

Latest Version: 6.0

Question: 1

Which of the following are examples of incentives which can be embedded in contract terms? Select THREE that apply

- A. Service credits
- B. Contract extensions
- C. Indemnity
- D. Faster payment
- E. Gainshare
- F. Liquidated damages

Answer: B,D,E

Explanation:

Gainsharing is a system of management used by a business to increase profitability by motivating suppliers to improve their performance. As their performance meets the targets, suppliers share financially in the gain (improvement). Gainshare is an incentive for cost control.

Other incentives for good performance are:

- Contract extensions: Buyer can extend the contract duration as an incentive to supplier for meeting their targets.
- Accelerated payments

Reference: CIPS study guide page 187-188

LO 3, AC 3.3

Question: 2

XYZ Ltd is negotiating a long-term supply contract of important parts with a supplier. Dave, procurement manager teams up with Alla, legal manager to construct a service level agreement. Dave is concerned that poor performance of supplier may cause damages to the operations of the organisation. Which of the following can be used in conjunction with SLA to compensate the buying organisation in case of supplier's poor performance?

1. Warranties
2. Force majeure clauses
3. Penalty clauses
4. Service credits

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

Answer: D

Explanation:

Service level agreement often sets out the minimum quality standards of the services provided, remedies if that standards are not met, consequences if the targets are exceeded. Penalty clauses and service credits are remedies that are often used in conjunction with service level agreement to ensure the performance and to compensate the purchaser if targets are not met.

Reference: CIPS study guide page 110

LO 2, AC 2.2

Question: 3

If service level agreement is used as a schedule that makes up the contract, it will be most likely to be a part of...?

- A. Pricing arrangement
- B. Exclusion of liabilities
- C. Performance management framework
- D. Specifications

Answer: C

Explanation:

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

- Service definitions. If the service information is provided by the specification, SLA should only refer to the specification to avoid any inconsistencies.
- Details on how to measure KPIs, who will measure KPIs
- Minimum requirements or targets
- Remedies if the minimum requirements are not met

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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: CIPS study guide page 110-116

LO 2, AC 2.2

Question: 4

To check whether supplier actually complies with the labour standards set out in the contract, the purchaser should have...?

- A. Right to terminate the contract
- B. Right to penalise the supplier

- C. Right of audit
- D. Right to rescind the contract

Answer: C

Explanation:

Many firms have compliance policies for suppliers in place. To ensure that the supplier actually comply with the standards set out, the purchaser can employ the right to audit. The buyer usually obtains the right to examine records of a vendor to determine if a fraud or a violation of company policy has occurred through the following methods:

- Right-to-audit agreement The agreement can be printed on the back of a purchase order, contract, or other procurement form.
- A simple request If the right-to-audit agreement wasn't included on the procurement form, and the buyer suspects irregularities, he may have to beg the vendor to allow an audit to be performed. If the buyer is a major customer of the vendor, the buyer may be able to wield a big enough stick to obtain permission to look at the records.

- Right-to-audit Pitfalls

Reference:

- CIPS study guide page 160
 - Reserving the Right to Audit the Suspicious Vendor: Right-to-audit clauses in vendor contracts help control fraud and abuse by affording discovery devices in examinations.
- LO 3, AC 3.2

Question: 5

Which of the following indicates the ratio between profit and costs?

- A. Liquidity
- B. Gearing
- C. Mark-up
- D. Margin

Answer: C

Explanation:

Mark up is the profit as a percentage of total costs.

LO 3, AC 3.3

Question: 6

Which of the following is the term that describes an item bought for a single and non-recurring use or purpose?

- A. Ad-hoc purchase

- B. Operational purchase
- C. Call-off purchase
- D. Stock purchase

Answer: A

Explanation:

Ad-hoc purchase is the item bought for a single and non-recurring use or purpose.

A call-off contract, also known as a blanket order, is a purchase order which enables bulk orders over a period of time.

Operational procurement refers to the procurement of goods and services that are required to sustain an organization's day-to-day business operations.

Reference: CIPS study guide page 58

LO 1, AC 1.3

Question: 7

Which of the following documents are likely to have legal standing? Select TWO that apply:

- A. Requisition
- B. Request for information
- C. Quotation
- D. Estimate
- E. Tender

Answer: C,E

Explanation:

A quotation and a tender are both firm offers which have legal standing to the offeror. Tenders are more detailed than quotations and will include quality aspects as well as prices.

LO 1, AC 1.1 & AC 1.2

Question: 8

Which of the following is regulated by standard ISO 14001?

