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# Question 1

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**Question Type:** MultipleChoice

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Which of the following best describe the function of MRP?

## Options:

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- A- Planning and controlling of production and finance
- B- Planning and monitoring of inventory resources
- C- Planning and monitoring of production resources only
- D- Planning and controlling of production and inventory

## Answer:

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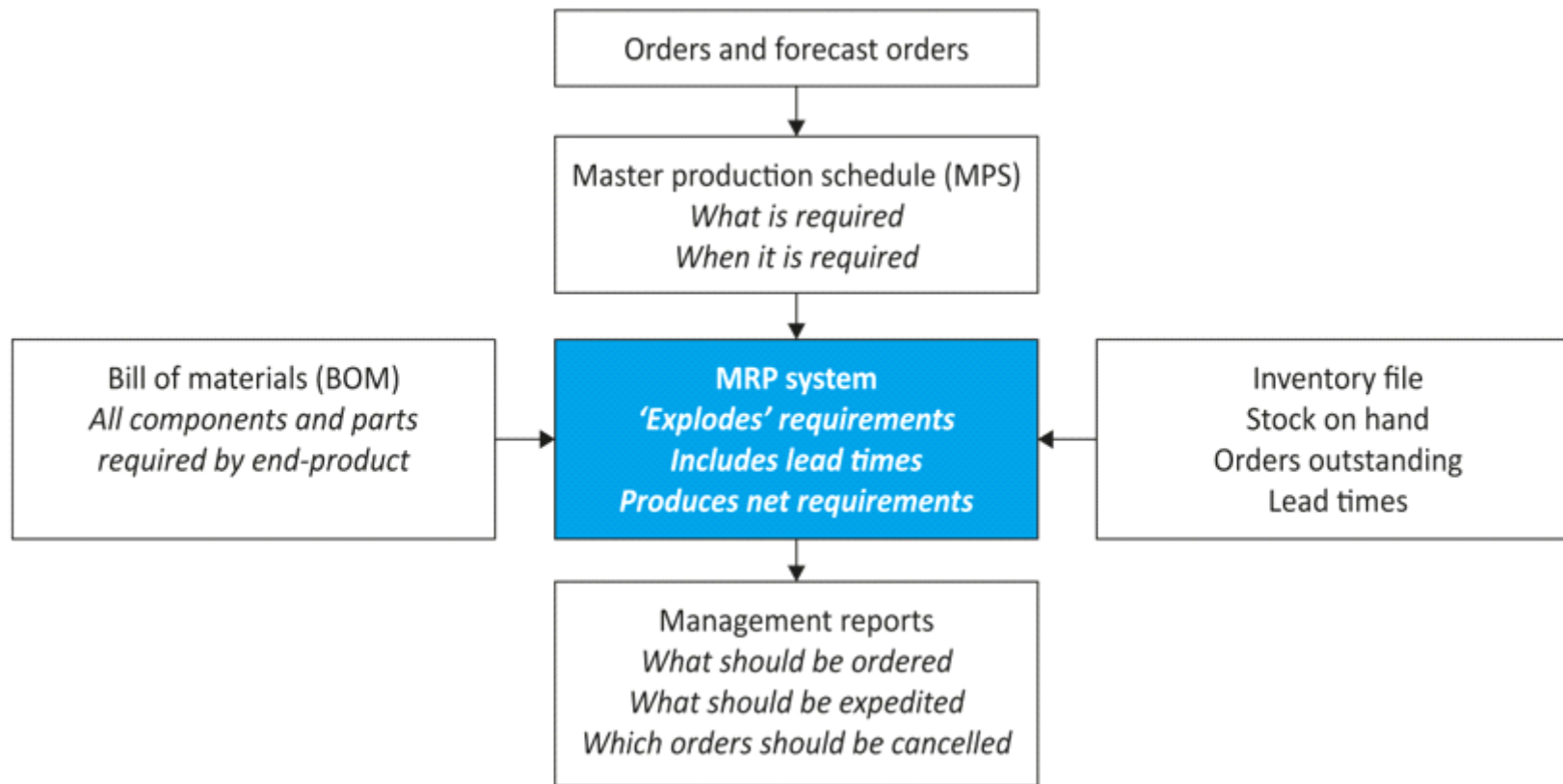
D

## Explanation:

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Material requirement planning (MRP) is a production planning and material (inventory) control system used in manufacturing. Objectives of MRP are to ensure materials are available for production while minimising inventory and to plan production and procurement activities.

