Test Bank for Principles of Supply Chain Management A Balanced Approach 4th Wisner

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Chapter 2 - Purchasing Management

True / False

1. Purchasing can be broadly classified into two categories: merchants and industrial buyers.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-1

2. The acquisition of services is also known as contracting.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-1

3. The term Supply Management is used to describe responsibilities above and beyond those of traditional purchasing.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-2

4. Key activities of supply management include negotiations, logistics, contract development and administration, inventory control and management, and supplier management.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

5. Industrial supply chain member buyers purchase their merchandise in volume to take advantage of quantity discounts, transportation economy, and storage efficiency, and then they create value through services like consolidating

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merchandise or break bulking.

a. True
b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-1

6. The goal of a good purchasing system is to ensure efficient information transitions between the materials users, the purchasing personnel, and the suppliers.

a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

7. The purchase order is *NOT*a legally binding contract until it is accepted by the supplier.

a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

8. According to the Annual Survey of Manufacturers, the cost of materials *exceeds* the value added to the materials during manufacturing.

a. True
b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-2

9. The goal of a proper purchasing system is to ensure the efficient transmission of information from the users to the purchasing personnel, and ultimately, to the suppliers.

a. True

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b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

10. A follow-up is considered a reactive approach to speed up an overdue shipment.
a. True
b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

11. Generally, firms outsource noncore activities while focusing on core competencies.
a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-4

12. Procurement credit cards can be used for small purchases excluding meals, lodging, and travel expenses.
a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-3

13. Blank check purchase orders, Corporate purchasing cards, Petty cash, and Open-end purchase orders are all possible alternatives to dealing with small value purchases such as those for office supplies.
a. True
b. False

ANSWER: True
POINTS: 1

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DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-3

14. If the break-even point in a typical make-buy scenario is 24,000 units and 8,000 units are required by the firm, then the firm should choose to make the units.
a. True
b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Analysis
OTHER: Reflective Thinking
NOTES: 2-4

15. Reasons for buying items instead of making them can include cost advantage, insufficient capacity, lack of expertise, and quality.
a. True
b. False
ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-4

16. The possibility of events like strikes, assembly line breakdowns, and natural disasters are all reasons a company should favor using a single supplier.
a. True
b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-6

17. The Total Cost of Ownership Concept does *NOT* include quantitative factors.
a. True
b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Analysis

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OTHER: Analytic
NOTES: 2-5

18. Decentralized purchasing is the practice where individual, local purchasing departments throughout a single corporation make their own, individual purchasing decisions to fulfill their individual local needs.

a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-7

19. NAFTA and the WTO are trade organizations seeking to reduce tariff and non-tariff barriers among its member countries.

a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Diversity
NOTES: 2-8

20. Foreign suppliers located farther away may be able to deliver goods faster than domestic suppliers due to more efficient transportation and logistical systems.

a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Diversity
NOTES: 2-8

Multiple Choice

21. Which of the following is a reason small value purchases are handled differently?

a. To give the buyer additional supplier choices
b. To obtain a higher quality product
c. To have better tracking of material usage
d. To control unnecessary administrative costs

ANSWER: d
POINTS: 1

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DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-3

22. Total Cost of Ownership does *NOT* consider which of the following factors?
    a. Purchase order costs
    b. Freight costs
    c. Payment terms
    d. Tooling costs
ANSWER: a
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-5

23. The primary goals of purchasing include all EXCEPT:
    a. Secure materials at the lowest cost
    b. Ensure the highest quality raw materials are purchased
    c. Improve the quality of finished goods produced
    d. Maximize customer satisfaction
ANSWER: b
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-1

24. The measurement of the impact of change in purchase spend on a firm profit before taxes, assuming gross sales and other expenses remain unchanged, is referred to as:
    a. Break-Even Analysis
    b. Direct Offset
    c. Profit-Leverage Effect
    d. Leveraging Purchase Volume
ANSWER: c
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-1

25. When calculating Return on Investment, current assets include:
    a. Cash, Accounts Receivable, and Inventory

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b. Cash, Accounts Receivable, and Equipment
c. Accounts Receivable, Equipment, and Real Estate
d. Equipment, Buildings, and Real Estate

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-1

26. Which type of requisition is used for materials and standard parts that are requested on a recurring basis?
a. Open requisition
b. Blanket requisition
c. Traveling requisition
d. Recyclable requisition (Cyc-Rec)

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

27. Inventory Turnover can be calculated by:
a. Ratio of average inventory cost over cost of goods sold
b. Ratio of cost of goods sold over average inventory cost
c. Ratio of inventory days in stock over average inventory cost
d. Ratio of average inventory cost over inventory days in stock

