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Question 1

Question Type: MultipleChoice

What is the output of regression analysis?

Options:

- A- Forecasting process
- B- Dependent variables
- C- Line of best fit
- D- Independent variables

Answer:

C

Explanation:

Regression refers to a quantitative measure of the relationship between one or more independent variables and a resulting dependent variable. Regression is of use to professionals in a wide range of fields from science and public service to financial analysis.

To perform a regression analysis, a statistician collects a set of data points, each including a complete set of dependent and independent variables. For example, the dependent variable could be a firm's stock price and the independent variables could be the Standard and Poor's 500 index and the national unemployment rate, assuming that the stock is not listed in the S&P 500. The sample set could be each of these three data sets for the past 20 years.

On a chart, these data points would appear as scatter plot, a set of points that may or may not appear to be organized along any line. If a linear pattern is apparent, it may be possible to sketch a line of best fit that minimizes the distance of those points from that line. If no organizing axis is visually apparent, regression analysis can generate a line based on the least squares method. This method builds the line which minimizes the squared distance of each point from the line of best fit.

Line of best fit is one of the most important outputs of regression analysis.

- CIPS study guide page 99-100

- Line Of Best Fit (investopedia.com)

LO 2, AC 2.3

Question 2

Question Type: MultipleChoice

A consulting firm in London had previously had static budgets. They were set once and locked in for the year. This resulted in departments meeting their budgets early and doing virtually nothing the rest of the accounting period. To address this imbalance, the

company tossed out the static budget and developed a new one for each department of the next 18 months. And each month, real sales figures are analyzed against the plan and the budget is adjusted accordingly. Then the company adds another month into the budgeting plan. What type of budget this company is using?

Options:

- A- Activity-based budget
- B- Rolling budget
- C- Incremental budget
- D- Zero-based budget

Answer:

B

Explanation:

A rolling budget is continually updated to add a new budget period as the most recent budget period is completed. Thus, the rolling budget involves the incremental extension of the existing budget model. By doing so, a business always has a budget that extends one year into the future.

Think of continuous (rolling) budgets as waves rolling ashore on the beach. A new wave comes in each time, replacing the one that was there before. From a financial perspective, the wave is your budget, and the time between waves is longer! These reporting time frames

can be monthly, quarterly, yearly, etc.

An incremental budget is a budget prepared using a previous period's budget or actual performance as a basis with incremental amounts added for the new budget period.

Zero-based budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. The process of zero-based budgeting starts from a 'zero base,' and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether each budget is higher or lower than the previous one.

Activity-based budgeting (ABB) is a system that records, researches, and analyzes activities that lead to costs for a company. Every activity in an organization that incurs a cost is scrutinized for potential ways to create efficiencies. Budgets are then developed based on these results.

LO 1, AC 1.4

Question 3

Question Type: MultipleChoice

When should procurement professional tolerate a risk?

Options:

- A- When the risk may disrupt the production
- B- When the risk imposes an existential threat
- C- When the risk causes some trivial annoyance
- D- When the risk breaks the relationship with the strategic supplier

Answer:

C

Explanation:

Risk control is the process by which an organization reduces the likelihood of a risk event occurring or mitigates the effects that risk should it occur. Our preferred way to determine your risk control strategy is to use the four T's Process:

Transferring Risk can be achieved through the use of various forms of insurance, or the payment to third parties who are prepared to take the risk on behalf of the organization

Tolerating Risk is where no action is taken to mitigate or reduce a risk. This may be because the cost of instituting risk reduction or mitigation activity is not cost-effective or the risks of impact are at so low that they are deemed acceptable to the business (such as some trivial annoyance). Even when these risks are tolerated they should be monitored because future changes may make it no longer tolerable.

Treating Risk is a method of controlling risk through actions that reduce the likelihood of the risk occurring or minimize its impact prior to its occurrence. Also, there are contingent measures that can be developed to reduce the impact of an event once it has occurred.

