MACRO EXERCISE

Procurement and Supply Operations

CIPS Level 2 Module 2 (L2M2): Certificate in Procurement and Supply Operations

60 multiple-choice questions | covering the full L2M2 module

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Instructions: Read each short case and choose the one best answer. Answers, with a brief reason for each, are given at the end of the paper.

Part A – Types of Organisations and How They Operate

Questions 1–14

Q1. *A supermarket chain is owned by shareholders and aims to make a profit for them.*

Which sector does it belong to?

- **A.** Public sector
- **B.** Third sector
- **C.** Private sector
- **D.** Primary sector

Q2. *A state hospital is funded mainly through taxes and provides free healthcare to the public.*

Which sector does it belong to?

- **A.** Public sector
- **B.** Private sector
- **C.** Third sector
- **D.** Secondary sector

Q3. *An animal rescue charity relies on donations and grants, and puts any surplus back into its work.*

Which sector does it belong to?

- **A.** Private sector
- **B.** Public sector
- **C.** Primary sector
- **D.** Third sector

Q4. *Most of a third-sector organisation's income comes from these sources.*

Which list is most typical?

- **A.** Shareholders' investment and sales profit
- **B.** Donations, grants and fundraising
- **C.** Taxes and government levies only
- **D.** Bank loans only

Q5. *A factory turns plastic pellets into garden chairs.*

What type of organisation is this?

- **A.** A production organisation
- **B.** A service organisation
- **C.** A third sector organisation
- **D.** A public sector organisation

Q6. *An accountancy firm gives tax advice to small businesses.*

What type of organisation is this?

- **A.** A production organisation
- **B.** A manufacturing organisation
- **C.** A service organisation
- **D.** An extraction organisation

Q7. *A company has many layers of management between its staff and the chief executive, and each manager looks after only a few people.*

What type of structure is this?

- **A.** A flat structure
- **B.** A tall (hierarchical) structure
- **C.** A matrix structure
- **D.** An informal structure

Q8. *A small design agency has a manager and eight designers who all report directly to her, with no other management layers.*

What type of structure is this?

- **A.** A tall structure
- **B.** A matrix structure
- **C.** A divisional structure
- **D.** A flat structure

Q9. *In a project-based engineering firm, staff report to their department manager and to a project manager at the same time.*

What type of structure is this?

- **A.** A flat structure
- **B.** A tall structure
- **C.** A matrix structure
- **D.** A sole trader structure

Q10. *Staff at an office learn about upcoming changes from chats in the canteen before any official announcement.*

Which part of the organisation does this show?

- **A.** The informal organisation
- **B.** The formal organisation
- **C.** The organisation chart
- **D.** The chain of command

Q11. *A manager sets this objective for her team: "Reduce late supplier deliveries from 10% to 5% by 31 December."*

Which description best fits this objective?

- **A.** Vague and unmeasurable
- **B.** A mission statement
- **C.** A company value
- **D.** SMART: specific, measurable and time-bound

Q12. *In a large company, the finance, marketing and production departments each specialise in their own work and have their own goals.*

What is this called?

- **A.** Integration
- **B.** Differentiation
- **C.** Outsourcing
- **D.** Centralisation

Q13. *The same company holds weekly meetings where all departments plan together so that their work fits.*

What is this called?

- **A.** Integration
- **B.** Differentiation
- **C.** Delegation
- **D.** Insourcing

Q14. *A business needs to recruit new staff, organise training and handle employee welfare.*

Which function is mainly responsible?

- **A.** Finance
- **B.** Marketing and sales
- **C.** Human resources
- **D.** Procurement

Part B – Contracts and Contract Documents

Questions 15–28

Q15. *A shop urgently buys one replacement fridge at today's market price, with no ongoing agreement.*

What type of purchase is this?

- **A.** A term contract
- **B.** A framework agreement
- **C.** A call-off order
- **D.** A spot purchase

Q16. *A council agrees with one supplier to provide grass cutting at agreed prices for two years.*

What type of contract is this?

- **A.** A spot purchase
- **B.** A term contract
- **C.** A counter-offer
- **D.** A credit note

Q17. *A university approves three cleaning firms on a list, then chooses from that list each time it needs cleaning work.*

What is this arrangement called?

