



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2020

(104) BUSINESS ENVIRONMENT

27-09-2020  
Afternoon  
[02.00 - 5.00]

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time:** 03 hours. No. of Pages : 06  
(2) **All questions should be answered.** No. of Questions : 06  
(3) **Answers should be in one language, in the medium applied for, in the booklets provided.**  
(4) **State clearly assumptions made by you, if any.**  
(5) **Action Verb Check List** with definitions is attached. Each question will begin with an **action verb** excluding OTQ's. Candidates should answer the questions based on the **definition** of the verb given in the Action Verb Check List.  
(6) 100 Marks.

**SECTION A**

(Total 40 marks)

**Question 01**

Select the most correct answer for question No. 1.1 to 1.10. Write the number of the selected answer in your answer booklet with the number assigned to the question.

**1.1** Which one of the following is an example for a need?

- (1) Bread.                      (2) Job security.                      (3) Foods.                      (4) Shirts.

**1.2** Of the following, an advantage of a sole proprietorship is:

- (1) Unlimited liability.                      (2) Difficulty in raising funds.  
(3) Easy to start.                      (4) More legal requirements.

**1.3** Select from the following, the insurance in which the principle of indemnity is **not** involved:

- (1) Marine insurance.                      (2) Life insurance.  
(3) Fire insurance.                      (4) Health insurance.

**1.4** Which one of the following is an internal stakeholder of a business?

- (1) Employees.                      (2) Customers.                      (3) Suppliers.                      (4) Competitors.

**1.5** Which one of the following is **not** an element of the internal environment of a business?

- (1) Government.
- (2) Value system.
- (3) Organizational Culture.
- (4) Human resources.

**1.6** Consider the following statements:

- (a)** Committee meetings are considered as a formal method of communication.
- (b)** Body language is also considered as a way of communication.
- (c)** Noise and disturbances are considered as physical factors that affect effective communication.

Of the above, the correct statement/s is/are:

- (1) **(a)** and **(c)** only.
- (2) **(a)** only.
- (3) **(c)** only.
- (4) All of the above.

**1.7** Registered finance companies are supervised by:

- (1) Colombo Stock Exchange.
- (2) Central Bank of Sri Lanka.
- (3) Ministry of Trade.
- (4) Chamber of Commerce.

**1.8** Which one of the following is an example for electronic money?

- (1) Cheques.
- (2) Credit Cards.
- (3) Commercial papers.
- (4) Ordinary shares.

**1.9** Which one of the following is a feature of a good transportation system?

- (1) Speed.
- (2) Safety.
- (3) Low cost.
- (4) All of the above.

**1.10** Consider the following statements with reference to entrepreneurs:

- (a)** They are able to adapt to the ever changing business environment.
- (b)** They do not like to take the risks on business.
- (c)** They have a strong confidence and work directly towards achieving their goals.

Of the above, the correct statement/s is/are:

- (1) **(a)** only.
- (2) **(a)** and **(b)** only.
- (3) **(a)** and **(c)** only.
- (4) **(b)** and **(c)** only.

State whether each of the following statements from **1.11** to **1.15** is **True** or **False**. Write the answer (True/False) in your answer booklet with the number assigned to the question.

- 1.11** Drawing only two parallel lines across the face of the cheque is called as a special crossing.
- 1.12** In a public limited company, maximum number of shareholders is 50.
- 1.13** Savings accounts and treasury bills are examples for near money.
- 1.14** All businesses in the world are profit oriented businesses.
- 1.15** Sustainable development means the development that meets the needs of the present without violating the right of meeting the needs of the future generations.

Write the answers for question No. **1.16** to **1.20** in your answer booklet with the number assigned to the question.

- 1.16** State two(02) characteristics of a business.
- 1.17** State two(02) instances where a cheque can be dishonoured.
- 1.18** List two(02) parties involved in a cheque.
- 1.19** Identify two(02) ways of enhancing the performance of Small and Medium Sized Enterprises (SMEs).
- 1.20** State two(02) benefits expected from a Code of Ethics in a business.

(02 marks each, Total 40 marks)

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*End of Section A*

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## **SECTION B**

(Total 40 marks)

### **Question 02**

Based on ownership, business organizations are categorized in different ways such as sole proprietorships, partnerships, companies, etc. Various types of supporting services are required for the survival of any business. Money, communication, insurance, transportation and logistics play a vital role in operating a business efficiently and effectively.

**You are required to:**

- (a) **Explain** four(04) characteristics of a sole proprietorship. (04 marks)
- (b) **State** three(03) qualities of effective communication. (03 marks)
- (c) **List** three(03) risks that a person can insure. (03 marks)

(Total 10 marks)

### Question 03

**Health Smart (Pvt) Ltd.** is a well-established medium sized limited liability company which manufactures a specialized Ayurveda Herbal Medicine. So far, the products of the company are distributed locally. The Chairman of the company, **Mr. Gunathilake** has recently read a newspaper article regarding government's intention of promoting local products to European market. The article further explained the financial assistance that could be obtained by local enterprises by incorporating as a public limited company.

