

## Tested & Approved L4M3 Study Materials Download Free Updated 161 Questions [Q61-Q81]



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**NO.61** Which of the following is an invitation to treat?

- \* Purchase order
- \* Invoice
- \* Price list
- \* Tender bid

An invitation to treat is an action inviting other parties to make an offer to form a contract. These actions may sometimes appear to be offers themselves, and the difference can sometimes be difficult to determine. The distinction is important because accepting an offer creates a binding contract while accepting an invitation to treat is actually making an offer.

One simple test to distinguish an offer and an invitation to treat is to ask what this statement will become when it is accepted. Now we apply this test to four options:

**Tender bid:** Tender bid is submitted by a supplier to an invitation to tender from the buyer. It states the specific quantity, price and other elements. If buyer accepts the bid, there will be a contract between them. Therefore, a tender bid is an offer.

• Purchase order: Purchase order which is sent by a buyer will state the items, the quantity, the price and terms and conditions. If supplier accepts the purchase order, there will also be a contract between two parties. It is also an offer.

• Price list: Price list is prepared by a supplier. The price list often states the items and unit price. If a buyer accepts it, the contract has not yet been formed since the contract scope has not yet been decided. It is an invitation to treat.

• Invoice: Invoice is often sent after a contract is formed. It is in fact a request for payment, neither offer nor invitation to treat.

Reference:

• CIPS study guide page 29-32

• What Is an Invitation to Treat?

LO 1, AC 1.1

**NO.62** Bandpro is a reseller of branded computer products to the private and public sector. The procurement team must purchase 500 items each day solely by multiple phone calls and emails to suppliers. Due to this practice, it takes a lot of time to track and collect relevant documents. Some important documents even get lost, which makes procurement audit more burdensome. Which of the following would increase the robustness of audit trails in procurement activities?

- \* Every evidence must be recorded by paper
- \* Adopt e-procurement
- \* Spend less time on auditing procurement procedures
- \* Rectify non-compliant activities

Audit trail is a chronological record the sequence of events connected to a given transaction, such as a purchase of raw materials, payroll disbursements, or a detailed financial statement. The record includes all the source documents connected to the transaction, providing context and clarity in the event a review is required. The more comprehensive the documentation, the more effective the audit trail is when used to create financial reports, verify information, and ensure compliance while eliminating fraud.

In the scenario, the procurement team gets the quotation from phone calls and emails which have weak audit trails and lack of transparency. One solution may be increasing the use of e-procurement system.

Reference:

• What is an audit trail?

• CIPS study guide page 6-7

LO 1, AC 1.1

**NO.63** Company A buys a lorry from Company B on hire purchase. During the contractual period, Company A makes default in paying the instalment. Company B has

- \* The right to take repossession of the lorry
- \* The option to repossess the lorry
- \* No right to take repossession
- \* Company B has to approach the court

Hire purchase is an arrangement for buying expensive consumer goods, where the buyer makes an initial down payment and pays the balance plus interest in installments. Ownership is not transferred until the end of the agreement, hire purchase plans offer more

protection to the vendor than other sales or leasing methods for unsecured items. That's because the items can be repossessed more easily should the buyer be unable to keep up with the repayments.

The answer is that Company B has the right to take repossession of the lorry.

Reference:

• Hire Purchase Agreements

• CIPS study guide page 70

LO 1, AC 1.3

**NO.64** A procurement professional is preparing a sale & purchase contract of a machinery. Which of the following clauses should be added to the contract? Select TWO that apply

- \* Supplier selection mechanism
- \* Insurance requirements
- \* Period of hire
- \* Ratio decidendi
- \* Guarantees

The complexity of the contract will reflect the complexity of the purchase. For simple, low-value purchases, standard terms and conditions may be all that is required, but do not assume that just because the purchase is one-off, the contract will be simple. It may still need to cover the following areas:

• Warranties and guarantees if the one-off purchase has a considerable life-span and is business-critical (e.g., a back-up generator for the office which houses the national computer servers).

• Insurance requirements: including professional indemnity, public/products liability, employer's liability, and cover for any specific risks such as pollution or working at height.

