MACRO EXERCISE

Inventory, Logistics and Expediting

CIPS Level 2 Module 5 (L2M5): Certificate in Procurement and Supply Operations

60 multiple-choice questions | covering the full L2M5 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 Inventory and Holding Costs

Questions 1–16

Q1. *A furniture factory has half-built chairs on the production line at the end of the day.*

What type of stock is this?

- **A.** Finished goods
- **B.** Opening stock
- **C.** Safety stock
- **D.** Work in progress

Q2. *Completed tables are wrapped and waiting in the warehouse to be sent to customers.*

What type of stock is this?

- **A.** Finished goods
- **B.** Work in progress
- **C.** Raw materials
- **D.** Redundant stock

Q3. *At the start of the financial year, a shop counts the stock already on its shelves.*

What is this stock called?

- **A.** Closing stock
- **B.** Safety stock
- **C.** Opening stock
- **D.** Work in progress

Q4. *A hospital keeps extra syringes in case a delivery is late or demand suddenly rises.*

What is the main reason for holding this safety stock?

- **A.** To minimise the risk of stock-outs
- **B.** To increase storage costs
- **C.** To use up warehouse space
- **D.** To replace the need to order

Q5. *A phone shop still holds a few cases for a model that is being phased out and will soon stop selling.*

Which best describes this stock?

- **A.** Work in progress
- **B.** Safety stock
- **C.** Opening stock
- **D.** Obsolescent stock: stock near the end of its life cycle

Q6. *A warehouse holds spare parts for a machine the company scrapped two years ago. Nobody will ever use them.*

What is this stock called?

- **A.** Safety stock
- **B.** Redundant stock
- **C.** Finished goods
- **D.** Work in progress

Q7. *A cake maker uses flour, sugar and eggs in every cake it sells.*

What type of supplies are these?

- **A.** Indirect supplies
- **B.** Capital equipment
- **C.** Redundant stock
- **D.** Direct supplies

Q8. *The same cake maker buys cleaning materials and office paper.*

What type of supplies are these?

- **A.** Direct supplies
- **B.** Work in progress
- **C.** Finished goods
- **D.** Indirect supplies

Q9. *A warehouse manager finds that a small number of items make up most of the value of the stock held.*

Which principle is ABC analysis based on?

- **A.** First in, first out
- **B.** Porter's Five Forces
- **C.** The Pareto 80/20 rule
- **D.** The five rights

Q10. *In an ABC analysis, a few expensive engine parts make up most of the stock value.*

How should these items be classed and managed?

- **A.** Category A: managed closely with tight control
- **B.** Category C: minimal control
- **C.** Category B: ignored
- **D.** Category C: ordered without checks

Q11. *A car factory needs four tyres for every car it plans to build.*

What type of demand do the tyres have?

- **A.** Dependent demand
- **B.** Independent demand
- **C.** Random demand
- **D.** No demand

Q12. *A supermarket sells bottles of water directly to shoppers.*

What type of demand do the bottles have?

- **A.** Independent demand
- **B.** Dependent demand
- **C.** Component demand
- **D.** Fixed demand

Q13. *A company buys new storage racking for its warehouse.*

How is this cost of holding inventory usually classified?

- **A.** Direct cost
- **B.** Indirect cost
- **C.** A stock-out cost
- **D.** A transport cost

Q14. *A business considers its insurance on stock, warehouse rent and the risk of goods being damaged or going out of date.*

What are these together called?

- **A.** The costs of a stock-out
- **B.** Transport costs only
- **C.** The costs of holding inventory
- **D.** Marketing costs

Q15. *A manager wants to reduce stock-holding costs without letting customers down.*

Which approach is most sensible?

- **A.** Remove all safety stock immediately
- **B.** Double all stock levels
- **C.** Stop counting stock
- **D.** Reduce excess stock while keeping enough safety stock for key items

Q16. *A retailer sells 75 washing machines a month.*

How many does it sell in a year?

