



**Association of Accounting Technicians of Sri Lanka**

**July 2015 Examination - AA2 Level**

**Questions and Suggested Answers  
Subject No : AA23**

**BUSINESS OPERATIONS AND MANAGEMENT  
(BOM)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA  
EDUCATION AND TRAINING DIVISION

**AA2 Examination - July 2015**  
**(23) Business Operations and Management**

**SUGGESTED ANSWERS**

**SECTION A**

Answers to ALL questions are expected.

*Suggested Answers to Question One:*

- 1.1 (3)
- 1.2 (3)
- 1.3 (1)
- 1.4 (4)
- 1.5 (4)
- 1.6 (4)
- 1.7 (3)
- 1.8 (2)
- 1.9 (3)
- 1.10 (4)
- 1.11 (3)
- 1.12 Industrial relations

*End of Section A*

**Answers to ALL questions are expected.**

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### ***Suggested Answers to Question Two:***

The main three concepts of management are:

1. Productivity
2. Efficiency
3. Effectiveness

#### **Productivity**

Productivity is the economic measure of output per unit of input. It can be calculated as follows.

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}}$$

Productivity is more favorable when the ratio is more than one (01) or higher.

#### **Efficiency**

Efficiency basically is termed as getting the desired output. The desired output means the expected quantity within the expected time.

According to Peter Drucker, efficiency means doing things right.

#### **Effectiveness**

Effectiveness is the ability to determine appropriate objectives of an organization.

According to Peter Drucker, effectiveness is doing right things.

While productivity and efficiency are quantitative measures, effectiveness is more a qualitative aspect.

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### ***Suggested Answers to Question Three:***

The insurance company can insure the assets they insure again via another company.

E.g.:-

Mr Samaratunga had insured his luxury car at AB insurance company. AB insurance company uses their company policy to re-insure same at XY insurance company. Mr Samaratunga pays his insurance premium to AB insurance company regularly. In the event of an accident, AB insurance pays damages to Mr Samaratunga. AB insurance company can reimburse it from XY insurance company at the end. This is known as **re-insurance**.

### ***Suggested Answers to Question Four:***

The principles of TQM are as follows:

Any five (05) of the following are required for the answer.

1. Quality can be and must be managed.
2. The customer defines quality, and customer satisfaction is the top goal; it is a requirement and is not negotiable.
3. Management must be involved and provide leadership.
4. Continuous quality improvement is the strategic goal, which requires planning and organization.
5. Quality improvement is the responsibility of every employee; all employees must be trained and educated to achieve quality improvements.
6. Quality problems are found in processes and problems must be prevented, not solved.
7. Products without defects of standards of quality should be produced.
8. Quality must be measured and statistical process control methods shall be used.

### ***Suggested Answers to Question Five:***

ZED business school should have the following features in its performance appraisal system:

1. Top Management commitment and facilitation
2. Everybody should be able to understand
3. Trust and openness
4. Appraisers should be properly trained
5. Actions should be initiated based on the results of the appraisal
6. Destructive criticism should be avoided in feed back
7. Constant monitoring to ensure validity and reliability

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***Suggested Answers to Question Six:***

Use of internet brings the following advantages to business owners:

Any five (05) of the following are required for the answer.

1. Generate new revenue sources
2. Reduce cost of doing business
3. Develop new web based products
4. Increase customer loyalty and retention
5. Attract new customers
6. Develop new markets and channels
7. Minimum legal impacts
8. Promote creative products



***End of Section B***

Answers to ALL questions are expected.

***Suggested Answers to Question Seven:***

(a) **Difference between Traditional inventory management system Vs Just-In-Time**

Differences between Traditional inventory management system Vs Just-In-Time can be identified under the following categories.

1. **Goals**

- The ideal goal of JIT manufacturing is to have precisely the right amount of components or materials on hand at any given moment, with as little idle inventory as possible.
- Traditional inventory systems, on the other hand, seek to have enough inventories on hand so that production may continue even in the face of unexpected shortages or delays in supply.

2. **Inventory Management**

- JIT model would see warehoused inventory as wasted space that could be put to more productive use. The worker-hours spent moving inventory would be considered as wasted resources under JIT.
- In most cases, the shipments received at a traditional factory will be delivered to the warehouse and stored until needed. This requires significant warehousing space and management.

