CIPS

L4M3 Exam

CIPS Certification

Questions & Answers

(Demo Version - Limited Content)

Version: 4.0

Question: 1

The pricing arrangement in which markup is added into cost base to calculate the final price is knownas...?

A. Price indices
B. Fixed Price approach
C. Cost plus pricing
D. Market based approach

Answer: C

Explanation/Reference:

Explanation
The market approach is a method of determining the value of an asset based on the selling price ofsimilar assets.
A fixed-price strategy means you set a price and keep it constant for an extended period of time. 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
A price index (PI) is a measure of how prices change over a period of time, or in other words, it is away to measure inflation. There are multiple methods on how to calculate inflation (or deflation).
Reference: CIPS study guide page 176-179 LO 3, AC 3.3

Question: 2

In a sale contract, a clause requires the seller to "defend, reimburse, and hold harmless" the buyerand its personnel from and against any and all damages arising in connection with some specific circumstances. This clause is an example of...?

A. Insurance
B. Force Majeure
C. Indemnity
D. Liquidated damages

Answer: C

Explanation/Reference:

Explanation
An indemnity is a promise by one party to compensate another for the loss suffered as a consequence of

a specific event, called the ''trigger event''.
The trigger event can be anything defined by the parties, including:
- A breach of contract;
- A party's fault or negligence;
- A specific action.

An indemnity operates as a transfer of risks between the parties, and changes what they wouldotherwise be liable for or entitled to under a normal damage claim.
Force Majeure Provisions: A force majeure event refers to the occurrence of an event which is outsidethe reasonable control of a party and which prevents that party from performing its obligations under a contract.
Liquidated damages are presented in certain legal contracts as an estimate of otherwise intangible or hard-to-define losses to one of the parties. It is a provision that allows for the payment of a specified sum should one of the parties be in breach of contract.
LO 3, AC 3.2

Question: 3

Which of the following statements on guarantee is true?

A. Guarantees are always available for contract of sales
B. Guarantees assure a customer that a purchased product will meet certain requirements within a given time period
C. Guarantees are non-binding statements of fact about a good or service
D. Guarantees can be implied by statute

Answer: B

Explanation/Reference:

In UK, under the Consumer Rights Act 2015, a guarantee is an agreement given by a trader to a consumer, without any extra charge, to repair, replace or refund goods that do not meet the specifications set out in the guarantee. A guarantee is usually issued by the manufacturer of goods or by a trader that provides goods as part of a service - replacement windows, for instance. Generally, a guarantee provider undertakes to carry out free repairs, for a set period of time, for problems that canbe attributed to manufacturing defects.
An insurance-backed guarantee provides the consumer with protection where the trader who provided the goods or service under guarantee ceases to trade and can no longer fulfil their obligations under the guarantee. The insurance company underwrites the terms of the guarantee forthe remainder of the guarantee period.
Guarantees must be in writing. Not all purchase has guarantee. Some, such as sales of used goods often do not contain guarantees.
Reference:
- Guarantees and warranties (England, Scotland and Wales)

CIPS study guide page 157-158LO 3, AC 3.2

Question: 4

A purchase order can become a contract between supplier and purchaser if it is...?

A. Issued by the buyer
B. Received by the supplier
C. Accepted by the supplier
D. Edited by the supplier

Answer: C

Explanation/Reference:

A purchase order is a document sent from a buyer to a seller, with a request to order a product. The purchase order often has its number, description and quantity of the goods, unit prices and total price, name of issuer, time of delivery, standard terms and conditions, etc. It is effectively an offer to supplier. The purchase order will become a formal contract if supplier accepted it by written notice orby performance (such as deliver the goods to the buyer's premise).
Reference: CIPS study guide page 33LO 1, AC 1.2

Question: 5

A buyer and a supplier plan to sign a contract with cost-plus arrangement. If the cost base is $350and the markup component is 11% then the invoice price will be...

A. 362
B. 393.26
C. 368.5
D. 388.5

Answer: D

Explanation/Reference:

Markup is the percentage between the profit and costs. The cost is $350, markup is 11%. So final price is: 350 + 350x0.11 = 388.5
Reference: CIPS study guide page
177LO 3, AC 3.3