- **A.** A spot purchase
- **B.** A lump sum contract
- **C.** A panel (framework) arrangement
- **D.** Battle of the forms

Q18. *Under a framework agreement, a hospital places an order for 200 boxes of gloves this week.*

What is this order called?

- **A.** A call-off order
- **B.** A tender
- **C.** A specification
- **D.** A counter-offer

Q19. *A buyer lists the documents that will form a contract for a cleaning service.*

Which list is most complete?

- **A.** Invoice, delivery note and receipt
- **B.** Requisition, budget and credit note
- **C.** Advert, brochure and website
- **D.** Specification, KPIs, contract terms and pricing schedule

Q20. *A supplier offers to sell 100 desks at 50 each. The buyer replies, "Yes, we agree to those exact terms."*

What has the buyer's reply created?

- **A.** A counter-offer
- **B.** Acceptance, which forms a contract
- **C.** A revocation
- **D.** A rejection

Q21. *A supplier offers 100 desks at 50 each. The buyer replies, "We will buy them at 45 each."*

What is the buyer's reply?

- **A.** A counter-offer, which cancels the original offer
- **B.** An acceptance
- **C.** A revocation
- **D.** A call-off

Q22. *A supplier makes an offer but then withdraws it before the buyer has accepted.*

What is the withdrawal called?

- **A.** Acceptance
- **B.** Counter-offer
- **C.** Revocation
- **D.** Expediting

Q23. *A buyer sends a purchase order with its own terms. The supplier replies with an acknowledgement printed with different terms, and then delivers.*

What is this situation known as?

- **A.** A spot purchase
- **B.** The battle of the forms
- **C.** Target pricing
- **D.** A panel arrangement

Q24. *A supplier makes an offer and gives the buyer seven days to accept, but the buyer replies after three weeks.*

What is the most likely outcome?

- **A.** A contract is automatically formed
- **B.** The supplier must honour the offer forever
- **C.** The buyer can change the price
- **D.** The offer has lapsed because the time limit has passed

Q25. *A small office needs a few printer cartridges worth a low amount.*

Which approach is most suitable?

- **A.** A full formal tender
- **B.** A pre-qualification questionnaire
- **C.** Asking a few suppliers for quotations
- **D.** A five-year framework

Q26. *A government department needs a large, high-value construction project and must follow strict, transparent rules.*

Which approach is most suitable?

- **A.** A formal tendering process
- **B.** A spot purchase
- **C.** One phone call to a known supplier
- **D.** A petty cash purchase

Q27. *A contract for catering states: "Meals must be served by 12:30 each day, with at least 95% customer satisfaction."*

Which contract document are these targets usually set out in?

- **A.** The invoice
- **B.** The delivery note
- **C.** The credit rating report
- **D.** The key performance indicators (KPIs)

Q28. *A buyer needs to describe exactly what the supplier must provide so that all bidders quote for the same thing.*

Which document does this?

- **A.** The invoice
- **B.** The specification
- **C.** The credit note
- **D.** The organisation chart

Part C – Information on Suppliers and Customers, and Procurement Systems

Questions 29–42

Q29. *A buyer wants to find possible suppliers of safety boots quickly at no cost.*

Which is the most practical first step?

- **A.** Use an internet search engine and visit suppliers' websites
- **B.** Pay a credit rating agency for every company in the country
- **C.** Wait for suppliers to call
- **D.** Ask the finance department to guess

Q30. *A wholesaler sells office furniture online only to other businesses.*

What type of e-commerce is this?

- **A.** B2C
- **B.** C2C
- **C.** B2B
- **D.** G2C

Q31. *A clothing brand sells directly to members of the public through its website.*

What type of e-commerce is this?

- **A.** B2B
- **B.** B2C
- **C.** Panel arrangement
- **D.** Spot tendering

Q32. *A company pays its suppliers electronically, directly from its bank account into theirs.*

Which UK system is commonly used for this?

- **A.** MRP
- **B.** BOM
- **C.** KPI
- **D.** BACS

Q33. *Before awarding a large contract, a buyer wants an independent view of whether a supplier is financially stable.*

What should she use?

- **A.** A credit rating agency report
- **B.** The supplier's own advertising
- **C.** Social media comments
- **D.** A delivery note

Q34. *A buyer compares five suppliers. Two of them have very low credit rating scores.*

What does a low credit score usually indicate?