• Specification requirements on quality, timing and delivery

• Minimum quality standards on the business operation (e.g., a catering provider might only be providing sandwiches for a team meeting lunch, but you still need to know its hygiene practices).

• Built-in change process for any goods or services that are beyond very simple (e.g., works contracts always have variations procedures because of the unpredictable nature of such projects).

• Ability to extend the scope of the contract should be minimal or none, and restrained to the single requirement.

• Ability to extend the duration of the contract should be limited to the ability to accommodate unexpected time overruns (which itself should be subject to a damages/penalty provision where they are attributable to the supplier, and an extension to overheads costs where they are attributable to the purchaser).

• Data security protocols need to be considered if personal data is being shared.

Reference:

LO 1, AC 1.3

**NO.65** According to rule of contract formation, which of the following is a valid acceptance?

- \* The person orally agrees to pay the offered price
- \* The person states that she is able to pay the offered price
- \* The person asks for a lower price
- \* The person says that she will think about it overnight

Once a valid acceptance takes place, a binding contract is formed. It is therefore important to know what constitutes a valid acceptance in order to establish if the parties are bound by the agreement. There are three main rules relating to acceptance:

1. The acceptance must be communicated to the offeree.
2. The terms of the acceptance must exactly match the terms of the offer.
3. The agreement must be certain.

Among the answers:

The person says that she will think about it overnight; does not match the terms of the offer. The offeree does not assure that she will accept the offer.

The person asks for a lower price; This is a counter-offer.

The person states that she is able to pay the offered price; is not certain. The offeree merely provides information on her financial ability.

Reference:

Contractual agreement; offer and acceptance

CIPS study guide page 33-35

LO 1, AC 1.2

**NO.66** A manufacturing company signed a contract with a raw material supplier. The contract includes a clause on liquidated damages in case of late delivery. Purchaser was obliged to pay after 30 days from delivery. Eventually raw material was delivered 1 week later than initial plan due to supplier's slow production process. There is no defect in the delivered batch. Which of the following can be claimed by the manufacturing company?

- \* Rights to refunds or repairs
- \* Right of set-off
- \* Right of third party
- \* Right of extending payment

In certain circumstances, where two parties have monetary debts against each other, the right to set-off may arise. A right of set-off allows a (Party 1) to take into account the amount owed to it by the second party (Party 2) against any amount owed by Party 1 to Party 2, each party must be a debtor and a creditor.

Common law provides the key features that must be present for set-off to arise are;

1. mutuality of debts (each party must be the sole beneficial owner of the debt it is owed and the sole person liable for the debt it owes)
2. the claims each party has must be for non-payment of money

The common law provisions of set-off can be greatly enhanced by the inclusion of a contractual right to set-off (this is discussed further below) so that set-off is applicable in a greater range of situations. If you envisage set-off being a useful right it is not advisable to rely on the implied ability to use it (via common law or equitable set-off). Common law and equitable set-off are subject to various conditions and limitation however, a contractual right of set-off can be drafted to ensure parties are able to agree exactly how and when set-off should be applied.

In the above scenario, the supplier owes the manufacturer the payment for damages, while the manufacturer owes the supplier the payment for goods. This is mutuality of debts, which leads to right of set off.

Reference:

&#8211; Set-off on the right foot: a practical guide to set-off

&#8211; CIPS study guide page 158-159

LO 3, AC 3.2

**NO.67** Rochdale Ltd is looking for a new IT system to automate some of its operations. In designing the specification, procurement manager supposes that it should be done solely by the IT department who have deep expertise on this matter. Is procurement manager's opinion appropriate?

- \* No, because challenging the user's demand is the role of procurement
- \* Yes, because designing complex specification would waste procurement manager's time
- \* Yes, because procurement professional has no expertise in IT sector
- \* No, because designing complex specification could only be outsourced

Procurement professionals have a role in challenging specifications. Technical experts can get things wrong and asking naive questions can be useful in bringing these to light. The challenging may include:

&#8211; Does the organisation really need these features/functions?

