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## **CIPS-L4M7-Procurement**

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### Question: 39

Overall inventory turnover

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

### Answer: C

Explanation:

ABC analysis is applied to stock and its management. It is based loosely on the Pareto principles, better known as 80/20 rule. Pareto principle is the theory that 80% of outcome results from 20% of

inputs. For example, 80% of sales are to the top 20% of customers; 80% of spend on inventory is accounted for by the top 20% of stock items.

The ABC concept is based on Pareto's law.

The following steps are carried out for the ABC analysis.

- Step 1: Compute the annual usage value for every item in the sample by multiplying the annual requirements by the cost per unit.
- Step 2: Arrange the items in descending order of the usage value calculated above.
- Step 3: Make a cumulative total of the number of items and the usage value.
- Step 4: Convert the cumulative total of the number of items and usage values into a percentage of their grand totals.
- Step 5: Draw a graph connecting cumulative % items and cumulative % usage value. The graph is divided approximately into three segments, where the curve sharply changes its shape. This indicates the three segments A, B and C.

LO 2, AC 2.1

### Question: 40

“A measure of the ability of an organisation to supply customers without delay” is the best definition of which of the following:

- A. Re-order level
- B. Service level
- C. Key performance indicator
- D. Safety stock

## Answer: B

Explanation:

In inventory management, service level is the expected probability of not hitting a stock-out during the next replenishment cycle or the probability of not losing sales.

Key performance indicators (KPIs) can be used to analyse data based on performance objectives and set actionable goals for improvement. KPIs can be developed in conjunction with suppliers as well as others, and can be used to measure the essential elements of the process.

Safety stock is the amount of inventory a business needs to have to achieve a certain level of risk mitigation when it comes to stockouts.

Reorder level (or reorder point) is the inventory level at which a company would place a new order or start a new manufacturing run.

Reference: CIPS study guide page 131

LO 2, AC 2.3

## Question: 41

Which of the following is NOT an improvement available in ERP II in compare with ERP?

- A. ERP II systems are closed and silo-working
- B. ERP II enables the organisation to collaborate with trading partners across the supply chain
- C. ERP II crosses all sectors and segments of business, including service, government and asset-based industries
- D. ERP II offers better integration with other proprietary software

## Answer: A

Explanation:

The main improvements from ERP to ERP II are the following:

- ERP II is web enabled as compared to Conventional ERP Which is not.
- ERP is restricted to provide selected exhaustive or rigorous or wide-spread coverage in its modules. But as compared to ERP, ERP II provides the true and accurate blend of the macro and the micro and affords customers with curative actions/measures after identifying the slip-up/error or fault;
- ERP was embattled more headed for manufacturing or industrialization and the dilemma or difficulty is conquer in ERP II by endowing clarification for all kind of industries and sectors.
- ERP is not in the position or could not possibly integrate/incorporate diverse functions from diverse departments/divisions but ERP II could possibly do so as well as from different industries as compared to conventional ERP.
- For WEB and WAP connectivity ERP II grip CRM and SCM Functionalities.

- ERP II be obliged the function and purpose to an external/outdoor one and smooth the progress of better networks than remaining as internal/interior application.

Reference:

- Next Generation Enterprise Resource Planning: ERP II
- CIPS study guide page 119-122

LO 2, AC 2.3

### Question: 42

Which of the following is a forecasting technique?

- A. LIFO
- B. Moving average
- C. Time-weighted series
- D. ABC analysis

### Answer: B

Explanation:

Last in, first out (LIFO) is a method used to account for inventory that records the most recently produced items as sold first. Under LIFO, the cost of the most recent products purchased (or produced) are the first to be expensed as cost of goods sold (COGS) which means the lower cost of older products will be reported as inventory.

Moving average: a calculation to analyse data by creating series of averages of different subset of full data set. It is commonly used with time series data to smooth out short-term fluctuation and highlight long-term trends or cycle

ABC analysis is a method of analysis that divides the subject up into three categories: A, B and C.

There is no technique called time-weighted series.

LO 2, AC 2.3

### Question: 43

Which type of codes can a barcode laser scanner (linear scanner) read?

- A. Numerical code
- B. QR code
- C. Aztec code
- D. 1D barcode

### Answer: D

Explanation:

One-dimensional (or 1D) barcodes systematically represent data by varying the widths and spacings of parallel lines. These include some of the most traditional and well-recognized barcode types, such as the UPC and EAN codes. 1D barcodes are also commonly referred to as linear barcodes.

Two-dimensional (2D) barcodes look like squares or rectangles that contain many small, individual dots. QR codes, Data matrix and Aztec codes are examples of 2D barcodes. Numerical code contains all numbers, no letters.

