

ISM CPSM Exam 1

Volume: 519 Questions

Question No: 1

A document that assures the seller that payment will be made by the bank issuing the letter of credit upon fulfillment of the terms is called a?

- A. Letter of credit document for assurance.
- B. Financial instrument document for assurance.
- C. Bank draw document for assurance.
- D. Cashiers check document for assurance.

Answer: A

Explanation: A document that assures the seller that payment will be made by the bank issuing the letter of credit upon fulfillment of the terms is called a letter of credit payment mechanism. The remaining choices are incorrect: Financial instrument is a tradable asset of any kind; either cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash. Cashiers check is written by a financial institution on its own funds. Bank draw is the same as withdraw.

Question No: 2

The measure of inbound revenues and outbound expenses in a time period is called?

- A. Cash flow financial measure
- B. Revenue transfer financial measure
- C. Cost flow financial measure
- D. Revenue flow financial measure

Answer: A

Explanation: The measure of inbound revenues and outbound expenses in a time period is called cash flow. The remaining terms are incorrect fabrications: Cost flow, Revenue flow, and Revenue transfer.

Question No: 3

Ethical business conduct in supply management has a great importance to your organization. In supply

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management there are three key areas of social responsibility. There are 1) Ethical standards in the conduct of supply management. 2) Environmental compliance and responsibility in the supply chain and life cycle and 3) is what?

- A. Human rights compliance.
- B. Organizational and supply chain safety.
- C. International standards of business conduct (ISBC)
- D. Social responsibility norms.

Answer: B

Explanation: Ethical business conduct in supply management has a great importance to your organization. In supply management there are three key areas of social responsibility. There are 1) Ethical standards in the conduct of supply management. 2) Environmental compliance and responsibility in the supply chain and life cycle and 3) Organizational and supply chain safety. The remaining responses are incorrect: Human rights compliance, Social responsibility norms, and International standards of business conduct (ISBC).

Question No: 4

The management of the various facets of a contract to ensure performance in accordance with contractual requirements is referred to as?

- A. Contract administration of a contract.
- B. Contracting Officer Representative duties.
- C. Contract performance of duties.
- D. Contract assessment of the contracted terms.

Answer: A

Explanation: The management of the various facets of a contract to ensure performance in accordance with contractual requirements is referred to as contract administration. COR is a government term for contracting officer representative. Contract performance is the suppliers adherence to the contract requirements. Contract assessment is a fabricated term.

Question No: 5

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When you are managing a contract, a binding expression of interest and willingness to create a contractual relationship is called a/an?

- A. Bid for business
- B. Award for business
- C. Offer for business
- D. Placement for business

Answer: C

Explanation: When you are managing a contract, a binding expression of interest and willingness to create a contractual relationship is called an offer. Award is the action of providing a contract to a supplier to act upon. Bid is a price and detail list. Placement is fabricated.

Question No: 6

The supply manager knows the advantages of mutually beneficial supplier relations. Part of this is trust built on _____ of information shared between the supplier and buying organization. Choose the most important part of trust.

- A. Confidentiality in supply management interactions
- B. Sharing between buyer and supplier
- C. Strategic alignment
- D. Communication between buyer and supplier

Answer: A

Explanation: The supply manager knows the advantages of mutually beneficial supplier relations. Part of this is trust built on confidentiality of information shared between the supplier and buying organization. These are incorrect Strategic alignment, Sharing, and Communication.

Question No: 7

The execution and development of an exit strategy includes?

- A. Determining new suppliers.

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- B. A plan that sets forth the terms and conditions the organization and the supplier will carry out activities and responsibilities under.
- C. Repacking supplies for distribution.
- D. Financial analysis for when to exit.

Answer: B

Explanation: The execution and development of an exit strategy includes a plan that sets forth the terms and conditions the organization and the supplier will carry out both activities and responsibilities. Repacking supplies for distribution. Financial analysis for when to exit. And, Determining new suppliers. All are incorrect.

Question No: 8

A buying strategy where an organization may guarantee the next four weeks requirements, then guarantee 90 percent of weeks five through eight and 75 percent of weeks nine through twelve is?

