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Question: 14

Which of the following costs does the EOQ minimise?

- A. Total cost of safety stock
- B. Total cost of ordering inventory
- C. Total cost of annual inventory cost
- D. Total cost of carrying stock

Answer: C

Explanation:

Economic order quantity (EOQ) was developed in 1913 by Ford W. Harris and has been refined over time. The formula assumes that demand, ordering, and holding costs all remain constant. The EOQ minimizes the total annual inventory cost.

EOQ formula is as follow:

LO 2, AC 2.3

Question: 15

A major investment bank is planning to purchase a complex banking system that will interface with multiple applications at varying times of the day. Before deploying the system, there are various levels of testing that must be performed through joint testing between the in-house team and off-shore testing consultants. The testing will be performed in a resource-constrained shared environment and managed by the on-shore development team.

The costs for testing are generally classified as...?

- A. Insurance
- B. Maintenance costs
- C. Acquisition costs
- D. Purchase prices

Answer: C

Explanation:

In the scenario, the buying organisation (investment bank) must conduct various types of testing before the deployment of the software system. These tests can be functional testing, factory acceptance testing and/or user acceptance testing. The costs for all these types of testing are classified as acquisition costs with regards of total cost of ownership.

Reference: CIPS study guide page 150-152

LO 3, AC 3.1

Question: 16

What is the stock turn for a store holding products to the value of £250,000 with annual sales of these products amounting to £1,000,000?

- A. 10
- B. 4
- C. 0.25
- D. 0.4

Answer: B

Explanation:

Calculating Inventory Turnover (Stock Turn)

As with a typical turnover ratio, inventory turnover details how much inventory is sold over a period. To calculate the inventory turnover ratio, cost of goods (COGS) is divided by the average inventory for the same period.¹

$\text{Cost of Goods Sold} \div \text{Average Inventory or Sales} = \text{Inventory}$

In this exercise, the stock turn equal to sales divided by inventory, or $1,000,000:250,000 = 4$.

Reference: CIPS study guide page 131

LO 2, AC 2.3

Question: 17

Which of the following is essential to effective implementation of just-in-time?

- A. Regular machine changeovers
- B. Larger warehouse for larger amount of inventory
- C. No need for smoothing production
- D. Strong links between the suppliers and the buying organisation

Answer: D

Explanation:

For JIT manufacturing to succeed, companies must have steady production, high-quality workmanship, glitch-free plant machinery, and reliable suppliers.

JIT production systems cut inventory costs because manufacturers do not have to pay storage costs. Manufacturers are also not left with unwanted inventory if an order is canceled or not fulfilled.

Reference: - Just in Time (JIT)

- CIPS study guide page 122-124 LO 2, AC 2.3

Question: 18

The amount of inventory available at the start of an accounting period is known as...?

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

Answer: C

Explanation:

Opening stock is the starting amount of inventory that a business has at a fixed moment in time. This could be the start of a financial year, another reporting period or ad hoc stocktake. The concept of opening stock must not be confused with raw materials

Closing stock is the inventory held at the end of the period under consideration. Thus, the closing stock of one period is automatically the opening stock for the next.

Work in progress is the stock part-way through a manufacturing process; in the service sectors the term is also used for anything between order and delivery.

Buffer stock (safety stock) is the stock held as a contingency or insurance against disruption or unexpected demand.

LO 2, AC 2.1

Question: 19

To test the product durability

- A. 1 and 2 only
- B. 3 and 4 only
- C. 2 and 3 only
- D. 1 and 4 only

Answer: C

Explanation:

It would be really convenient if we could just hand our products directly to the customers, but that's not possible. Packaging needs to be done for several reasons.

Here are some of the most prominent ones:

Question: 20

There are no duplicate product codes

- A. 2 and 4 only
- B. 3 and 4 only
- C. 1 and 3 only
- D. 1 and 2 only

Answer: C

Explanation:

The product code is often the key to obtaining documentation relating to products.

Product codes are often use to link to internal processes. Some computerised inventory systems trigger alerts when specific items or volume are ordered - this could be an out-of-stock warning or potential volume errors.

In many cases, an organisation will use its own product code system. The organisation constructs a code that is effective and fits with its software and the variety of items covered. So these codes may or may not comply with any international standards (such as GS1 specifications, ISO standards, etc.). As organisations make up the code themselves, the codes may look identical to others.

For example, SKU414675 reveals that it is used for many items, including the following:

- A UK wholesaler's six-pack of branded cola
- An Australian snack food
- UK flower seeds
- An Italian desk sold in Japan
- A Brazilian light fitting

Reference: CIPS study guide page 33-42

LO 1, AC 1.2

Question: 21

Which of the following statements is true?

- A. All indirect supplies are independent demand items
- B. Number of independent demand items may be derived from the forecast
- C. Dependent demand items are not directly correlated with production rate
- D. Car engine is an example of independent demand items in a car assembly plant

Answer: B

Explanation:

Dependent demand is the requirement for stock item which is directly related to and therefore dependent upon the rate of production (examples are: raw materials, components, energy). Independent demand is the requirement for stock item which is not directly related to, and is therefore independent of rate of production.

