CIPS L4M2 Practice Questions

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Question 1

Question Type: MultipleChoice

Which of the following would positively affect a buyer's company cash flow? Select TWO that apply.

Options:

A- The bank grants a loan to the buyer's company
B- Payment of dividends to the company's shareholders
C- A supplier reduces payment terms to payment on receipt
D- A customer agrees to pay the buyer's company upon purchase
E- The buyer's company offers sales discounts and promotions

Answer:

A, D

Explanation:

Comprehensive and Detailed Explanation (from CIPS L4M2 -- Financial Management in Procurement)

Positive cash flow arises when money flows into the business:

A . Bank loan immediate inflow of cash.

D . Customer pays upon purchase quick revenue collection, improving liquidity.

The other options either delay or reduce available cash (outflows).

Relevant L4M2 references:

''Cash flow and working capital in procurement decision-making''

''Financial metrics in business case justification''

Question 2

Question Type: MultipleChoice

Azram, a procurement analyst, has been tasked with applying whole life asset management when purchasing a piece of laboratory equipment. Was this the correct course of action?

Options:

A- Yes, because this focuses only on the price of the equipment
B- Yes, because this considers all associated costs
C- No, because this considers the costs of quality
D- No, because this covers various transactional costs

Answer:

B

Question 3

Question Type: MultipleChoice

FSB Group is developing a building specification that ensures fair labour practices and prioritises local employment. What type of sustainability criteria does this describe?

Options:

A- Environmental sustainability
B- Economic sustainability
C- Profit sustainability
D- Social sustainability

Answer:

D

Explanation:

Comprehensive and Detailed Explanation (from CIPS L4M2 -- Sustainable Procurement and Specifications)

CIPS defines social sustainability as protecting and improving human rights, working conditions, equality, and local community welfare.

This includes:

Fair labour standards

Local employment

Diversity and inclusion

Hence, Option D (Social sustainability) is correct.

Relevant L4M2 references:

"The triple bottom line in procurement"

"Embedding social sustainability in specifications"

Question 4

Question Type: MultipleChoice

Which of the following factors might prompt an organisation to procure an alternative product? Choose THREE that apply:

Options:

A- Brand loyalty
B- Relative value to money between options
C- Buying organisation's propensities to change
D- Easy access to distribution channel
E- Threat of retaliation
F- Switching cost

Answer:

B, C, F

Explanation:

Explanation

According to Michael Porter, the threat of substitution, is a function of three factors:

* The relative value/ price of a substitute compared to an industry's product

* The cost of switching to the substitute

* The buyer's propensity to switch

(Porter, Michael E.. Competitive Advantage: Creating and Sustaining Superior Performance (p. 278). Free Press. Kindle Edition.)

LO 2, AC 2.2

Question 5

Question Type: MultipleChoice

When analysing a market, the availability of substitute products or suppliers is the only competitive force to consider. Is this statement correct?

Options:

A- No, availability of substitutes is not a competitive market force
B- No, other forces include the threat of new entrants and bargaining strength of buyers and suppliers
C- Yes, substitute products and therefore cost is the source of all competition
D- Yes, it is the only competitive force relevant to procurement

Answer:

B

Explanation:

Detailed

While substitute products are an important factor, other forces such as new entrants, buyer and supplier bargaining power, and industry rivalry also significantly influence market dynamics. These forces are part of frameworks like Porter's Five Forces used in market analysis.
Reference: CIPS Level 4, Market Environment Analysis.

Question 6

Question Type: MultipleChoice

Which of these are variable costs?

Staff overtime

Premises costs

Insurance costs

Material costs

Options:

A- 1 and 4
B- 2 and 3
C- 1 and 2
D- 3 and 4

Answer:

A

Question 7

Question Type: MultipleChoice

The bargaining strength of suppliers is likely to be high in Which option best situations? Choose TWO that apply:

Options:

A- The buyer is educated on supply markets
B- There is a limited number of suppliers in relation to buyers
C- The buyer is large in size relative to the supplier
D- The buyer spend is a high proportion of a supplier's revenue
E- The buyer requirement is urgent

Answer:

B, E

Explanation:

Detailed

B (Limited number of suppliers): Fewer suppliers lead to higher bargaining power due to reduced competition.

E (Urgent buyer requirement): Suppliers gain leverage when buyers have limited time to source alternatives.

Education on markets and buyer size are factors that strengthen buyer, not supplier, bargaining power. Reference: CIPS Level 4, Supplier Negotiation and Market Power.

Question 8

Question Type: MultipleChoice

You are a senior buyer in a large manufacturing company. The engineering team is looking for a product

that will assist them in a new innovative project. The technology is evolving and the product supplied is

likely to be bespoke to the supplier. You are suggesting the use of a performance specification as a part of the tender. What is the main reason for this?

Options:

A- This places the responsibility for success with the supplier
B- The tender process is likely to be faster
C- The cost of the product is likely to be cheaper
D- This will allow a comprehensive description of the product

Answer:

A