- A. Volume purchase agreement the organization.
- B. Speculative buying on behalf of the organization.
- C. Forward buying for the organization.
- D. Buying to requirements of the organization.

Answer: D

Explanation: A buying strategy where an organization may guarantee the next four weeks requirements, then guarantee 90 percent of weeks five through eight and 75 percent of weeks nine through twelve is buying to requirements. The remaining answers incorrect to compete the definition: Forward buying, Speculative buying, and Volume purchase agreement.

Question No: 9

The European Union directives designed to protect the health and safety of employees and supply personnel include 1) Restriction of Hazardous Substances (RoHS), 2) Waste Electrical and Electronic Equipment Directive, and?

- A. Restriction of Grave Materials (RoGM)
- B. Registration, Evaluation and Authorization of Chemicals Directive (REACH)

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C. Restriction of National Ban Products (RoNBP)

D. EC-EuP

Answer: B

Explanation: The European Union directives designed to protect the health and safety of employees and supply personnel include 1) Restriction of Hazardous Substances (RoHS), 2) Waste Electrical and Electronic Equipment Directive, and Registration, Evaluation and Authorization of Chemicals Directive (REACH). It does not include: Restriction of Grave Materials (RoGM), Restriction of National Ban Products (RoNBP), or EC-EuP which are fabricated responses.

Question No: 10

In supply management international marketing globalization reflects a business orientation the world market is becoming more homogenous and the distinctions between national markets are disappearing. As a result companies develop strategies to take advantage of four marketing strategies which are 1) Market factors such as improved distribution channels and technology. 2) Cost factors such as duplication or inefficiency. 3) Competitive factors such as market presence and 4) _____ ?

A. Cultural factors preventing or promoting trade.

B. Environmental factors such as global communications and emerging markets.

C. Formalized risk management of markets.

D. Global factors such as war, famine or natural disaster.

Answer: B

Explanation: In supply management international marketing globalization reflects a business orientation the world market is becoming more homogenous and the distinctions between national markets are disappearing. As a result companies develop strategies to take advantage of four marketing strategies which are 1) Market factors such as improved distribution channels and technology. 2) Cost factors such as duplication or inefficiency. 3) Competitive factors such as market presence and 4) Environmental factors such as global communications and emerging markets. The remaining choices are incorrect: Global factors such as war, famine or natural disaster. Cultural factors preventing or promoting trade. Formalized risk management of markets.

Question No: 11

The total cost of one unit of goods or services including purchase price and all associated costs is referred to as?

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- A. Life cycle cost for supply management.
- B. Benchmarking unit costs for supply management.
- C. The consistent unit cost for supply management.
- D. Unit total cost for supply management.

Answer: D

Explanation: The total cost of one unit of goods or services including purchase price and all associated costs is referred to as unit total cost. Not the consistent unit cost, Benchmarking unit, or Life cycle cost.

Question No: 12

Based upon Porter's five forces, the acronym SWOTT represents strengths, weaknesses, opportunities, threats and what?

- A. Trends
- B. Traits
- C. Tips
- D. Transitions

Answer: A

Explanation: SWOTT defined by the ISM glossary represents strengths, weaknesses, opportunities, threats and trends. It does not represent: Transitions, Traits, or Tips.

Question No: 13

When the supply management professional is analyzing potential sources for goods or services and a situation exists where there are many suppliers and no collusion among them this is referred to as _____ competition.

- A. Technical form of supply management
- B. Single source form of supply management
- C. Full and open form of supply management

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D. Limited form of supply management

Answer: C

Explanation: When the supply management professional is analyzing potential sources for goods or services and a situation exists where there are many suppliers and no collusion among them this is referred to as full and open competition. Limited, Technical, and Single source.

Question No: 14

Visual language that facilitates communication among supply chain members on necessary tasks is referred to as?

- A. Supply chain mapping for supply chain members.
- B. Streamline visualization for supply chain members.
- C. A3 diagramming for supply chain members.
- D. Process improvement for supply chain members.

