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Question 1

Question Type: **MultipleChoice**

Where two parties are engaged in international trade and have a long term relationship and a degree of mutual trust, which payment mechanism is commonly used?

Options:

A- Letter of Credit

B- Documentary Collection

C- Bill of Exchange

D- Stage Payment

Answer:

B

Explanation:

Documentary collection is used in international transactions where there is trust. This is explained on p. 35 It's basically when supplier and buyer delegate collection of payments to their respective banks. They need to trust that each other will actually pay - otherwise they wouldn't delegate this. A Letter of Credit is a documentary credit confirmed by a bank, usually for export. A Bill of Ex-change is a promise to pay at a later date, usually supported by a bank. Stage payments are used in big purchases, such as construction projects where payment is given to the contractor when certain milestones are hit.

Question 2

Question Type: MultipleChoice

Service Credits are a form of what?

Options:

A- liquidated damages

B- indemnity

C- KPI

D- Consideration

Answer:

A

Explanation:

Service Credits are a form of Liquidated Damages - it's a financial remedy, common in the IT in-dustry, which is available to a buyer when the service level falls below an expected level. See p. 31 for more details.

Question 3

Question Type: **MultipleChoice**

Parky Parks Ltd has a contract with Slides R Us for the provision of children's playground equipment. The contract contains a clause for liquidated damages and puts the figure at 500k. Which of the following statements is correct? Select TWO

Options:

A- Liquidated damages needs to be a 100% accurate figure

B- If damages exceed 500k Parky Parks can apply to the courts to get Slides R Us to pay above this amount

C- Damages under the amount of 500k are not required to be paid to Parky Parks

D- liquidated damages is a genuine estimate of loss

E- costs incurred above 500k will be covered by Parky Parks Ltd

Answer:

D, E

Explanation:

The true statements are: liquidated damages is a genuine estimate of loss (it doesn't need to be a 100% accurate figure, so long as it's your best estimate) and costs incurred above 500k will be covered by Parky Parks Ltd. That's one of the disadvantages of stating liquidated damages in a contract for a buyer- if damages total more than this, you have to foot the bill for the rest. See p.30 for more info

Question 4

Question Type: **MultipleChoice**

Mark is a consultant who works with building managers and advises them on how to make their buildings safer. What type of insurance should Mark have?

Options:

A- Public Liability

B- Product Liability

C- Professional Indemnity

D- Property Insurance

Answer:

C

Explanation:

Mark needs professional indemnity insurance. Types of insurance is a known exam topic and the study guide does not cover this particularly well. Types of insurance is mentioned on p.25 but Pro-fessional Indemnity Insurance isn't really explained and this does come up in the exam. Professional Indemnity Insurance is needed when your job is to give advice to people (like as a Consultant). It's used for if the advice you give turns out to be bad. For example, if Mark told the building manager he should get ABC Fire Alarm installed, and actually this Fire Alarm doesn't meet the necessary Health and Safety standards, he could get sued by the building manager. He could then claim on his Professional Indemnity Insurance.

Question 5

Question Type: MultipleChoice

What is the purpose of a liability clause in a contract?

Options:

A- to limit commercial and financial exposure

B- to punish the supplier for poor performance

C- to ensure adherence to legal standards

D- to give an approximate pre-determined value of loss

Answer:

A

Explanation:

The purpose of liability clauses is 'to limit commercial and financial exposure'- this is a direct quote from p.2. Liability is the amount that a company owes to another party- this is why contracts will focus on limiting their liability as much as possible.

Question 6

Question Type: MultipleChoice

What is the name given to a term in a contract where one party promises to compensate the other party for a trigger event?

Options:

A- liability

B- warranty

C- damages

D- indemnity

Answer:

D

Explanation:

Indemnity- this is the definition given on p. 20

Question 7

Question Type: **MultipleChoice**

Which of the following would not be considered a contract? Select TWO

Options:

A- A written agreement between two robbers to rob a bank which states that the money gained would be split evenly between the two.

B- a domestic agreement between two parents about who will pick the kids up from school

C- a phone call between a supplier and buyer in which the buyer agrees to purchase 100 teddy bears from the supplier for 100.

D- a written document in which Paul agrees to clean Freda's house for 10

E- an email chain between a buyer and supplier which includes a PO and Invoice

Answer:

A, B

Explanation:

The correct answers are; A written agreement between two robbers to rob a bank which states that the money gained would be split evenly between the two AND a domestic agreement between two parents about who will pick the kids up from school. There are 3 instances when a contract isn't considered a contract and these are; illegal activity (like example A), a social or domestic arrange-ment (like example B) and when something is an 'Invitation to Treat'. See p.2-3 Remember con-tracts don't have to be written - they can be verbal (example C), the exchange doesn't have to be fair (example D) and it can be implied by conduct (example E).