MRP process is described in the graph below:



LO 2, AC 2.3

## Question 2

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**Question Type: MultipleChoice**

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In a manufacturing facility, which types of inventory have the lowest value?

1. Finished goods
2. Secondary components
3. Work in progress
4. Raw materials

**Options:**

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

**Answer:**

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B

**Explanation:**

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Raw materials are basic input materials - they are only processed limitedly or have not been processed at all. Their values are equal to acquisition cost and are the lowest value of stock held.

Secondary components are the products that are combined with others to produce the finished goods. They are acquired in the processed state. Their value is higher than raw materials, but still at acquisition cost.

Work in progress is the stock part-way through manufacture that has not been finished. It is typically not completed yet, so it doesn't have full value. But the costs of processing already carried out makes it more valuable than materials and components.

Finished goods are completed and ready to be used or sold. Finished goods are the most expensive and need to be stored in good conditions.

LO 2, AC 2.1

## Question 3

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**Question Type:** MultipleChoice

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Which one of the following statements is true about radio frequency identification (RFID)?

**Options:**

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- A- RFID tags require laser scanning.
- B- A passive RFID tag does not use an antenna
- C- An active RFID tag does not require a power source
- D- Normally passive RFID tags store ID numbers

**Answer:**

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D

**Explanation:**

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Radio frequency identification (RFID) are items which use radio technology to identify itself and its location subject to having appropriate hardware and software.

RFID tags are made of three different components: an RFID chip, which is an integrated circuit (IC), an antenna, and a substrate.

A RFID Reader is a device that uses radio-frequency waves to wirelessly transfer data between itself and a RFID tag/label in order to identify, categorize and track assets. When combined with the right RFID software, a RFID reader can identify objects quicker, more accurately, at a reduced overall cost, and at various points of the object's lifecycle.

Passive RFID systems use tags with no internal power source and instead are powered by the electromagnetic energy transmitted from an RFID reader. Passive RFID tags are used for applications such as access control, file tracking, race timing, supply chain management, smart labels, and more.

Active RFID systems have three essential parts -- a reader or interrogator, antenna, and a tag. Active RFID tags possess their own power source -- an internal battery that enables them to have extremely long read ranges as well as large memory banks.

LO 1, AC 1.2

## Question 4

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**Question Type:** MultipleChoice

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Which of the following best describes what happens when order volumes from customers increase and multiply through the supply chain?

**Options:**

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- A- Pareto curve
- B- Opitz system
- C- Forrester effect
- D- Seasonal demand

**Answer:**

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C

**Explanation:**

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The bullwhip effect (or Forrester effect) is a distribution channel phenomenon in which forecasts yield supply chain inefficiencies. It refers to increasing swings in inventory in response to shifts in customer demand as one moves further up the supply chain.

Seasonal demand: consumer interest in purchasing particular products only during a specific period within the calendar year.

OPITZ is a coding system used to form Groups in Group Technology philosophy of Manufacturing.

The Pareto Curve is the shape created when the bars of a Pareto Chart are progressively summed and the points joined together. The final curve ends at 100% of items in the chart, which means that you can then draw a line across at 80% and 'bounce' it down to find the bar which, when combined with all bars to its left, will give 80% of all items.

LO 2, AC 2.3

## Question 5

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**Question Type:** MultipleChoice

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Which of the following is an assumption of economic-order-quantity model?

**Options:**

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- A- The quantity ordered can vary at each reorder point
- B- Demand, ordering costs, and carrying costs are uncertain
- C- No inventory stockouts occur
- D- The purchasing cost per unit is affected by the order quantity

**Answer:**

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C

**Explanation:**

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Economic order quantity (EOQ) model is the method that provides the company with an order quantity. This order quantity figure is where the record holding costs and ordering costs are mini-mized. By using this model, the companies can minimize the costs associated with the ordering and inventory holding. In 1913, Ford W. Harris developed this formula whereas R. H. Wilson is given credit for the application and in-depth analysis on this model.