Answer: A

Explanation: Visual language that facilitates communication among supply chain members on necessary tasks is referred to as supply chain mapping. The remaining are incorrect: A3 diagramming, Process improvement, and Streamline visualization.

Question No: 15

The supply management professional must know if their supplier has the capacity to take on more orders. A plant that is fully utilized operates at what percent of its theoretical capacity?

- A. 80 to 85 percent
- B. 95 to 100 percent
- C. 60 to 70 percent
- D. 90 to 95 percent

Answer: A

Explanation: The supply management professional must know if their supplier has the capacity to take on

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more orders. A plant that is fully utilized operates at 80 to 85 percent of its theoretical capacity. The remaining answers are incorrect: 1) 60 to 70 percent 2) 90 to 95 percent 3) 95 to 100 percent.

Question No: 16

A quantitative tool that compares multiple proposals by scoring the responses of one supplier in comparison or relative to another is called a?

- A. Comparative analysis comparison tool.
- B. SWOT analysis comparison tool.
- C. Decision matrix comparison tool.
- D. Risk management comparison tool.

Answer: C

Explanation: A quantitative tool that compares multiple proposals by scoring the responses of one supplier in comparison or relative to another is called a decision matrix. The remaining responses are incorrect: SWOT analysis determines strengths, weakness, opportunities, and threats. Comparative analysis compares the suppliers. Risk management manages the possible issues which may occur and have negative impact.

Question No: 17

In terms of developing supplier diversity programs purchases made by the government represent ___ to ___ percent of the gross domestic product.

- A. 25,30
- B. 15,20
- C. 10,15
- D. 20,25

Answer: C

Explanation: In terms of developing supplier diversity programs purchases made by the government represent 10 to 15 percent of the gross domestic product. The remaining answers are incorrect: 1) 15,20 2) 20,25 3) 25,30.

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Question No: 18

The process of determining the right mix and number of suppliers to meet the organizations requirements is called?

- A. Competition optimization of the organization.
- B. Supply chain management methodology.
- C. Ordering optimization of the organization.
- D. Supply base optimization.

Answer: D

Explanation: The process of determining the right mix and number of suppliers to meet the organizations requirements is called supply base optimization. It is not Competition, Supply chain management, or Ordering.

Question No: 19

Supply management professionals must be mindful of environmental sustainability. The three categories of environmental laws in the US at the Federal Level are air pollution, water pollution and?

- A. Environmental accident prevention
- B. Solid waste and toxic waste disposal
- C. Cradle to Grave use and disposal
- D. EPA regulated

Answer: B

Explanation: Supply management professionals must be mindful of environmental sustainability. The three categories of environmental laws in the US at the Federal Level are air pollution, water pollution and solid waste and toxic waste disposal. The remaining responses are incorrect: Cradle to Grave use and disposal, EPA regulated, and Environmental accident prevention.

Question No: 20

Management must be able to verify a budget's what? Choose the BEST response.

- A. A budgets Integrity.

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- B. A budgets Performance.
- C. A budgets Strategic Alignment.
- D. A budgets return on investment.

Answer: A

Explanation: Management must be able to verify a budget's integrity. The remaining answers are incorrect: Performance, Strategic Alignment, and Return on Investment (ROI).

Question No: 21

One of the major duties of the supply management professional is the review and evaluation of the suppliers what? Select the BEST response for evaluation of a supplier.

- A. Performance
- B. Key performance measure
- C. Key process output variable (KPOV)
- D. Actual or anticipated cost data.

Answer: D

Explanation: One of the major duties of the supply management professional is the review and evaluation of the suppliers actual or anticipated cost data. Key performance measure would be only a review of one performance measure, Key Process Output Variable (KPOV) is a six sigma term and only a single data term. A single measure would not be used in cost data.

Question No: 22

International laws that affect international commerce are called?

- A. Maritime laws of international commerce.
- B. International marine laws of international commerce.
- C. International commerce laws.
- D. Marine laws of international commerce.