'Number of independent demand items may be derived from the forecast': Although independent demand is called thus, it can still be influenced by economic factors external to the demand-supply model such as general consumer sentiment and consumers' available disposal income. However, businesses that need to predict the number of products with independent demand needed to satisfy their customers have it easier than businesses that must calculate the demand for products with dependent demand because there are fewer factors to consider.

'Dependent demand items are not directly correlated with production rate': As mentioned above, dependent demand items are directly correlated with production rate.

'All indirect supplies are independent demand items': Though most indirect supplies are independent demand, some are determined by the production rate, i.e. energy consumption of a major machinery.

'Car engine is an example of independent demand items in a car assembly plant': Car engine is a component in car which is the finished good of a car assembly plant, it is a dependent demand item. LO 2, AC 2.1

Question: 22

Which of the following correctly describes the triple bottom line?

- A. Professional, Planet, Profit
- B. People, Planet, Project
- C. People, Product, Profit
- D. People, Planet, Profit

Answer: D

Explanation:

The triple bottom line is a sustainability framework that examines a company's social, environment, and economic impact (or People, Planet, Profit).

Reference:

- 25 Years Ago I Coined the Phrase 'Triple Bottom Line.' Here's Why It's Time to Rethink It.

- CIPS study guide page 202

LO 3, AC 3.3

Question: 23

Which of the following should be considered when an organisation plans for disposing obsolescent and redundant stock? Select TWO that apply.

- A. Financial costs
- B. Economic order quantity

- C. ABC analysis
- D. Takt time
- E. Environmental issues

Answer: A,E

Explanation:

If the planning and mitigation measures fail and redundant or obsolete stock is identified, it needs to be removed from the current inventory location as quickly as possible. There are some methods to deal with these types of stock. The worst case scenario is disposal to landfill, which is inadvisable if it can be avoided, both from environment point of view and the financial costs of such disposal.

For example, the problem of obsolete pesticides remains extremely serious and urgent. Many of the stocks identified continue to deteriorate thereby giving rise to an ever escalating source of severe pollution and posing a threat to human health, the environment and development in particular. To reduce the impact of obsolete pesticides on environment, FAO initiated a project in Yemen in which a total of 262 tonnes of obsolete pesticides were removed from 20 different sites and successfully disposed of between March and June 1996. The major field operation was completed in six weeks during which period almost all obsolete pesticides were brought to a central location and subsequently shipped to the United Kingdom for incineration.

Reference: CIPS study guide page 89

LO 2, AC 2.1

Question: 24

Finished goods

- A. 1, 3 and 4
- B. 1, 2 and 4
- C. 2, 3 and 4
- D. 2, 3 and 4

Answer: A

Explanation:

The normal breakdown in a manufacturing organisation would be raw materials, components, work in progress and finished goods.

Following are the different types of inventory:

Raw materials are the basic materials that a manufacturing company buys from its suppliers, and that is used by the former to convert them into the final products by applying a set of manufacturing processes. For example, aluminum scrap is the raw material for a company that produces aluminum ingots. Flour is the raw material for a company that produces bread or pizza. Similarly, metal parts and ingots are the raw materials bought by a company that manufactures cars, and crude oil is the raw material for an oil refinery.

Work in progress inventory can also be called semi-finished goods. They are the raw materials that have been taken out of the raw materials store and are now undergoing the process of their conversion into the final products. These are the partly processed raw materials lying on the production floor. And they have also not reached the stage where they

have been converted into the final product.

Finished goods are indeed the final products obtained after the application of the manufacturing processes on the raw materials and the semi-finished goods discussed above in the article. They are saleable, and their sale contributes fully to the revenue from the core operations of the company.

Reference: - Types of Inventory

- CIPS study guide page 82-83 LO 2, AC 2.1

Question: 25

Do all types of warehouses require access to daylight to reduce the cost of electricity?

- A. No, because only ventilation can help to reduce the humidity in the warehouse
- B. No, because some types of stock are sensitive to sunlight
- C. Yes, because sunlight sterilises inventories in damp conditions
- D. Yes, because organisation's need for artificial lighting and heating will reduce

Answer: B

Explanation:

The design of a building should consider the advantages of natural light as this can reduce the cost of artificial lighting and improve the environmental performance of the building. Daylight entering the building can also help reduce heating costs. Unfortunately some stocks react badly to direct sunlight, and some stock reacts badly to extreme of temperature or may require a specific temperature for storage. Some stock may require a warmer temperature than the ambient temperature and other stocks may require cooler temperature. For example, fabric and garment are sensitive to direct sunlight as ultraviolet light catalyses a reaction between the water present in all fabrics and atmospheric oxygen to create hydrogen peroxide. This is a bleaching agent and breaks down the chemical bonds that give dyes their colour.

Reference: CIPS study guide page 12

LO 1, AC 1.1

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