



MNP2601 (470016)
MNP202F (477275)

May/June 2012

PURCHASING MANAGEMENT

Duration 2 Hours

70 Marks

EXAMINERS
FIRST
SECOND

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Use of a non-programmable pocket calculator is permissible

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This paper consists of 10 pages, plus instructions for the completion of a mark-reading sheet

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ANSWER BOTH SECTION A AND SECTION B (70 MARKS IN TOTAL).

[TURN OVER]

SECTION A

ALL the questions in section A are compulsory. Answer all the questions on the mark-reading sheet. Each question counts one mark.

Total: 30 marks.

QUESTION 1

The purchasing and supply function is playing an increasingly important role in organisation
This is because of _____.

- a more stringent quality standards
- b cost conscious organisations
- c political uncertainty
- d sustained inflation

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

QUESTION 2

Which of the following statements about the contribution of purchasing are true?

- a The purchasing function contributes more to profitability in a manufacturing organisation than in a service organisation.
- b The purchasing function contributes less to a retail organisation's profitability than to the profitability of a manufacturing organisation
- c A percentage savings in purchasing costs have a greater influence on an organisation's profitability than the same percentage increase in sales
- d Purchasing cost represent 10 to 20 percent of every rand flowing into any organisation

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

QUESTION 3

Purchasing costs have a major impact on the profitability of an organisation. The effect of savings in purchasing costs is illustrated by the _____.

- 1 profit leverage effect
- 2 return on investment
- 3 multiplier effect
- 4 asset turnover

[TURN OVER]

QUESTION 4

Which one of the following is **not** a specific objective of purchasing departments?

- 1 Finding reliable alternative sources of supply.
- 2 Assuring an uninterrupted flow of goods and/or services.
- 3 Handling of all promotional matters
- 4 Limiting inventory losses to a minimum.

QUESTION 5

To conduct an inventory analysis, reduce A-category items, and improve the understanding with suppliers, are examples of:

- 1 strategic purchasing objectives
- 2 tactical purchasing objectives
- 3 operational purchasing objectives
- 4 purchasing negotiations objectives

QUESTION 6

Until 2010 the head office of CM Electrical did the purchasing for all the different departments and plants. In 2011 they decided that all the different departments and plants must do their own purchasing. One of the advantages of this decision is

- 1 nearby suppliers can be utilised effectively.
- 2 bulk purchases.
- 3 reduced administration costs by eliminating duplication.
- 4 no competition between the different business units

QUESTION 7

Using cross-functional purchasing teams has many advantages for a firm. Which one of the following is **not** an advantage?

- 1 Enhanced communication between functions and with top management.
- 2 Responsiveness to user needs.
- 3 Increased acceptance of the products by users
- 4 Increased management commitment to integration, outsourcing and supplier partnering.

[TURN OVER]

QUESTION 8

Which one of the following is true regarding performance evaluation of the purchasing and supply function?

- 1 It is very easy to set quantitative standards for purchasing and supply performance.
- 2 It is very easy to express the performance of various purchasing and supply activities in quantitative terms.
- 3 Purchasing performance is indirectly influenced by market forces
- 4 The purchasing and supply function is performed by means of a large number of diverse activities.

QUESTION 9

Which documents are used in "*closing the order*" in the purchasing cycle?

- 1 Delivery note, inspection report, invoice
- 2 Price list, delivery note, receipt
- 3 Order form, delivery note
- 4 Order form, delivery note, invoice

QUESTION 10

_____ are used by the stores for the repeated purchasing of standard inventory requirements.

- 1 Purchasing requisitions
- 2 Traveling requisitions
- 3 Material list
- 4 Kanban

QUESTION 11

Total spending on purchases can be divided into different categories with different characteristics. Which one of the following is **not true** regarding these categories?

- 1 With *critical items* large amounts are spent and the risks of availability are high
- 2 With *bottleneck items* the amount that is spent is high, but the risks are low.
- 3 With *leverage items* a large amount is spent, but supply risks are low.
- 4 With *routine items* supply risks are low and the amount to be spent is low.

[TURN OVER]

QUESTION 12

Certain trends in the business world may influence an organisation to enter into subcontracting or outsourcing agreements with other organisations. Which one of the following is **not** a trend that may influence an organisation to do outsourcing?

- 1 Many suppliers available in the market.
- 2 Pressure to maintain (secure) position in international markets.
- 3 Emphases on quality, delivery times and technology.
- 4 Specialisation in a limited number of products and technologies

QUESTION 13

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 local suppliers is _____

- 1 advance technical experience
- 2 low transportation costs
- 3 a wide product range
- 4 lower prices due to mass production

QUESTION 14

The identification of possible suitable suppliers takes place during the _____

- 1 relationship phase
- 2 survey phase
- 3 selection phase
- 4 investigation phase

Regarding supplier performance evaluation look at the table and answers questions 15 - 17

Supplier		A		B		C		D	
Factors considered	Weight	Rating	Value	Rating	Value	Rating	value	Rating	Value
1. Price	10	5	50	6	60	4	40	9	90
2. Delivery	8	7	56	9	72	3	24	3	24
3. Quality	6	10	60	9	54	8	48	3	18
Supplier value			166		186		112		132

[TURN OVER]

QUESTION 15

Assume the listed suppliers in the above table are manufacturers of parts to be incorporated in the engines of vehicles. Which supplier will be eliminated from the supplier register first after the performance of the suppliers is evaluated?