Terminating Risk is the simplest and most often ignored method of dealing with risk. It is the approach that should be most favored where possible and simply involves risk elimination. This can be done by altering an inherently risky process or practice to remove the risk. The same can be used when reviewing practices and processes in all areas of the business.

If an item presents a risk and can be changed or removed without it materially affecting the business, then removing the risk should be the first option considered; rather than attempting to treat, tolerate or transfer it.

LO 3, AC 3.3

Question 4

Question Type: MultipleChoice

A drawing is an example of...?

Options:

A- Statements of work

- B-** Technical specifications
- C-** Output specifications
- D-** Outcome specifications

Answer:

B

Explanation:

A technical specification details the standards that a product or service must meet. Drawings (often called engineering drawings or technical drawings) are complementary to technical specifications

LO 3, AC 3.1

Question 5

Question Type: MultipleChoice

Aldar Properties is a property developer in UAE. In last month, it spent \$2,160 for 10 tons of steel. In this month, it had planned 10% increment in budget for steel comparing to last month. But the number of orders boosted and total spend on steel reached \$1,992.1

while Aldar has imported 11 tons. What is the main cost driver of steel budget?

Options:

- A- Both price and quantity variances
- B- Inflation
- C- Quantity variance
- D- Price variance

Answer:

D

Explanation:

In this question, you have to calculate price variance and quantity variance.

Last month, 1 tonne of steel costed \$216. This month, the price decreases to \$181.1. Price variance = $(P1 - P2) * Q2 = (\$216 - \$181.1) * 11 = \$383.9$

Quantity variance = $(Q1 - Q2) * P1 = -\$216$

Price variance is greater than quantity variance, therefore, price variance is the main cost driver.

Question 6

Question Type: MultipleChoice

Royal Navy is preparing a through-life contract. They put to the contract a term on rectification of operational defects and planning and delivery of Fleet Time Support Periods. Which part of through-life requirement does this term belong to?

Options:

- A- Installation
- B- In-service support
- C- Manufacture
- D- Customer support

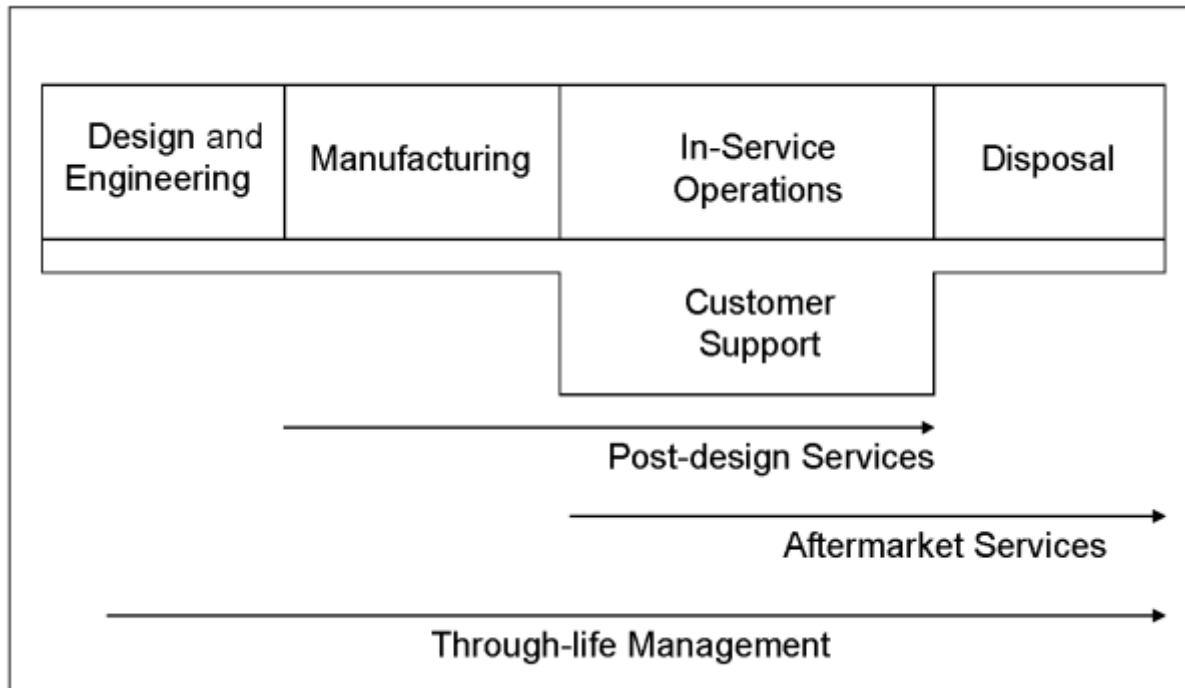
Answer:

B

Explanation:

There are 6 main components of the through-life requirements of an asset: Design, Manufacture, Installation, In-service support, Decommission and disposal and Customer support.

Rectification of operational defects and planning and delivery of Fleet Time Support Periods are maintenance activities which belong to in-service support. You may have chosen Customer support. However, in through-life asset management context, customer support does not include maintenance services. Instead, it is the services that go along the stages of asset life. It may include consulting, communication and information exchange.



Source: Andrew Graves

LO 3, AC 3.2

Question 7

Question Type: MultipleChoice

Honda of America Manufacturing is a well established automobile manufacturer. It purchases tens of thousands of materials and parts from suppliers, however, only few of them are strategic. To these suppliers, Honda's procurement manager requires them to send details of labour, materials, overhead cost and profit. However, the suppliers are reluctant to submit such confidential information. Is the procurement manager's action appropriate?

Options:

- A-** Yes, because the procurement manager can get a good insight from the market
- B-** No, because no suppliers are willing to show sensitive information on their costs and profit.
- C-** Yes, because strategies can be introduced for reducing cost and improving the supplier relationships.
- D-** No, because procurement manager should conduct life-cycle analysis

Answer:

C

Explanation:

With strategic suppliers, the aim should be to work co-operatively with them to find ways of reducing costs to achieve a target cost. It is necessary to work with the suppliers in carrying out open book costing by having first persuaded them of the need to do it. Open book can be used to establish a Target Cost, a Compensation Event value and can eventually be used to ensure the payment of actual costs to an organization. A number of forms of contract cater for this functionality of which only the NEC goes to into any great depth of methodology.

If the suppliers worry about leak of confidential information, procurement team can suggest them to sign a non-disclosure agreement. The buying organisation should also comply with data protection regulations. The Employer / individual responsible for a project's costs should ultimately take a pragmatic and sensible approach with regard to commercially or personally sensitive data provided by the contractor. The primary goal of all open book cost management is to provide Employer comfort and security in the accuracy of commercial data; this effectively means striking a balance between undertaking full audits and blind faith.

LO 1, AC 1.2

Question 8

Question Type: MultipleChoice

When analyzing direct and indirect costs of potential suppliers for negotiations and planning purchasing budget, the procurement manager collects reports from specialist organisations like Mintel, Gartner and Forrester. Which kind of information source is used by the procurement manager?

Options:

- A- Company annual report
- B- Technical data
- C- Market data
- D- RFI

Answer:

C

Explanation:

Using Porter's value chain helps procurement professionals know what are direct and indirect costs of supplier. Information on direct and indirect costs will have been collected as part of the market analysis. Information sources that may help include the following:

- Company annual reports

- Market data
- Technical data
- Request for information
- Plan visits
- Discount lists

Market data is the information that is collected and analysed by specialist organisations like Mintel, Gartner, Forrester,...

