

CIPS Introducing Procurement and Supply (L2M1) Practice Test (Sample)

Study Guide



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Questions

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- 1. What is the purpose of a price adjustment agreement?**
 - A. To fix prices for the duration of a contract**
 - B. To allow for price changes based on market conditions**
 - C. To ensure all costs are predetermined by the buyer**
 - D. To limit the duration of price negotiations**
- 2. Which of the following is NOT one of Ray Carter's 10 Cs?**
 - A. Competency**
 - B. Culture**
 - C. Confidence**
 - D. Cost**
- 3. Which type of suppliers holds a monopoly in the marketplace and has little or no alternatives?**
 - A. Bottleneck suppliers**
 - B. Strategic suppliers**
 - C. Leverage suppliers**
 - D. Routine suppliers**
- 4. Which of the following must be monitored in contracts?**
 - A. Marketing strategies and branding**
 - B. Supplier performance, quality, and prices**
 - C. Delivery schedules and payment methods**
 - D. Customer satisfaction and feedback**
- 5. Which of the following is NOT a benefit of sourcing overseas?**
 - A. Lower prices**
 - B. Increased product quality**
 - C. Guaranteed delivery times**
 - D. Access to unavailable products**

- 6. What is the value of everything an organization owns referred to as?**
- A. Equity**
 - B. Liabilities**
 - C. Assets**
 - D. Capital**
- 7. What distinguishes a tier two supplier from a tier one supplier?**
- A. They supply directly to OEMs**
 - B. They supply components to tier one suppliers**
 - C. They supply consumers directly**
 - D. They maintain direct relationships with stakeholders**
- 8. What is the definition of procurement?**
- A. The act of selling goods or services**
 - B. The act of obtaining something, whether tangible or intangible**
 - C. The process of marketing products to consumers**
 - D. The strategy for managing inventory**
- 9. Which of the following best describes a cost-plus contract?**
- A. Fixed payments regardless of supplier costs**
 - B. Payment based on the total estimated project cost**
 - C. Supplier reimbursed for actual costs plus a fee**
 - D. Compensation based only on performance metrics**
- 10. Which of the following is a challenge of sourcing overseas?**
- A. Increased technology access**
 - B. Ethical considerations**
 - C. Improved product availability**
 - D. Better quality control**

Answers

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1. B
2. C
3. A
4. B
5. C
6. C
7. B
8. B
9. C
10. B

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Explanations

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1. What is the purpose of a price adjustment agreement?

- A. To fix prices for the duration of a contract
- B. To allow for price changes based on market conditions**
- C. To ensure all costs are predetermined by the buyer
- D. To limit the duration of price negotiations

The purpose of a price adjustment agreement is to allow for price changes based on market conditions. Such agreements are particularly important in contracts where the cost of materials or labor may fluctuate due to external factors such as inflation, supply chain issues, or changes in demand. By incorporating price adjustment clauses, both parties can ensure that the contract remains fair and equitable throughout its duration. This flexibility helps to mitigate the risks associated with price volatility, enabling suppliers to maintain margins while allowing buyers to adapt to changing market conditions. The other options, while related to price management, do not encapsulate the fundamental purpose of a price adjustment agreement. Fixing prices for the duration of a contract is more characteristic of fixed-price contracts, where price certainty is paramount, but it lacks adaptability to market shifts. Similarly, ensuring that all costs are predetermined by the buyer does not consider the dynamic nature of the market, and limiting the duration of price negotiations doesn't allow for the ongoing adjustments that a price adjustment agreement is designed to address.

2. Which of the following is NOT one of Ray Carter's 10 Cs?

- A. Competency
- B. Culture
- C. Confidence**
- D. Cost

Ray Carter's framework of the 10 Cs is designed to assist procurement professionals in evaluating suppliers. The framework outlines key factors that should be considered when assessing potential business partners to ensure a strategic and comprehensive evaluation of their capabilities and fit. The focus on competencies, culture, and cost as part of the 10 Cs reflects the importance of these attributes in supplier selection. Competency refers to the skills and expertise a supplier possesses, which is crucial for ensuring they can deliver goods or services effectively. Culture involves the alignment of a supplier's values and working practices with those of the purchasing organization, promoting synergy and collaboration. Cost is a fundamental consideration in procurement, relating to the financial feasibility and value that a supplier offers. Confidence, while an important quality in business relationships, does not form part of this specific framework as one of the explicit 10 Cs. This indicates that while confidence in a supplier might play a role in decision-making, it is not categorized as one of the essential evaluative criteria laid out by Ray Carter. Understanding this helps underscore the structured approach to supplier evaluation within the procurement process.