There are two different scan engine types (laser scanner versus imager) for interpreting the information provided in the barcode. Many companies producing the technology capable of reading the barcode data use the term "scanning" regardless of the type of scan engine used. For the purposes of these FAQs, we are trying to draw a clearer distinction for you.

Linear (1D) codes can be scanned with a traditional laser scanner. A laser scan engine uses a laser and mirror to create the bar that scans the information. 1D barcode scanners will only interpret the linear barcode scanning technology. 1D barcode scanners are typically less expensive since the type of encryptions they can decode is limited.

LO 1, AC 1.2

### Question: 44

Autonomous maintenance

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

### Answer: B

Explanation:

Total productive maintenance (TPM) is an innovative concept in the manufacturing industry that evolved from the idea of preventive maintenance to adopt practices of productive maintenance, maintenance prevention, and reliability Engineering.

What we now refer to as TPM, has become an ingenious approach to achieve overall equipment effectiveness by involving the workforce behind the machines (i.e. the operators).

8 pillars of TPM

- 1) 5S - Sort, straighten, shine, standardize, and sustain

Just like a physical structure starts with a grounded framework, building a strong TPM process requires a strong foundation in the form of the principles of 5S. This is a workplace organization method that is simplified into 5 basic steps:

Sort tools, equipment, and materials to identify which of these can be discarded

Straighten and set things in proper order to reduce unnecessary motion and efficiently travel between working groups and locations

Shine refers to performing necessary housekeeping to clean up the work area

Standardize and schedule activities to systematically form the habits to keep the workplace organized

Sustain the process and principles for long-term applications

The 5S approach provides a systematic approach to cleaning the workplace, thereby uncovering underlying problems and challenges.

## 2) Autonomous maintenance

Maintenance tasks and caring for equipment should start with the people using the equipment. The empowerment of operators to work on small maintenance tasks effectively allows the maintenance teams to focus on more specialized assignments.

## 3) Continuous improvement

Also known as the Japanese term Kaizen, Continuous Improvement promotes the attitude of progressing towards zero losses and zero defects. Through small but continual tweaks to processes, the overall effectiveness and efficiency of the organization is developed.

## 4) Planned maintenance

Planned maintenance activities are essential to the prevention of equipment breakdown. Planned maintenance is performed by periodically evaluating the condition of equipment to proactively prevent deterioration and mechanical failures.

## 5) Quality maintenance

To ensure the satisfaction of the customer, manufacturing processes aim for zero-defect production. Standards for superior quality, and checks on whether the standards are being met, should be in place. The goal of quality maintenance is to identify any possible causes of deviations from zero-defect production.

## 6) Training

The idea of TPM is that everyone does their part to contribute to the overall productivity of the production process. In order to achieve optimum performance, and to build each member's competence, proper training is required to equip each one with the theoretical and practical know-how of working with machines and equipment.

## 7) Office TPM

A key role that is often overlooked is the administrative department that works behind the scenes. Like the rest of the production teams and processes, the management and administrative functions are also subject to productivity improvement. This includes identifying and eliminating losses, and contributing to the overall performance of the plant.

## 8) Safety, health, and environment

The last of the eight pillars focuses on creating a safe workplace. The essence of this pillar is realized

when actively applied to each of the other pillars. The successful implementation of this pillar will

contribute to a secure and hazard-free workplace.

Reference:

Total Productive Maintenance (TPM) - Upkeep

CIPS study guide page 163

LO 3, AC 3.1

### Question: 45

Which of the following is the Japanese word for billboard or signboard?

- A. Muda
- B. Kaizen
- C. Poka-Yoke
- D. Kanban

### Answer: D

Explanation:

Kanban ( 看板 ) (signboard or billboard in Japanese) is a scheduling system for lean manufacturing and just-in-time manufacturing (JIT).

Poka-yoke ( 防呆 , [poka yoke]) is a Japanese term that means "mistake-proofing" or "inadvertent error prevention". A poka-yoke is any mechanism in any process that helps an equipment operator avoid (yokeru) mistakes (poka). Its purpose is to eliminate product defects by preventing, correcting, or drawing attention to human errors as they occur.

Kaizen is a concept referring to business activities that continuously improve all functions and involve all employees from the CEO to the assembly line workers. Kaizen ( 改善 ) is the Sino-Japanese word

for "improvement". Kaizen also applies to processes, such as purchasing and logistics, that cross organizational boundaries into the supply chain.