- **A.** 750
- **B.** 600
- **C.** 1,200
- **D.** 900

Part B – Inventory Control, Forecasting and Handling

Questions 17–30

Q17. *The same retailer sells 900 washing machines a year. Each order costs 30 to place, and holding one machine for a year costs 15. EOQ = √(2 × annual demand × order cost ÷ holding cost).*

What is the economic order quantity (EOQ)?

- **A.** 30
- **B.** 90
- **C.** 60
- **D.** 120

Q18. *A buyer wants to find the order size that balances ordering costs against holding costs.*

Which tool should she use?

- **A.** Economic order quantity (EOQ)
- **B.** A bill of lading
- **C.** A letter of credit
- **D.** An Incoterm

Q19. *A shop sets its system to place a new order whenever stock of a product falls to 50 units.*

What is the 50-unit point called?

- **A.** The re-order quantity
- **B.** The re-order level
- **C.** Opening stock
- **D.** Lead time

Q20. *When the shop re-orders, it always orders 200 units.*

What is the 200 units called?

- **A.** The re-order level
- **B.** Safety stock
- **C.** The lead time
- **D.** The re-order quantity

Q21. *A factory's system calculates the parts it needs from its production plan and current stock levels.*

Which system is this?

- **A.** Incoterms
- **B.** A bill of lading
- **C.** An e-auction
- **D.** MRP (materials requirements planning)

Q22. *A company extends its planning system to include machines, labour and finance, not just materials.*

What is this called?

- **A.** JIT
- **B.** ABC analysis
- **C.** FIFO
- **D.** MRP II (manufacturing resource planning)

Q23. *A large company links finance, HR, procurement, stock and sales in one integrated system.*

What type of system is this?

- **A.** MRP only
- **B.** JIT
- **C.** ERP (enterprise resource planning)
- **D.** A control chart

Q24. *Parts arrive at a car factory just one hour before they are needed on the production line.*

Which approach is this?

- **A.** Just in case
- **B.** ABC analysis
- **C.** Just in Time (JIT)
- **D.** Safety stock

Q25. *A company is thinking about moving to JIT.*

What is a key risk?

- **A.** Storage costs will rise sharply
- **B.** It needs huge warehouses
- **C.** Any delivery delay can stop production, because little stock is held
- **D.** Suppliers become irrelevant

Q26. *A supermarket scans products at the till, and stock records update automatically.*

Which technology makes this possible?

- **A.** Letters of credit
- **B.** Bills of lading
- **C.** Bar coding
- **D.** Pipelines

Q27. *A company forecasts next month's sales using last year's sales figures, adjusted for a known upward trend.*

What type of forecasting is this?

- **A.** Subjective forecasting
- **B.** Guesswork
- **C.** Expediting
- **D.** Objective (quantitative) forecasting

Q28. *A panel of experts gives their opinions over several rounds until they reach agreement on future demand.*

Which forecasting method is this?

- **A.** The Delphi method (subjective)
- **B.** Moving average
- **C.** Regression
- **D.** EOQ

Q29. *A warehouse moves heavy pallets of goods from the delivery bay to storage racks.*

Which materials handling equipment is most suitable?

- **A.** A filing cabinet
- **B.** A forklift truck
- **C.** A desktop computer
- **D.** A shopping basket

Q30. *A supplier stacks many small boxes onto pallets and shrink-wraps them as one load.*

What is the main benefit of these unit loads?

- **A.** More manual lifting
- **B.** Slower loading
- **C.** Faster, safer handling with less damage
- **D.** Higher risk of theft

Part C – Logistics, Transport and International Trade

Questions 31–46

Q31. *A business wants to manage the flow and storage of goods from its suppliers to its customers.*

What is this activity called?

- **A.** Logistics
- **B.** Marketing
- **C.** Recruitment
- **D.** Auditing

Q32. *A warehouse manager lays out the building so that goods flow smoothly from receiving, to storage, to dispatch.*

Which principle of warehousing is this?

