

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

FOUNDATION EXAMINATION - JANUARY 2012

(53) BUSINESS STUDIES

22-01-2012
Afternoon
2.00 – 4.00

Time: 02 hours

• **Instructions to candidates**

- (1) *This paper consists of two (02) Sections A & B.*
- (2) *Five (05) questions should be answered as follows:*
 - *Question No.01 of Section A*
 - *Any four (04) questions from Section B*
- (3) *Answers should be in one language, in the medium applied for, in the booklets provided.*
- (4) *100 Marks.*

No. of Pages : 05
No. of Questions : 07

SECTION - A

Multiple Choice Questions

All questions of this Section should be answered.

40 marks

01. Select from (1), (2), (3), (4) the **most correct** answer to each of the following questions. Write the number of the selected answer in your answer booklet with the English letter assigned to the question.

(A) Select from the following the special advantage of a partnership business in comparison with a sole proprietorship business:

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|----------------------------|---------------------------|
| (1) Quick decision making. | (2) Unlimited liability. |
| (3) No legal personality. | (4) Distribution of risk. |

(B) Which of the following is **not** a commercial service?

- (1) Obtaining loan facilities to expand the business.
- (2) Recruiting a security officer for warehouse.
- (3) Obtaining a life insurance policy.
- (4) Recruiting a medical officer for a garment factory.

(C) Which of the following is **incorrect** with respect to a private company?

- (1) There can be a maximum number of fifty(50) shareholders.
- (2) There should be at least one Director.
- (3) Maximum age limit of Directors is 60 years.
- (4) If all the shareholders agreed in writing there is no necessity to conduct AGM annually.

(D) Of the following, identify the business organization without legal personality:

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|-------------------------------|--------------------------|
| (1) Private Limited Company. | (2) Public Corporation. |
| (3) Public Liability Company. | (4) Sole Proprietorship. |

- (E) Which of the following is **incorrect** with respect to section 24 of the Partnership Ordinance of 1890?
- (1) Partners should equally contribute to capital.
 - (2) Partners are entitled to a salary or allowance for services provided.
 - (3) A partner is entitled to a minimum of 5% interest per annum on any loans provided by him to the partnership, in addition to his capital.
 - (4) Books of accounts of partnership are accessible to all partners at any time.
- (F) Which one of the following is an example for Regional Economic Cooperation?
- (1) World Trade Organization.
 - (2) European Union.
 - (3) International Monetary Fund.
 - (4) World Bank.
- (G) Select from the following the Licensed Specialized Bank:
- (1) National Savings Bank.
 - (2) Bank of Ceylon.
 - (3) Peoples' Bank.
 - (4) DFCC Vardhana Bank.
- (H) Which of the following is **incorrect** in relation to credit rating?
- (1) It gives an idea of the risk which is undertaken by an investor in buying bonds issued by a company or the government.
 - (2) It indicates the possible likelihood in defaulting on loans taken by borrowers.
 - (3) It is a financial indicator for potential investors of debt securities such as bonds.
 - (4) It is a financial document which should be submitted to the Inland Revenue Department to get a tax relief.
- (I) When dealing with a cheque, bankers duty is to carry out the instructions of the:
- (1) Payee.
 - (2) Drawer.
 - (3) Drawee.
 - (4) Manager.
- (J) Which of the following is **not** a function of the Export Development Board?
- (1) Providing marketing support in exports for development and improvement of performance in Sri Lankan products.
 - (2) Providing insurance for exporters on non-settlement of export invoices.
 - (3) Providing necessary advisory and consultancy services for the exporters.
 - (4) Providing e-business solutions for the exporters to explore international markets.

