate

LO: 1  
AC: 1.1  
Correct answer: A, C & E
Q10. Under general legal principles of contract formation, which of the following will always automatically result in the termination of an offer? Select TWO that apply.

 a. Acceptance
 b. Negotiation
 c. Variation
 d. Non-disclosure
 e. Revocation

LO: 1
AC: 1.2
Correct answer: A & E

Q11. Which of the following enables bidders to present solutions that the buyer might not have considered when responding to an Invitation To Tender (ITT)?

 a. Technical specification.
 b. Input specification.
 c. Performance specification.
 d. Conformance specification.

LO: 1
AC: 1.2
Correct answer: C
Q12. The concept of the 'battle of the forms' relates mostly to which of the following?

a. The buyer's specification.

b. Terms and conditions.

c. The Invitation to Tender.

d. Key performance indicators.

LO: 1
AC: 2.3
Correct answer: B

Q13. Westshire Authority (WA) is a large public sector organisation. It covers a vast geographic area and has a considerable property estate. It uses a number of suppliers to carry out routine and, on occasions, emergency repairs and other maintenance on both the grounds and the buildings. Which type of arrangement is WA most likely to have in place for these requirements?

a. Framework agreement.

b. Sole supply agreement.

c. Dual-sourcing agreement.

d. Contingency agreement.

LO: 1
AC: 3.2
Correct answer: A

Q14. Global Energy Efficiency Group (GEEG) is a major manufacturing organisation. It has committed to invest significantly in new turbines but is unsure about which products are available and how these might change in the future due to technology. What should GEEG do as a priority to help it draft a specification?

a. Arrange a meeting with Finance.

b. Talk to its incumbent supplier.

c. Use recognised international standards.

d. Undertake market engagement.

LO: 2
AC: 1.1
Correct answer: D
Q15. A major retail organisation has come under pressure from consumers to place more emphasis on social value when sourcing its products. It should prioritise which of the following criteria when developing specifications and selecting suppliers?

1. Reducing product costs.
2. Supporting local communities.
3. Improving working conditions.
4. Increasing sales revenues.

a. 1 and 2  
b. 2 and 3  
c. 3 and 4  
d. 1 and 3

LO: 2  
AC: 1.5  
Correct answer: B

Q16. Which of the following are characteristics of liquidated damages within a contract?

1. Apply excessive penalties for all breaches.
2. Explain the process for dispute management.
3. Set out the circumstances when they apply.
4. State the financial implications for the supplier.

a. 1 and 2  
b. 2 and 3  
c. 3 and 4  
d. 1 and 3

LO: 3  
AC: 2.1  
Correct answer: C
Q17. Express terms apply in all contracts through the buyer’s and supplier’s statutory rights. Is this correct?

a. Yes, in most jurisdictions there are expressly stated statutory rights.

b. No, these terms are specifically stated within the contract.

c. Yes, all terms must be expressly stated in the contract to be legally binding.

d. No, if it is a verbal agreement no terms will apply at all.

LO: 3
AC: 1.1
Correct answer: B

Q18. Model contract forms are popular in some industries because they offer additional protections to suppliers. Is this correct?

a. Yes, in most industries model contracts provide additional supplier protections.

b. No, they are popular because in some industries it is a legal requirement to use them.

c. Yes, in most industries model contracts considerably limit supplier liability.

d. No, they are popular because they are widely accepted in some industries.

LO: 3
AC: 1.3
Correct answer: D

Q19. Which of the following arrangements permit the supplier to charge more, in certain circumstances, over the term of the contract? Select the TWO that apply.

a. Pricing schedules.

b. Fixed priced.

c. Incentivisation.

d. Indexation.

e. Price adjustment formula.

LO: 3
AC: 3.4
Correct answer: D & E
Q20. Which of the following are necessary conditions for misrepresentation within a commercial agreement? Select the **THREE** that apply.

a. The statement must be made after the contract is created.

b. The statement must relate to fact.

c. The statement must be false.

d. The statement must be made by a contracting party.

e. The statement must be made in public.

f. The statement must have market credibility.

LO: 1
AC: 2.6
Correct answer: B, C & D