- **A.** Storing everything in one corner
- **B.** Keeping all goods near the door
- **C.** Random storage with no plan
- **D.** Efficient flow of inventory and good use of space

Q33. *A buyer considers the purchase price, delivery, storage, handling, insurance and dispatch costs of an item.*

What is this type of analysis called?

- **A.** Expediting
- **B.** Life-cycle cost analysis
- **C.** Pareto analysis only
- **D.** Bar coding

Q34. *A company wants to deliver goods directly from a factory to a customer's door in the same country.*

Which mode of transport is usually most flexible for this?

- **A.** Road
- **B.** Sea
- **C.** Pipeline
- **D.** Air

Q35. *A company switches from moving heavy goods by road to moving them by rail.*

What is a key benefit?

- **A.** Faster door-to-door delivery
- **B.** More flexible routes
- **C.** Reduced environmental impact for large, heavy loads
- **D.** No need for any road transport

Q36. *A fashion retailer needs urgent samples flown from Italy to a launch event tomorrow.*

Which mode of transport is best?

- **A.** Sea
- **B.** Rail
- **C.** Pipeline
- **D.** Air

Q37. *A buyer compares transport options for 50 tonnes of steel.*

Why is air freight often NOT considered for heavy goods like this?

- **A.** It is too slow
- **B.** It cannot cross borders
- **C.** It is only for liquids
- **D.** It is very expensive

Q38. *A company ships 100 containers of paper from China to Europe.*

What is a major disadvantage of sea freight?

- **A.** Very high cost per tonne
- **B.** Long delivery times
- **C.** It cannot carry containers
- **D.** It is only for liquids

Q39. *An oil company needs a continuous supply of crude oil from its oilfield to a refinery.*

Which mode of transport is most suitable?

- **A.** Air
- **B.** Pipeline
- **C.** Road
- **D.** Post

Q40. *A buyer agrees that the seller will deliver goods "DDP", and the contract also mentions "FOB" and "EXW" terms.*

What are DDP, FOB and EXW examples of?

- **A.** Incoterms
- **B.** Bar codes
- **C.** KPIs
- **D.** Credit ratings

Q41. *A trainer explains what Incoterms are used for in international trade.*

What do Incoterms mainly define?

- **A.** The product's quality standard
- **B.** Who is responsible for transport, costs and risk at each point of delivery
- **C.** The supplier's credit rating
- **D.** The buyer's internal budget

Q42. *Under "EXW" (Ex Works), the seller makes the goods available at its own premises.*

Who is responsible for transporting the goods from there?

- **A.** The seller
- **B.** The customs authority
- **C.** The buyer
- **D.** The insurer

Q43. *Under "DDP" (Delivered Duty Paid), goods are delivered to the buyer's location with duties paid.*

Who carries the most responsibility?

- **A.** The buyer
- **B.** The seller
- **C.** The bank
- **D.** The shipping line only

Q44. *A buyer is planning to import goods for the first time from another country.*

What should she check to ensure compliance?

- **A.** Only the supplier's logo
- **B.** Only the colour of the packaging
- **C.** Nothing, because rules do not apply to imports
- **D.** Import duties and taxes, and whether the items are restricted or prohibited

Q45. *A document travelling with an international shipment states which country the goods were made in.*

What is this document?

- **A.** A certificate of origin
- **B.** A packing list
- **C.** A delivery note
- **D.** An invoice

Q46. *A ship's carrier issues a document that acts as a receipt for goods and as a document of title.*

What is this document called?

- **A.** An air waybill
- **B.** A bill of lading
- **C.** A requisition
- **D.** A certificate of origin

Part D – Expediting, Stock-outs and Cash Flow

Questions 47–60

Q47. *A new overseas supplier wants payment before shipping, but the buyer wants to pay only after delivery.*

What can resolve this deadlock?

- **A.** A letter of credit through the banks
- **B.** A packing list
- **C.** A bill of materials
- **D.** A quality circle

Q48. *A box of goods arrives with a document listing exactly what is inside each package.*

What is this document?

- **A.** A bill of lading
- **B.** A packing list
- **C.** A letter of credit
- **D.** A certificate of origin

Q49. *A road haulier hands over a document confirming the goods it is carrying and their destination.*

Which document is associated with transporting supplies by road?

