

PURCHASING MANAGEMENT: ADDITIONAL ASSIGNMENT

1. Which one of the following statements is true?
 - 1 The process of buying includes the identification, acquisition, access, positioning, and management of resources the organisation needs or potentially needs in the attainment of its objectives.
 - 2 Supply management is learning the need, locating and selecting a supplier, negotiating price and other pertinent terms, and following-up to ensure delivery.
 - 3 Supply management seems to accentuate the attainment of overall organisational goals.
 - 4 Investigating revenue is a new concept related to purchasing management.

2. Purchasing costs constitute the biggest part of the enterprise's total expenditure. In a manufacturing enterprise purchasing cost represent _____ of every rand flowing into the enterprise; in a retail enterprise _____; and in a wholesale enterprise _____.
 - 1 50 to 60 present; 70 to 80 present; over 80 present
 - 2 70 to 80 present; 50 to 60 present; below 50 present
 - 3 30 to 40 present; 50 to 60 present; over 70 present
 - 4 50 to 60 present; 30 to 40 present; below 30 present

3. Identify the formula for calculating the return on investment ratio (ROI).
 - 1 Total liabilities x turnover ÷ total assets
 - 2 (Current assets – inventory): current liabilities
 - 3 Total income of organisation x turnover ÷ turnover of total assets employed
 - 4 Organisational profit (current assets – current liabilities) ÷ (total assets – total liabilities)

4. The eighth step in the purchasing cycle is _____.
 - 1 Recognition of the need
 - 2 Bidding and negotiation
 - 3 Selection of suppliers
 - 4 Receipt, inspection and distribution

5. Fit the concept in column A with the correct example in column B.

COLUMN A				COLUMN B	
1	Strategic	purchasing	and supply objective	a.	To conduct an inventory analysis, reduce A category products and improve the understanding with supplier or implement JIT
2	Tactical supply objective			b.	To keep investment in inventory as low as possible
3	Operational purchasing objective			c.	To study alternative inventory control systems or the flow of materials to and within the enterprise

- | | | |
|------------|------------|------------|
| 1 1 = a | 2 2 = b | 3 3 = c |
| 2 1 = b | 2 2 = c | 3 3 = a |
| 3 1 = a | 2 2 = c | 3 3 = b |
| 4 1 = c | 2 2 = a | 3 3 = b |

6. Insert the correct option in column B to best describe the phases pertaining to the process of purchasing strategy development in column A.

COLUMN A	COLUMN B
Phase 1	A
Phase 2	Exploring the environment
Phase 3	b
Phase 4	c
Phase 5	Purchasing strategy development
Phase 6	d

- 1
 - a = Purchasing and supply objectives
 - b = Analysis of purchasing and supply opportunities and risks
 - c = Enterprise objectives
 - d = Reaction of external enterprises / environments
 - 2
 - a = Enterprise objectives
 - b = Reaction of external enterprises / environments
 - c = Purchasing and supply objectives
 - d = Analysis of purchasing and supply opportunities and risks
 - 3
 - a = Enterprise objectives
 - b = Analysis of purchasing and supply opportunities and risks
 - c = Purchasing and supply objectives
 - d = Reaction of external enterprises / environments
 - 4
 - a = Analysis of purchasing and supply opportunities and risks
 - b = Enterprise objectives
 - c = Purchasing and supply objectives
 - d = Reaction of external enterprises / environments
7. A _____ purchasing and supply organisational structure is beneficial in cases where functional; supplier and information systems integration is of utmost importance.
- 1 Centralised
 - 2 Decentralised
 - 3 Combined
 - 4 Multi-disciplinary
8. A centralised organisational structure has the following characteristics:
- a. Management authority is vested in one person
 - b. Different plants maintain their autonomy
 - c. Greater buying power as a result of increased quantities
 - d. Closer contact and liaison between suppliers and the purchasing and supply departments
- 1 a b
 - 2 c d
 - 3 a c

4 b d

9. Arrange the following steps of the quality planning process in sequence order:

- a. Set quality objectives
- b. Collect the necessary data
- c. Develop policies and strategies
- d. Study the quality environment

- 1 a b c d
- 2 b d a c
- 3 d b a c
- 4 d b c a

10. The basic purpose of _____ is to eliminate all necessary costs in respect of a product or service that constitutes an input in the supply chain.