3. Which type of suppliers holds a monopoly in the marketplace and has little or no alternatives?

- A. Bottleneck suppliers**
- B. Strategic suppliers**
- C. Leverage suppliers**
- D. Routine suppliers**

Bottleneck suppliers are characterized by their unique position in the marketplace where they provide specific goods or services that are critical to the production process, and alternatives to these suppliers may be limited or nonexistent. This creates a dependency for the purchasing organization, as finding substitutes can be challenging, time-consuming, and potentially costly. These suppliers can dictate terms and pricing due to their specialized offerings, often resulting in significant leverage during negotiations. For organizations dealing with bottleneck suppliers, it becomes essential to actively manage relationships and develop strategies that may include finding alternative sources or investing in supply chain sustainability to mitigate risks associated with reliance on a single supplier. Strategic suppliers typically have a degree of partnership with the organization, and leverage suppliers are those who can be influenced by market forces, while routine suppliers generally provide standard or easily replaceable goods. None of these categories encapsulate the monopolistic nature and limited alternative options that define bottleneck suppliers as closely as the correct choice does.

4. Which of the following must be monitored in contracts?

- A. Marketing strategies and branding**
- B. Supplier performance, quality, and prices**
- C. Delivery schedules and payment methods**
- D. Customer satisfaction and feedback**

Monitoring supplier performance, quality, and prices is essential in contracts because these elements directly impact the overall success and efficiency of the procurement process. Supplier performance involves assessing how well a supplier meets the agreed-upon standards, including their ability to deliver goods or services on time and in the correct quantity. High performance can lead to improved relationships and potential cost savings, while poor performance can disrupt operations. Quality assurance ensures that the items or services provided meet the specified standards, which is crucial for maintaining the integrity of the business and satisfying customer expectations. If quality is not monitored, issues can arise, leading to increased costs and damage to reputation. Price monitoring is also vital to ensure that the costs remain competitive and within budget. Contracts may include clauses related to pricing adjustments based on market conditions, and keeping an eye on these helps organizations maintain financial control. While the other options include important elements, they are not fundamental to the contract monitoring process in the same way. For instance, marketing strategies and branding focus more on the external image of the business rather than the contractual obligations directly. Delivery schedules and payment methods, while important, are typically parts of broader operational aspects rather than specific metrics for evaluating contract fulfillment. Customer satisfaction and feedback pertain more to the end-user experience,

5. Which of the following is NOT a benefit of sourcing overseas?

- A. Lower prices**
- B. Increased product quality**
- C. Guaranteed delivery times**
- D. Access to unavailable products**

The choice indicating that guaranteed delivery times is not a benefit of sourcing overseas is correct because sourcing from international suppliers can often introduce uncertainties in delivery schedules. Factors such as distance, varying shipping times, customs regulations, and geopolitical issues can all impact the reliability of delivery dates when products are sourced globally. This can lead to delays that are not as prevalent with local sourcing, where logistics are generally easier to manage and control. In contrast, lower prices can often be achieved through overseas sourcing due to lower labor and production costs in certain countries. Increased product quality can also result from sourcing overseas, particularly if suppliers have specialized capabilities and technologies not available domestically. Access to products that are unavailable locally is another significant advantage, as global sourcing opens up a wider marketplace and allows businesses to find specific items that meet their needs. However, the unpredictability of guaranteed delivery times highlights a key challenge of international sourcing, making it the correct answer to this question.

6. What is the value of everything an organization owns referred to as?

- A. Equity**
- B. Liabilities**
- C. Assets**
- D. Capital**

The term used to describe the value of everything an organization owns is "assets." Assets encompass a wide range of items, including physical properties such as buildings, machinery, and inventory, as well as intangible assets like patents and trademarks. They represent resources that can provide future economic benefits to the organization. Understanding assets is crucial in financial assessments because they contribute to the overall net worth of the organization. By evaluating assets, stakeholders can gauge the organization's financial health and operational capacity. In contrast, equity represents the ownership interest in the assets after deducting liabilities, while liabilities are the debts or obligations the organization owes, and capital generally refers to the financial resources used to fund operations or investments.

