

# CIPS

## L4M7 Exam

CIPS Certification

# Questions & Answers

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**Question: 1**

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ANTA Logistics is looking for a place to build a new, integrated cold chain facility, "Chill Hub", to its customers. Which of the following need to be considered when selecting the location of the new facility? Select TWO that apply.

- A. Accessibility to roads and highways
- B. Availability of product coding system
- C. Ease of objective forecasting on inventory level
- D. Volume of obsolescent stock
- E. Availability of the building

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**Answer: A, E**

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**Explanation:**

There are many different factors that must be considered when assessing warehouse and stock locations:

- Operating cost of the location or area
- Availability and suitability of warehouses
- Availability of manpower or labour
- Proximity to suppliers and customers
- Access to transport infrastructure (domestic and international)
- The political and security environment of the location LO1, AC1.1

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**Question: 2**

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

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

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**Answer: B**

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**Explanation:**

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

Poka-yoke (ポカヨケ, [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 LO2, AC2.3

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**Question: 3**

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In the Appendix A of a long-term supply contract of Bulk Drug Substance, both parties agree that "The reference price for Bulk Product at the specification, per gram, shall be US\$10. The unit price for Bulk Product for a specific Purchase Order shall be computed by multiplying the above-specified reference price by two corrective factors, namely inflation correction factor and exchange rate correction factor". This pricing appendix is an example of...?

- A. Fixed pricing
- B. Discounted pricing
- C. Adjustable pricing
- D. Volume-based pricing

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**Answer: C**

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**Explanation:**

Price setting mechanisms fall into two main categories: fixed and variable. A fixed price mechanism is a straightforward concept which typically results in a relatively stable budget that can be forecast.

Variable mechanisms have an element of variable pricing per unit bought.

Setting a fixed price mechanism is in theory a relatively simple and straightforward concept, where the collector and the buyer agree on a fixed price for a specific material or mix of materials, for a certain length of time.

All other pricing mechanisms that are not fixed have an element of variable pricing per unit bought. The most common variable pricing mechanisms can be divided into two groups:

Where the benefit accruing to the buyer from acquiring the material is used to calculate what the payment to the seller should be; or Approaches to Materials Sales: A guide for local authorities

Where the price paid is indexed to a published source of market price information. The above scenario demonstrates variable pricing mechanism using published sources on inflation rate and exchange rate. CIPS also refers to this mechanism as adjustable prices.

Reference:

CIPS study guide page 138-139

10.0 Price setting mechanisms LO3, AC3.1

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**Question: 4**

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Which is the best definition of reorder point?

- A. The point when one unit of stock remains in stock
- B. The point when stock reaches zero
- C. The point at which stock will fall to zero minus lead-time
- D. The level inventory at which an order must be made

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**Answer: D**

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**Explanation:**

Reorder point is the point either in time or in a process when the next order should be placed. Reference: CIPS study guide page 113  
LO2, AC2.3

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**Question: 5**

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The minimal total cost is always achieved when there is only one warehouse. Is this statement true?

- A. Yes, because the operation cost for warehouse reaches minimal level
- B. No, more warehouses will reduce the cost of storage
- C. Yes, because warehouse overheads are fully utilized
- D. No, fewer warehouse may lead to increasing transport costs

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**Answer: D**

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**Explanation:**

The total cost of storage consists of two different costs:

The cost of warehouses: each one has a different cost, and each has the cost of stock-holding and stock management included

The transport costs: the total transport cost reduces as further warehouses means shorter final delivery to the customers.

Depending on each situation, the optimal number of warehouses varies. Generally, more facilities will increase the cost of warehouses while reduce the transport costs and vice versa.

Reference: CIPS study guide page 6-7 LO1, AC1.1

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