

TEXAS A&M UNIVERSITY (TAMU) IDIS 424 PURCHASING APPLICATIONS IN DISTRIBUTION EXAM 1 PRACTICE TEST (SAMPLE) STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE**

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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1. Explain Incoterms and give examples of FOB and CIF responsibilities.

- A. FOB means risk passes at port of shipment; CIF includes cost, insurance, freight; risk passes at port of shipment; DDP places duties paid by seller.
- B. FOB means risk passes at port of destination; CIF includes cost, insurance, freight; risk passes at port of shipment; DDP places duties paid by seller.
- C. FOB means risk passes at port of shipment; CIF includes cost, insurance, freight; risk passes at port of destination; DDP places duties paid by buyer.
- D. FOB means risk passes at port of shipment; CIF includes cost, insurance, freight; risk passes at port of shipment; DDP places duties paid by buyer.

2. High inventory holding costs generally impact a company's total cost of ownership by causing what?

- A. Increases the total cost of ownership
- B. Decreases cash flow
- C. Has no impact
- D. Only affects supplier selection

3. Which statement describes inventory characteristics under Just in Time?

- A. Large batch production with high inventory.
- B. Forecast-driven long lead times.
- C. Frequent small-quantity production and minimal inventory.
- D. High safety stock levels.

4. Economic Order Quantity (EOQ) is primarily used to balance which two costs?

- A. Purchase price and supplier lead time
- B. Inventory carrying cost and order cost
- C. Transportation cost and insurance
- D. Obsolescence cost and shortage cost

5. In collaborative relationships, how is quality typically ensured?

- A. Buyer inspects at receipt
- B. Quality is designed into the product
- C. Random quality checks
- D. End-user verification only

- 6. Which of the following is an example of Capital Equipment?**
- A. Packaging materials
 - B. Payroll services
 - C. Production machinery
 - D. Lawn care
- 7. In Incoterms, which term places the buyer bears all costs after the seller's location?**
- A. EXW
 - B. FCA
 - C. FOB
 - D. CIF
- 8. Which of the following is not a valid way to decrease purchasing costs?**
- A. Product Selection
 - B. Vendor Quantity Discounts
 - C. Supplier Selection
 - D. Supplier relationship development
- 9. Which principle explains that small reductions in COGS can have a larger effect on profits?**
- A. Break-even concept
 - B. Leverage Principle
 - C. Scarcity principle
 - D. Return on investment principle
- 10. Competitive bidding is preferred when:**
- A. Volume is sufficiently high
 - B. Marketplace is competitive
 - C. Buyer does not have a preferred supplier for that item
 - D. Adequate time is given to suppliers to evaluate request quotation

Answers

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1. A
2. A
3. C
4. B
5. B
6. C
7. A
8. A
9. B
10. B

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Explanations

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1. Explain Incoterms and give examples of FOB and CIF responsibilities.

- A. FOB means risk passes at port of shipment; CIF includes cost, insurance, freight; risk passes at port of shipment; DDP places duties paid by seller.
- B. FOB means risk passes at port of destination; CIF includes cost, insurance, freight; risk passes at port of shipment; DDP places duties paid by seller.
- C. FOB means risk passes at port of shipment; CIF includes cost, insurance, freight; risk passes at port of destination; DDP places duties paid by buyer.
- D. FOB means risk passes at port of shipment; CIF includes cost, insurance, freight; risk passes at port of shipment; DDP places duties paid by buyer.

Incoterms spell out who pays for transportation and insurance and when risk transfers from seller to buyer during international shipments. For sea freight terms like FOB and CIF, the moment risk passes from seller to buyer is when the goods have passed the ship's rail at the port of shipment (the point the goods are loaded onto the vessel). FOB: the seller handles export clearance and loading onto the vessel, then the buyer takes on all freight costs, insurance (if desired), and risk from that loading moment onward to the destination. CIF: the seller must pay the costs, freight, and insurance to bring the goods to the destination port, but the risk still transfers to the buyer when the goods pass the ship's rail at the port of shipment. The seller also arranges marine insurance under CIF. DDP would place duties and taxes on the seller as part of delivery to the named place, which is not the case in FOB or CIF. So the statement that aligns with these rules—risk transfers at the port of shipment for both terms, CIF includes cost, insurance, and freight, and DDP charges duties paid by the seller—is the correct description.

2. High inventory holding costs generally impact a company's total cost of ownership by causing what?

- A. Increases the total cost of ownership
- B. Decreases cash flow
- C. Has no impact
- D. Only affects supplier selection

High inventory carrying costs push up the total cost of ownership because TCO includes every expense tied to owning and using inventory over its life. These carrying costs—such as storage, handling, insurance, depreciation, obsolescence risk, and the cost of capital tied up in stock—accumulate as you hold items, so higher carrying costs directly increase the overall ownership cost. While those costs can also affect cash flow or supplier choices as secondary considerations, the primary impact described here is a higher total cost of ownership.

3. Which statement describes inventory characteristics under Just in Time?

- A. Large batch production with high inventory.
- B. Forecast-driven long lead times.
- C. Frequent small-quantity production and minimal inventory.**
- D. High safety stock levels.

Just-in-Time aims to align production tightly with actual demand and keep only what is needed at hand. That results in frequent small-quantity production and minimal inventory, because you're making only what's required and when it's required, which reduces waste and carrying costs. Achieving this typically involves a pull system coordinated with reliable suppliers and quick setups, often using signals like Kanban to trigger new work in small lots. The other descriptions describe conditions that JIT avoids: large batch production with lots of inventory creates waste and high carrying costs; forecast-driven long lead times mean building stock ahead of demand; and high safety stock levels contradict the goal of keeping inventories to a bare minimum. So the characteristic that best fits Just-in-Time is frequent small-quantity production with minimal inventory.