- 1 Supplier A
- 2 Supplier B
- 3 Supplier C
- 4 Supplier D

QUESTION 16

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

QUESTION 17

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

QUESTION 18

Which of the following are reasons why ethical aspects in purchasing management are of the utmost importance?

- a Purchasers have power of large sums of money.
- b Purchasers have the greatest say in which supplier will receive an order.
- c Purchasers put his own interest before those of his employer.
- d Unethical action by purchasers does influence relations with suppliers.

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

[TURN OVER]

QUESTION 19

Which of the following are advantages of standardisation?

- a Fewer stock items and reduced stockholdings.
- b A smaller choice of suppliers
- c Simplification of orders and requisition.
- d Smaller orders and the possibility of lower prices.

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

QUESTION 20

The basic purpose of _____ is to eliminate all unnecessary 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

QUESTION 21

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

- 1 commercial standard
- 2 materials and manufacturing characteristics
- 3 samples
- 4 blueprints

QUESTION 22

When Ford SA purchases a new assembly machine for its plant in Rosslyn, what quality description method would be applicable?

- 1 commercial standard
- 2 materials and manufacturing characteristics
- 3 samples
- 4 blueprints

[TURN OVER]

QUESTION 23

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 analyses
- 3 learning curve
- 4 price index

QUESTION 24

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 hedging of prices
- 2 break-even analyses
- 3 learning curve
- 4 price index

QUESTION 25

Which one of the following is **not** a method of 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.

QUESTION 26

Which of the following costs are ordering costs?

- a The cost of financing inventory
- b The cost of storage
- c Costs of handling inventory
- d Receipt costs
- e Follow-up costs

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

[TURN OVER]

QUESTION 27

The ABC-analysis is based on the ration between the _____ and the number of items.

- 1 consumption value
- 2 expenditure
- 3 ordering quantity
- 4 amount of inventory

QUESTION 28

As the newly appointed purchasing manager of Photofax (Pty) Ltd, you have to buy two new photocopiers for the organisation. What are the qualitative factors that will influence your choice?

- a Cost of installation
- b Cost of maintenance
- c Cost of operation
- d Technical and economic life span
- e Space requirements
- f Reliability of the equipment

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

QUESTION 29

There are different methods to evaluate the purchasing value of capital equipment. Which one of the following is **not** such a method?

- 1 Payback period
- 2 Net present value (NPV)
- 3 Internal rate of return (IRR)
- 4 The return on investment (ROI)

QUESTION 30

Which one of the following is **not** a reason for an organisation to procure capital equipment.

- 1 To save time.
- 2 For safety, pollution protection.
- 3 To improve quality.
- 4 For convenience

[TURN OVER]

SECTION B

Answer any TWO of the following questions.

Total: 40 marks.

QUESTION 1 [20]

- 1.1 Give six reasons why the purchasing of services has become so important. (6)
- 1.2 Identify six symptoms of poor inventory management. (6)
- 1.3 Briefly explain the basics of the concepts of “hedging prices”. (4)
- 1.4 Define a “small business” in your own words. (2)
- 1.5 Define “purchasing management” in your own words (2)

QUESTION 2 [20]

- 2.1 Identify and describe the characteristics of the three market forms in which most purchases are being done (9)
- 2.2 Explain the most important objectives for the performance evaluation of the purchasing and supply function. (4)
- 2.3 Identify two of the three aids for decision-making on quality and give a short description of each. (4)
- 2.4 Define *reciprocity* in your own words and identify when an organisation will make use of *reciprocity*? (3)

QUESTION 3 [20]

- 3.1 Explain leasing under the following headings
 - Types of leases (4)
 - Benefits of leasing (6)
- 3.2 List and give a short explanation of the five government initiatives and pressures to implement a new procurement system, since the government is the largest buyer in South Africa. (10)

PART 1 (GENERAL/ALGEMEEN) DEEL 1

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INITIALS AND SURNAME
VOORLETTERS EN VAN

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For use by examination invigilator
Vir gebruik deur eksamenopsiener

IMPORTANT

1. USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
2. MARK LIKE THIS
3. CHECK THAT YOUR INITIALS AND SURNAME HAS BEEN FILLED IN CORRECTLY
4. ENTER YOUR STUDENT NUMBER FROM LEFT TO RIGHT
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7. CHECK THAT ONLY ONE ANSWER PER QUESTION HAS BEEN MARKED
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BELANGRIJK

1. GEBUIK SLEGS N HB POTLOOD OM HIERDIE BLAD TE VOLTOOI
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PART 2 (ANSWERS/ANTWOORDE) DEEL 2

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