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-1

28. Which of the following is a reason for favoring single sourcing?
a. Encourages competition among suppliers
b. Spreads the risk of supply interruption
c. Reduces variabilities in quality levels
d. Reduces information about new processing technologies

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic

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NOTES: 2-6

29. A form of purchasing that is placed directly to the supplier and suitable when firms use the same components to make standard goods over a relatively long period of time is referred to as:

a. Material Requisition
b. Purchase Requisition
c. Planned Order Release
d. Traveling Requisition

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

30. When a material is not available in the warehouse and there is no current supplier for the item, the buyer must identify a pool of suppliers and issue a:

a. Request for Quotation
b. Purchase Order
c. Contract for Sale
d. Sales Order

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

31. On occasion, firms assist suppliers, new or old, to improve their processing capabilities, product or service quality, delivery effectiveness, and cost performance by providing the required technical and financial assistance. This is referred to as:

a. Supplier development
b. Outsourcing
c. Centralized purchasing
d. Supplier hybridization

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

32. The Uniform Commercial Code governs the purchase and sale of goods in the US except in the state of:

a. Hawaii
b. Louisiana

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c. Mississippi
d. South Dakota

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

33. Which of the following documents is considered the buyer's offer to purchase products or services from a supplier, is legally binding once the supplier accepts it, and usually has the terms and conditions of purchase preprinted on the back of the document?
a. Purchase requisition
b. Planned order release
c. Material requisition
d. Purchase order

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-2

34. Benefits derived from implementing e-procurement systems include all of the following EXCEPT:
a. Allows buyers to submit bids and suppliers to respond to those bids in real time
b. Increases the accuracy in communication between buyers and suppliers
c. Creates numerous additional job opportunities in the purchasing department
d. Tracking bids and transactions is easier and faster

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-2

35. Which of the following is an advantage of a centralized purchasing department?:
a. Quantity discounts
b. More frequent shipments
c. Closer contact between buyer and user
d. Better knowledge of unit requirements

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge

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OTHER: Analytic
NOTES: 2-7

36. Which of the following illustrates Forward Vertical Integration?
    a. Microsoft starting a new division that designs and manufactures clothing
    b. Ford automotive buying additional machines for production
    c. Subway sandwich company buying a bakery to make the bread for their sandwiches.
    d. Sony buying trucks to deliver their finished goods inventories to their customers' warehouses

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-4

37. Which of the following is *NOT* a potential challenge for global sourcing?:
    a. Long delivery lead times
    b. Costs involved in selecting foreign suppliers
    c. Relaxed trade barriers
    d. Labor and legal problems

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-8

38. Which of the following would be a good reason to outsource (buy) versus making?
    a. A firm lacks the technology or expertise to produce an item
    b. To utilize existing capacity within a company's own firm
    c. To have more direct control over the design and production of an end item
    d. No competent supplier presently produces the needed item

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-4

39. Given the following make-buy information, what would be the break-even point?

	Make Option	**Buy Option**
Fixed Costs	$7500	$1500
Variable Costs	$ 4	$ 9

    a. 1200 units

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b. 1708 units
c. 690 units
d. 460 units

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Application
OTHER: Analytic
NOTES: 2-4

40. Given the following make-buy information, what would be the break-even point?

	Make Option	**Buy Option**
Fixed Costs	$15000	$1250
Variable Costs	$ 5	$ 10

a. 917 units
b. 2875 units
c. 1083 units
d. 2750 units

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Application
OTHER: Analytic
NOTES: 2-4

41. As firms seek to improve the products they offer to the market, companies are seeking help from their suppliers in new product design and development through:

a. Supplier certification programs
b. Manufacturer certification programs
c. Early supplier involvement
d. Total Cost of Ownership initiatives

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-4

42. Which of the following is a reason that single sourcing is considered risky/bad?

a. The buyer's required ordering quantities are very low
b. Larger orders make quantity discounts more likely
c. The limited (finite) capacity of one supplier
d. Decreases the item to item quality variability of items purchased

ANSWER: c

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POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-6

43. Which of the following statements is FALSE?
    a. More than 50% of each sales dollar typically goes towards covering supply chain costs
    b. Decentralized purchasing means not having any purchasing departments and allowing all employees to act as purchasing agents
    c. Electronic procurement systems can aid a company in saving both time and money
    d. If a firm lacks the technology to make a required component they will need to consider buying/outsourcing.

