

# CIPS Managing Ethical Procurement and Supply (L5M5) Practice Test (Sample)

## Study Guide



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## **Questions**

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- 1. What is a common use of value chain analysis?**
  - A. To improve employee satisfaction within the organization**
  - B. To streamline communication with suppliers**
  - C. To identify inefficiencies in a company's operations**
  - D. To compare profitability with competitors**
- 2. What term denotes organisations and products certified to Fairtrade International's standards?**
  - A. Fair trade**
  - B. Fairtrade**
  - C. Just trade**
  - D. Equitable trading**
- 3. Which aspect is NOT a focus of value chain activities?**
  - A. Production**
  - B. Marketing**
  - C. After-sales service**
  - D. Staff personal development**
- 4. In which type of relationship do both buyer and supplier operate independently?**
  - A. Collaborative relationship**
  - B. Interdependent relationship**
  - C. Arm's-length relationship**
  - D. Mutual partnership**
- 5. What describes accessing computer and software applications through a network connection?**
  - A. Cloud**
  - B. Network computing**
  - C. Software as a Service (SaaS)**
  - D. Remote access**

- 6. What is included in total landed costs?**
- A. Purchase price only**
  - B. Original price, transportation, customs, and fees**
  - C. Only the customs duties and taxes**
  - D. Insurance and handling fees only**
- 7. What is the importance of having an SKU in inventory management?**
- A. It simplifies the pricing structure of products**
  - B. It provides a bar code linked to a database for tracking**
  - C. It allows for greater customer service through direct communication**
  - D. It ensures quality checks are conducted on each item**
- 8. What are 'target service levels'?**
- A. The number of suppliers needed for operations**
  - B. The percentage of orders a business aims to fulfill**
  - C. The maximum number of customers to serve**
  - D. The time taken to deliver products**
- 9. Which term refers to the collective economic output of a country in a fiscal year?**
- A. National income**
  - B. Gross domestic product (GDP)**
  - C. Fiscal balance**
  - D. Economic growth rate**
- 10. What does total cost encompass in procurement practice?**
- A. Only the purchase price of a product**
  - B. All costs of purchasing and maintaining the product**
  - C. Transportation costs only**
  - D. Insurance and handling fees only**

## **Answers**

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

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## **Explanations**

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## 1. What is a common use of value chain analysis?

- A. To improve employee satisfaction within the organization
- B. To streamline communication with suppliers
- C. To identify inefficiencies in a company's operations**
- D. To compare profitability with competitors

Value chain analysis is a strategic tool used to identify and analyze the various activities within an organization that contribute to its overall value and competitive advantage. The primary purpose of this analysis is to identify inefficiencies in a company's operations. By breaking down the value chain into its constituent parts—such as inbound logistics, operations, outbound logistics, marketing and sales, and customer service—organizations can pinpoint specific areas where resources may be wasted, costs may be too high, or processes could be improved. Identifying these inefficiencies allows a company to streamline operations, enhance productivity, and potentially reduce costs, thereby creating more value for customers and strengthening its market position. This process is integral in fostering more efficient practices that lead to long-term improvements in performance and profitability. While factors like employee satisfaction, supplier communication, and profitability comparisons with competitors are important in their own right, they are not the primary focus of value chain analysis. The essence of this analysis lies in refining operational processes, making "C" the most accurate response in the context of its common use.

## 2. What term denotes organisations and products certified to Fairtrade International's standards?

- A. Fair trade
- B. Fairtrade**
- C. Just trade
- D. Equitable trading

The term that denotes organisations and products certified to Fairtrade International's standards is "Fairtrade." This term specifically signifies compliance with the criteria set by Fairtrade International, which ensures that producers receive fair pricing, working conditions, and sustainable practices. The "Fairtrade" label is recognized globally and assures consumers that they are supporting ethical sourcing practices aligned with social, economic, and environmental sustainability. While "Fair trade" is often used in a broader sense to discuss the movement as a whole promoting equitable trading practices, it is not the formal designation used for those certified by Fairtrade International. The terms "Just trade" and "Equitable trading" might convey similar concepts but do not refer specifically to the certification standards recognized by Fairtrade International. Thus, the precise terminology that indicates an adherence to these standards is "Fairtrade."