- **A.** A contract register
- **B.** An e-catalogue
- **C.** A requisition
- **D.** A consignment note

Q50. *A buyer monitors an order closely and contacts the supplier to make sure it arrives on time.*

What is this process called?

- **A.** Invoicing
- **B.** Forecasting
- **C.** Expediting
- **D.** Tendering

Q51. *A shop runs out of a popular product, and customers go to a competitor.*

What is a likely consequence of this stock-out?

- **A.** Lost sales and damage to the shop's reputation
- **B.** Lower storage costs with no downside
- **C.** More loyal customers
- **D.** Higher profits

Q52. *A company keeps running out of stock because its records are inaccurate.*

Which action would most help reduce stock-outs?

- **A.** Stopping all forecasting
- **B.** Ordering less often regardless of demand
- **C.** Improving data accuracy, for example with bar coding and point-of-sale systems
- **D.** Ignoring sales trends

Q53. *A shop sells its oldest stock first so that items do not go out of date.*

Which method is this?

- **A.** Last in, first out (LIFO)
- **B.** First in, first out (FIFO)
- **C.** Weighted average
- **D.** Specific identification

Q54. *A car dealer values each car separately using its own individual purchase price.*

Which inventory valuation method is this?

- **A.** FIFO
- **B.** LIFO
- **C.** Specific identification
- **D.** Weighted average

Q55. *A company calculates stock value using the average cost of all units bought during the period.*

Which method is this?

- **A.** FIFO
- **B.** Weighted average
- **C.** LIFO
- **D.** Specific identification

Q56. *A buyer forecasts demand by averaging sales over the last three months and updating the average each month.*

Which forecasting technique is this?

- **A.** Moving average (time series)
- **B.** Delphi method
- **C.** Market research
- **D.** Think tank

Q57. *For an urgent equipment purchase, a buyer sets dates for order placement, manufacture, shipping and delivery.*

What are these key dates called?

- **A.** Incoterms
- **B.** Milestones
- **C.** Bar codes
- **D.** Unit loads

Q58. *A company is making a profit on paper but cannot pay its suppliers this month because customers have not paid yet.*

What is the problem?

- **A.** A profitability problem
- **B.** A cash flow problem
- **C.** A quality problem
- **D.** A transport problem

Q59. *A supplier offers a 2% discount if the buyer pays within 10 days instead of 30.*

What is this called?

- **A.** A stage payment
- **B.** An early payment discount
- **C.** A mobilisation fee
- **D.** A penalty

Q60. *For a large project, the buyer pays the supplier as each phase of work is completed.*

What are these payments called?

- **A.** Early payment discounts
- **B.** Penalties
- **C.** Stage payments
- **D.** Rebates