&#8211; With this specification, are there many available suppliers in the market?

&#8211; How many does the organisation really need?

etc

Reference:

LO 1, AC 1.1

**NO.68** Which of the following are the conditions for revocation of offer to be valid?

1. The offeree has not received the offer yet
  2. Revocation of offer must be communicated with the offeree
  3. Revocation of offer must be sent via email
  4. Offeree has not accepted the offer yet
- \* 2 and 4 only

- \* 1 and 4 only
- \* 1 and 3 only
- \* 2 and 3 only

A revocation of offer is the withdrawal of a previous offer to engage in some sort of legally binding contract. The previous offer had to have been such that it would have immediately become legally binding if the other party had formally agreed to it.

A core ruling defining revocation of offers was established by *Payne v. Cave*. This case established that neither party is bound to an agreement until an offer has been made by one and formally accepted by the other.

If an offer has been made, the offering party has a right to withdraw it up to formal acceptance by the offeree. Revocation basically serves as formal, legally verifiable notice that a withdrawal was made, and it's valid so long as it is communicated to the offeree before they accept.

The case of *Byrne v. Van Tienhoven* supports this by establishing that the withdrawal of an offer by telegram is only valid if the telegram is received before the offer is accepted. The case of *Dickinson v. Dodds* further establishes that the party making the offer can communicate the revocation through a third party.

Reference:

&#8211; What Is a Revocation of Offer?

&#8211; CIPS study guide page 31

LO 1, AC 1.2

**NO.69** CISG will be most likely to apply to which of the following transactions?

- \* Sale of electricity
- \* Sale of a property
- \* Sale of iron ores
- \* Sale of a ship

Article 2 of CISG states that:

This Convention does not apply to sales:

(a) of goods bought for personal, family or household use, unless the seller, at any time before or at the conclusion of the contract, neither knew nor ought to have known that the goods were bought for any such use; (b) by auction; (c) on execution or otherwise by authority of law; (d) of stocks, shares, investment securities, negotiable instruments or money; (e) of ships, vessels, hovercraft or aircraft; (f) of electricity.

LO 1, AC 1.2

**NO.70** Which of the following are true statements about RFQ process? Select TWO that apply.

- \* Buying organisation should only send RFQ to pre-qualified suppliers
- \* RFQ process requires the suppliers to submit their technical proposals
- \* RFQ process creates heavier administrative burdens than tendering process
- \* Price is often the only variable in the RFQ and quotations
- \* RFQ process is not suitable for low value purchase

Request for quotations is often used when the only variable is price and the purchase value is under a financial threshold. This process is less formal than ITT. RFQ should be used in the following circumstances:

• Low-value, low-risk purchases

• When the specifications are sufficiently defined or the product/service is standardised

• Where the suppliers are pre-qualified

• Where there is a framework agreement which specifies the contract terms and conditions.

Reference:

LO 1, AC 1.1

**NO.71** Which of the following contracts would be best suited to a variable pricing arrangement?

- \* A contract for window cleaning during the next three months
- \* A contract for road building estimated to take five years to complete
- \* A contract for the supply of 100 printing machines to be delivered next month
- \* A contract for the supply of lubricating oil for immediate delivery

Variable pricing is suitable to situations when the cost of certain elements of the product fluctuate unpredictably. For road building, asphalt fluctuates regularly. Furthermore, 5 years are long period, then variable pricing is the most appropriate method to achieve value for money and control budget.

A contract for window cleaning during the next three months is a short-term service contract, fixed price is the most suitable method.

A contract for the supply of lubricating oil for immediate delivery is an one-off contract, only fixed price is applicable.

A contract for the supply of 100 printing machines to be delivered next month is also an one-off contract.

Reference:

LO 3, AC 3.3

**NO.72** What is the purpose of using key performance indicators in procurement and supply?

- \* To validate the supplier's bid or tender
- \* To monitor supplier's performance
- \* To ease the termination process
- \* To qualify which supplier is suitable

Procurement teams use key performance indicators (KPIs) to ensure vendors comply with (and hopefully exceed) the obligations outlined in a contract. They help us better understand suppliers' performance, measure their output over a long period of time, and identify areas where improvement is needed.

