

**CIPS Level 5 – Advanced Diploma in Procurement and Supply**

# **Managing Contractual Risk [L5M3]**

**Sample Exam Questions (Objective Response)**

**The correct answer will be listed below each question**

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Q1. Where a subsidiary company is bidding for a contract but it has a poor credit rating, the procurement organisation could obtain which of the following from the parent company to reduce the risk?

- a. Guarantee
- b. Verbal promise
- c. Insurance
- d. Resolution

LO: 1

AC: 1.2

Correct answer: A

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Q2. A large manufacturing company has begun a project to increase the size of its premises. The procurement team has estimated that if the main supplier fails to complete the project on schedule it will incur costs and losses of \$20,000 per day for every day there is a delay. Which of the following clauses should the large manufacturer use in the contract with the supplier?

- a. Indemnity
- b. Liquidated damages
- c. Public liability
- d. Warranty

LO: 1

AC: 1.2

Correct answer: B

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Q3. A buyer has not been managing contract delivery since the agreement was created a year ago. The supplier has not been delivering what was required, although the procurement organisation has been paying its monthly invoices for the last year. In all likelihood, the courts would regard this situation as...

- a. a counter offer
- b. a material breach
- c. an acceptance by performance
- d. an unacceptable variation

LO: 1

AC: 1.1

Correct answer: C

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Q4. Which of the following will terminate an offer?

1. Acceptance
  2. Consideration
  3. Revocation
  4. Intention
- 
- a. 1 and 2 only
  - b. 1 and 3 only
  - c. 2 and 4 only
  - d. 3 and 4 only

LO: 1

AC: 1.1

Correct answer: B

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Q5. An organisation has recently faced several public relations challenges, on social media, about its product quality. Which of the following actions could help mitigate the risk of reputational damage for an organisation?

1. Implementing comprehensive communication plans to ensure consistent and transparent messaging.
  2. Avoiding feedback on social media to avoid drawing more attention to negative comments.
  3. Designing a robust process to manage and resolve customer complaints efficiently.
  4. Focusing on short-term profit to boost immediate financial performance.
- 
- a. 1 and 3 only
  - b. 2 and 3 only
  - c. 1 and 4 only
  - d. 2 and 4 only

LO: 2

AC: 2.3

Correct answer: A

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Q6. A buyer is seeking to include a clear performance procedures clause within the contract to act as a lever to encourage the supplier to focus on achieving the stated performance measures. Should they consider using a clause applying service credits?

- a. Yes, these encourage suppliers to achieve stated measures
- b. Yes, they are a form of unliquidated damages that will punish poor performing suppliers
- c. No, they relate to bonus payments to suppliers and can be expensive to implement
- d. No, service credits are generally viewed as penalties by the courts and cannot be enforced

LO: 3

AC: 3.1

Correct answer: A

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Q7. Specific performance is always a legal right for the buyer in the event of a supplier breach of contract. Is this correct?

- a. Yes, for any breach the supplier can be forced to deliver the contract
- b. No, it only applies to contracts for the provision of services
- c. No, it is only available at the discretion of the court
- d. Yes, but only when it is expressly agreed between buyer and supplier

LO: 3

AC: 3.2

Correct answer: C

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Q8. Which of the following are recognised conflict resolution approaches? Select **THREE** that apply.

- a. Investigation
- b. Liquidation
- c. Negotiation
- d. Litigation
- e. Arbitration
- f. Synchronisation

LO: 2

AC: 2.2

Correct answer: C, D & E

Q9. Regional Social Housing (RSH) is a public body which operates within a strictly regulated environment. It is under close public scrutiny in terms of how it manages its finances. It has a contract in place with a facilities management provider (FM). It is a five year contract and year two has just commenced. Within its regulations RSH is allowed to make some changes to contracts once awarded. There has been a recent change in safeguarding legislation which has necessitated a change in the contract. An initial meeting has taken place between RSH and the supplier. Which of the following are required to enable the change to go ahead (assume RSH can make this change within the procurement regulations)?

