



Free Questions for L4M2

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# Question 1

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Question Type: MultipleChoice

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What is the output of regression analysis?

Options:

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



Answer:

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C

Explanation:

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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

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Question Type: MultipleChoice

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Which of the following specific markets is most likely to have product shortage by nature?

Options:

- A- Retail
- B- Financial
- C- Construction
- D- Services
- E- Agriculture



Answer:

E

Explanation:

Products used in agriculture can be subject to shortage due to natural disasters.

LO 2, AC 2.1

## Question 3

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Question Type: MultipleChoice

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What will be the result of retaliation between business rivals in an industry?

Options:

- A- Higher exit barrier
- B- More new entrants
- C- Lower profit
- D- Greater bargaining power of suppliers



Answer:

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C

### Explanation:

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Industry rivalry---or rivalry among existing firms---is one of Porter's five forces used to determine the intensity of competition in an industry. Other factors in this competitive analysis are:

- Barriers to entry
- Bargaining power of buyers
- Bargaining power of suppliers
- Threat of substitutes

Industry rivalry usually takes the form of jockeying for position using various tactics (for example, price competition, advertising battles, product introductions). This rivalry tends to increase in intensity when companies either feel competitive pressure or see an opportunity to improve their position.

In most industries, one company's competitive moves will have a noticeable impact on the competition, who will then retaliate to counter those efforts. Companies are mutually dependent, so the pattern of action and reaction may harm all companies and the industry.

Some types of competition (for example, price competition) are very unstable and negatively influence industry profitability. Other tactics (for example, advertising battles) may positively influence the industry, as they increase demand or enhance product differentiation.

### References

Porter, M. (1998). Competitive Strategy. New York: Free Press. pp. 17-23.

CIPS study guide page 86-87

LO 2, AC 2.2



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## Question 4

**Question Type:** MultipleChoice

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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

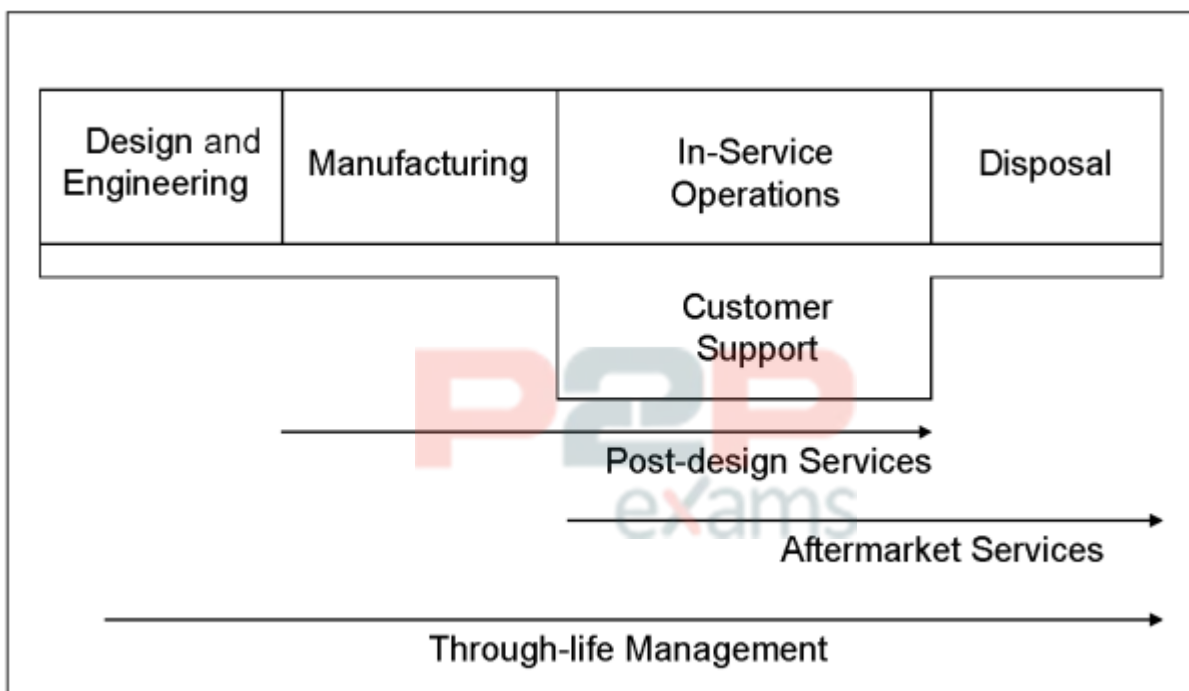
### Answer:

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 5

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Question Type: MultipleChoice

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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:

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

Answer:

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B

Explanation:

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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, quar-terly, 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 6

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Question Type: MultipleChoice

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GE has developed TurboProp engine that is made from over 850 metal parts. These parts are sourced from many suppliers. Value of spend on these parts make up 73% of total spend. Any delay in receiving a part will cause a bottleneck around the production of the engine. Which of the following should be the best course of action of GE's CPO?