Put simply, it's good business sense to make sure you're actually getting what you've paid for. This might be as straightforward as confirming a product or service is delivered on time, which means the KPIs you need to use will be minimal and basic.

Reference:

• Supplier KPIs | 7 Performance Indicators You Should Be Measuring • Una

• CIPS study guide page 101-102



## LO 2, AC 2.2

**NO.73** A company is considering entering a new market. Which of the following are the external factors that influence the difference between cost and price of this company? Select THREE that apply

- \* Procurement policy
- \* Process efficiency
- \* Business strategy
- \* Threat of substitution
- \* Competitiveness of the market
- \* Relative bargaining power of supplier and purchaser

The difference between cost and price is profit. According to Michael E.

Porter, the profitability of an industry is shaped by five forces:

1. Competition in the industry
2. Potential of new entrants into the industry
3. Power of suppliers
4. Power of customers
5. Threat of substitute products

The Question: only mentions

external factor, then business strategy is not accepted.

Reference:

## LO 3, AC 3.3

**NO.74** GPP, the employer, and Prosolia UK, the contractor, entered into five EPC contracts for the development of five different solar power generation plants in the United Kingdom. Four out of the five developments failed to be commissioned by the relevant due dates, with the delays ranging from 44 to 285 days.

Among other claims, GPP, acting through its two investment vehicles, claimed liquidated damages of £500 per day in all four contracts for Prosolia UK's failure to achieve completion of the plants by the due date. The liquidated damages claimed amounted to £1,804,221 across the four delayed contracts.

Prosolia, alongside various other defences, raised the defence that the liquidated damages provision in each contract was a penalty, and therefore unenforceable against it. Is Prosolia contractually obliged to make the payment to the plaintiff?

- \* No, the amount claimed is too excessive and it may put Prosolia into insolvency. The clause must be void
- \* No, the clause must be treated as a penalty clause which is unenforceable in UK
- \* Yes, the amount is a reward to the employer as they have supervised and monitored the projects
- \* Yes, the clause is a genuine estimate of possible losses that GPP may have suffered and therefore, it is enforceable.

A liquidated damages clause specifies a predetermined amount of money that must be paid as damages for failure to perform under a contract. The amount of the liquidated damages is supposed to be the parties' best estimate at the time they sign the contract of the damages that would be caused by a breach. If a breach occurs and the liquidated damages clause is enforceable, the parties do



not calculate the actual damages (i.e., how much money a party actually lost as a result of the breach). Instead, the breaching party pays the predetermined sum provided by the liquidated damages provision.

To be enforceable, a liquidated damages clause should meet the following criteria.

Damages are difficult to estimate. A court will be more likely to enforce a liquidated damages provision if the damages that will be incurred as a result of a breach of the contract are difficult to estimate when the contract is entered into. In certain situations, injuries are easy to prove. For example, if a breach will result in the loss of sales, it is easy to determine the actual damages by calculating lost profits. Others are more difficult, like the harm caused by breach of a confidentiality agreement or theft of trade secrets. To be enforceable, the damages should be either uncertain or difficult to quantify at the time the contract is entered into.

The amount is reasonable and not a penalty. If the amount of the liquidated damages is grossly disproportionate to the actual harm incurred, a court will likely find it is a penalty or punishment and will not enforce the provision. When making this analysis, courts usually consider what was reasonable at the time the contract was entered into as opposed to when the breach occurred. There have been cases, however, where courts will decide the reasonableness of the damage estimate based on the actual harm at the time of the breach.

The scenario is excerpted and edited based on a real world case law. In that case, the court held that GPP was entitled to liquidated damages under all four of the EPC contracts, ruling that the provisions did not amount to unenforceable penalties in each of the contracts.

Reference:

&#8211; CIPS study guide page 158-159

&#8211; Liquidated damages in energy projects

&#8211; What Is a Liquidated Damages Provision?