- **A.** The supplier is the cheapest
- **B.** The supplier has the best quality
- **C.** A higher financial risk, so the buyer should investigate further before using the supplier
- **D.** The supplier is guaranteed to deliver on time

Q35. *A buyer wants to understand price trends and the main companies in the steel market.*

Which sources would help most?

- **A.** Delivery notes
- **B.** The company's organisation chart
- **C.** Employee timesheets
- **D.** Trade journals and market reports

Q36. *A buyer wants to check a supplier's turnover and profit over the last three years.*

Which publication is the best source?

- **A.** The supplier's sales brochure
- **B.** The supplier's published annual report and accounts
- **C.** A purchase requisition
- **D.** A KPI report

Q37. *A manufacturer's computer system uses sales orders and stock levels to calculate how many components to buy and when.*

What is this system called?

- **A.** BACS
- **B.** B2C
- **C.** Materials requirements planning (MRP)
- **D.** Credit rating

Q38. *For each product ordered, the MRP system lists every component and the quantity needed to make it.*

What is this list called?

- **A.** A bill of materials (BOM)
- **B.** An invoice
- **C.** A specification
- **D.** A credit note

Q39. *A company records every purchase by supplier, category and department, and then reviews where the money is going.*

What is the main benefit?

- **A.** It removes the need for budgets
- **B.** It replaces contracts
- **C.** It guarantees lower prices automatically
- **D.** It shows spending patterns and opportunities to save or combine spend

Q40. *A council publishes its contract opportunities on a website where suppliers can register and download tender documents.*

What is this website called?

- **A.** A credit rating agency
- **B.** A procurement portal
- **C.** A bill of materials
- **D.** A panel contract

Q41. *A company keeps details of all its approved suppliers, including contacts, certificates and performance scores, in one system.*

What is this called?

- **A.** A supplier database
- **B.** A delivery note
- **C.** A spot purchase
- **D.** An informal organisation

Q42. *A buyer's system automatically creates a purchase order once a requisition has been approved.*

Which benefit does this purchase ordering system mainly give?

- **A.** It removes the need to check deliveries
- **B.** It allows staff to skip approvals
- **C.** Faster processing with fewer manual errors
- **D.** It removes the need for suppliers

Part D – Pricing Methods

Questions 43–60

Q43. *A buyer agrees to pay 20 per unit for the whole year, whatever happens to market prices.*

What type of pricing is this?

- **A.** Variable pricing
- **B.** Fixed pricing
- **C.** Cost-plus pricing
- **D.** Target pricing

Q44. *A school agrees to pay one total amount of 80,000 for a complete new playground.*

What type of pricing is this?

- **A.** Schedule of rates
- **B.** Cost reimbursable
- **C.** Variable pricing
- **D.** Lump sum pricing

Q45. *Under a lump sum contract, the cost of materials rises sharply during the project.*

Who usually carries the risk of the price rise?

- **A.** The supplier
- **B.** The buyer
- **C.** The bank
- **D.** The government

Q46. *A maintenance contract lists prices such as 40 per hour for an electrician and 15 per metre of cable, and the buyer pays for what is actually used.*

What type of pricing is this?

- **A.** Lump sum
- **B.** Target pricing
- **C.** Schedule of rates
- **D.** Fixed pricing

Q47. *A buyer agrees to pay a supplier's actual costs plus an extra 10% for profit.*

What type of pricing is this?

- **A.** Lump sum
- **B.** Cost-plus
- **C.** Fixed pricing
- **D.** Spot pricing

Q48. *A buyer is considering a cost-plus contract for a project with uncertain costs.*

What is the main disadvantage for the buyer?

- **A.** The supplier will not get its costs back
- **B.** The contract is always very short
- **C.** The supplier carries all the risk
- **D.** The buyer cannot be sure of the final cost until the end, and the supplier has little reason to control costs

Q49. *A supplier is guaranteed to have all its costs repaid, with full transparency on both sides.*

Which type of pricing gives this main advantage to the supplier?

- **A.** Lump sum pricing
- **B.** Fixed pricing
- **C.** Cost reimbursable pricing
- **D.** Spot pricing

Q50. *A fuel contract says the price will be adjusted each month in line with a published oil price index.*

What type of pricing is this?

- **A.** Variable pricing
- **B.** Lump sum pricing
- **C.** Fixed pricing
- **D.** Schedule of rates

Q51. *A buyer of grain wants protection when market prices are unstable, but does not want to pay a supplier's risk premium for a fixed price.*

Which pricing approach could best balance this?