4. Economic Order Quantity (EOQ) is primarily used to balance which two costs?

- A. Purchase price and supplier lead time
- B. Inventory carrying cost and order cost**
- C. Transportation cost and insurance
- D. Obsolescence cost and shortage cost

EOQ is all about balancing the cost to hold inventory with the cost to place and process orders. If you order in large quantities, you hold more stock, so carrying costs go up. If you order in small quantities, you place orders more often, so ordering costs go up. The optimal order size minimizes the sum of these two cost types, which is why the correct idea is inventory carrying cost paired with order cost. The model assumes other costs like purchase price, transport, insurance, obsolescence, or shortages are either separate decisions or not part of the basic balancing act.

5. In collaborative relationships, how is quality typically ensured?

- A. Buyer inspects at receipt
- B. Quality is designed into the product**
- C. Random quality checks
- D. End-user verification only

In collaborative relationships, quality is ensured by building it into the product and the development process from the start. When buyers and suppliers work together on design, specifications, and process plans, quality targets become part of the design criteria, manufacturing methods, and measurement plans. This preventive approach reduces defects, variability, and rework, and aligns both parties around shared quality goals. Inspecting at receipt relies on detecting issues after they occur, which is reactive and often costly. Random quality checks are sampling-based and may miss problems, offering only partial protection. End-user verification only shifts quality assessment to the end and later in the cycle, which can lead to dissatisfaction and late fixes. Building quality in from the beginning avoids these drawbacks and supports a true collaborative quality culture.

6. Which of the following is an example of Capital Equipment?

- A. Packaging materials
- B. Payroll services
- C. Production machinery**
- D. Lawn care

Capital equipment consists of durable, long-lived tangible assets that are used in the production process and capitalized on the balance sheet, then depreciated over their useful life. Production machinery fits this description because it is a physical asset used to manufacture goods and provides benefits for multiple years. It is not consumed in a single period, so it is treated as a fixed asset rather than an expense. Packaging materials are consumed inputs and typically recorded as inventory or period expenses. Payroll services are ongoing operating costs, not assets. Lawn care is a maintenance service and also expensed as incurred. So production machinery is the best example of capital equipment.

7. In Incoterms, which term places the buyer bears all costs after the seller's location?

- A. EXW**
- B. FCA
- C. FOB
- D. CIF

Ex Works places the seller's obligation at making the goods available at the seller's premises, and from that moment the buyer takes on all costs and risks. The buyer is responsible for loading the goods, arranging and paying for transport, export and import formalities, insurance, and destination charges. Because the seller's obligation ends at their location, the buyer bears all costs after the goods leave the seller's premises. Other terms involve the seller handling more steps before transfer (such as delivery to a carrier or onto a vessel, or shipping with freight and insurance to the destination), so they don't put all post-location costs on the buyer.

8. Which of the following is not a valid way to decrease purchasing costs?

- A. Product Selection**
- B. Vendor Quantity Discounts
- C. Supplier Selection
- D. Supplier relationship development

When aiming to reduce purchasing costs, focus on how you interact with suppliers and the terms you secure, not just on choosing products. The strongest cost-reduction moves come from negotiating favorable prices and terms and from building relationships that enable ongoing savings. Vendor quantity discounts directly lower the price per unit as you buy more, which is a straightforward lever for cutting cost. Selecting suppliers with the best overall value—considering price, delivery, support, and reliability—can reduce total cost of ownership. Developing a strong supplier relationship fosters collaboration, process improvements, better quality, and waste reduction, all of which drive cost savings over time. Product selection, while important for meeting needs and may influence cost, is not a direct or reliable way to decrease purchasing costs on its own. It often involves trade-offs in features, quality, or compatibility, and doesn't guarantee ongoing savings the way discounts, strategic supplier choice, and relationship-driven improvements do.

9. Which principle explains that small reductions in COGS can have a larger effect on profits?

- A. Break-even concept
- B. Leverage Principle**
- C. Scarcity principle
- D. Return on investment principle

Leverage shows how a small change in one area can produce a bigger impact on profits because fixed costs stay the same while contribution margin changes. When you reduce COGS, you increase the contribution margin (sales minus COGS). Since fixed costs don't move with COGS, that extra margin largely flows to the bottom line, magnifying the effect on profits. For example, selling 1,000 units at a price of 20 with COGS of 12 gives a contribution of 8 per unit. Total profit is the contribution minus fixed costs, say 6,000, leaving 2,000. If COGS falls by 1 to 11, the contribution becomes 9 per unit, total 9,000, and profit rises to 3,000. That 1-dollar per-unit saving translates into a much larger percentage gain in profit because fixed costs stay constant. This amplified effect is the essence of the Leverage Principle.

10. Competitive bidding is preferred when:

- A. Volume is sufficiently high
- B. Marketplace is competitive**
- C. Buyer does not have a preferred supplier for that item
- D. Adequate time is given to suppliers to evaluate request quotation

Competitive bidding works best when there are many suppliers actively competing in the marketplace. In a competitive market, multiple vendors can bid, which drives price discovery and allows you to compare total value—price, delivery, quality, and terms. This competition tends to yield the lowest overall cost and better terms for the buyer. If the market isn't competitive, with only a few suppliers, bids won't pressure prices as effectively and the process may not deliver real savings. While other conditions like high volume, no preferred supplier, or having adequate evaluation time can influence sourcing, they don't by themselves guarantee the price advantages that come from genuine supplier competition.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

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We wish you the very best on your exam journey. You've got this!

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