Environmental management

Energy management

Information security management

Quality management systems

Explanation:

ISO has about 22,000 international standards covering a vast range of aspects of product or service quality. Below are some of the most common ISO standards:

- ISO 9001: Quality management system

- ISO 27001: Information security management

- ISO 5001: Energy management
- ISO 14001: Environmental management

Reference:

- ISO 14001:2015 Environmental management systems — Requirements with guidance for use
- CIPS study guide page 86
- LO 2, AC 2.1

Question: 9

Under general legal principles of contract formation, which of the following will always automatically result in the termination of an offer?

1. Negotiation
2. Rejection
3. Failure conditionality
4. Non-disclosure

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

Answer: A

Explanation:

There are a number of ways for an offer to be terminated. They are events that may occur after an offer has been made which bring it to an end so that it can no longer be accepted. An offer is terminated in the following circumstances:

1. Revocation
2. Rejection
3. Lapse of time
4. Conditional Offer (or Failure of Conditionality)
5. Operation of law
6. Death
7. Acceptance
8. Illegality

Reference:

- How Is an Offer Terminated?
- CIPS study guide page 31-32
- LO 1, AC 1.2

Question: 10

Which of the following is the model form of contract for construction which is recommended by World Bank?

- A. FIDIC
- B. CIPS
- C. ITC
- D. JCT

Answer: A

Explanation:

FIDIC is the International Federation of Consulting Engineers (or Fédération Internationale des Ingénieurs Conseils in French). FIDIC has produced many publications, including the model form contracts, best practice guidances, research on sustainability, integrity and risk management. FIDIC model form contracts have been developed by this organisation since 1999, now they consist of several different books which are marked by colours. Thus, FIDIC model contracts also have the nickname Rainbow suite of contracts. Basically, the Rainbow Suite include the following books:

- * Yellow book: Plant and Design-Build Contract (2 editions: 1999 and 2017)
- * Silver book: EPC/Turnkey Contract (2 editions: 1999 and 2017)
- * Red book: Construction Contracts (2 editions: 1999 and 2017)
- * Emerald book: Conditions of Contract for Underground Works (1st Ed 2019)
- * Blue-Green book: Dredgers Contract (2 editions: 2006 and 2016)
- * Gold book: Design, Build and Operate Contract Guide
- * Pink book: Construction Contract Multilateral Development Bank Harmonised Ed (2 editions: 2005 and 2010)

This type of model contract is commonly used around the world because its author, International Federation of Consulting Engineers, collaborates closely with development banks such as World Bank, Africa Development Bank, Asia Development Bank, etc. Every construction project that is financed by these institutions must adopt the FIDIC contracts.

The Joint Contracts Tribunal, also known as the JCT, produces standard forms of contract for construction, guidance notes and other standard documentation for use in the construction industry in the United Kingdom. From its establishment in 1931, JCT has expanded the number of contributing organisations.

ITC (International Trade Centre) produces contracts specifically designed for small companies doing international business, covering the sale of goods, distribution, services and joint ventures. Many small companies are now engaged in international trade, but don't have access to the necessary contract forms to protect themselves. ITC and leading legal experts developed eight generic contract templates that incorporate internationally recognized standards and laws for most small business situations.

CIPS has several model forms of contract designed specifically for IT buying and servicing.

Reference: CIPS study guide page 142

LO 3, AC 3.1

Question: 11

Which of the following are likely to feature within an outcome-specification?

1. Dimension
2. Performance requirement
3. Input material
4. Product function

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

Answer: D

Explanation:

There are two main types of specification: performance specification and conformance specification (sometimes called prescriptive or technical specifications).

Performance specifications have following features:

- Focus on outputs
- Set out result to be achieved
- The 'what', not the 'how'
- Give supplier flexibility to present solutions that the buyer may not have considered

Reference: CIPS study guide page 8-10

LO 1, AC 1.1

Question: 12

Which of the following are reasons why a purchaser wants to embed a subcontracting clause into the main contract? Select TWO that apply:

- A. To improve supply chain transparency
- B. To keep main contractor liable
- C. To condemn whole liabilities to subcontractors
- D. To reduce the main contract complexity
- E. To induce the conflicts between the main contractor and subcontractors

Answer: A,B

Explanation:

There are number of reasons why the purchaser will want to control the supplier's subcontracting:

- Supply chain transparency: Normally the purchaser has invested a lot of effort into selecting the right contractor. However, the main contractor's selection of subcontractor might not be in such careful manner, which may result in poor performance. Purchaser must know who subcontractors are. Controlling the subcontracting process can help the purchaser control the outcome.
- Contract terms: the purchaser's requirements must be reflected in the subcontracts. The subcontracting clauses may require the main contractor to do this.
- Liability: the main contractor may subcontract the whole or a part of its liabilities. Subcontracting clause may bind the contractor to be liable with the work, it cannot just blame the subcontractor for any faults.

