

DUMPS ARENA

Defining Business Needs

CIPS L4M2

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QUESTION NO: 1

Which of the following problems may be identified as closed problems? Select TWO that apply:

- A. A cyber attack takes down whole company's IT system
- B. Shortage of key medicines in healthcare industry
- C. There are not enough data for procurement analytics
- D. Logistics costs incur a large portion in wholesale prices
- E. The suppliers don't comply with the company's policy on underage labour.

ANSWER: A B**Explanation:**

Explanation

Closed problem is something happens that should not have happened. To solve this type of problem, procurement professional should find a way to correct the situation or try to adapt to it. On the other hand, open ended problem is a obstacle to your short-term objective. You will need to overcome this obstacle.

Shortage of key medicines is a situation in which procurement must find a substitution or try to save the current stock.

In case of cyber attack, procurement should find a way to recover the IT system as soon as possible.

Otherwise, 'There are not enough data for procurement analytics' is an open-ended problem because it prevents company to conduct procurement analytics (an objective).

'Logistics costs incur a large portion in wholesale prices': In this situation, logistics costs are hurdles that prevent companies to reach lower wholesale.

'The suppliers don't comply with the company's policy on underage labour': In this situation, procurement should seek ways to help supplier comply with the company's labour policy.

LO 1, AC 1.1

QUESTION NO: 2

When a procurement manager considers a substitution, the number and nature of additional functions that substitute provides should be taken into account carefully. Which of the following ratio could help the procurement manager to make the right decision?

- A. Value to price ratio
- B. Price to Earnings ratio
- C. Reserve requirement ratio
- D. Price to book value ratio

ANSWER: A**Explanation:**

Explanation

One product substitutes for another if it offers buyers an inducement to switch that exceeds the cost or overcomes the resistance to doing so. A substitute offers an inducement to switch if the substitute provides the buyer with more value relative to its price than the product currently being used. There is always some cost of switching to a substitute because of the disruption and potential reconfiguration of buyer activities that must result, however. The threat of a substitute will vary depending on the size of the inducement relative to the required switching costs.

In addition to relative value to price and switching cost, the pattern of substitution is influenced by what I term the buyer's propensity to switch. Faced with equivalent economic inducements for substitution, different buyers will often evaluate substitution differently. The threat of substitution, then, is a function of three factors:

- The relative value/ price of a substitute compared to an industry's product
- The cost of switching to the substitute
- The buyer's propensity to switch

Porter, Michael E.. *Competitive Advantage: Creating and Sustaining Superior Performance* (p. 278). Free Press. Kindle Edition.

The price-to-book ratio compares a company's market value to its book value. The market value of a company is its share price multiplied by the number of outstanding shares. The book value is the net assets of a company.

The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

The reserve ratio is the portion of reservable liabilities that commercial banks must hold onto, rather than lend out or invest. This is a requirement determined by the country's central bank, which in the United States is the Federal Reserve. It is also known as the cash reserve ratio.

LO 2, AC 2.2

QUESTION NO: 3

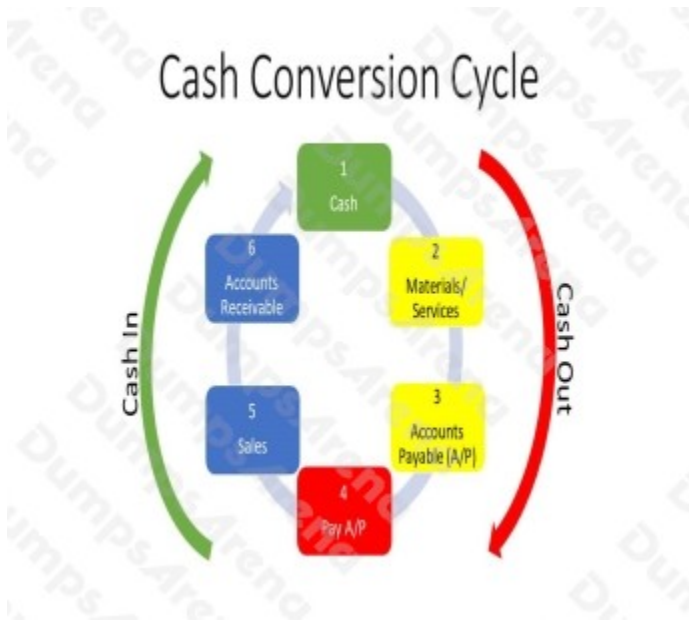
Which of the following always impact negatively on a company's cash flow? Select TWO that apply

- A. Increasing revenue
- B. More inventory
- C. Depreciation of fixed asset
- D. Supplier shortens their payment period
- E. Customers agree to pay immediately

ANSWER: B D**Explanation:**

Explanation

To answer this question, candidates are required to remember the cash flow cycle and cost entries as well as the impact of their timing on a business.



Source: <https://cfoperspective.com/free-your-cash-trapped-in-the-cash-conversion-cycle/>

Shorter payment term and more inventory are likely to have negative impact on the cash flow because the buyer has to pay sooner and greater.

"Customers agree to pay immediately" will increase the organisation's bank account sooner.

Depreciation has no impact on cash flow as it is only listed in Profit and Loss statement.

Increasing revenue may have negative or positive impact on cash flow, depending on the real situation.

Reference: CIPS study guide page 54

LO 1, AC 1.4

QUESTION NO: 4

Which of the following are typical benefits of through-life asset management to buying organisation? Select the TWO that apply.

- A. Shorter specifications
- B. Lower risks as there are many suppliers accountable for costs and service over the life of the asset
- C. Lower total cost of ownership
- D. Greater supplier's bargaining power
- E. Better capability of supplier over time

ANSWER: C E**Explanation:**

Explanation

According to Andrew Graves, "Through-life Management involves the life-cycle management of the products, services and activities required to deliver a fully integrated capability to the customer, while reducing the cost of ownership for the customer."