- 1 Standardisation
- 2 Quality assurance
- 3 Value analysis
- 4 Quality control

11. Alstore (Pty) Ltd manufactures window frames in large quantities. The most suitable quality description method to be used by them is _____.

- 1 Commercial standards
- 2 Materials and manufacturing characteristics
- 3 Samples
- 4 blueprints

12. The quality of poultry imported from Asian countries is suspect. What quality description method would be used to ensure safety of use for South African consumers?

- 1 Commercial standards
- 2 Materials and manufacturing characteristics
- 3 Samples
- 4 blueprints

13. Nissan SA is purchasing a new assembly machine (designed according to their specifications) for its plant in Rosslyn, Pretoria. What quality description methods would be applicable in this instance?

- 1 Commercial standards
- 2 Materials and manufacturing characteristics
- 3 Samples
- 4 blueprints

14. Fit the concept in column A with the correct description in column B.

COLUMN A	COLUMN B
1 Best value price approach	a. A suitable quality (not necessarily the best quality) and a satisfactory service level as determined by the customer are produced at the lowest price.
2 Reasonable price approach	b. The strategic importance of purchased materials, components and services for

COLUMN A	COLUMN B
	long-term profitability and the survival of the enterprise.
3 Competitive price approach	c. The lowest price that ensures a continuous supply of the proper quality where and when needed.

- | | | | |
|---|-------|-------|-------|
| 1 | 1 = a | 2 = b | 3 = c |
| 2 | 1 = b | 2 = c | 3 = a |
| 3 | 1 = a | 2 = c | 3 = b |
| 4 | 1 = c | 2 = a | 3 = b |

15. Insert the correct set of options that could be used to complete a, b and c.

SELLERS ACTIVE IN THE MARKET	BUYERS ACTIVE IN THE MARKET		
	MANY	FEW	ONE
MANY	a	Oligopsony	Monopsony
FEW	b	Oligopsonistic Oligopoly	Quasi-monopsony
ONE	c	Quasi-monopoly	Bilateral monopoly

- | | | | |
|---|----------------------|----------------------|----------------------|
| 1 | a = Pure competition | b = Monopoly | c = Oligopoly |
| 2 | a = Pure competition | b = Oligopoly | c = Monopoly |
| 3 | a = Oligopoly | b = Monopoly | c = Pure competition |
| 4 | a = Monopoly | b = Pure competition | c = Oligopoly |

16. The _____ is usually presented graphically as a series of ratios between the manufacturing cost and the related quantities of a product manufactured and sold by a supplier.

- 1 Price index
- 2 Commodity exchange
- 3 Learning curve
- 4 Break-even analysis

17. Which one of the following is not an approach to a policy for price determination?

- 1 Price determination according to prevailing market prices
- 2 Price determination by competition in the market
- 3 Price determination according to unstable political circumstances
- 4 Price determination by means of negotiation

18. You are the purchasing manager of a manufacturing enterprise making use of the just-in-time system. Which one of the following aspects would be most valuable to you whilst investigating the possible suppliers?

- 1 Quoted price
- 2 Technical capability
- 3 Timely delivery
- 4 General reputation

19. Which one of the aspects in question 18 would be most valuable whilst investigating the possible suppliers for an organisation involved in the development and manufacturing of military aeroplanes?
- 1 Quoted price
 - 2 Technical capability
 - 3 Timeous delivery
 - 4 General reputation

Complete the following table and answer questions 20, 21 and 22.