7. What distinguishes a tier two supplier from a tier one supplier?

- A. They supply directly to OEMs**
- B. They supply components to tier one suppliers**
- C. They supply consumers directly**
- D. They maintain direct relationships with stakeholders**

A tier two supplier is defined by its role in the supply chain as one that supplies components or materials to tier one suppliers, rather than supplying products directly to original equipment manufacturers (OEMs). This classification is essential in understanding the structure of the supply chain. Tier one suppliers serve as intermediaries between tier two suppliers and OEMs, taking components from tier two suppliers to assemble or manufacture more complex products for the OEMs. Consequently, tier two suppliers focus on providing specialized parts or materials that are essential for the operations of tier one suppliers. Understanding this relationship helps to clarify how information, costs, and materials flow through the supply chain. Tier two suppliers often have less direct interaction with the end consumers or OEMs, thereby solidifying their position as a crucial but indirect supplier role. This distinction underpins many procurement strategies and supply chain management practices, indicating how different levels of suppliers interact and contribute to the overall production process.

8. What is the definition of procurement?

- A. The act of selling goods or services**
- B. The act of obtaining something, whether tangible or intangible**
- C. The process of marketing products to consumers**
- D. The strategy for managing inventory**

The definition of procurement as "the act of obtaining something, whether tangible or intangible" accurately captures the essence of what procurement entails. Procurement encompasses a wide range of activities involved in acquiring goods and services that an organization needs to operate. This can include purchasing physical goods, securing services from suppliers, and obtaining intangible assets like licenses or intellectual property. Procurement is fundamental to business operations, as it ensures that organizations have the necessary resources to fulfill their objectives. It involves not only the purchasing process but also considering the sources, negotiation terms, supplier relationship management, and sustainability considerations, reflecting a broader understanding of acquisition in various contexts. The other choices do not align with the definition of procurement. Selling goods or services, marketing products, and managing inventory are related business functions but do not encapsulate the holistic approach that procurement reflects with its focus on acquisition and resource management.

9. Which of the following best describes a cost-plus contract?

- A. Fixed payments regardless of supplier costs**
- B. Payment based on the total estimated project cost**
- C. Supplier reimbursed for actual costs plus a fee**
- D. Compensation based only on performance metrics**

A cost-plus contract is structured in a way that the supplier is reimbursed for all actual costs incurred during the execution of the contract, plus an additional fee. This fee can be a fixed amount or a percentage of the costs, providing the supplier with a profit margin for their work. The rationale behind this type of contract is to share the risk of cost overruns between the buyer and the supplier, ensuring that the supplier is adequately compensated for the work performed while incentivizing efficient project execution. The contract's design allows for flexibility, particularly in projects where costs may be unpredictable or difficult to assess in advance. This can often be the case in construction projects, research and development work, or any situation where the scope of work may change or is not fully defined at the outset. Consequently, as the actual costs may vary, the buyer's financial exposure is limited to paying the actual incurred costs, with the understanding that the supplier's fee covers their profit. In contrast, the other options do not accurately capture this arrangement. Fixed payments regardless of supplier costs do not allow for reimbursement of actual expenses and are characteristic of different contract types, such as fixed-price contracts. Payment based on the total estimated project cost does not consider the actual costs incurred and could lead to

10. Which of the following is a challenge of sourcing overseas?

- A. Increased technology access**
- B. Ethical considerations**
- C. Improved product availability**
- D. Better quality control**

Sourcing overseas presents various challenges, and one of the significant challenges is ethical considerations. When procuring goods and services from foreign countries, businesses often encounter issues such as labor rights violations, environmental concerns, and different regulatory standards. Ethical considerations entail ensuring that suppliers adhere to fair labor practices, provide safe working conditions, and operate in an environmentally sustainable manner. Companies are increasingly held accountable for their supply chains and must navigate these ethical concerns carefully to avoid negative publicity and potential legal ramifications. The focus on ethical sourcing reflects a growing awareness among consumers and stakeholders regarding corporate responsibility, making it essential for businesses to consider the implications of their sourcing decisions. This can require additional resources for monitoring and compliance, increasing the complexity of international procurement strategies.