

TEST BANK

Fourth Edition

**PURCHASING & SUPPLY CHAIN
MANAGEMENT**

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Sourcing and Supply Chain Management – 4th edition
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Chapter 2

True or False

1. Until an organization can streamline the day-to-day purchasing process, it will continually delay implementing other important strategic activities that help the organization become more competitive.
 - a. True (p. 38)
 - b. False
2. The objectives of a world-class purchasing organization do not need to move far beyond the traditional belief that purchasing's primary role is to obtain goods and services in response to internal needs.
 - a. True
 - b. False (p. 38)
3. If a supplier's components are defective and causing problems for manufacturing, then purchasing must work closely with the supplier to improve its quality.
 - a. True (p. 40)
 - b. False
4. The right of purchasing to evaluate and select suppliers means that sales representatives are never allowed to talk with non-purchasing personnel.
 - a. True
 - b. False (p. 41)
5. The authority to review material specifications is within purchasing's span of control, although engineering sometimes disputes this right.
 - a. True (p. 42)
 - b. False
6. All purchasing needs must be forecasted ahead of time.
 - a. True
 - b. False (p. 45)

7. When creating a forecast for a needed product or service, internal customers may not always be able to express exactly what it is they will need at a single point in time.
 - a. True (p. 46)
 - b. False

8. For routine, off-the-shelf items, the purchase requisition may contain all the information that purchasing required.
 - a. True (p. 49)
 - b. False

9. When purchasing works directly with internal customers to anticipate future requirements, such as during new product development, purchasing is being reactive.
 - a. True
 - b. False (p. 51)

10. Buyers should use competitive bidding when price is a dominant criteria and the required item or service has straightforward material specifications.
 - a. True (p. 55)
 - b. False

11. The process that buyers use to select suppliers does not vary widely depending on the required item and the relationship that a buyer has with its suppliers.
 - a. True
 - b. False (p. 56)

12. For standard items, the negotiation process is an efficient method to purchase relatively straightforward requirements.
 - a. True
 - b. False (p. 56)

13. For complex items or items requiring untested or a new production process, purchasing can include additional information or attachments on its RFQ to assist the supplier, including detailed blueprints, samples, or technical drawings.
 - a. True (p. 56)
 - b. False

14. Relying on a list of preferred suppliers can increase the time and resources required for evaluating and selecting suppliers.
- True
 - False (p. 58)
15. In drafting a purchase order, purchasing must take great care when wording such an agreement because it is a legally binding document.
- True (p. 60)
 - False
16. Almost all firms establish blanket purchase orders with their suppliers.
- True (p. 61)
 - False
17. It is very important for the buyer to adequately understand existing market conditions prior to signing a fixed-price contract to prevent contingency pricing from adversely affecting the total cost of the purchase over the life of the contract.
- True (p. 64)
 - False
18. Cost-based contracts are generally less favorable to the buyer because the threat of financial risk is transferred from the seller to the buyer.
- True (p. 64)
 - False
19. There is an incentive, at least in the short run, for suppliers to be inefficient in cost-based contracts because they are rewarded with higher prices.
- True (p. 65)
 - False
20. The responsibility for concealed damage is simple and easy to detect.
- True
 - False (p. 66)
21. Material discrepancies usually result from incorrect quantity shipments.
- True (p. 67)
 - False

22. The buyer may assume that the purchasing cycle ends with the receipt of an ordered item or the selection of a supplier.
- True
 - False (p. 68)
23. The way that MRO items are typically dispersed throughout an organization makes monitoring MRO inventory relatively simple.
- True
 - False (p. 70)
24. Purchasing personnel are no longer involved with transportation buying and the management of inbound and outbound material flows as this is now considered to be a logistics management function.
- True
 - False (p. 73)
25. Some purchasing departments spend 80% of their time managing 20% of their total purchase dollars.
- True (p. 74)
 - False
26. The dollar value of the items covered by purchasing cards is relatively high.
- True
 - False (p. 74)
27. The key benefit to online ordering through electronic catalogs is the ability to match pictures of items with their descriptions.
- True
 - False (p. 77)

Multiple Choice

1. The _____ is the process used to identify user requirements, evaluate the need effectively and efficiently, identify suppliers, ensure payment occurs promptly, ascertain that the need was effectively met, and drive continuous improvement.
- demand management process
 - backdoor buying process
 - materials budgeting process
 - forecasting process
 - purchasing process (p. 38)

2. All of the following are objectives of a world-class purchasing organization *except* _____.
 - a. ensure that all hard copies of purchase orders and other paper documents are filed correctly in a secure area (pp. 38-41)
 - b. support organizational goals and objectives
 - c. manage the purchasing process efficiently and effectively
 - d. develop supply base management
 - e. supply continuity

3. In a practice known as _____, internal users may try to negotiate purchase contracts themselves.
 - a. strategic sourcing
 - b. cross-functional teams
 - c. backdoor buying (p. 39)
 - d. outsourcing
 - e. internal sourcing