1. Contract variation clause
  2. Indemnity from FM's parent
  3. Agreement of all parties
  4. Assessment of unliquidated damages
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- a. 1 and 2 only
  - b. 1 and 3 only
  - c. 3 and 4 only
  - d. 2 and 4 only

LO: 1

AC: 1

Correct answer: B

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Q10. A large insurance company, InsCover (IC), has a number of issues with some of its suppliers in respect of specific contractual terms.

Supplier A – this is a high risk/value supplier and IC is keen to achieve a cooperative win/win outcome. The dispute relates to a long overdue invoice which the supplier claims should have been settled three months ago.

Supplier B – this is a transactional supplier that provides routine supplies. IC has a number of options and could switch supplier easily and even retender in the market. There is also an issue of assigning responsibility relating to damage caused to IC property by the supplier’s vehicle recently during a delivery.

Supplier C – this is an important supplier and IC is keen to find a solution even if they have to meet mid-way to do so. The relationship is worth preserving. The issue relates to IC’s claim for predetermined compensation for the supplier failing to deliver part of its obligations.

Supplier D – an initial meeting has taken place but IC did not have sufficient information to seek resolution. So both parties agreed to call a recess for now, and will reconvene soon to finish the discussion. The issue is about the supplier’s possible use of a third party to fulfil part of the contract

For each of the suppliers, you are required to match the conflict resolution approach and the contractual issue. Choose from these options and drag and drop your answers into the table below. [8]

**You can only use each option once.**

Liquidated damages term	Liability term
Collaboration	Avoid
Payment term	Compete
Compromise	Subcontracting term

Supplier	Conflict resolution approach	Contract term
A		
B		
C		
D		

**Q10 Continued ...**

LO: 1  
AC: 1.2

Correct answer:

Supplier	Conflict resolution approach	Contract term
A	Collaboration	Payment
B	Compete	Liability
C	Compromise	Liquidated damages
D	Avoid	Subcontracting

Q11. In relation to contract formation, completion of both offer and acceptance constitutes which of the following?

- a. Precedent
- b. Agreement
- c. Capacity
- d. Intention

LO: 1  
AC: 1.1  
Correct answer: B

Q12. A large financial services organisation (FSO) is entering into a long-term contract with a supplier for the provision of information technology (hardware, software and support). The FSO anticipates that there will be a need for the contract to change from time to time during its term. To facilitate this, which type of clause should be included within the contract when it is set up?

- a. Variation
- b. Liability
- c. Dispute resolution
- d. Arbitration

LO: 1  
AC: 1.1  
Correct answer: A

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Q13. Which of the following are contractual financial remedies relating to either non- or under-performance of a supplier?

1. Liquidated damages
  2. Payment terms
  3. Service credits
  4. Termination clauses
- a. 1 and 2 only
- b. 2 and 4 only
- c. 1 and 3 only
- d. 3 and 4 only

LO: 3

AC: 3.1

Correct answer: C

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Q14. Which of the following are recognised approaches for attempting to resolve a breach of contract?

1. Liquidation
  2. Consideration
  3. Mediation
  4. Arbitration
- a. 1 and 2 only
- b. 2 and 4 only
- c. 1 and 3 only
- d. 3 and 4 only

LO: 2

AC: 2.2

Correct answer: D

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Q15. When a contractual dispute arises, an appropriate first step to resolve the issue should be a negotiation between the parties. Is this correct?

- a. Yes, because it will cost less than following a formal legal process
- b. No, a contract is legally binding and does not require further negotiation
- c. Yes, this approach will give assurance that the issue will be resolved fully
- d. No, where there is a dispute the parties are unlikely to agree to meet up

LO: 2

AC: 2.2

Correct answer: A

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Q16. Liquidated damages are used within a contract to exclude liability for specific events which are outside the control of the contracting parties. Is this correct?

- a. No, they reinforce to the contracting parties what the key obligations are under the contract
- b. Yes, they ensure that the burden of non-delivery is shared between all contracting parties
- c. No, they represent a genuine pre-estimate of the costs relating to a contractual breach
- d. Yes, they limit responsibility for contract failure due to extreme and uncontrollable events

LO: 3

AC: 3.1

Correct answer: C

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Q17. Which of the following are legitimate reasons why a contract could legally come to an end before its original agreed term? Select **TWO** that apply.

