
CIPS Level 5 – Advanced Diploma in Procurement and Supply

Advanced Contract and Financial Management [L5M4]

Sample Questions

(Q1) – ABC Limited

ABC Limited (ABCL) is a large manufacturer of farming equipment and its range includes (mainly) heavy goods and machinery such as tractors, diggers and farm vehicles. Their turnover is US\$2.5bn with an operating profit of US\$4m.

ABCL currently have an extended supply chain of about 5000 suppliers across the world. They have two key suppliers DEF Limited and GHJ Limited who account for 55% of procurement spend. There are 30 staff in the central procurement team.

The procurement team and systems at ABCL have recently undergone a purchasing audit which looked at strategic and operating operations of the procurement team, including the use of electronic purchasing. The findings were not good with the auditors pointing out that the supply chain operation of ABCL is outdated, lacks innovation and is not fit for purpose.

In addition, the auditors felt that there were poor communications between ABCL procurement department and key functions such as marketing, finance and design. Evidence was also provided by the auditors of poor market and supplier involvement especially in the early part of the procurement cycle (identification of need and specification development were singled out for being particularly poor).

The report concluded with a review of how the procurement unit in ABCL interacts strategically with the supply base when monitoring areas such as quality, price, delivery and sustainability and there was little evidence of any sort of effective “non-contractual” relationships within the supply chain. Within the report, it was highlighted that the assessment of key suppliers was particularly poor with no evidence of modern techniques or financial reporting being utilised. With regard to costs, the auditors were unable to find any evidence of clear financial data on suppliers or any evidence of long term demand planning, especially between sales and procurement.

Question One

Assess a range of measures that the new Procurement Director could utilise to improve the supply chain.

[25 marks]

LO: 1
AC: 1.4

(Q2) – Billway PLC

The data below is taken from the year-end financial accounts of Billway PLC a company who has expressed an interest in becoming a key supplier to your organisation.

	<u>2017</u>	<u>2016</u>
Return on sales	9.1%	13.8%
Return on capital employed	9.4%	12.51%
Gross profit margin	23.9%	28.1%
Return on assets	7.0%	9.4%
Stock turn	151 days	202 days
Debtor days	131 days	148 days
Creditor days	107 days	111 days
Current ratio	1.9:1	2.22:1
Quick/acid test ratio	0.85:1	1.12:1
Gearing	49%	58%

Question Two

From the financial data given, assess, by commenting on all of the ratios, Billway PLCs financial position as a potential supplier.

[25 marks]

LO: 2
AC: 2.1

(Q3)

Question Three

Evaluate a range of approaches that a procurement department could use to assist in the effective funding of working capital.

[25 marks]

LO: 3
AC: 3.1

(Q4)

Question 4

Discuss how a balanced scorecard methodology can be applied to the measurement of performance in supply chains.

[25marks]

LO: 4

AC: 4.1

SAMPLE QUESTIONS