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Comprehension
OTHER: Analytic
NOTES: 2-7

44. Which of the following is NOT a form of countertrade?
    a. Barter
    b. Offset
    c. Incoterming
    d. Counterpurchase

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Diversity
NOTES: 2-8

45. While most public procurement is focused on goals similar to those of purchasing departments in the private sector, U.S. federal government purchases must comply with the:
    a. Federal Acquisition Regulation
    b. Fair Standards and Equitable Purchases Act
    c. Federal Code of Conduct for Procurement
    d. Services and Materials Acquisition Act

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
KEYWORDS: Bloom's: Knowledge
OTHER: Analytic
NOTES: 2-8

Subjective Short Answer

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46. When using the Total Cost of Ownership concept, explain how a supplier with a higher unit price and higher tooling cost can end up being more cost effective than another supplier with a lower unit price and tooling cost.

ANSWER: When calculating the Total Cost of Ownership, unit price and tooling cost are not the only criterion used in supplier selection. Other qualitative and quantitative factors, including freight and inventory costs, tariffs and duties, currency exchange fees, payment terms, maintenance and nonperformance costs should be considered. After calculating these other factors, the Total Cost of Ownership may have been lower with the second supplier.

POINTS: 5

DIFFICULTY: Moderate

KEYWORDS: Bloom's: Application

OTHER: Communication

NOTES: 2-5

47. Use what you understand about the outsourcing decision (Make vs. Buy) to answer this question. List and explain three reasons a person might decide to buy a meal at a restaurant rather than making a meal at home.

ANSWER: Reasons a person might buy a meal at a restaurant

a. Cost - Cooking a very nice meal at home might require a large number of ingredients. They may not be able to take advantages of economies of scale, especially if they are buying for one person (or a very small group).
b. Insufficient Capacity − A person may not have time to shop for groceries and cook a meal.
c. Lack of expertise − This person may not know how to cook. Or perhaps they do not know how to cook the particular meal they desire.
d. Quality − While they may have the time, money, and skill to cook a specific meal, they may realize that the same meal is made better at a restaurant.

Similar answers with slightly different rationale may also be acceptable.

POINTS: 5

DIFFICULTY: Moderate

KEYWORDS: Bloom's: Application

OTHER: Communication

NOTES: 2-4

48. Answer the questions that follow, based on the diagram provided below

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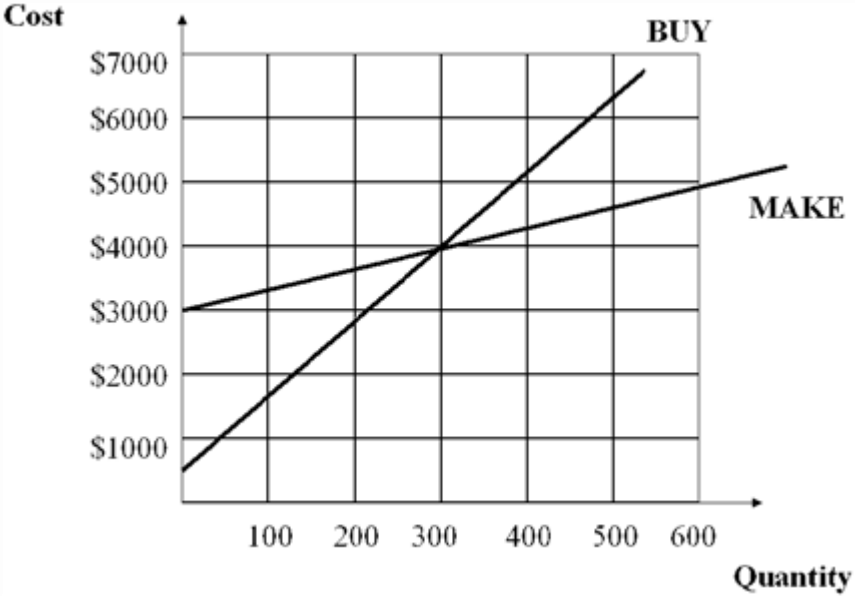

a. What are the fixed costs for the make decision?
b. What is the breakeven quantity for the two options illustrated?
c. At Q = 500, would you choose the make or buy option? Why?
d. At Q = 100, what will be the total cost associated with the best decision at this quantity?

ANSWER:

a. *What are the fixed costs for the make decision?*
$3000

b. *What is the breakeven quantity for the two options illustrated?*
The Break-even quantity seems to be near 300 units. Anything within 290 and 320 would probably deemed acceptable.

c. *At Q = 500, would you choose the make or buy option? Why?*
The make option is better since the total costs for making are about $4600 versus about $6200 for buying.

d. *At Q = 100, what will be the total cost associated with the best decision at this quantity?*
The best decision is to buy, and the total cost is slightly over $1500.