SUPPLIER		A		B		C		D	
Factors considered	Weight	Rating	Value	Rating	Value	Rating	Value	Rating	Value
1. Price	10	?	50	6	?	4	?	9	?
2. Delivery	8	7	?	9	?	?	21	3	?
3. Quality	6	?	60	9	?	8	?	?	18
Supplier Value			?		?		?		?

20. Which supplier is the most suitable supplier according to the supplier qualification value?
- 1 Supplier A
 - 2 Supplier B
 - 3 Supplier C
 - 4 Supplier D
21. Assume the listed suppliers in the above table are manufacturer of parts to be incorporated in the engines of vehicles. Which supplier will be eliminated from the supplier register first if the performance of the suppliers is evaluated?
- 1 Supplier A
 - 2 Supplier B
 - 3 Supplier C
 - 4 Supplier D
22. Which supplier is the most suitable supplier if only the quoted price aspect is taken into account?
- 1 Supplier A
 - 2 Supplier B
 - 3 Supplier C
 - 4 Supplier D
23. A purchasing and supply policy document should make provision for the firm's policy on the use of international, national and local suppliers. An advantage associated with the use of national suppliers is _____.
- 1 Low transport costs
 - 2 Grater probability of continuity of supply
 - 3 Advanced technical expertise
 - 4 Large product range

24. Reciprocity is a practice included in the supplier policy. In laymen terms it means _____.
- 1 I buy from you because you are the cheapest.
 - 2 I buy from you because you buy from me.
 - 3 I buy from you because you are reliable
 - 4 I buy from you because you are a manufacturer.
25. _____ is a business practice in which a producer hires another firm to perform part of the manufacturing process or to finish sub-assemblies that will be incorporated into the end product.
- 1 Subcontracting
 - 2 Outsourcing
 - 3 Insourcing
 - 4 Buying
26. _____ does not form part of the production process but rather involves the provision of support product and services.
- 1 Subcontracting
 - 2 Outsourcing
 - 3 Insourcing
 - 4 Buying
27. Consider the following:
- Eskom established an agreement with a single coal supplier in 2000 to provide in all the organisation's coal needs until year 2015.
- This is an example of a _____.
- 1 Standing order
 - 2 Term Contract
 - 3 Urgent order
 - 4 Low-value order
28. The cost of handling inventory, insurance costs and depreciation of inventory are all examples of _____ cost.
- 1 Inventory-holding
 - 2 Administrative
 - 3 Ordering
 - 4 Inventory shortage
29. Which of the following options is necessary to determine the most economic ordering quantity?
- a. Annual consumption in units
 - b. Ordering costs in Rand
 - c. Purchase price per unit in Rand
 - d. Inventory-carrying costs as a percentage of annual inventory investment.
- 1 a b c
 - 2 b c d
 - 3 a b d
 - 4 a b c d

30. _____ is a computerised information system that integrates the scheduling and control of materials through locally related records, procedures and decision rules with the master production schedule into time-phased net requirements for each inventory item.
- 1 Forecasting inventory consumption
 - 2 ABC inventory analysis
 - 3 The just-in-time system
 - 4 Materials requirement planning (MRP)
31. _____ as an aid for quality decisions may be defined as the formally accepted uniform inherent characteristic of items in terms of specific measurements, design, composition, performance, quality and general use.
- 1 Integration
 - 2 Standardisation
 - 3 Value analysis
 - 4 Total quality management
 - 5 Quality assurance
32. The steps (in sequence order) that have to be considered during the methodology of value analysis are:
- a. Determine who is responsible for value analysis
 - b. Select a product
 - c. Execute the value analysis programme
- 1 a b c
 - 2 b a c
 - 3 b c a
 - 4 c
33. A farmer from the Free State requires assistance in regards to classifying the quality of maize he produced. He learns that you must take into account the size, shape, colour, moisture content and similar characteristics of the maize crop.
- The method of description of quality used by the farmer is based on _____.
- 1 Brand names
 - 2 Market grades
 - 3 Commercial standards
 - 4 samples
34. The _____ is based on the simple perception that labour becomes more skilled and efficient with the repeated handling of equipment and materials, and also as the entire manufacturing process proceeds, and more units of the same product are manufactured.
- 1 Hedging of prices
 - 2 Break-even analysis
 - 3 Learning curve
 - 4 Price index
35. Where a small number of suppliers offer a homogenous or similar product, it is known as _____.
- 1 Pure competition
 - 2 Oligopoly
 - 3 Monopoly
 - 4 Oligopsony