Answer Key

Inventory, Logistics and Expediting (L2M5): correct answers with brief reasons

Q	Answer	Reason
Part A – Types of Inventory and Holding Costs (Questions 1–16)		
1	D	Work in progress is stock that is partly made and still in production.
2	A	Finished goods are completed products ready for sale or dispatch.
3	C	Opening stock is the stock held at the start of a period.
4	A	Safety (buffer) stock protects against unexpected demand or late deliveries, which reduces the risk of running out.
5	D	Obsolescent stock is becoming outdated as it nears the end of its life cycle.
6	B	Redundant stock has no further use to the organisation and should be disposed of.
7	D	Direct supplies go into the product being made and sold.
8	D	Indirect supplies support the business but do not become part of the product.
9	C	ABC analysis comes from Pareto's principle: roughly 20% of items account for about 80% of value.
10	A	Category A items are high-value and need the closest monitoring and control.
11	A	Dependent demand comes from the demand for another item. Tyres depend on how many cars are built.
12	A	Independent demand comes directly from customers and is not linked to another product.
13	A	Costs specifically tied to storing stock, such as racking, are treated as direct holding costs.
14	C	Holding costs include storage space, insurance, handling, damage, deterioration and obsolescence.
15	D	Costs can be cut by reducing excess stock, but enough must be kept to maintain service levels.
16	D	75 a month multiplied by 12 months gives 900 a year. Annual demand is the starting point for the EOQ.
Part B – Inventory Control, Forecasting and Handling (Questions 17–30)		
17	C	2 × 900 × 30 ÷ 15 = 3,600, and the square root of 3,600 is 60.
18	A	EOQ calculates the order quantity that minimises the total of ordering and holding costs.
19	B	The re-order level is the stock level that triggers a new order.
20	D	The re-order quantity is the amount ordered each time.
21	D	MRP works out material requirements for dependent-demand items from the production schedule.
22	D	MRP II builds on MRP by planning wider manufacturing resources such as labour, machines and money.
23	C	ERP systems integrate data and processes across the whole organisation.
24	C	JIT delivers materials exactly when needed, which keeps stock to a minimum.
25	C	JIT relies on reliable suppliers. Late deliveries quickly cause stoppages because there is little buffer stock.
26	C	Bar codes allow fast, accurate tracking of stock movements and sales.
27	D	Objective forecasting uses data and numbers, such as past sales and trends.
28	A	The Delphi method is a qualitative technique that uses expert opinion in repeated rounds.
29	B	Forklift trucks are standard equipment for lifting and moving palletised loads.
30	C	Palletisation and unit loads make goods quicker and safer to move, store and count.
Part C – Logistics, Transport and International Trade (Questions 31–46)		
31	A	Logistics manages the movement and storage of goods between points in the supply chain.

Q	Answer	Reason
32	D	Good warehouses are designed for smooth flow and best use of space.
33	B	Life-cycle costing looks at all costs over the item's life, not just the price.
34	A	Road transport offers door-to-door flexibility for domestic deliveries.
35	C	Rail can move large, heavy loads with lower emissions per tonne than road.
36	D	Air is the fastest mode for urgent, light, high-value goods.
37	D	Air freight is fast but very costly, especially for heavy or bulky goods.
38	B	Sea freight is cheap for bulk goods but slow, so delivery time is the main drawback.
39	B	Pipelines move large, continuous flows of liquids and gases efficiently.
40	A	Incoterms are internationally recognised trade terms, published by the International Chamber of Commerce.
41	B	Incoterms set out the delivery obligations, costs and transfer of risk between buyer and seller.
42	C	Under EXW, the seller has minimal obligations, and the buyer arranges and pays for transport.
43	B	DDP places maximum responsibility on the seller, including transport, risk and import duties.
44	D	International sourcing must comply with customs duties, taxes and rules on restricted or prohibited goods.
45	A	A certificate of origin confirms where goods were produced, which affects duties and trade rules.
46	B	A bill of lading is used for sea freight. It is a receipt, evidence of the contract of carriage and a document of title.
Part D – Expediting, Stock-outs and Cash Flow (Questions 47–60)		
47	A	A letter of credit has a bank guarantee payment once agreed documents are presented, which protects both parties.
48	B	A packing list details the contents of each package so the delivery can be checked.
49	D	A consignment note accompanies goods in transit and records details of the shipment.
50	C	Expediting monitors orders and chases suppliers to make sure goods arrive on time.
51	A	Stock-outs lead to lost sales and unhappy customers, which damages reputation.
52	C	Accurate, real-time stock data helps the company order the right amounts at the right time.
53	B	FIFO uses or sells the oldest stock first, which is ideal for perishable goods.
54	C	Specific identification values unique, individually tracked items at their actual cost.
55	B	The weighted average method values stock at the average cost of all units available.
56	A	A moving average is a time-series method that smooths past data to predict future demand.
57	B	Milestones are key checkpoints used to plan and track progress, which makes expediting easier.
58	B	Cash flow is the timing of money coming in and going out. A profitable firm can still run short of cash.
59	B	Early payment discounts reward faster payment and help the supplier's cash flow.
60	C	Stage payments spread payment over the project and help the supplier's cash flow while protecting the buyer.