Muda ( 無駄 , on'yomi reading) is a Japanese word meaning "futility; uselessness; wastefulness", and

is a key concept in lean process thinking, like the Toyota Production System (TPS) as one of the three types of deviation from optimal allocation of resources (the others being mura and muri). Waste reduction is an effective way to increase profitability.

Reference: CIPS study guide page 124

LO 2, AC 2.3

### Question: 46

Which of the following is the material handling equipment which uses the suction force to lift an item?

- A. Vacuum lifter
- B. Sack truck
- C. Dolly

D. Pallet stacker

**Answer: A**

Explanation:

VACUUM LIFTER uses the vacuum pad which attaches itself to a product. The suction force allows the product to be lifted (and rotated and placed). Vacuum lifters are used for moving and positioning glass sheets, but are also seen lifting boxes, plastic sacks, sheets of building materials and pipework. Some models feature hydraulic arms which allow easy movement of the lifted load. The lifting system will have a number of sucker pads and vacuum capability which determines the maximum weights and largest items that can be lifted.

DOLLY consists of stack and sets of wheels (either casters or rollers) under the stack that allow the dolly and the heavy object on top of it to move easily and smoothly. For moving in a straight line, rollers is ideal. If you want to move maneuverability, dolly with sets of casters will let you swivel and turn.

SACK TRUCK (hand truck) is an L-shaped box-moving handcart. It comprises a small base platform with two wheels at the base and a larger vertical structure. A small ledge to set objects on flat against the floor when the sack truck is upright. When moving, the truck and object are then tilted backward based on the vertical structure until the weight is balanced over the large wheels, making otherwise bulky and heavy objects easier to move.

PALLET STACKER is designed to lift and stack pallets. This one is fully mobile so can move easily around the warehouse. An operator would typically sit or stand while driving like a counter-balanced, reach or straddle lift truck.

LO 1, AC 1.3

**Question: 47**

Which of the following best describes the relationship between a service level and safety stock?

- A. A safety stock is not always required to achieve a required service level
- B. A service level decreases in proportion to a decrease in safety stock
- C. When safety stock is zero the service level always equals zero.
- D. A service level increases in proportion to an increase in safety stock

**Answer: A**

Explanation:

Holding extra stocks will always improve customer service levels, or at least reduce the risk of them falling. This implies that if an organisation aims at higher service levels, they should have larger safety stock. However, increasing safety stock is not the only solution to improve service level. The widespread adoption of just-in-time (JIT) techniques particularly in the automotive industry has greatly reduced costs with increased service levels as well as the additional benefit of increased problem visibility.

The correct answer should be 'A safety stock is not always required to achieve a required service level'.

Reference: CIPS study guide page 104-105

LO 2, AC 2.2



### Question: 48

P2P system

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

### Answer: D

Explanation:

There are several methods to reduce the acquisition costs in procurement. L4M7 study guide lists the following methods:

- Buyer discretionary spend
- 'User buying'
- Vendor managed inventory (VMI)
- Two-bin Kanban
- Product catalogue
- e-Procurement techniques, including some systems such as ERP, procure-to-pay (P2P), e-requisition, e-tendering, etc.
- Procurement cards

Reference: CIPS study guide page 155-156

LO 3, AC 3.1

### Question: 49

Which of the following best defines 'exponential moving average'?

- A. A forecasting technique where the average is calculated by dividing the sum of the values by the number of values
- B. A process by which the reorder of an item is triggered by the inventory level dropping to a predetermined level
- C. A process by which a decision is taken at a period end or review point to determine how much to reorder
- D. A forecasting technique where each demand is multiplied by a weighting factor

### Answer: D

Explanation:

An exponential moving average (EMA) is a type of moving average (MA) that places a greater weight

and significance on the most recent data points. The exponential moving average is also referred to as the exponentially weighted moving average. An exponentially weighted moving average reacts more significantly to recent price changes than a simple moving average (SMA), which applies an equal weight to all observations in the period.

Reference: CIPS study guide page 111-112

LO 2, AC 2.3

### **Question: 50**

Among different types of costs associated with inventory, the opportunity cost of the investment tied up in inventory belongs to which of the following?

- A. Acquisition costs
- B. Purchase price
- C. Holding costs
- D. Costs of stockouts

### **Answer: C**

Explanation:

Direct and indirect costs of holding inventory include the following:

- Acquisition costs
- Holding costs: There are 2 different types of holding costs: costs related to the value of the goods (including opportunity costs, costs of insurance, losses due to product deterioration, etc) and costs related to the physical characteristics of this inventory.
- Costs of stockouts

Reference: CIPS study guide page 100-101

LO 2, AC 2.2

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