LO 3, AC 3.2

**NO.75** Infra Constructions receive a contract for construction of a building, and following terms were agreed upon. &#8220;The entire cost of the project will be reimbursed to Infra Constructions (estimated cost of the project being \$ 25 million). The profits will be 20% of the entire cost of a project subject to a max of \$ 5 million.&#8221; This arrangement is an example of&#8230;?

- \* Incentive pricing arrangement
- \* Gain-share/pain-share arrangement
- \* Cost-plus pricing arrangement
- \* Fixed-pricing arrangement

In the contract term, the buyer agrees to pay the contractor the cost of doing project plus a profit. This is an example of cost-plus pricing arrangement.

On the other hand, &#8220;Fixed-pricing arrangement&#8221; often refers to lump-sum contract or supply/service contract with fixed price. &#8220;Incentive pricing arrangement&#8221; and &#8220;Gain-share/pain-share arrangement&#8221; have the same meaning. In this type of arrangement, both supplier and buyer agree on a target (it can be cost, or lead time, or quality, etc). Once the supplier reaches that target, it will be rewarded with a portion of the gain that the buyer gets, and will pay the price if it fails.

Reference:

LO 3, AC 3.3

**NO.76** Which of the following regulates barriers to the provision of services between countries?

- \* CISG
- \* GATS
- \* ADA
- \* Incoterms

&#8211; The General Agreement on Trade in Services (GATS) is a treaty of the World Trade Organization (WTO) that entered into force in January 1995 as a result of the Uruguay Round negotiations. The treaty was created to extend the multilateral trading system to service sector, in the same way the General Agreement on Tariffs and Trade (GATT) provides such a system for merchandise trade.

&#8211; CISG is the Vienna Convention on Contracts for the International Sale of Goods. This is a voluntary treaty under United Nations Commission on International Trade Law (UNCITRAL). The purpose of the Vienna Convention is to set out a framework for international transactions based on a uniform approach. It establishes substantive rules that regulate the duties and obligations of both parties, including the delivery of goods, contract formation, and remedies for breach of contract.

&#8211; The Incoterms or International Commercial Terms are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) relating to international commercial law. They are widely used in international commercial transactions or procurement processes and their use is encouraged by trade councils, courts and international lawyers. A series of three-letter trade terms related to common contractual sales practices, the Incoterms rules are intended primarily to clearly communicate the tasks, costs, and risks associated with the global or international transportation and delivery of goods. Incoterms inform sales contracts defining respective obligations, costs, and risks involved in the delivery of goods from the seller to the buyer, but they do not themselves conclude a contract, determine the price payable, currency or credit terms, govern contract law or define where title to goods transfers.

&#8211; ADA is Anti-Dumping Agreement (Implementation of Article VI of the GATT).

LO 1, AC 1.3

**NO.77** If service level agreement is used as a schedule that makes up the contract, it will be most likely to be a part of&#8230;?

- \* Pricing arrangement
- \* Performance management framework
- \* Exclusion of liabilities
- \* Specifications

If a service level agreement is used as a schedule to a contract, it will generally have the following contents:

&#8211; Service definitions. If the service information is provided by the specification, SLA should only refer to the specification to avoid any inconsistencies.

&#8211; Details on how to measure KPIs, who will measure KPIs

&#8211; Minimum requirements or targets

&#8211; Remedies if the minimum requirements are not met

&#8230;

Since SLA often lists out the KPI targets, consequences for not meeting the KPI targets and remedies to situation of poor performance, it is a part of performance management.

Reference:

## LO 2, AC 2.2

**NO.78** What is the pricing method that incentivises the supplier to control their costs?

- \* Penetration pricing
- \* Cost-plus pricing
- \* Target Costing
- \* Skimming pricing

Penetration pricing is a marketing strategy used by businesses to attract customers to a new product or service by offering a lower price during its initial offering. The lower price helps a new product or service penetrate the market and attract customers away from competitors.

Price skimming is a product pricing strategy by which a firm charges the highest initial price that customers will pay and then lowers it over time. As the demand of the first customers is satisfied and competition enters the market, the firm lowers the price to attract another, more price-sensitive segment of the population. The skimming strategy gets its name from 'skimming', successive layers of cream, or customer segments, as prices are lowered over time.