- (K) Of the following, non insurable risk is:
- (1) Non-payment of debts by customers.
 - (2) Losses due to thefts by employees.
 - (3) Losses due to terrorist activities.
 - (4) Losses on stock unsold due to change in fashion.
- (L) “A minimum standard that requires both the buyer and seller in a transaction to act honestly towards each other and do not mislead or withhold critical information from one another” is known as:
- (1) Subrogation.
 - (2) Proximate-cause.
 - (3) Contribution.
 - (4) Utmost good faith.
- (M) Which of the following is an **incorrect** statement in relation to unit trusts?
- (1) A unit trust is a collection of investment funds, which mobilizes resources by selling its units to the public.
 - (2) Unit trusts invest funds through the stock exchange.
 - (3) Unit trusts have the right to buy back its own shares.
 - (4) Unit trusts have no right to buy back its own shares.
- (N) Demand deposit accounts can be maintained by:
- (1) Licensed specialised banks.
 - (2) Licensed Commercial banks.
 - (3) Central Bank of Sri Lanka.
 - (4) All of the above banks.
- (O) Of the following, select the group which consists only of capital market instruments:
- (1) Promissory Notes, Unit Trusts, Debentures.
 - (2) Treasury Bills, Commercial Papers, Promissory Notes.
 - (3) Commercial Papers, Unit Trusts, Ordinary Shares.
 - (4) Debentures, Ordinary Shares, Unit Trusts.
- (P) Which of the following is **not** a main objective of Securities & Exchange Commission of Sri Lanka?
- (1) Safeguarding the investors.
 - (2) Providing loan facilities to broker companies.
 - (3) Maintaining of professional standards.
 - (4) Activating a compensation fund to protect investors.

(Q) Term of sale signifying that the price invoiced or quoted by a seller includes insurance and all other charges up to the named port of destination is known as:

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|--------------------|-----------------|
| (1) Ex-ship price. | (2) CIF price. |
| (3) FOB price. | (4) LOCO price. |

(R) Effective rate of protection measures:

- (1) Domestic value added before tax on imports.
- (2) Domestic value added after tax on imports.
- (3) Increase in domestic value added after tax on imports.
- (4) Increase in domestic value added under free trade.

(S) The “Theory of Comparative Advantage” is based on the assumptions except that:

- (1) There is no government intervention in production.
- (2) Availability of trade barriers.
- (3) Only two countries and two types of goods are taken into account.
- (4) In both countries the ownership of resources is stable or constant.

(T) The difference between exports and imports of goods in the Balance of Payment (BOP) is known as:

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|------------------------------|----------------------|
| (1) Trade Balance. | (2) Income Balance. |
| (3) Current Account Balance. | (4) Overall Balance. |

(02 marks each, Total 40 marks)

SECTION - B

Answer any four (04) questions only from this Section.

60 marks

- 02.** (a) What are the facilities available for promoting industries in Sri Lanka? (05 marks)
- (b) List five(05) duties of partners in a partnership. (05 marks)
- (c) List five(05) main features of a Private Limited Liability Company. (05 marks)
(Total 15 marks)

- 03.** (a) Explain what is meant by a crossed cheque. Give an example each for three(03) types of crossings. (05 marks)
- (b) Distinguish between open cheque and crossed cheque. (05 marks)
- (c) Briefly explain the image cheque clearing method operating in Sri Lanka. (05 marks)
- (Total 15 marks)
- 04.** (a) Briefly explain the following three(03) principles of Insurance:
- (i) Indemnity.
- (ii) Utmost Good Faith.
- (iii) Insurable Interest. (06 marks)
- (b) List four(04) advantages of Life Insurance. (04 marks)
- (c) What are the main functions of the Sri Lanka Export Credit Insurance Corporation (SLECIC)? (05 marks)
- (Total 15 marks)
- 05.** (a) State the importance of a bill of lading in relation to international trade, and list four(04) contents of a bill of lading. (06 marks)
- (b) What are the main functions of the World Trade Organization (WTO)? (04 marks)
- (c) List five(05) factors that contribute for the formation of regional trade agreements. (05 marks)
- (Total 15 marks)
- 06.** (a) Contrast advantages and disadvantages of globalization. (05 marks)
- (b) List five(05) remedies available to meet a deficit in the balance of payment. (05 marks)
- (c) Briefly explain the economic consequences of devaluation of the Sri Lanka rupee by 3%. (05 marks)
- (Total 15 marks)
- 07.** Write short notes on the following:
- (a) Principal Partner.
- (b) Articles of Association.
- (c) Unit Trust.
- (d) Credit Ratings.
- (e) Ceylon Chamber of Commerce. (03 marks each, Total 15 marks)