- **A.** A lump sum with no review
- **B.** A spot purchase every day
- **C.** Cost-plus with no cap
- **D.** Variable pricing linked to an agreed index

Q52. *A buyer and supplier agree a target cost of 100,000. If the final cost is lower, they share the savings; if higher, they share the overrun.*

What type of pricing is this?

- **A.** Fixed pricing
- **B.** Target pricing
- **C.** Spot pricing
- **D.** Schedule of rates

Q53. *Under a target pricing contract, the supplier finds a way to finish the job 10,000 below the target cost.*

What usually happens?

- **A.** The buyer keeps all the savings
- **B.** The supplier keeps all the savings
- **C.** The savings are shared according to the agreed ratio
- **D.** The contract is cancelled

Q54. *A supplier's payment rises if a new IT system cuts processing time, and falls if agreed targets are missed.*

What type of pricing is this?

- **A.** Risk and reward pricing
- **B.** Lump sum pricing
- **C.** Spot pricing
- **D.** Fixed pricing

Q55. *A buyer wants to encourage a builder to finish a project early.*

Which pricing approach is most likely to do this?

- **A.** A spot purchase
- **B.** Cost-plus with a percentage fee
- **C.** A fixed price with no incentives
- **D.** Risk and reward pricing with a bonus for early completion

Q56. *A buyer must stay within a strict budget for a well-defined project that is unlikely to change.*

Which pricing method is usually most suitable?

- **A.** Cost reimbursable
- **B.** Fixed or lump sum pricing
- **C.** Variable pricing with no limit
- **D.** Cost-plus with a percentage fee

Q57. *A research project is so new that nobody can estimate its costs accurately in advance.*

Which pricing method is often most realistic?

- **A.** Lump sum pricing
- **B.** Fixed pricing for five years
- **C.** Cost reimbursable or cost-plus pricing
- **D.** Spot pricing

Q58. *Under a lump sum contract, the buyer agrees to pay in stages as parts of the project are completed.*

What is the main benefit of staged payments to the buyer?

- **A.** The total price becomes unknown
- **B.** It helps the buyer's cash flow
- **C.** The supplier carries no risk
- **D.** It removes the need for a specification

Q59. *A buyer is choosing a pricing method for a new contract.*

Which question is LEAST relevant to the choice?

- **A.** Are market prices stable?
- **B.** How much risk is each party willing to take?
- **C.** How certain are the costs?
- **D.** What colour is the supplier's logo?

Q60. *An events company needs many different services of varying quantities throughout the year, and its requirements may change.*

Which pricing arrangement is likely to suit best?

- **A.** A schedule of rates under a framework, paying for what is used
- **B.** A single lump sum agreed today for the whole year
- **C.** Cost-plus with no cap
- **D.** A spot purchase for each event with no agreed rates

Answer Key

Procurement and Supply Operations (L2M2): correct answers with brief reasons

Q	Answer	Reason
Part A – Types of Organisations and How They Operate (Questions 1–14)		
1	C	Private sector organisations are owned privately, for example by shareholders, and usually aim to make a profit.
2	A	Public sector organisations are owned or funded by government, mainly through taxes, and provide public services.
3	D	Third sector organisations, such as charities and social enterprises, are not-for-profit and reinvest any surplus in their cause.
4	B	Third sector organisations are mainly funded by donations, grants and fundraising activities.
5	A	Production organisations make physical goods. Service organisations provide intangible services.
6	C	The firm provides an intangible service (advice) rather than making goods.
7	B	A tall structure has many management levels and narrow spans of control. A flat structure has few levels.
8	D	A flat structure has few management levels and a wide span of control.
9	C	In a matrix structure, staff have two lines of reporting, usually functional and project.
10	A	The informal organisation covers unofficial relationships and communication, such as the "grapevine". The formal organisation is the official structure and rules.
11	D	The objective is specific, measurable and has a deadline, which are features of a SMART objective.
12	B	Differentiation is the way departments specialise and develop their own goals and ways of working.
13	A	Integration is co-ordination between departments so that they work towards common goals.
14	C	Human resources (personnel) handles recruitment, training and staff welfare.
Part B – Contracts and Contract Documents (Questions 15–28)		
15	D	A spot purchase is a one-off buy at the current price, with no ongoing contract.
16	B	A term contract covers supply over a fixed period of time on agreed terms.
17	C	A panel or framework arrangement pre-approves suppliers and terms, and orders are placed when needed.
18	A	A call-off is an order placed under an existing framework or blanket agreement.
19	D	A contract usually includes the specification, KPIs, terms and conditions, and pricing, plus any other schedules.
20	B	Unconditional acceptance of an offer forms a binding contract.
21	A	A counter-offer changes the terms. It rejects the original offer and becomes a new offer.
22	C	Revocation is the withdrawal of an offer before it is accepted.
23	B	The battle of the forms happens when each party tries to contract on its own standard terms. It is often settled by whichever terms were sent last before performance.
24	D	An offer can end after a set time (lapse), so a late acceptance does not create a contract.
25	C	Quotations suit simple, low-value purchases. Tendering is used for larger, more complex or regulated requirements.
26	A	Formal tendering suits high-value, complex purchases and gives transparency and fair competition.
27	D	KPIs set measurable performance targets that the supplier is monitored against.
28	B	The specification describes the requirement so that suppliers can quote accurately and deliver correctly.