POINTS: 5
DIFFICULTY: Moderate
KEYWORDS: Bloom's: Analysis
OTHER: Analytic
NOTES: 2-4

49. Global sourcing has become commonplace. Many companies now consider expanding their supply base to include foreign suppliers. List three reasons why companies choose to source globally.

ANSWER:
Lower price of materials (and services)
Overseas products may be of higher quality
Faster delivery times
Better array of services offered by the material supplier
Favorable exchange rates
Support local economies
Countertrade contracts

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POINTS: 5
DIFFICULTY: Moderate
KEYWORDS: Bloom's: Comprehension
OTHER: Diversity
NOTES: 2-4

Essay

50. The ACME Cell Phone Company has developed a new series of phones that it plans to bring to the market in the next 18 months. Management is considering whether to produce the product in-house or to contract out the purchasing and manufacturing of their new cell phones.

Provide FOUR conditions that would favor outsourcing and FOUR conditions that would favor making the cell phones in-house.

ANSWER: Conditions that favor outsourcing:

a. If other firms are offering cost advantages.
b. If ACME Cell Phone does not have sufficient capacity to meet the expected demand for the new line of cell phones.
c. Perhaps ACME is largely a design company that does not have expertise in purchasing and manufacturing. An outside firm might be better qualified to deliver a high quality product at a lower price.
d. Outside companies may offer higher quality due to advantages in areas of skill, technology, and business processes.

Conditions that favor making the cell phones in-house:

a. If the technology associated with the new lines of phones is proprietary, it may be easier to maintain secrecy in both manufacturing and in first-to-market marketing.
b. Perhaps no one is capable of producing this product or a necessary component.
c. If the firm feels that its quality programs are superior to any potential business partner, they may prefer to do it themselves to preserve the integrity of the brand.
d. The company expects manufacturing capacity to be available once the product goes into production.
e. If the company prefers to have more control over distribution related activities.
f. If the company has the capability to produce the product at a lower cost if advantages in supply chain capabilities and/or economies of scale exist.

POINTS: 10
DIFFICULTY: Difficult
KEYWORDS: Bloom's: Application
OTHER: Communication
NOTES: 2-4

51. Under which conditions would you most likely utilize a centralized purchasing system? List two advantages that would be gained by utilizing a centralized purchasing system.

Under which conditions would you most likely utilize a decentralized purchasing system? List two advantages that would be gained by utilizing a decentralized purchasing system.

ANSWER:

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Under which conditions would you most likely utilize a centralized purchasing system?
A centralized purchasing system would be favored by a company that is looking to reduce safety stocks, increase control in purchasing, centralize decision making, avoid duplicate purchases, centrally manage supplier relationships, and maximize available quantity discounts.

List two advantages that would be gained by utilizing a centralized purchasing system.

a. Concentration of purchasing leading to lower purchase costs
b. Avoiding duplication of job functions
c. Buyer specialization
d. Lower transportation costs
e. Easier to negotiate contracts and manage relationships with a common supplier base
f. No competition between units when purchasing the same material

Under which conditions would you most likely utilize a decentralized purchasing system?
A decentralized purchasing system would be favored by a company that is looking to make quicker decisions, maintain stocks that are closer to their customers, and identify and respond to changing customer needs at the local level.

List two advantages that would be gained by utilizing a decentralized purchasing system.

a. Individual and decentralized buyers often have a greater knowledge of the exact needs for each individual unit utilized by organization.
b. Decentralization is more conducive to local sourcing. Local sourcing offers an organization the opportunity to obtain faster delivery times, more frequent deliveries, while still maintaining very close supplier ties.
c. Decentralization allows quicker response because the decentralized purchasing allows for faster decisions because of decreased bureaucracy.

POINTS: 10
DIFFICULTY: Moderate
KEYWORDS: Bloom's: Comprehension
OTHER: Communication
NOTES: 2-7

52. The term Supply Management is used to describe responsibilities above and beyond those of traditional purchasing. What are three of these key activities and why are they considered important to Supply Management?
ANSWER: Other answers are possible.

a. Supply Management is responsible for the uninterrupted flow of raw materials
b. Supply Management is responsible for the acquisition of materials at lowest total cost
c. Supply Management is responsible for improving the quality of finished goods through the purchase of high-quality components and/or raw materials.
d. Modern supply chains require close partnerships with suppliers; Supply Management departments are very often responsible for maintaining those relationships
e. Pushing suppliers to improve the quality of their raw materials and/or components
f. Supply Management departments are often responsible for getting maximum input from suppliers during the design and development phases.
g. Supply Management departments are often seen as a conduit between external suppliers and internal design and/or operations people.

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POINTS: 10
DIFFICULTY: Moderate
KEYWORDS: Bloom's: Comprehension
OTHER: Communication
NOTES: 2-1

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