If the economic order quantity model is applied, the following assumptions should be met:

- The rate of demand is constant, and total demand is known in advance.

- The ordering cost is constant.
- The unit price of inventory is constant, i.e., no discount is applied depending on order quantity.
- Delivery time is constant.
- Replacement of defective units is instantaneous.
- There is no safety stock level, i.e., the minimum stock level is zero.
- Restocking is made by the whole batch.

Because the demand and lead time are constant, no stockout events can occur.

LO 2, AC 2.3

## Question 6

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**Question Type:** MultipleChoice

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In ABC analysis, category C is also known as...?

### Options:

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- A- Indirect spend
- B- Long tail spend
- C- Direct spend
- D- Capital expense

### Answer:

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B

### Explanation:

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Tail Spend is derived from ABC Analysis, Class A high value suppliers, Tail Spend is formed from class B & C suppliers, equates to 20% of the total spend, B is Mid Tail and C is Long tail. Effective Spend Analysis and tail spend management, ensures that procurement can focus on creating an optimum and efficient sourcing strategy.

#### Procurement Spend Analysis

Procurement organisations effectively identify and manage suppliers using a sourcing strategy. Tail suppliers normally have low strategic value and makes the category management, very difficult . Spend Analysis and Category Management are very closely aligned, Spend Analysis including ABC, provides the category manager, with spend visibility.

Spend Analysis and procurement metrics are used to create category plans, build supplier relationships, to maintain service levels and deliver the best possible price and quality for goods and services bought. The acquisition of Spend data and subsequent Spend Analysis, provides Category Managers access to a well-structured procurement process,

LO 2, AC 2.1

## Question 7

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**Question Type:** MultipleChoice

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Which of the following is the character that allows the computer to verify whether a product code is entered correctly?

**Options:**

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- A- 3-digit prefix
- B- Check digit
- C- Radio frequency identification
- D- Barcode

**Answer:**

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B

**Explanation:**

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Many codes have integrated check digits. These are additional numbers or characters added to codes that a computer uses to verify the number is valid. The intention is to reduce the likelihood of miskeying an item and hitting an alternative live item. More often, a system is devised which a computer can calculate using combination of numbers.

Barcode is a graphic symbol used to convey data. Typically the characters in a barcode symbol consist of bars/space pattern. Barcode is the method of representing data in a visual, machine-readable form. Initially barcodes represented data by varying the width and spacing of parallel lines.

Radio-frequency identification (RFID) uses electromagnetic fields to automatically identify and track tags attached to objects.

A prefix is an affix which is placed before the stem of a word or a string. A product code may have prefix which indicates its group, country, origins, etc.

LO 1, AC 1.2

## Question 8

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**Question Type:** MultipleChoice

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Which of the following is the cylindrical container that is suitable for liquids or loose material

**Options:**

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A- Tote box

B- Drum

C- Industrial container

D- Storage bag

**Answer:**

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B

**Explanation:**

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Drum is the container for stock, which is usually cylindrical and can be made from a variety of materials. Contents are usually loose material or liquids



Tote box is the reusable storage box. These can be open or have lids or flaps to close them and come in a large variety of sizes and weight loadings.

With their plastic surfaces, totes are **easy to clean and can be used time and time again.**



A tote is ideal for holding and hauling items such as: tools, fasteners, bark dust, dry cement, cords, wires, smaller boxes,...

For larger and bulkier items, industrial containers make it easy to keep things stored and in one spot for transportation. Due to the metal interior, an industrial container is more appropriate for items that --- unlike tools and small pieces of machinery --- lack any surface sensitivity.





Solid containers like bins and totes are far from the only storage devices for the various materials that are needed in abundance at factories and warehouses. Another option is the storage bag, which can be used to hold bulk supplies of items until they're needed for the department shelves or assembly lines.



LO 1, AC 1.1

## Question 9

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**Question Type:** MultipleChoice

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XYZ Ltd is a major distributor of electrical equipment protection products in the United States. XYZ found that there was a lack of communication between the company and its key supplier, leading to the supplier trying to predict distributor needs and distributor attempting to estimate lead times. Essentially, both the supplier and the distributor have different sets of information, spending time and money trying to predict what the other will do. To deal with this problem, XYZ Ltd decides to implement new inventory management method in which the supplier manage the replenishment of items for sale. Both parties are obliged to share information on variations in demand and stock levels for goods used for or sale. Which inventory management method is XYZ Ltd implementing?