### 3. Which aspect is NOT a focus of value chain activities?

- A. Production
- B. Marketing
- C. After-sales service
- D. Staff personal development**

Staff personal development is not typically considered a direct focus of value chain activities. The value chain framework, originally developed by Michael Porter, emphasizes the series of activities that businesses engage in to deliver a product or service, focusing on achieving a competitive advantage. Production, marketing, and after-sales service are all integral components of the value chain as they contribute directly to the creation and delivery of a product or service to the customer. Production involves the processes that transform inputs into outputs, marketing encompasses strategies to promote and sell the product, and after-sales service ensures customer satisfaction and encourages repeat business. While staff personal development is crucial for the overall health and capability of an organization, it does not fall within the primary operational activities defined by the value chain that directly add value to the product or service from a customer's viewpoint. Instead, personal development is a support function that enhances employee capabilities, which can indirectly influence value chain activities but is not part of the core functions that the value chain traditionally emphasizes.

### 4. In which type of relationship do both buyer and supplier operate independently?

- A. Collaborative relationship
- B. Interdependent relationship
- C. Arm's-length relationship**
- D. Mutual partnership

In the context of buyer-supplier relationships, the arm's-length relationship is characterized by both parties operating independently without deep collaboration or mutual dependency. In such instances, the buyer and supplier conduct business transactions based primarily on price and terms, with minimal integration or long-term commitment. This approach allows both parties to maintain autonomy, providing flexibility in their dealings. In arm's-length relationships, the focus is often on ensuring that each party meets their immediate needs without a significant investment in the other's operations or long-term strategy. These relationships are typical in situations where buyers prefer to engage multiple suppliers for the same goods or services, seeking competitive advantages rather than developing close ties. In contrast, a collaborative relationship or interdependent relationship would involve both parties working closely together, sharing risks and resources, which is not the case in an arm's-length setting. Similarly, a mutual partnership suggests a deeper connection that fosters joint goals and investments, which contradicts the independent nature inherent in an arm's-length relationship.

**5. What describes accessing computer and software applications through a network connection?**

- A. Cloud**
- B. Network computing**
- C. Software as a Service (SaaS)**
- D. Remote access**

The term that best describes accessing computer and software applications through a network connection is "Cloud." The cloud allows users to connect to and utilize applications and services over the internet rather than installing and running them locally on individual devices. This model offers flexibility, scalability, and ease of access from various devices, as the resources are hosted in remote servers managed by a cloud service provider. Cloud computing encompasses various services, including storage, processing power, and applications, which can be accessed on-demand. This contrasts with other terms in the choices that might refer to more specific aspects or models within the broader framework of cloud services. For example, while "Software as a Service (SaaS)" specifically addresses software applications delivered over the cloud, the broader concept of cloud computing is what encompasses all types of services accessed over a network.

**6. What is included in total landed costs?**

- A. Purchase price only**
- B. Original price, transportation, customs, and fees**
- C. Only the customs duties and taxes**
- D. Insurance and handling fees only**

Total landed costs encompass all the expenses incurred to bring a product from its origin to its final destination. This includes not just the purchase price of the item itself but also several additional costs associated with the procurement process. The correct response highlights that total landed costs consist of the original price of the product, transportation costs (which cover the movement of goods), customs duties (fees imposed by customs authorities), and any additional fees that may arise during the shipping process. This comprehensive view is crucial for organizations to accurately assess the complete financial implications of their procurement activities, allowing for better budgeting and financial planning. In contrast, the other options provide a limited scope of costs involved. For instance, focusing solely on the purchase price disregards all other significant expenses that contribute to the overall costs. Similarly, concentrating only on customs duties and taxes or isolating insurance and handling fees does not capture the full spectrum of costs necessary for effective supply chain management. Understanding total landed costs is vital for organizations to make informed purchasing decisions and maintain cost-effectiveness in their procurement strategies.