4. One of the most important objectives of the purchasing function involves the selection, development, and maintenance of supply and is also known as _____.
 - a. supply base management (p. 39)
 - b. measurement
 - c. customer service
 - d. procure-to-pay
 - e. backdoor buying

5. Introducing _____ leads to improved spending visibility, efficient invoicing and payment, and user satisfaction.
 - a. backdoor buying
 - b. inventory management
 - c. materials management
 - d. procure-to-pay systems (p. 39)
 - e. RFID

6. Which of the following is *not* one of the objectives in developing supply base management?
 - a. Selecting suppliers that are competitive.
 - b. Identifying new suppliers that have the potential for excellent performance and develop closer relationships with these suppliers.
 - c. Improving existing suppliers.
 - d. Developing new suppliers that are not competitive.
 - e. Ensuring timely and accurate payment of supplier invoices. (pp. 39-40)

7. Effective supply market intelligence involves all of the following *except* _____.
- monitoring supply markets and trends
 - ensuring that purchasing does not exceed its annual budget (p. 41)
 - identifying critical materials and services
 - developing supply options and contingency plans
 - supporting the organization's need for a diverse and globally competitive supply base
8. _____ is a situation that may occur when sellers contact and attempt to sell directly to end users.
- Insourcing
 - Bidding
 - Maverick spending (p.41)
 - Direct sourcing
 - Outsourcing
9. All of the following are benefits of electronically generating and transmitting purchasing-related documents *except* _____.
- a reduction in the need to ensure higher levels of quality from suppliers (p. 44)
 - a virtual elimination of paperwork and paperwork handling
 - improved communication both within the company and the release and receipt of an order
 - a reduction in errors
 - a reduction in the time spent in by purchasing personnel on processing orders and invoices
10. The purchasing cycle begins with the _____.
- selection of an appropriate supplier
 - completion of a purchase order
 - receipt of a supplier's acknowledgement
 - identification of a need (p. 44)
 - determination of who can authorize the purchase
11. Which of the following is *not* one of the generally accepted ways that internal customers should communicate their needs to purchasing?
- Purchase requisitions.
 - Meeting in the company cafeteria. (p. 46)
 - Forecasts.
 - Customer orders.
 - Routine reordering systems.

12. All of the following are required elements in a purchase requisition *except* _____.
- quantity
 - estimated unit cost
 - date required
 - authorized signature
 - identification of an approved supplier by the end user (p. 46)
13. When marketing wants to purchase an advertising campaign, the _____ should specify the work that is to be completed, when it is needed, and what type of service provider is required,
- reorder point
 - acknowledgement
 - traveling purchase requisition
 - statement of work (p. 49)
 - forecast
14. In a/an _____, when inventory is depleted to a given level, the system notifies the material control department or the buyer to issue a request to a supplier for inventory replenishment.
- reorder point system (p. 50)
 - traveling purchase requisition system
 - customer service system
 - forecasting system
 - just-in-time system
15. A/An _____ involves the physical checking of inventory to verify that system records match actual on-hand inventory levels.
- reorder point system
 - stock check system (p. 51)
 - just-in-time system
 - forecasting system
 - p-card system
16. _____ is used when a product or service is proprietary or when there is a perceived advantage to using a particular supplier's products or services.
- Description by market grade
 - Description by industry standard
 - Description by specification
 - Description by performance characteristics
 - Description by brand (p. 52)

17. _____ is appropriate where the requirements are well understood and there is common agreement between supply chain partners about what certain terms mean.
- Description by market grade (p. 52)
 - Description by brand
 - Description by performance characteristics
 - Use of prototypes
 - Description by specification
18. _____ can cover such characteristics as the materials used, the manufacturing or service steps required, and even the physical dimensions of the product.
- Description by market grade
 - Description by specification (p. 52)
 - Description by brand
 - Description by industry standard
 - Description by performance characteristics
19. _____ focuses attention on the outcomes the customer wants, not on the precise configuration of the product or service.
- Description by industry standard
 - Description by brand
 - Description by specification
 - Description by performance characteristics (p. 52)
 - Description by market grade
20. A/An _____ has demonstrated its performance capabilities through previous purchase contracts and receives preference during the supplier selection process.
- internal supplier
 - new supplier
 - capable supplier
 - final supplier
 - preferred supplier (pp. 54-55)
21. All of the following are conditions under which competitive bidding is effective except _____.
- the buyer has a preferred supplier for the item (p. 55)
 - volume is high enough
 - the marketplace is competitive
 - the specifications or requirements are clear to the seller
 - adequate time is available for suppliers to evaluate the RFQ