### Options:

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- A- Drive down prices by using market competition
- B- Increase production
- C- Part standardisation
- D- Reduce delivery cost

### Answer:

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C

### Explanation:

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In this scenario, the final product has vast range of parts. The second problem is lacking any part can cause disruption to the production process. So GE has 2 things to do: to reduce the part varieties, and secure the supply. Part standardisation is the best option here. It can simplify the range of parts or materials used, and simultaneously, it expands the supply base of GE. If a supplier fails to deliver the part, the company always has other options to replace.

Costs are also a concern, but bottleneck in production imposes a serious risk to the organisation. Driving down costs using market competition cannot be a foremost priority.

Increasing production may help to reduce bottleneck. However, it will also increase the inventory of finished products and unnecessary upkeep costs.

LO 3, AC 3.4

## Question 7

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Question Type: MultipleChoice

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Which of the following technology is likely to be an innovation in financial sector?

Options:

- A- E-commerce
- B- Robotics
- C- E-auction
- D- Blockchain



Answer:

D

Explanation:

Traditional financial systems operate with a centralised database, usually with a single point of authority. Blockchain technology, on the other hand, allows for a distributed database that holds a growing number of records. Instead of existing in one place, the ledger is continually updated and synchronised across multiple computers in a network. Therefore, any participant in the network with the proper authorisation can view the entire ledger -- without relying on an intermediary or any one authority.

Another key feature of blockchain technology is a "smart contract," which is a self-executing protocol that enforces a previously agreed arrangement. For example, a smart contract could trigger an automatic refund under certain conditions or the automatic payment of an agreed commission after a sale. These smart contracts can eliminate delays in traditional Finance processes, while increasing transparency and reducing reliance on middlemen to follow through on their commitments. Moreover, like other parts of a blockchain, smart contracts are immutable, so they can enhance accuracy in the financial statements.

LO 2, AC 2.1

## Question 8

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Question Type: MultipleChoice

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Total cost of ownership of a solar panel is \$5,000 and it is expected that the panel will make a



saving of \$1,000 each year. So it would take 5 years for the benefits to repay the investment. Therefore, the firm plans to keep the solar panel for at least 5 years. Is payback period calculation right for making the business decision?

### Options:

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- A- Yes, because it takes everything into account
- B- No, because payback period can be only used to calculate the depreciation of a fixed asset
- C- No, because payback period doesn't take into account price fluctuations
- D- Yes, because payback period shows how long the firm recovers the investment

### Answer:

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D

### Explanation:

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There are many factors that need to be considered when making a business decision. Costs and benefits are among those factor. To estimate the length of time in which an investment reaches a break-even point, businesses often use the payback period. The payback period refers to the amount of time it takes to recover the cost of an investment.

'Yes, because it takes everything into account': It ignores the time value of money (TVM), unlike other methods of capital budgeting such as net present value (NPV), internal rate of return (IRR), and discounted cash flow.

'No, because payback period doesn't take into account price fluctuations': Though it doesn't take into account price fluctuation, payback period is still useful in financial and capital budgeting.

'No, because payback period can be only used to calculate the depreciation of a fixed asset': Payback period only calculates the length of time in which the benefits of a charge repay its costs.

LO 1, AC 1.3

## Question 9

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Question Type: MultipleChoice

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When should procurement professional tolerate a risk?

### Options:

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- 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:

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C

### Explanation:

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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 the treat, tolerate or transfer it.

LO 3, AC 3.3

## Question 10

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Question Type: MultipleChoice

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Warwickshire Ambulance Service (WAS) is an NHS Trust. It operates throughout Warwickshire and the neighbouring areas. It has three core areas of activity, namely the provision of Emergency Ambulance Services, routine Patient Transport Services, and Logistic Medical Services. The agency is working towards higher service level through benchmarking. Which of the following is the benefit of benchmarking to WAS?

### Options:

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- A- Benchmarking is a panacea for all WAS's problems
- B- It will help WAS create performance standards derived from an analysis of the best in business
- C- It helps WAS identify better ways to deliver service through a cookbook process
- D- It will help WAS analyse the competitors in the industry

### Answer:

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B

### Explanation:

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Benchmarking is 'the pursuit by organisations of enhanced performance by learning from the successful practices of others. Benchmarking is a continuous activity; key internal processes are adjusted, performance is monitored, new comparisons are made with the current best performers and further changes are explored. Where information about these key processes is obtained through a co-operative partnership with specific organisations (rather than via a third party such as an independently-maintained database), there is an expectation of mutual benefit over a period of time.



## Successful benchmarking will help you . . .

- find who does the process best and close the gap.
- recognize the leading organizations in a process or activity.
- create performance standards derived from an analysis of the best in business.
- ensure that comparisons are relevant.
- measure your performance, your processes, and your strategies against best in business.
- measure business processes.
- assess performance over time.
- accelerate continuous process improvements (CPI).
- establish more credible goals for CPI.
- establish actionable objectives.
  
- establish customer expectations of business standards set by the best suppliers in industry.
- help your organization achieve breakthrough improvements.
- create a sense of urgency for change.
- increase customer satisfaction.
- become direction setting.
- provide a positive, proactive, structured process.

The Department of the Navy Benchmarking Handbook: A Systems View

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- The Department of Navy Benchmarking Handbook: A system view
- CIPS study guide page 49-51

LO 1, AC 1.3



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