CIPS Level 4 – Diploma in Procurement and Supply

Ethical and Responsible Sourcing [L4M4]

Sample Exam Questions (Objective Response)

The correct answer will be highlighted

Sample Questions L4M4 January 2020
Q1. Which of the following is the most effective measure for a procurement manager to identify potential risks in relation to a supplier’s exposure to increases in interest rates?

- a. Acid test
- **b. Gearing**
- c. Inventory days
- d. Turnover

LO: 2  
AC: 2.3

Q2. A procurement organisation has a complex and very high spend requirement for which there are many suppliers, all with capacity and a desire to deliver the contract. Once awarded, the contract can be easily switched to an alternative source of supply. Price is just one consideration but other more qualitative factors are also important in deciding which supplier to award the contract to.

Which of the following describes the characteristics of the item and provides the best method of awarding the contract?

- a. Leverage and competitive tender
- b. Strategic and eAuction
- c. Routine and supplier negotiations
- d. Bottleneck and framework agreement

LO: 3  
AC: 3.1

Q3. Which of the following is the most useful to assess a supplier’s liquidity?

- a. Current ratio
- b. Earnings per share
- c. Profit margin
- d. Return on equity

LO: 1  
AC: 1.3
Q4. Which of the following Incoterms applies to any form of transportation and carries the highest risk profile for the buyer?

a. Free on board (FOB)

b. Delivered duty paid (DDP)

c. Ex-works (ExW)

d. Cost insurance and freight (CIF)

LO: 3
AC: 3.2

Q5. A major public body has a requirement to award a high value services contract. Procurement for the body is regulated. It has conducted market analysis and has identified many potential suppliers that could potentially deliver the contract. It has a clear specification. It is an important contract but the requirement is not urgent. The most important driver for the organisation is to find the best supplier. Given all of these factors which of the following approaches is likely to be the most appropriate?

a. Direct award

b. Restricted tendering

c. Negotiated procedure

d. Competitive dialogue

LO: 1
AC: 1.2

Q6. Hi-Tech Products Inc (HTPI) has developed a new product, the patent for which has been registered worldwide. It has identified target customers and potential distributors for the product to be sold around the world. HTPI realises that profit margins will be tight and so finding the best suppliers will be key. It is open to ideas in terms of production processes and is keen to learn more from the supply market, before running a formal competition. Which of the following should HTPI conduct as a priority?

a. Competitive negotiation

b. Invitation to tender

c. Request for information

d. Supplier appraisal

LO: 2
AC: 2.2
Q7. Which of the following items found in a supplier’s financial statements are relevant to gearing?

1. Long-term debt
2. Opening inventory
3. Short-term investments
4. Shareholder’s equity

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

LO: 2
AC: 2.3

Q8. Credit rating is a relevant selection criterion when running a competitive tender. Is this statement true?

   a. Yes, because credit rating will impact on the brand
   b. Yes, because the credit rating will impact the profitability for the supplier
   c. No, because credit ratings are unreliable
   d. No, because credit ratings should be undertaken after selection

LO: 1
AC: 1.3

Q9. Which of the following are examples of secondary data that might be useful to understand the market when sourcing? Select the TWO that apply.

a. Government reports
b. Supplier websites
c. Focus groups
d. Online surveys
e. Customer questionnaires

LO: 2
AC: 2.1
Q10. Which of the following should be considered when calculating ratios relating to a supplier's liquidity? Select TWO that apply.

a. Receivables
b. Equity
c. Reserves
d. Payables
e. Inventories

LO: 2
AC: 2.3

Q11. Which of the following Incoterms carries the lowest risk for the supplier and highest risk for the buyer?

a. Delivered duty paid
b. Free on board
c. Ex-works
d. Delivered at terminal

LO: 3
AC: 2.4

Q12. If a procurement professional believes that there are suspiciously low labour rates within the supply chain, this should raise concerns about which of the following?

a. Bribery.
b. Modern slavery.
c. Fraudulent behaviour.
d. Corruption.

LO: 4
AC: 1.5
Q13. A large organisation is running a competitive tendering exercise which will lead to the award of a major contract. Bidders are required to submit extensive personal information about key staff who will be involved in the delivery of the contract. Which of the following will be the most important legislative consideration for the procurement organisation throughout the tendering process?

   a) Product liability.
   b) Discrimination.
   c) Health and safety.
   d) **Data protection.**

   **LO: 3**  
   **AC: 1.1**

Q14. An international airline has a contract for the supply of its staff uniforms. It has just switched to a new supplier but the airline has some concerns to ensure the supply chain meets its own high standards on ethical and responsible sourcing. How can the airline best ensure that all supply chain parties meet its requirements?

   a) Undertake unannounced site visits.
   b) Obtain questionnaires from all sub-contractors.
   c) Complete checks on sub-contractors websites.
   d) Ensure all supply chain parties have a published code of conduct.

   **LO: 4**  
   **AC: 3.1**
15. A supplier’s liquidity can be assessed using ratio analysis, based on information from financial statements, by comparing which of the following?
   1. Current assets.
   2. Long-term debt.
   4. Shareholders' funds.

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

   LO: 1
   AC: 3.3

16. Compared to using a local supplier, international sourcing arrangements most typically involve which additional considerations?
   1. A clear specification.
   2. Contract terms and conditions.
   3. Extended lead times.
   4. Exchange rate fluctuations.

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

   LO: 1
   AC: 2.5
17. Using secondary data is most likely to meet the specific requirements of the procurement organisation. Is this true?

a) No, this data has already been generated for another purpose.
b) Yes, it is available to meet all kinds of requirements.
c) No, it is generated by other organisations for internal use.
d) Yes, it is highly confidential and bespoke data.

LO: 2
AC: 1.3

18. Gearing is a key financial measure of an organisation’s profitability. Is this correct?

a) Yes, it is used to evaluate the organisation’s cost-to-income ratio.
b) No, it considers the organisation’s balance of debt and equity.
c) Yes, it relates to the relationship between profits and interest paid.
d) No, it is a ratio used to determine the organisation’s liquidity.

LO: 2
AC: 3.5

19. Typical award criteria to determine the outcome of a competitive tender include which of the following? Select the TWO that apply.

a) Branding
b) Price
c) Reputation
d) Distribution
e) Quality

LO: 1
AC: 4.2
20. Pre-qualification typically is used to determine if potential suppliers meet the procurement organisation’s requirements in respect of which of the following? Select the THREE that apply.

a) Capability.

b) Capacity.

c) In-sourcing.

d) Financial stability.

e) Contract management

f) Future delivery

LO: 1
AC: 1.5