Reference: CIPS study guide page 154-155

LO 3, AC 3.2

Question: 13

In a contract, both buyer and supplier agreed the lead time is 3 days. The contract also requires that any variation must be made in writing. Then the buyer places an order by phone call and requests delivery the next day, but the supplier delivers on the third day since the order. Can buyer refuse to pay as supplier did not deliver per time?

- A. Yes, the supplier has breached the contract
- B. Yes, late delivery is a force majeure event
- C. No, supplier has shortened lead time to 1 day
- D. No, the supplier delivers within a reasonable time

Answer: D

Explanation:

Lead time is the amount of time that passes from the start of a process until its conclusion. In procurement, lead time can be understood as the amount of time that passes from placing an order until the delivery.

In the scenario, the contract requires the supplier to make a delivery within 3 days since the order. This contract can only be amended with written consent from both parties. Therefore, there is no ground for shortening the lead time to 1 day because the new lead time is only the request of buyer. Then the supplier still makes delivery within agreed lead time.

LO 1, AC 1.1

Question: 14

Cleveland Insurance (Cleveland) offers a range of insurance services. The main software used in the call centre is a customer relationship management (CRM) system. Cleveland perceived an urgent need to replace the existing CRM system to deal with the increasing number of customers and services.

Urgent Digital Ltd (Digital) is one of the bidders of Cleveland's ITT for designing, building and managing the new CRM system. Its bid team is led by Hank Irvine, its technical director. Hank realises that winning the Cleveland contract (valued at approximately £50M) will enhance his career. During discussions with Cleveland, Hank offers certain assurances regarding timescales for the project. He has not carried out any investigations into the viability of the timescales. Hank has little idea whether the timescales can be met.

Cleveland decides that Digital's bid meets with its requirements, especially given the assurances in timescale offered by Hank, and decides to proceed with it, subject to a formal contract. Eventually, a formal contract is signed by both parties. The initial assurances given by Hank about the timing of the project are never going to be achieved and are at best grossly exaggerated.

Cleveland brought the case to the court and sought rescission of contract with Digital. Is Cleveland's claim appropriate in this case?

- A. No, because the contract does not include any provision on rescission

- B. No, because the work had been carried out which could not be returned
- C. Yes, because Cleveland needs to seek rescission first before claiming for damages
- D. Yes, because both parties agreed with rescission of their contract

Answer: B

Explanation:

Hank's pre-contractual assurances may amount to misrepresentation. Remedies for misrepresentation could be rescission of contract or damages. Rescission will be impossible in the following instance:

- Where the innocent party has affirmed the contract; that is, acted in a way confirming that they wish it to continue
- Where the claim has not been brought within a reasonable time (this is a point of general law)
- Where restitution (returning to the pre-contractual position) is impossible (e.g. because the goods have been consumed or have deteriorated)
- Where there has been intervention of innocent third-party (e.g., if the goods have been sold on)

In this case, the subject of contract is designing, building and managing the new CRM system which is impossible to be restituted. Therefore, the contract cannot be rescinded.

Reference: CIPS study guide page 53-55

LO 1, AC 1.2

Question: 15

Southwark is negotiating a contract with Orchard to provide software and IT services. Orchard will manufacture and install the products which are contractually supplied by IBM. Southwark's procurement manager is worried that during the contract there would be some problems that they would not be able to claim for damages from Orchard. Which of the following should be included in the head contract so that Southwark can sue IBM, should the need arise?

- A. Indemnity
- B. Insurance
- C. Collateral warranty deed
- D. Negligence

Answer: C

Explanation:

A Collateral Warranty is a contract under which a consultant, a building contractor or a sub-contractor warrants to a third party that it has fulfilled its obligations under its professional appointment, building contract or sub-contract. The purpose of a Collateral Warranty is to give a third party, who is not a party to the original contract, rights to enforce that original contract.

In this case, IBM is the subcontractor, then purchaser can use collateral warranty deed to bind them.

Reference:

- Collateral Warranties – an Overview
- CIPS study guide page 39-40

LO 1, AC 1.2