### Options:

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- A- Reverse logistics
- B- Floor-ready merchandise
- C- Vendor managed inventory
- D- Economic order quantity

### Answer:

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C

## **Explanation:**

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Floor-Ready Merchandise can be defined as the merchandise that is pre-tagged, pre ticketed and pre-occupied with all the necessary details and information such as marked to their specifications for style, size, type, color and price, this information is required in the retail store and is done before it reaches the retail store.

Economic order quantity (EOQ) is the ideal order quantity a company should purchase to minimize inventory costs such as holding costs, shortage costs, and order costs. This production-scheduling model was developed in 1913 by Ford W. Harris and has been refined over time. The formula assumes that demand, ordering, and holding costs all remain constant.

The full definition of reverse logistics, as according to The Council of Logistics Management, is the process of implementing, controlling, and planning the cost-effective flow of finished goods, raw materials, and in-process inventory. The flow is from the point of consumption (i.e. the customer) to the point of origin (i.e. the manufacturer), to properly dispose of these or to recapture value.

In the scenario, XYZ solves the current situation by letting the supplier to management the inventory and sharing stock level information with the supplier. Vendor managed inventory is the most suitable answer.

LO 3, AC 3.1

## **Question 10**

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**Question Type:** MultipleChoice

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When accounting for the disposal of fixed assets, the gain or loss on disposal is equal to...?

**Options:**

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- A- The difference between resale price and the cost or valuation less accumulated depreciation up to the date of disposal
- B- The difference between resale price and the cost of that asset
- C- The difference between resale price and the cost or valuation plus depreciation up to the beginning of the year in which disposal took place
- D- The difference between resale price and the cost of the asset less depreciation up to the beginning of the year in which disposal took place

**Answer:**

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D

**Explanation:**

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Fixed assets may be sold anytime during their useful life. This gives rise to the need to derecognize the asset from balance sheet and recognize any resulting gain or loss in the income statement.

The accounting for disposal of fixed assets can be summarized as follows:

- Record cash receive or the receivable created from the sale:

Debit Cash/Receivable

- Remove the asset from the balance sheet

Credit Fixed Asset (Net Book Value)

- Recognize the resulting gain or loss

Debit/Credit Gain or Loss (Income Statement)

Example

ABC LTD purchased a machine for \$2000 on 1st January 2001 which had a useful life of 5 years and an estimated residual value of \$500. The machine was being depreciated on straight line basis. However, ABC LTD decided to sell the asset on 1 January 2003 for \$1500 in order to raise cash for the purchase of a new machine.

The disposal of the fixed asset will be recorded as follows:

Record cash received or the receivable arising from the sale:

Debit Cash \$1,500

Remove the asset from the balance sheet

As a fixed asset is recognized in the balance sheet at the Net Book Value (i.e. Cost less Accumulated Depreciation), the machine will be removed from the accounts of ABC LTD in two parts:

First, the Machine Cost must be removed by crediting the ledger:

Credit Machine Cost \$2,500

Second, the Accumulated Depreciation in respect of the machine must be removed by debiting the ledger:

Debit Accumalated Depreciation \$600\*

\*Accumulated Depreciation:  $(2000 - 500)/5 \times 2$  Years

The combined effect of the above two transactions would be to remove the machine's net book value of \$1400 (2000 - 600) from the balance sheet.

Recognize the resulting gain or loss on the sale of machine

ABC LTD received \$1500 for an asset with a balance sheet worth of \$1400. It therefore earned a gain of \$100. The gain will be recorded as follows:

Credit Gain on Disposal \$100

- Accounting for Disposals
- CIPS study guide page 197-198

LO 3, AC 3.3

## Question 11

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**Question Type: MultipleChoice**

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Which is the best definition of reorder point?

**Options:**

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- A-** The point at which stock will fall to zero minus lead-time
- B-** The point when one unit of stock remains in stock
- C-** The point when stock reaches zero
- D-** The level inventory at which an order must be made

**Answer:**

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D

**Explanation:**

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Reorder point is the point either in time or in a process when the next order should be placed.

LO 2, AC 2.3



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