LO 2, AC 2.3

Question 9

Question Type: MultipleChoice

A company is planning the procurement of an IT system and wants to agree a through-life contract with the supplier to ensure ongoing system support. The first step in producing that specification should be to:

Options:

- A- Build a design
- B- Prepare tendering documents
- C- Identify the IT system supplier
- D- Define the user requirements

Answer:

D

Explanation:

Writing a high-quality specification is very crucial in every purchase. In through-life management, it is even more important since the assets often have very high value. Defining user requirement is the first step to write a specification. Without doing this right, many problems may arise in later stages.

LO 3, AC 3.2

Question 10

Question Type: MultipleChoice

Which of the following is the process for improving the value of a new product or service?

Options:

- A- Value engineering
- B- Porter's Five Forces
- C- Planning and design
- D- Value analysis

Answer:

A

Explanation:

Value Engineering (VE) is concerned with new products. It is applied during product development. The focus is on reducing costs, improving function or both, by way of teamwork-based product evaluation and analysis. This takes place before any capital is invested in tooling, plant or equipment.

This is very significant, because according to many reports, up to 80% of a product's costs (throughout the rest of its life-cycle), are locked in at the design development stage. This is understandable when you consider the design of any product determines many factors, such as tooling, plant and equipment, labour and skills, training costs, materials, shipping, installation, maintenance, as well as decommissioning and recycle costs.

Question 11

Question Type: MultipleChoice

A buyer in Housing Authority is considering using performance specification in upcoming social housing project. What should buyer be aware when using this type of specification?

Options:

- A-** In performance specification, specific brands and preferred suppliers must be appointed to avoid the competition
- B-** Using performance specification means that the buyer will bear all the risks regarding the fitness for purpose of the facility.
- C-** The buyer must be able to clearly define the performance metrics to ensure that the of-fered solution will achieve the desired outcome
- D-** The buyer must be able to define the materials to be used, the execution and installation methods required and the specific design of the building

Answer:

C

Explanation:

In construction, specifications are written documents that describe the materials and workmanship required for a development. They do not include cost, quantity or drawn information but need to be read alongside other contract documentation such as quantities, schedules and drawings.

Specifications vary considerably depending on the stage to which the design has been developed, ranging from performance (open) specifications that require further design by a contractor or supplier, to prescriptive (closed) specifications where the design is already complete when the project is tendered.

Prescriptive specifications give the client more certainty about the end product when they make their final investment decision (i.e. when they appoint the contractor), whereas a performance specification gives the contractor and suppliers more scope to innovate and adopt cost effective methods of work, potentially offering better value for money.

Typically, performance specifications are written on projects that are straight-forward, standard building types, whereas prescriptive specifications are written for more complex buildings, or buildings where the client has requirements that might not be familiar to contractors and where certainty regarding the exact nature of the completed development is more important to the client.

Performance specification has some disadvantages:

- Well-defined performance metrics are needed to ensure that the specified performance will achieve the desired outcome
- Require reliable, practical, economical tests of performance
- Evaluations are subjective and require additional time and effort to complete

Therefore, if a performance specification is used, the buying organisation will have to ensure that they are able to define and conduct tests on whether supplier's solution can deliver the desired out-come.

- CIPS study guide page 118-121
- Performance specification - Designing Buildings Wiki
- Partnership for Public Procurement (cips.org)

LO 3, AC 3.1

Question 12

Question Type: MultipleChoice

Bob is a new procurement specialist at XYZ Ltd. He is assigned to categorise the company's sup-plies. After analysing, Bob realises that a group of low value products is sourced from a tiny geo-graphical area which is prone to flooding. What would be the best strategy to manage this category of products?