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Answer: A

Explanation: International laws that affect international commerce are called maritime laws. The remaining answers are incorrect: Marine laws, International commerce laws, and International marine laws.

Question No: 23

Negotiations are used as a tool to obtain what?

- A. Best deal for the supply management organization.
- B. Lowest price for the supply management organization.
- C. Shippers bids in alignment with desired costs.
- D. Maximum value for the supply management organization.

Answer: D

Explanation: Negotiations are used as a tool to obtain maximum value. Not Lowest price, Shippers bids, or Best deal.

Question No: 24

Gathering opinions from sales staff helps to build forecasting for what?

- A. Costs and growth in supply management operations.
- B. Future sales and growth in supply management operations.
- C. Utilization and spend in supply management operations.
- D. An opinion database in supply management operations.

Answer: C

Explanation: Gathering opinions from sales staff helps to build forecasting for utilization and spend. The remaining responses are not correct: Future sales and growth, Costs and growth, and An opinion database.

Question No: 25

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Cost baseline review includes forecasting, cost savings and cost avoidance, budget reduction and?

- A. Historical costs of the organization.
- B. Future budget forecasting.
- C. Variable costs within production or service provision.
- D. New applied costs which had not been anticipated.

Answer: B

Explanation: Cost baseline review includes forecasting, cost savings and cost avoidance, budget reduction and future budget forecasting. The remaining responses are not correct: Historical costs, New applied costs, or Variable costs.

Question No: 26

Supply management costs related to contingency and disaster recovery operations is/are called?

- A. Business continuity costs of supply management.
- B. Risk management costs of supply management.
- C. Contingency planning costs of supply management.
- D. Intangible costs of supply management.

Answer: D

Explanation: Supply management costs related to contingency and disaster recovery operations are called intangible costs. The remaining answers are not correct: Contingency planning costs are included in business continuity. Risk management costs are costs attributed to reduction of risk or liability. Business continuity costs are expenditures to maintain business operations in the event of unforeseen damaging events.

Question No: 27

Costs that change proportionately with the volume of production of goods or services are commonly known as?

- A. Variable costs associated with production.

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- B. Normalized costs associated with production.
- C. Anticipated costs associated with production.
- D. Flexible costs associated with production.

Answer: A

Explanation: Costs that change proportionately with the volume of production of goods or services are commonly known as variable costs. The remaining responses are incorrect: Flexible costs, Anticipated costs, and Normalized costs.

Question No: 28

Analysis of the sellers position includes a full understanding of the suppliers position, strengths and weaknesses. In addition is important to know, 1) The seller's desire for a contract, 2) The sellers certainty of getting a contract, 3) The adequacy of cost/price analysis and?

- A. The sellers negotiator or individual who will be negotiating with the buying organization.
- B. The sellers supplier or individual who will be working with the buying organization on a daily basis.
- C. The sellers competitive position.
- D. The sellers financial forecast for the upcoming annual calendar year.

Answer: C

Explanation: Analysis of the sellers position includes a full understanding of the suppliers position, strengths and weaknesses. In addition is important to know, 1) The seller's desire for a contract, 2) The sellers certainty of getting a contract, 3) The adequacy of cost/price analysis and the sellers competitive position. The remaining responses are incorrect: The sellers financial forecast for the upcoming annual calendar year, The sellers negotiator or individual who will be negotiating with the buying organization, and The sellers supplier or individual who will be working with the buying organization on a daily basis.

Question No: 29

In 1929 this group adopted the "Principles and Standards of Purchasing Practice".

- A. National Purchasing Agent Association (NPAA)
- B. International Purchasing Agent Alliance (IPAA)

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- C. National Association of Purchasing Agents (NAPA)
- D. North American Free Trade Agreement Group (NAFTAG)

Answer: C

Explanation: In 1929 the National Association of Purchasing Agents (NAPA) adopted the "Principles and Standards of Purchasing Practice" to ensure conduct for purchasing professionals. The remaining responses are incorrect: North American Free Trade Agreement Group (NAFTAG), International Purchasing Agent Alliance (IPAA), and National Purchasing Agent Association (NPAA).

