Exam : **L4M3**

Title : Commercial Contracting

Version : DEMO

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

2.Which of the following may be a benefit for purchaser in using call off contract?
A. Ability to discover new potential suppliers
B. No long-term commitment required
C. Secured supply
D. Maintaining a degree of competition between suppliers
Answer: C
Explanation:
Benefits for the purchaser in using call off contract are as below:
- The benefit of a call off contract is that they allow the supply of materials, goods and services to be secured over multiple delivery dates across the length of a project.
- Agreed prices, either fixed or pre-agreed mechanism for adjustment. This helps with setting and controlling budgets.
- Simple order mechanisms at the point of need
- Schedules of rates pricing enables electronic procure-to-pay systems, which gives greater control and visibility of spend
- The value of spend ad length of contract justify the cost of proper market engagement and tender or negotiation processes resulting in better value for money
- The longer the contract, the greater the opportunities for aligning working practices to create joint efficiency.
Reference:
- Call Off Contracts – What are they and how are they used?
- CIPS study guide page 63-64
LO 1, AC 1.3

3.An organization has a normal tender process that often last 1 month from defining the needs to

contract award. Manufacturing department suddenly required a new special part that they could not foresee within a month.
Which of the following should be the priority actions of procurement manager in this urgent situation? Select TWO that apply:
A. Design new specification
B. Develop relationships with potential suppliers
C. Review contract performance
D. Get high-level authority approval
E. Submit full business justification
Answer: E
Explanation:
This urgent needs occasionally occur due to a sudden change in circumstances. The process for selecting a replacement supplier must still be controlled. If there is a reason for normal processes to be waived, this must be fully documented and approved at a high level.
Reference: CIPS study guide page 7
LO 1, AC 1.1

4.Which of the following are examples of incentives which can be embedded in contract terms? Select THREE that apply
A. Gainshare
B. Indemnity
C. Contract extensions
D. Service credits
E. Liquidated damages
F. Faster payment
Answer: A,C,F
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

5.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. 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.
Hank’s pre-contractual assurance is most likely to be an example of which of the following?
A. Inaccuracy in communication
B. Threat
C. Initial impossibility
D. Fraudulent misrepresentation
Answer: C
Explanation:
Hank’s pre-contractual assurances may amount to misrepresentation. Fraudulent misrepresentation is a strong possibility since Hank had carried out no investigations into the viability of the project timescales. This could amount to recklessness in using information without taking any steps to see if it is true or not. The scenario above was constructed based on the case BSkyB v EDS, a famous case in IT sector.
LO 1, AC 1.2