Options:

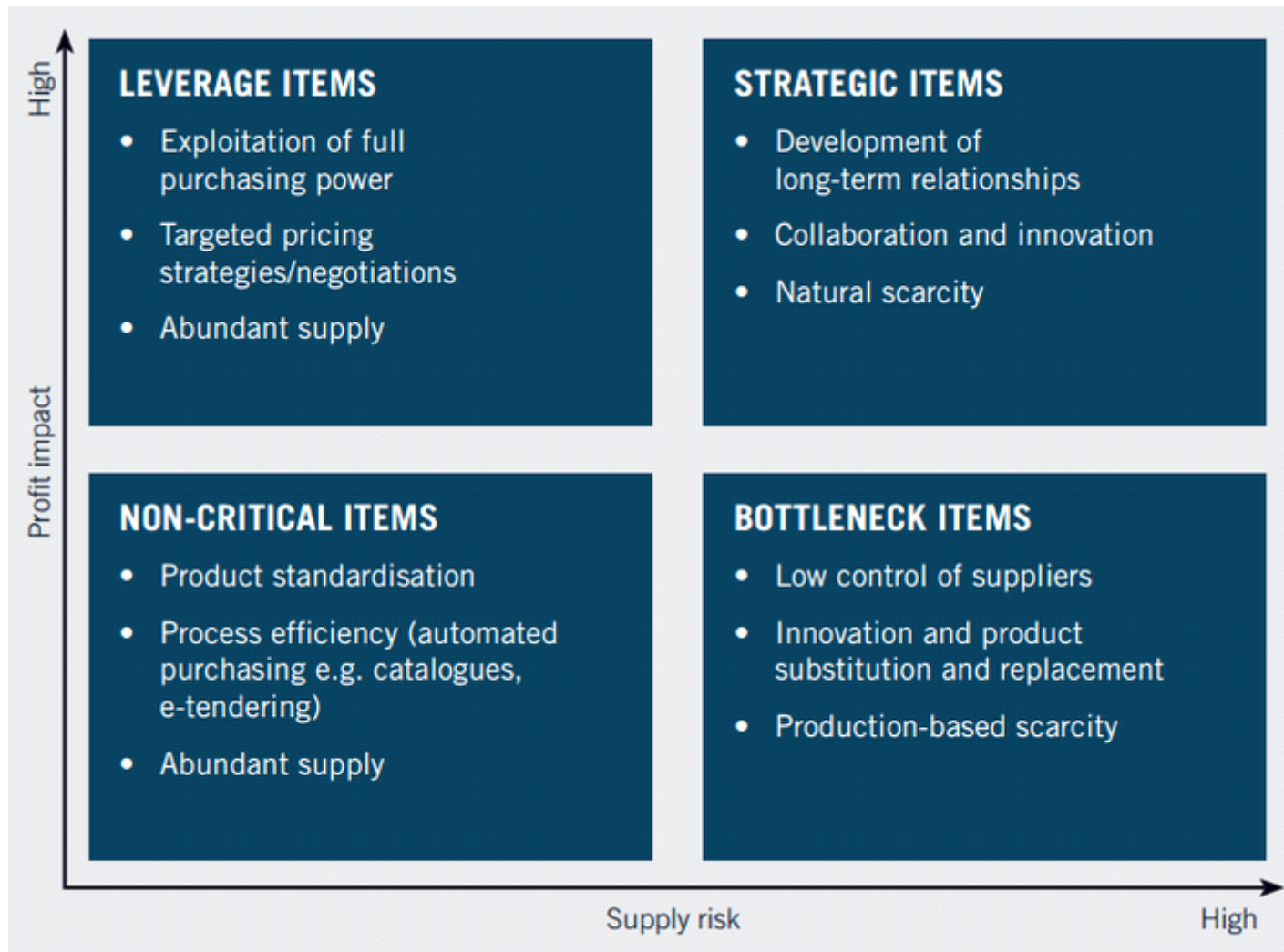
- A- Source this group of products from only one supplier
- B- Find an alternative source to secure supply
- C- Assign some of procurement jobs to user department
- D- Form partnership relationship with the current supplier

Answer:

B

Explanation:

In the scenario, the products have low value and high risk of supply. This group is known as bottleneck or critical in Kraljic's portfolio matrix. The objective for such items would be securing the supply. The company can achieve this goal by 'making' the products themselves, or finding an alternative option.



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