Question No: 30

What type of contract provides the supplier with an incentive to control costs by establishing a target cost, target profit, ceiling price, and a final profit formula?

- A. Fixed price with incentive type of contract arrangement.
- B. Final profit contract type of contract arrangement.
- C. Incentive contract type of contract arrangement.
- D. Target contract type of contract arrangement.

Answer: A

Explanation: A Fixed price with incentive type of contract provides the supplier with an incentive to control costs by establishing a target cost, target profit, ceiling price, and a final profit formula. The remaining choices are not correct and are not contracts: Incentive contract, Target contract, and Final profit contract.

Question No: 31

The supply management professional reduces lead times, reduces costs and ensures continuity of supply in the?

- A. Product life cycle of the five stages of the product life cycle.
- B. Maturity phase of the five stages of the product life cycle.
- C. Growth phase of the five stages of the product life cycle.
- D. Maintenance phase of the five stages of the product life cycle.

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Answer: B

Explanation: The supply management professional reduces lead times, reduces costs and ensures continuity of supply in the maturity phase. The remaining choices are not correct phases: Maintenance phase, Growth phase, and Product life cycle.

Question No: 32

Which form of cost management is a quality related term that encompasses the physical aspects of a product, its desired performance, and its appropriateness of application?

- A. Easier use and improved capability
- B. Improved quality and use
- C. Administrative savings and heightened quality
- D. Improved form, fit, and function

Answer: D

Explanation: Improved form, fit, and function is a form of cost management term that encompasses the physical aspects of a product, its desired performance, and its appropriateness of application. The remaining answers do not define forms of cost management: Improved quality and use, Easier use and improved capability, and Administrative savings and heightened quality.

Question No: 33

Sarbanes-Oxley requires certification in what?

- A. Training and compliance of ethical codes.
- B. Posting of sourcing ethics codes.
- C. Training and compliance of purchasing principles.
- D. Environmental compliance

Answer: A

Explanation: Sarbanes-Oxley requires certification in training and compliance of ethical codes. The remaining responses are incorrect: Training and compliance of purchasing principles, Posting of sourcing ethics codes, and Environmental compliance.

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Question No: 34

A late bid without an extension will be accepted when?

- A. If it meets price constraints of the selecting organization.
- B. Only after being opened and reviewed.
- C. According to policy but most commonly refused and returned unopened.
- D. Always if the organization wishes to.

Answer: C

Explanation: A late bid without an extension will be accepted when it is reviewed according to the organizations policy but most commonly it is refused and returned unopened. It will not be accepted: Always, If it meets price constraints, or Only after being opened and reviewed.

Question No: 35

Suppliers who meet the diversity requirements of the organization are?

- A. Diverse suppliers by the supply management professional.
- B. Forbidden suppliers by the supply management organization.
- C. Diversified certifiable suppliers in the eyes of the supply management professional.
- D. Partnered supplier in the supply management certification process.

Answer: A

Explanation: Suppliers who meet the diversity requirements of the organization are diverse suppliers. The remaining answers are incorrect: Diversified certifiable suppliers, Partnered supplier, and Forbidden suppliers.

Question No: 36

Organizations should maintain customs documents on file for at least?

- A. 10 years after the transaction or completion of the contract for the supply management organization.
- B. 30 years after the transaction or completion of the contract for the supply management organization.

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- C. Indefinitely after the transaction or completion of the contract for the supply management organization.
- D. 7 years after the transaction or completion of the contract for the supply management organization.

Answer: D

Explanation: Organizations should maintain customs documents on file for at least 7 years. The remaining responses are incorrect: 10 years, 30 years, and Indefinitely.

Question No: 37

Strategic planning, administrative planning, and tactical planning are all parts of what?

- A. Development of strategy and time in operations.
- B. Development of strategies and tactics in operations.
- C. Development of stance and tactics in operations.
- D. Distinguishing stance and transition in operations.