Q	Answer	Reason
Part C – Information on Suppliers and Customers, and Procurement Systems (Questions 29–42)		
29	A	Search engines and supplier websites are a quick, free way to find suppliers and basic information about them.
30	C	B2B (business-to-business) is selling between organisations. B2C is selling to individual consumers.
31	B	Business-to-consumer (B2C) e-commerce sells directly to individual customers.
32	D	BACS is an electronic bank-to-bank payment system commonly used to pay suppliers.
33	A	Credit rating agencies assess an organisation's financial health and the risk of it failing to pay or deliver.
34	C	A low score suggests financial weakness and higher risk. It is a warning sign to investigate, not proof of failure.
35	D	Trade publications and market reports give information on markets, prices and the companies in them.
36	B	Annual reports and accounts show an organisation's financial performance.
37	C	MRP calculates the materials needed for production from demand and stock levels.
38	A	A bill of materials lists all the parts and quantities needed to make a product. The buyer uses it to create purchase orders.
39	D	Capturing spend data (spend analysis) shows where money goes and highlights savings opportunities.
40	B	Procurement portals advertise opportunities and allow suppliers to register and respond online.
41	A	A supplier database stores supplier information so that buyers can find, compare and manage suppliers.
42	C	Electronic purchase ordering speeds up the process and reduces manual mistakes, while keeping controls in place.
Part D – Pricing Methods (Questions 43–60)		
43	B	Fixed pricing keeps the agreed price the same for the contract period.
44	D	Lump sum pricing is one agreed total price for the whole project.
45	A	With a lump sum, the buyer pays the agreed amount, so the supplier carries the risk of rising costs.
46	C	A schedule of rates sets unit prices for different items of work, and payment depends on the quantities used.
47	B	Cost-plus repays the supplier's costs plus an agreed profit, either as a percentage or a fixed fee.
48	D	With cost-plus the buyer carries the cost risk, budgeting is hard, and a percentage fee can even reward higher costs.
49	C	Cost reimbursable arrangements guarantee that the supplier's costs are covered, so the supplier carries little risk.
50	A	Variable pricing changes in line with an agreed index or market movement.
51	D	Index-linked variable pricing shares market movements fairly. A fixed price usually includes a premium for the supplier's risk.
52	B	Target pricing sets a target cost and shares savings or overruns between the parties.
53	C	Target pricing shares gains (and losses) between the parties, which motivates both to keep costs down.
54	A	Risk and reward pricing links payment to performance, so both parties share the gains and the risks.
55	D	Risk and reward pricing can include incentives, such as bonuses for early completion, that motivate better performance.
56	B	Fixed or lump sum prices give the buyer certainty and suit clearly specified work with little expected change.
57	C	When costs are very uncertain, suppliers may refuse a fixed price, so cost reimbursable arrangements are often used, with controls.
58	B	Staged payments spread the cost over time, which helps the buyer's cash flow.

Q	Answer	Reason
59	D	Price stability, risk, cost certainty, investment and the relationship all matter. A logo's colour does not.
60	A	A schedule of rates handles changing quantities fairly, and a framework keeps agreed terms in place for repeat needs.