36. A _____ is depicted graphically as a series of ratios between the manufacturing cost and the related quantities of a product manufactured and sold by a supplier.
- 1 Break-even analysis
 - 2 Learning curve
 - 3 Price index
 - 4 Hedging of prices
37. Apart from availability problems and the fact that continuous supply of inventory cannot be guaranteed with absolute certainty, there are several other reasons for an enterprise to hold inventory. They include _____.
- a. Ensuring that production is continuous and at an economic level, contributing to a lower manufacturing cost per product unit through efficient use of equipment and labour.
 - b. Inventory provides the opportunity of making more economic purchases.
 - c. Inventory protects the enterprise against uncertainties of delivery and sudden price increases by suppliers.
 - d. It is sometimes claimed that a larger inventory will reduce purchasing costs since fewer orders are placed.
- 1 a
 - 2 b c d
 - 3 a b c d
 - 4 a b c
38. _____ is inventories that consist of semi complete products that is stored between the various stadia of the production process.
- 1 Production inventories
 - 2 Maintenance inventories
 - 3 Processing inventories
 - 4 Final products inventories
39. Administration costs, post and telephone costs and the cost of computer time are examples of _____.
- 1 Inventory-holding costs
 - 2 Ordering costs
 - 3 Administrative costs
 - 4 Risk costs
40. What will the total inventory cost amount to if the following information is available:
- | | |
|-------------------------|-------------|
| Safety inventory | 20 units |
| Inventory carrying cost | R 1 000 000 |
| Inventory ordering cost | R 150 000 |
- 1 R 42 500
 - 2 R 200 000
 - 3 R 850 000
 - 4 R 1 150 000
41. Assume the following:
- | | |
|--------------------|--------------|
| Annual consumption | 33 750 units |
| Ordering cost | R 20.00 |

Unit cost of an inventory item	R 50.00
Inventory carrying cost as percentage of inventory management	30%

Calculate the most economic ordering quantity (EOQ).

- 1 30 units
 - 2 300 units
 - 3 90 000 units
 - 4 900 000 units
42. A _____ is a computerised information system that integrated the scheduling and control of materials through logically related records, procedures and decision rules with the master production schedule into time-phased net requirements for each inventory item.
- 1 Bill of materials
 - 2 Just in time system
 - 3 Materials requirement system
 - 4 Material requirement list
43. Essentially an organisation must know the prime purpose of procuring capital equipment. These reasons include _____.
- 1 Ensuring less capacity
 - 2 Increasing productivity
 - 3 Improving quality
 - 4 Increasing time costs
44. Which one of the following statements is false?
- 1 Communication between small businesses and the purchasers of large organisation is one of the greatest obstacles to the success of a small business.
 - 2 The costs associated with small business purchasing programmes are high for both parties.
 - 3 One of the challenges facing those who purchase from small businesses is that best practices suggest that supplier databases should be decreased.
 - 4 There is a lack of small suppliers in certain sectors such as the cleaning, catering, garden maintenance, clothing and transport industry.
45. Purchasing services can be complex as a result of the unique characteristics associated with it. These include that services are regarded as _____ and _____.
- 1 Intangible; heterogeneous
 - 2 Costly; time consuming
 - 3 Scarce; expensive
 - 4 Efficient; unique