3. **Supply Shock**

- JIT Manufacturing is extremely sensitive to supply shortages since one missed shipment of a particular component may be enough to shut down an assembly line until the next shipment arrives.
- Traditional inventory systems do have some advantages due to their ability to warehouse large on-hand inventories and minimise supply 'shocks'.

4. **Partial implementation**

- Large business organizations have the biggest advantage on JIT system on a highly optimized lean manufacturing supply chain.
- Traditional inventory systems are desirable for smaller companies.

(b) (i) Economic order quantity

$$\begin{aligned}
 \text{EOQ} &= \sqrt{\frac{2\text{DCO}}{\text{Ch}}} \\
 &= \sqrt{\frac{2 \times 2250 \times 10,000,000}{500,000}} \\
 &= \sqrt{9,000} \\
 &= \underline{\underline{300}}
 \end{aligned}$$

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$$\begin{aligned}
 \text{(ii) Number of orders required per annum} &= \frac{\text{(Annual Demand)}}{\text{(Economic Order Quantity-EOQ)}} \\
 &= \frac{2250}{300} \\
 &= \underline{\underline{7.5}}
 \end{aligned}$$

∴ 8 times (approx.)

$$\begin{aligned}
 \text{(iii) Annual carrying cost} &= \text{ChQ} / 2 \\
 &= (500,000 \times 300) / 2 \\
 &= \underline{\underline{\text{Rs. 75,000,000}}}
 \end{aligned}$$

$$\begin{aligned}
 \text{(iv) Annual ordering cost} &= \text{CoD} / Q \\
 &= (10,000,000 \times 2,250) / 300 \\
 &= \underline{\underline{\text{Rs. 75 Million}}}
 \end{aligned}$$

### ***Suggested Answers to Question Eight:***

(a) - (a) Main aspects of Talent Management.

- I Performance Appraisal
- II Training and development

(b) - Report to convince the company about the importance of Talent Management,

1. When employees with talent leave, a small organization is exposed to greater risk than a larger one since the volume of activity supported by such talent is much higher. Therefore it is important to adopt measures to improve talent.
2. The damage that could be caused by the organization by, not maximizing employee potential, the wrong placement of an employee, or top talent quitting, represents a high-risk factor.
3. This talent loss is particularly evident in the case of employees who maintain contact with customers, such as sales personnel, implementation and customer support or others on whom customers depend on.
4. Replacing an employee with talent who has decided to leave involves higher costs and other implications than replacing other employees, mainly because the resignation of talented employees involves the loss of vital knowledge.
5. Talent management process also helps to drive for improvement. Developing talents enables the organization to produce proper successors for key positions, making it possible for the company to realize its business objectives.
6. The HR manager should match up the talent management plan to the company's business strategy. Managers who are convinced of the added value of such a process will approve it more easily.

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### ***Suggested Answers to Question Nine:***

**(a) The four categories of e-commerce**

	Business	Consumers
Business	B2B (I)	C2B (III)
Consumers	B2C (II)	C2C (IV)

(I) Business to Business

E.g.: Purchasing and Procurement

Supplier Management

Inventory Management

Channel Management

(Any one example of these is expected)

(II) Business to Consumer

(III) Consumer to Business

Consumers can band together to present themselves as a buyer group in this relationship. SpeakOut.com is a good example for this.

(IV) Consumer to Consumer

**(b) Disadvantages of e-commerce**

Any three (03) of the following :-

(I) Lack of touch or feel of products during online shopping.

(II) Inability to make solid business decisions

Use of internet may not always be advisable in the business world as no one can assure that it is free of frauds. Identity of businesses engaged in internet may be irrelevant to the business activities and fraudulent parties may not be found guilty.

(III) Lack of technical knowledge

With the advent of e-commerce, the volume of business activities taking place on the internet is innumerable. Appropriate technical knowledge is required to face such competition.

(IV) Status of minimum customer relationship might discourage the customer loyalty.