Benefits of through-life asset management can be:

- Lower total life-cycle costs
- Better match between the asset and end-user's needs
- Better supplier capabilities over time because it gains experience of buying organisation's needs.

Reference: CIPS study guide page 131

LO 3, AC 3.2

QUESTION NO: 5

According to Porter's value chain, which of the following activities is categorised as support activity?

- A.** Product warranties and special services
- B.** Storage of raw materials
- C.** Distribution of products from factory to retailer
- D.** Supervising the production line
- E.** Develop digital SRM technology to manage suppliers better

ANSWER: E**Explanation:**

Explanation

Primary activities consist of inbound logistics, operations, outbound logistics, sales & marketing, service.

Second activities consist of firm infrastructure, human resource management, technology development and procurement

Value Chain Analysis



Support activities (also known as secondary activities) include Firm infrastructure, Human resource management, Technology development and Procurement. Developing digital SRM technology to manage suppliers better is Technology development.

LO 1, AC 1.2

QUESTION NO: 6

Which of the following technology is likely to be an innovation in financial sector?

- A. E-commerce
- B. Robotics
- C. E-auction
- D. Blockchain

ANSWER: D

Explanation:

Explanation

Traditional financial systems operate with a centralised database, usually with a single point of authority. Blockchain technology, on the other hand, allows for a distributed database that holds a growing number of records. Instead of existing in one place, the ledger is continually updated and synchronised across multiple computers in a network. Therefore, any participant in the network with the proper authorisation can view the entire ledger – without relying on an intermediary or any one authority.

Another key feature of blockchain technology is a “smart contract,” which is a self-executing protocol that enforces a previously agreed arrangement. For example, a smart contract could trigger an automatic refund under certain conditions or the automatic payment of an agreed commission after a sale. These smart contracts can eliminate delays in traditional Finance processes, while increasing transparency and reducing reliance on middlemen to follow through on their commitments. Moreover, like other parts of a blockchain, smart contracts are immutable, so they can enhance accuracy in the financial statements.

LO 2, AC 2.1

QUESTION NO: 7

Which kind of these following costs belong to fixed costs? Select TWO that apply.

- A. Energy consumption in manufacturing
- B. The annual income tax charged by local authorities
- C. The packaging and distribution costs
- D. The depreciation of capital inputs
- E. The costs of leasing or purchasing capital equipment

ANSWER: D E**Explanation:**

Explanation

Based on variability, the costs has been classified into three categories, they are fixed, variable and semi variable. Fixed costs, as its name suggests, is fixed in total i.e. irrespective of the number of output produced. Variable costs vary with the number of output produced. Semi-variable is the type of costs, which have the characteristics of both fixed costs and variable costs (Source: Key Differences).

Among above costs, leasing and depreciation are relatively static and do not change if volume of business activities increase or reduce.

Packaging, utilities and annual business rate (tax) are variable costs.

Reference: CIPS study guide page 26

LO 1, AC 1.2

QUESTION NO: 8

Which of the following is the best definition of target costing?

- A. The net present cost of the purchase or project and all future revenues flowing from it discounted back to the present time.
- B. The total of all costs in acquiring goods or services from the inception of the demand for them until their safe and satisfactory delivery at the point required.

- C. The cost of a product after analysing its components step by step
- D. A product cost estimate derived from a competitive market price.

ANSWER: D

Explanation:

Explanation

Target costing is an activity aimed at reducing the life-cycle costs of new products, while ensuring quality, reliability, and other consumer requirements by examining all possible ideas for cost reduction at the product planning, research and development and prototyping phases of production. But it is not just a cost reduction technique; it is part of a comprehensive strategic profit management system.

Reference: CIPS study guide page 161

LO 3, AC 3.4

QUESTION NO: 9

Which of the following activities are considered as primary activities of an organization according to Porter's value chain?
Select TWO that apply:

- A. Maintenance
- B. Picking and delivery components
- C. Sourcing transportation services
- D. Trainees recruitment
- E. Assembly design

ANSWER: A B

Explanation:

Explanation

Primary activities consist of inbound logistics, operations, outbound logistics, sales & marketing, service.

Second activities consist of firm infrastructure, human resource management, technology development and procurement

The following graph illustrate the value chain (Source: Smartsheet)

Value Chain Analysis



Picking and delivery components is inbound logistics.

Maintenance is an example of operations activity.

Sourcing transportation services is an activity of procurement

Assembly design is an activity in research and development (Technology)

Recruiting is an activity of human resource management

Reference: CIPS study guide page 71

LO 2, AC 2.1

QUESTION NO: 10

Which of the following factors is most likely to be a barrier to new entrant in agriculture?

- A. High margins
- B. Capital requirement
- C. Reputation within the industry
- D. Brand recognition

ANSWER: B

Explanation:

Explanation

Barriers to Entry to Agriculture: If stakeholders are going to address the need for new, conservation-minded farmers, they must understand the barriers these farmers encounter when transitioning into the profession. A review of the literature revealed a number of barriers—most of them structural—to entry to agriculture. While each barrier is distinct, they are all interconnected. Though not an exhaustive list, the following barriers are ones that were most frequently mentioned in the literature:

- Access to Affordable Land
- Startup Capital
- Lack of Agricultural Knowledge and Experience
- Lack of Knowledge about Farm Business Planning
- Discrimination
- Student Loans
- Limited Access to Markets
- Affordable Housing and Affordable Healthcare

...

Source: Exploring the Barriers to Entry to Agriculture: Challenges Facing Beginning Farmers in North Carolina - Kelley Robbins-Thompson

Reference: CIPS study guide page 80-81

LO 2, AC 2.2