Procurement Management Questions

|  |
| --- |
| Q1: A cost-plus-percentage-cost (CPPC) contract has an estimated cost of $**120,000** with an  agreed profit of 10% of the costs. The actual cost of the project is $130,000.  What is the total reimbursement to the seller? |
| 1. $143,000 2. $142,000 3. $140,000 4. $132,000 |
| Q2: A cost-plus-incentive-fee (CPIF) contract has an estimated cost of $150,000 with a  predetermined fee of $15,000 and a (BSR) share ratio of 80/20. The actual cost of the project  is $130,000. How much profit does the seller make? |
| 1. $31,000 2. $19,000 3. $15,000 4. none of the above |
| Q3: A fixed-price-plus-incentive-fee (FPI) contract has a target cost of $130,000,  a target profit of $15,000, a target price of $145,000, a ceiling price of $160,000,  and a share ratio of 80/20. The actual cost of the project was $150,000.  How much profit does the seller make? |
| 1. $10,000 2. $15,000 3. $0 4. $5,000 |

Q4: A fixed-price-plus-incentive-fee (FPI) contract has a target cost of $150,000, a target profit of $30,000, a target price of $180,000, a ceiling price of $200,000, and a share ratio of 60/40. The actual cost of the project was $210,000. Calculate the final fee and the final price.

Q5: A fixed-price-plus-incentive-fee (FPI) contract has a target cost of $9,000,000, a target profit of $850,000, a ceiling price of $12,500,000, and a share ratio of 70/30. The actual cost of the project was $8,000,000. Calculate the final fee and the final price.

Q6: A Cost-plus-incentive-fee (CPIF) contract has a estimated cost of $210,000, a fee of $25,000, and a share ratio of 80/20. The actual cost of the project was $200,000. Calculate the final fee and the final price.

Answers

Q1: Estimated Cost= $120,000

Actual Cost= $130,000

Agreed Profit=10%

Reimbursement amount= Actual cost+% profit of actual cost=$130,000+(10% of $130,000)= $143,000

Q2: Estimated Cost= $150,000

Predetermined fee=$15,000

Share Ratio=80/20 (80 is for the Buyer and 20 is for the seller)

Actual Cost= $130,000

Saving = Estimated Cost-Actual cost=$20,000

Profit to seller is Predetermined fee + (Share ratio of seller \* Savings) = $15,000+(20%\*$20,000)= $19,000

Q3: Target Cost=$130,000

Target Fee=$15,000

Target Price=$145,000

Ceiling Price=$160,000

Share Ratio=80/20 (80 is for the Buyer and 20 is for the seller)

Actual Cost=$150,000

Here, the actual cost is less than the ceiling price and is more than the target cost.

Final Fee= ((Target cost-Actual Cost) \* Seller ratio) + Target fee=(($130,000-$150,000)\*20%+$15,000=(-$20,000\*20%)+$15,000= -$4,000+$15,000=$11,000 Final Price=Actual cost + Final Fee=$150,000+$11,000= $161,000. But this is more than the ceiling price which is $160,000. So the final price which the seller gets is $160,000.

So the profit that seller gets is $160,000-$150,000= $10,000

Q4: Target Cost= $150,000

Target Fee=$30,000

Target Price=$180,000

Ceiling Price=$200,000

Share Ratio=60/40(60 is for the Buyer and 40 is for the seller)

Actual Cost=$210,000

Here Actual cost is more than the target price and also higher than the ceiling price. So the seller is in trouble. Let’s see how much he gets?

Final Fee=((Target cost-Actual Cost)\*Seller ratio) + Target fee=(($150,000-$210,000)\*40%+$30,000=(-$60,000\*40%)+$30,000= -$24,000+$30,000=$6,000

Final Price=Actual cost + Final Fee=$210,000+$6,000=$216,000. But this is more than the ceiling price. So the final price is $200,000 J

Q5: Target Cost= $9,000,000

Target Fee=$850,000

Target Price=$9,850,000

Ceiling Price=$12,500,000

Share Ratio=70/30(70 is for the Buyer and 30 is for the seller)

Actual Cost=$8,000,000

Here Actual cost is less than the target price and also lesser than the ceiling price. Let’s see how much seller gets?

Final Fee= ((Target cost-Actual Cost)\*Seller ratio) + Target fee=(($9,000,000- $8,000,000)\*30%+$850,000=($1,000,000\*30%)+$850,000= $300,000+$850,000=$1,150,000

Final Price=Actual cost + Final Fee=$8,000,000+$1,150,000=$9,150,000.

Q6: Estimated Cost= $210,000

Predetermined fee=$25,000

Share Ratio=80/20(80 is for the Buyer and 20 is for the seller)

Actual Cost= $200,000

Saving = Estimated Cost-Actual cost = $10,000

Final Fee= (Saving \* Seller Ratio) + Predetermined fee=($10,000\*20%)+$25,000=$2,000+$25,000= $27,000

Final Price=Actual cos t+ Final Fee=$200,000+$27,000=$227,000

Point of Total Assumption (PTA): This applies to only Fixed price incentive fee contracts and refers to the amount above which the seller bears all the loss of a cost overrun. This happens due to mismanagement. Seller will sometimes monitor their actual cost against the PTA to make sure they are still receiving a profit for completing the project.

Formula is PTA=((Ceiling Price-Target Price)/Buyer’s share ratio) + Target Cost