**You are required to:**

- (a) **State** two(02) differences between local trade and foreign (international) trade. (02 marks)
  - (b) **Explain** three(03) benefits that **Health Smart (Pvt) Ltd.** could achieve through foreign trade. (06 marks)
  - (c) **Identify** two(02) advantages of incorporating **Health Smart (Pvt) Ltd.** as a public limited company. (02 marks)
- (Total 10 marks)

### Question 04

**Gayan Perera** recently completed his Accounting Degree from a well-recognized local university. From his childhood, he had a dream of becoming an entrepreneur by starting his own business while ensuring social and environmental harmony. He strongly believes that this is the right time to be an entrepreneur. However, being a graduate in accounting stream, he is well aware of the challenges and business failures commonly faced by entrepreneurs specially in the Small and Medium Enterprises (SMEs) sector.

**You are required to:**

- (a) **Explain** two(02) skills required by an entrepreneur. (04 marks)
  - (b) **List** four(04) benefits of entrepreneurship. (04 marks)
  - (c) **State** two(02) factors for failure of SMEs. (02 marks)
- (Total 10 marks)

### Question 05

**Reka** is working as the Senior Manager - Operations, of **Ceylon Tea Company**, which currently exports premium green and black tea to Russian and Australian markets. Over the past 20 years of her career as a senior manager specializing in international trade, she is well aware of the opportunities as well as challenges of globalization. She has recently observed the stiff competition in the international tea industry and the response of other tea exporters in incorporating Corporate Social Responsibility (CSR) into their business operations.

**You are required to:**

- (a) **Explain** two(02) opportunities of globalization. (04 marks)
  - (b) **List** two(02) areas of social responsibility. (02 marks)
  - (c) **Identify** four(04) advantages that **Ceylon Tea Company** would obtain through incorporating Corporate Social Responsibility (CSR) into their business operations. (04 marks)
- (Total 10 marks)

## **SECTION C**

(Total 20 marks)

### **Question 06**

**COCONUT MART** is a well reputed export oriented medium-scale sole proprietorship owned by **Mr. Jayasiri** which manufactures coconut ingredients for confectionary products. **Mr. Jayasiri** started this business 30 years ago as a sole proprietorship and continued with various obstacles. At the start-up of **COCONUT MART** the products were sold only to local market, but now products are sold to international markets as well. The government has introduced more concessions recently to promote these products.

In 2018, **Mr. Jayasiri** was awarded with an honorary award by National Chamber of Commerce for his excellent entrepreneurial leadership. **Miss. Sithumli Jayasiri**, the newly appointed General Manager of **COCONUT MART**, is the only daughter of **Mr. Jayasiri** convinced her father about the advantages of registering their business as a private limited company.

Due to the new management, most of the well experienced and loyal management and factory staff members of **COCONUT MART** are resigning from the company. Being an export oriented medium scale business, **COCONUT MART** considers many factors such as supply chain management, quality assurance, etc. With COVID-19 pandemic, demand for products of **COCONUT MART** from foreign countries was reduced. As a result their revenue dropped significantly in the last quarter of the year. Further, **COCONUT MART** is facing a difficulty to get sufficient raw materials for the production. **Miss. Sithumli Jayasiri** is evaluating these factors for growing their business in the future. **Mr. Jayasiri** is planning to retire and handover all business activities and management to **Miss. Sithumli Jayasiri**.

**You are required to:**

- (a) **State** two(02) advantages and two(02) disadvantages of a Limited Liability Company. (04 marks)
  - (b) **List** two(02) documents required to be submitted for the incorporation of **COCONUT MART** as a Limited Liability Company as per the Companies Act No. 07 of 2007. (02 marks)
  - (c) **Assess** **COCONUT MART** business using SWOT analysis. (06 marks)
  - (d) **Explain** three(03) reasons why an efficient transportation is important for **COCONUT MART**. (06 marks)
  - (e) **State** two(02) new trends in trade. (02 marks)
- (Total 20 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Knowledge (1)</b>	Recall Facts and Basic Concepts.	<b>Draw</b>	Produce a picture or diagram.
		<b>Relate</b>	Establish logical or causal connections.
		<b>State</b>	Express details definitely or clearly.
		<b>Identify</b>	Recognize, establish or select after consideration.
		<b>List</b>	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Comprehension (2)</b>	Explain & Elucidates Ideas and Information.	<b>Recognize</b>	Show validity or otherwise, using knowledge or contextual experience.
		<b>Interpret</b>	Translate into understandable or familiar terms.
		<b>Describe</b>	Write and communicate the key features.
		<b>Explain</b>	Make a clear description in detail using relevant facts.
		<b>Define</b>	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Application (3)</b>	Use and Adapt Knowledge in New Situations.	<b>Reconcile</b>	Make consistent / compatible with another.
		<b>Graph</b>	Represent by graphs.
		<b>Assess</b>	Determine the value, nature, ability or quality.
		<b>Solve</b>	Find solutions through calculations and/or explanation.
		<b>Prepare</b>	Make or get ready for a particular purpose.
		<b>Demonstrate</b>	Prove or exhibit with examples.
		<b>Calculate</b>	Ascertain or reckon with mathematical computation.
		<b>Apply</b>	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Analysis (4)</b>	Draw Connections Among Ideas and Solve Problems.	<b>Communicate</b>	Share or exchange information.
		<b>Outline</b>	Make a summary of significant features.
		<b>Contrast</b>	Examine to show differences.
		<b>Compare</b>	Examine to discover similarities.
		<b>Discuss</b>	Examine in detail by arguments.
		<b>Differentiate</b>	Constitute a difference that distinguishes something.
		<b>Analyze</b>	Examine in details to find the solution or outcome.