- a. Changes in the supplier's micro environment
- b. The need to apply agreed service credits
- c. Significant breach of conditions by one party
- d. An unexpected change in interest rates
- e. Activating an agreed termination clause

LO: 3

AC: 3.2

Correct answer: C & E

Q18. In the context of contract formation, 'acceptance' must be which of the following for it to constitute a legally binding agreement between the parties? Select **THREE** that apply.

- a. Communicated
- b. Witnessed
- c. By guarantee
- d. Unconditional
- e. Under oath
- f. Unequivocal

LO: 1

AC: 1.1

Correct answer: A, D & F

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Q19. Super Clean Group (SCG) is a large facilities management organisation. One of its procurement officers (PO) has a meeting with a cleaning company about a potential future contract. The cleaning company has already submitted a quote to the PO, based on a specification that was provided. The PO explained that he had the authority to commit SCG to the contract and confirmed that the price was acceptable for the services being offered. The PO and the cleaning company agreed that the contract would commence in one month's time. In addition to the offer and acceptance which of the following from this scenario make this a legally binding contract?

- 1. Precedence
  - 2. Consideration
  - 3. Capacity
  - 4. Warranty
- a. 1 and 2 only
  - b. 2 and 3 only
  - c. 3 and 4 only
  - d. 1 and 4 only

LO: 1

AC: 1.1

Correct answer: B

Q20. Specific issues have arisen on four International Telecommunications Group (ITG) contracts and different resolution methods are being pursued. Relevant information is as follows:

Contract 1 – ITG is in dispute with its supplier (ABC) about ABC’s use of another company to fulfil elements of the contract. ITG claims that ABC did not have the right to outsource this work and is unhappy with ABC’s choice of supplier. An amicable solution has not been found. The contract allows for a specified independent third party, who is not a lawyer, to make the decision on how best to resolve the dispute.

Contract 2 - ITG is in dispute with its supplier XYZ, due to XYZ’s perceived poor labour relations track record overseas. This has had an impact on ITG’s brand and revenues. To date, an informal approach has been adopted. XYZ has tried to provide ITG with reassurances but ITG wants compensation. Now ITG and XYZ have agreed to involve an independent third party in their future discussions to help them find a solution. The third party will not recommend a solution but will instead help to facilitate the discussion.

Contract 3 – ITG has been trying to resolve a significant issue with its supplier DEF for almost a year. In ITG’s opinion, DEF has failed to deliver some minor elements of the contract and so ITG has withheld 50% of the monies due. The contract states that ITG is entitled to withhold a reasonable sum. DEF claims that 50% is an unreasonable and arbitrary amount. The parties have tried to find a resolution but reluctantly ITG has had to pass the issue onto its legal adviser to pursue formal legal action.

Contract 4 - ITG has enjoyed a good relationship with the supplier (ZAM), but recently ITG incurred some additional costs that arose indirectly due to ZAM’s actions on a contract it was delivering for ITG. ZAM has already acknowledged responsibility and ITG is hopeful of finding a quick and amicable solution. A meeting between ITG and ZAM has been arranged for them to find a mutually acceptable solution.

You are required, for each contract, to determine the most appropriate resolution method and the issue that led to the point of conflict between ITG and its supplier.

**You can only use each option once.**

Subcontracting	Reputational damage
Litigation method	Mediation method
Penalty clause	Consequential loss
Arbitration method	Negotiation method

Contract	Resolution Method	Contractual Issue
1		
2		
3		
4		

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**Q20 Continued ...**

LO: 2  
AC: 2.2

Correct answer:

<b>Contract</b>	<b>Resolution Method</b>	<b>Contractual Issue</b>
1	Arbitration method	Subcontracting
2	Mediation method	Reputational damage
3	Litigation method	Penalty clause
4	Negotiation method	Consequential loss

SAMPLE QUESTIONS