**7. What is the importance of having an SKU in inventory management?**

- A. It simplifies the pricing structure of products**
- B. It provides a bar code linked to a database for tracking**
- C. It allows for greater customer service through direct communication**
- D. It ensures quality checks are conducted on each item**

Having a Stock Keeping Unit (SKU) is crucial in inventory management, primarily because it provides a bar code linked to a database for tracking. This tracking system allows businesses to monitor inventory levels more effectively, ensuring that stock is replenished as needed and that product availability is maintained for customers. The use of SKUs enables accurate identification of products, which helps in differentiating between items that may have similar characteristics but belong to different categories or brands. The ability to track inventory through SKUs also improves operational efficiency, as it simplifies the process of recording sales, managing stock levels, and analyzing purchasing trends. When an SKU is scanned, it retrieves all pertinent information about the item, such as price, description, and inventory status, thereby facilitating quick and accurate stock management. While simplifying the pricing structure, enabling direct customer communication, and ensuring quality checks are all important aspects of inventory management, they are not as directly tied to the function of an SKU as the tracking capabilities. The primary value of an SKU is its role in enhancing inventory accuracy and efficiency through systematic tracking.

**8. What are 'target service levels'?**

- A. The number of suppliers needed for operations**
- B. The percentage of orders a business aims to fulfill**
- C. The maximum number of customers to serve**
- D. The time taken to deliver products**

Target service levels refer specifically to the percentage of orders a business aims to fulfill, which directly impacts customer satisfaction and operational efficiency. By setting a target service level, a business establishes a benchmark for performance, helping to ensure that it meets customer expectations regarding order fulfillment. This is crucial in supply chain management, as it influences various functions including inventory management, logistics, and customer service. Achieving the designated target service level indicates that the business can reliably meet its commitments to customers, fostering trust and potentially leading to repeat business. It serves as a critical performance metric that informs decisions on inventory stock levels, procurement strategies, and resource allocation to optimize efficiency in operations. So, while the other choices touch on aspects of supply chain management, they do not encapsulate the concept of target service levels as clearly as the percentage of orders a business aims to fulfill.

**9. Which term refers to the collective economic output of a country in a fiscal year?**

- A. National income**
- B. Gross domestic product (GDP)**
- C. Fiscal balance**
- D. Economic growth rate**

The term that accurately refers to the collective economic output of a country in a fiscal year is Gross Domestic Product (GDP). GDP measures the total value of all goods and services produced within a country's borders over a specified time period, typically a year. It encompasses all economic activities, providing a comprehensive picture of a nation's economic performance. National income, while related, is often used to refer to the total income earned by residents of a country, including wages, profits, rents, and taxes, minus subsidies. It does not directly equate to the output generated within the country's borders, particularly from foreign investments. Fiscal balance describes the difference between a government's revenues and expenditures, indicating whether the government is in a surplus or deficit situation—it does not measure economic output directly. The economic growth rate reflects how fast a country's economy is expanding, often reported as a percentage increase in GDP over a certain period. It indicates the pace of growth rather than the total output itself, making it distinct from the actual figure of GDP. Thus, GDP is the most accurate term that encapsulates the total economic output for a country in a given fiscal year.

**10. What does total cost encompass in procurement practice?**

- A. Only the purchase price of a product**
- B. All costs of purchasing and maintaining the product**
- C. Transportation costs only**
- D. Insurance and handling fees only**

Total cost in procurement practice refers to the comprehensive view of all expenses associated with acquiring and maintaining a product throughout its entire lifecycle. This includes not just the purchase price, but also costs related to procurement, transportation, handling, storage, insurance, maintenance, operation, and eventual disposal of the product. By considering all these various costs, organizations can make more informed decisions that lead to better budgeting and resource allocation. Focusing solely on the purchase price would neglect significant expenditures that can impact the overall value and cost-effectiveness of the procurement process. Therefore, the correct understanding of total cost is essential for effective cost management and strategic sourcing within the procurement function.