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***End of Section C***

**One compulsory question to be answered.**

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***Suggested Answers to Question Ten:***

**(a) Seven elements of marketing mix**

- 1. Product** – “Juzzy” is the brand name for the new fruit juice by KIK group.  
Juzzy has been introduced to the domestic market in four different flavors.  
It has been found that people of X would like to experience ready made fruit juice: drink being more health conscious than drinking soft drinks available in the market.  
**Design** - The bottles have been designed in an attractive manner to capture the market.  
**Packaging** – Juzzy has been presented in 120ml packets and 500ml bottles.
- 2. Place – Transport** → the product has been distributed by logistic department of KIK.  
**Place** → The farms and the factory are located in the same geographical area.  
**Coverage** → Customers can buy the product at any given point of sale.
- 3. Price** – at a reasonable price  
- The bulk purchasing entitles one for attractive discounts from the vendors.
- 4. Promotion** → **Advertising** → via audio, video, e-mails and other online media especially social media.  
**Public relations** – It has a helpline where customers can contact the nutritionist to clarify doubts around the clock.  
- Citizens of X can visit the factory with permission; where they can visit farms and factory, meet farmers and workers.  
- They can experience the workshop and training programs conducted for employees.
- 5. People** – Specially the employees, farmers, employees of Research and development department, logistics departments and its employees.
- 6. Process** – the workshops and training programs conducted for employees for the smooth functioning of manufacturing process.
- 7. Physical Environment** – Factories and sales outlets

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**(b) Positioning Strategies:**

Any four (4) of the following:-

**(1) By the product attribute or benefits**

A product attribute is a specific feature or benefit of the product. Positioning in this way focuses/benefits, relative to the competitive offerings.

E.g.:- (1) Juzzy: ready to drink fruit juice.

(2) Everyday Freshness

Focus on preferred taste.

**(2) By user**

This positioning approach highlights the user (the ideal or representative target consumer) and suggests that the product is the ideal solution for that type of person and may even contribute to their social self-identity.

E.g. Juzzy can be positioned as a healthy drink.

(1) In good taste (2) Low-calorie drink

**(3) By product class**

This positioning strategy tends to take a leadership position in the overall market. Statements with the general message of “we are the best in our field” are common.

E.g. the best fruit drink in domestic market.

Making juice from fresh fruits.

**(4) Against competition**

With this approach, the firm would directly compare, and make a comparison against certain well-known competitors.

E.g.:- being a leader in the beverage industry.

**(5) By use/application**

With this approach, the product/brand is positioned in terms of how it is used in the market by consumers, indicating that the product is the best solution for that particular task/use.

By use – e.g. Health is Wealth.

**(6) By quality or value**

Some firms will position products based on relatively high quality, or based on the claim that they represent significant value.

E.g. Use good things to get good things.

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**c) Marketing philosophies**

**(1) The Production concept**

It holds that consumers will favor those products that are widely available and low in cost.

**(2) The Product concept**

This era brought about marketing beliefs that consumers will favor those products that offer the most quality, performance or innovative features.

**(3) The selling concept**

The orientation of the selling concept was that the company can sell any product it produces with the use of marketing techniques, such as advertising and personal selling. Organizations turned to the use of advertising and personal selling to reduce their inventories and sell their goods due to the surpluses in products. Organizations that deal with unsought goods still use selling orientation successfully.

**(4) The Marketing concept**

The marketing concept starts with a well-defined market, focuses on customer needs, and integrates all the marketing activities that affect the customers.

- A new concept
- A market should make what it can sell, instead of trying to sell what it has made.

This concept assumes that,

- To provide the needs of the customer in the right quantity and quality.
- Goods are being made to satisfy rather than to sell.

**(5) The consumer concept**

This concept identifies importance of satisfying individual customers based on their personal preference, customize the products/services.

- The customer concept begins with the individual customers.
- The customer concept adds lifetime value to the customer which creates customer loyalty towards the company.
- The marketing concept differs from consumer concept from its focus on the target customer groups.

**(6) The societal Marketing concept**

- (i) In this concept , the organization's task is to determine the needs, wants and interest of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and society's well-being.

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(ii) In societal marketing concept,

The marketing concept in contrast makes an adverse impact on Environmental issues, pollution, scarcity of resources, world spread economic problems, poverty, negligence on human health and inadequate strategies for social welfare.

Consequently, majority of business organizations have turned a new dimension in their businesses to focus on the human welfare, conservation of environment, minimize the wastage in resources through societal marketing concept. In fact, satisfying customer needs and achieving organizational objectives are dual factors in societal marketing concept.

**(7) The Holistic Marketing concept**

The holistic marketing includes internal marketing, socially responsible marketing, integrated marketing and relationship marketing

- This recognizes that in order to achieve highest organizational objective all the sections should work with one vision.

This concept is a combination of both consumer and the marketing concept.

The product Juzzy has a target market which is a significant feature of the consumer concept. Marketing strategies should be implemented based on the consumers' concern over their health.

*End of Section D*