Incentive contracts allow sharing of the risks between the contractor and the client. The contractor is reimbursed all its justifiable costs in addition to a calculated fee. Target costing is an element of incentive contracts.

Cost-plus pricing is also known as markup pricing. It's a pricing method where a fixed percentage is added on top of the cost to produce Reference:

## LO 3, AC 3.3

**NO.79** Under which of the following scenarios an RFQ is most likely to be used?

- \* Purchase of a small number of standardised products under a framework agreement
- \* Purchase of complex machinery
- \* Design of a unique and complex software code
- \* When the buying organisation does not know the requirements in details and needs the input from suppliers

The request for quotations is a procurement method that is used for small value procurements of readily available off-the-shelf goods, small value construction works, or small value services procurements. Request for quotations works best under a framework agreement This procurement method is also known as invitation to quote and shopping, and it does not require the preparation of tender documents to the same extent as open tendering, request for proposals or two-stage tendering.

Among 4 options:

• Purchase of a small number of standardised products under a framework agreement: the products are standardised and there is a framework agreement in place, so RFQ is the best solution.

• Purchase of complex machinery: Complex machinery is often a large purchase. Furthermore, suppliers' quality may vary. So RFQ is not suitable, instead, depending on the situation, buyer may opt ITT or RFP to purchase this type of machinery.

• Design of a unique and complex software code: Unique and complex software is not off-the-shelf, thus RFQ is not suitable.

• When the buying organisation does not know the requirements in details and needs the input from suppliers: When the detailed requirements are unknown, the best solution is request for proposal or developing dialogue with suppliers.

Reference:

&#8211; Request for Quotations

&#8211; CIPS study guide page 3-4

LO 1, AC 1.1

**NO.80** Streaming Ltd is a music streaming provider based in the UK. The company is looking for extending its presence in the US. To achieve this, the company needs to outsource the data centre service to a local company. To monitor the performance, the procurement manager would like to introduce a service level agreement (SLA) to the data centre service provider. Which of the following should be included in the SLA?

1. System availability
2. The mean time to recover from system failure
3. The actual number of on-time service delivery
4. Dispute resolution procedure

\* 1, 3 and 4 only

\* 1, 2 and 4 only

\* 1, 2 and 3 only

\* 2, 3 and 4 only

A service-level agreement (SLA) defines the level of service you expect from a vendor, laying out the metrics by which service is measured, as well as remedies or penalties should agreed-on service levels not be achieved.

According to CIPS L4M3 study guide, SLA should cover the following:

&#8211; KPIs

&#8211; How the measurements convert into scores

&#8211; Any other service level standards

&#8211; Minimum acceptable standards or scores in each case

&#8211; Range of scores both above and below the minimum acceptable

&#8211; Any mitigating factors which might apply in the event of poor performance

&#8211; Any time period permitted in which to remedy a situation of poor performance

&#8211; Remedies available

&#8211; Dispute settlement

&#8211; How to deal with inconsistencies or conflicts between KPIs and any other documents.

In IT service (such as in the scenario), the SLA often covers:

&#8211; Uptime

&#8211; Call metrics

&#8211; Customer satisfaction

&#8211; Turn around time

&#8211; Quality

&#8211; Mean time to recovery

&#8211; Mean time between failure

&#8211; Backlog

&#8211; Business results

You can read the details of above indicators here.

Reference:

&#8211; CIPS study guide page 112-115

&#8211; 9 Examples of SLAs

&#8211; What is an SLA? Best practices for service-level agreements

LO 2, AC 2.2

**NO.81** Which of the following should be applied when measuring frequency of on-time deliveries during a contract period?

- \* Qualitative assessment
- \* Numerical measure
- \* Binary measure
- \* Subjective measure

Number of on-time deliveries can be quantified, then numerical measures can be applied.

Frequency of on-time deliveries is measured as on-time deliveries as a percentage of total no. of deliveries for period.

LO 2, AC 2.2

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