Answer: B

Explanation: Strategic planning, administrative planning, and tactical planning are all parts of the development of strategies and tactics. The remaining are incorrect responses: 1) Development of stance and tactics, 2) Development of strategy and time and 3) Distinguishing stance and transition.

Question No: 38

One who agrees to be responsible for the debts of another in the event the debtor fails to meet the obligation is referred to as what?

- A. The guaranteeor
- B. The surety to ensure that subcontractors and suppliers are paid for work done.
- C. The grantor - a person who makes a grant in legal form; "conveyed from grantor to grantee"
- D. The bond

Answer: B

Explanation: One who agrees to be responsible for the debts of another in the event the debtor fails to

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meet the obligation is referred to as the surety. The remaining terms are not responsible parties in a transaction: The bond, The grantor - a person who makes a grant in legal form; "conveyed from grantor to grantee", and The guaranteeor.

Question No: 39

Human rights are based on the inherent human dignity of retaining universal and unalienable character. This is evidenced internationally by?

- A. International Trade Unions
- B. United Nations Social Responsibility League
- C. United Nations Social Responsibility Program
- D. United Nations Universal Declaration of Human Rights

Answer: D

Explanation: Human rights are based on the inherent human dignity of retaining universal and unalienable character. This is evidenced internationally by the United Nations Universal Declaration of Human Rights and the United Nations Global Compact concepts. The concept is not defined in: United Nations Social Responsibility Program, United Nations Social Responsibility League, or International Trade Unions.

Question No: 40

By managing the "country of origin" the supply management professional may increase what?

- A. The reliability of supply for the organizations.
- B. Shipping cost reduction for the organizations.
- C. Foreign presence for the organizations.
- D. Foreign good will for the organizations.

Answer: A

Explanation: By managing the "country of origin" the supply management professional may increase the reliability of supply. They will not see increase in Shipping cost reduction, Foreign presence or Foreign good will.

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Question No: 41

When dealing in foreign markets your objective is to maintain the profit margin in the event the exchange rate varies. Typically to do this you will hedge on the exchange rate or by _____ ?

- A. Negotiating in the sellers currency
- B. Use economies of scale
- C. Negotiating the contract in the purchasers currency.
- D. Utilizing a hedge fund management company.

Answer: C

Explanation: When dealing in foreign markets your objective is to maintain the profit margin in the event the exchange rate varies. Typically to do this you will hedge on the exchange rate or by negotiating the contract in the purchasers currency and in general you will have little interaction with the bond market. The remaining choices are incorrect and fabricated: Negotiating in the sellers currency, Utilizing a hedge fund management company, and Use economies of scale.

Question No: 42

The measure which tells how effectively the organization is using the assets involved in a project is called?

- A. ROIA usage of assets in the organization.
- B. ROTA usage of assets in the organization.
- C. Return on assets employed
- D. Return on project investment.

Answer: C

Explanation: The measure which tells how effectively the organization is using the assets involved in a project is called the return on assets employed. The remaining terms are incorrect fabrications: Return on project investment, ROIA and ROTA.

Question No: 43

Which of the following is not a consideration during inventory disposition?

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- A. Implementing a back up supplier.
- B. Assistance with inventory disposition.
- C. Prompt settlement of outstanding charges.
- D. A fair representation of the facts surrounding termination.

Answer: A

Explanation: Implementing a back up supplier is not a consideration during inventory disposition. The remaining are provisions of the exit plan: A fair representation of the facts surrounding termination. Prompt settlement of outstanding charges. Assistance with inventory disposition.

Question No: 44

_____ is held accountable for meeting goals set for the business segment they manage in terms of diversity goals.

- A. The diversity manager of the organization.
- B. The regional manager of the organization.
- C. The business development manager.
- D. The supply management professional.

Answer: D

Explanation: The supply management professional is held accountable for meeting goals set for the business segment they manage in terms of diversity goals. It is not the responsibility of: The business development manager, The regional manager, or The diversity manager.

Question No: 45

Which of the contribution margins is the sales revenue for a product minus?

- A. Operating costs contribution margin
- B. Variable costs contribution margin
- C. Federal tax contribution margin