22. Which of the following is not one of the conditions under which negotiation is effective?
- When the purchase requires agreement about a wide range of performance factors.
 - When the buyer requires early supplier involvement.
 - When the specifications or requirements are clear to the seller. (p. 55)
 - When the supplier cannot determine risks and costs.
 - When the supplier requires a long period of time to develop and produce the item.
23. Which of the following is not an appropriate performance criterion to be used when evaluating suppliers?
- Supplier capabilities.
 - Commitment to quality.
 - Management capability and commitment.
 - Cost performance.
 - Commitment to effective marketing and promotion. (p. 58)
24. Good reasons for allowing other departments to view purchase orders and incoming receipts does not include which of the following?
- The accounting department gains visibility to future accounts payable obligations.
 - The requestor can refer to the purchase order number when inquiring into the status of an order.
 - Receiving has a record of the order to match against the receipt of the material.
 - Traffic becomes aware of inbound delivery requirements and can make arrangements with carriers or use the company's own vehicles to schedule material delivery.
 - There is never a good reason for purchasing to allow other departments access to purchase orders and incoming receipts due to the confidential nature of the price and delivery terms. (p. 61)
25. A/An _____ is an open order, usually effective for one year, covering repeated purchases of an item or family of items.
- outstanding order
 - pending order
 - blanket purchase order (p. 61)
 - completed order
 - order acceptance
26. When using a/an _____, it is necessary to include a/an _____ that allows a buyer to terminate the contract in the event of persistently poor quality, delivery problems, and the like.
- spot buy contract....evergreen clause
 - RFP....RFQ
 - purchase order....purchase agreement
 - blanket purchase order....escape clause (p. 63)
 - reverse auction....RFP

27. In a/an _____, when the market prices for a purchased good or service rise above the stated contract price, the _____ bears the brunt of the financial loss.
- firm-fixed price contract....seller (p. 64)
 - firm-fixed price contract....buyer
 - cost-based contract....seller
 - cost-based contract....market
 - It does not matter what type of contract is utilized, the seller always bears the brunt of the financial loss.
28. Under which of the following conditions is a firm fixed-price contract most applicable?
- When the goods or services procured are expensive.
 - When there is a threat of contingency pricing.
 - When the goods or services procured are complex.
 - When the goods or services procured are important to the purchasing party.
 - When there is a low level of uncertainty from the supplier's perspective. (p. 64)
29. _____ involves the electronic transfer of purchase documents between the buyer and the supplier.
- RFID
 - GPS
 - EDI (p. 65)
 - JIT
 - RFP
30. The _____, which the supplier provides, details the contents of a shipment.
- material packing slip (p. 66)
 - purchase requisition
 - bill of lading
 - electronic funds transfer
 - request for quotation
31. The _____ is used by transportation carriers to record the quantity of goods delivered to a facility.
- electronic transfer of funds
 - material packing slip
 - receiving discrepancy report
 - bill of lading (p. 66)
 - inventory record

32. Which of the following is *false* regarding concealed damage?
- A user may discover concealed damages after opening a shipping container.
 - Responsibility for concealed damage is often difficult to establish.
 - The carrier may blame the supplier or maintain that the damage occurred after delivery.
 - The supplier may maintain total innocence and implicate the carrier.
 - The bill of lading protects the carrier against charges of concealed damage. (p. 66)
33. A _____ details any shipping or receiving discrepancies noted by the receiving department.
- receiving discrepancy report (p. 67)
 - bill of lading
 - material packing slip
 - change notice
 - RFP
34. The _____ category includes such items are petroleum, coal, lumber, and metals such as copper and zinc.
- semifinished products and components
 - finished products
 - MRO items
 - raw materials (p. 70)
 - capital equipment
35. _____ include anything that does not go directly into an organization's product.
- MRO items (p. 70)
 - Raw materials
 - Production support items
 - Service
 - Components
36. Which of the following is *not* a feature that separates capital equipment purchases from other purchases?
- Capital equipment purchases do not occur with regular frequency.
 - Capital equipment investment requires large sums of money.
 - For accounting purposes, most capital equipment is not depreciable over the life of the item. (p. 73)
 - High dollar contracts require finance and executive approvals.
 - Capital equipment is highly sensitive to general economic conditions.

37. All the following are expected growth areas in e-commerce *except* _____.
- transmitting purchase orders to suppliers
 - submitting requests for quotes to suppliers
 - placing orders with suppliers
 - making electronic funds transfers to suppliers
 - submitting check requests to accounts payable (p. 75)
38. Once a buyer and a supplier reach agreement on a longer-term purchase contract, material releasing responsibility should shift to _____.
- marketing
 - purchasing
 - the supplier
 - user groups (p. 75)
 - accounts payable
39. While similar in concept, blanket purchase orders are typically used more often for _____ purchases, while longer-term purchase agreements are used for _____ purchases.
- unique....routine
 - lower-value....higher-value (p. 75)
 - complex....simple
 - higher-value....lower-value
 - There are no differences in the types of products or amounts purchased in either method.
40. Which of the following is *not* an advantage of online ordering systems?
- Immediate visibility to backordered items.
 - Longer order cycle time from input to delivery. (pp. 76-77)
 - Faster order input time.
 - Reduced ordering errors.
 - Ability to batch multiple items from multiple users on a single online order.