



**Association of Accounting Technicians of Sri Lanka**

**AA2 Examination - January 2018**

**Questions and Suggested Answers  
(AA26)**

**BUSINESS MANAGEMENT AND STRATEGY  
(BMS)**

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

**AA2 Level Examination - January 2018**  
**(AA26) Business Management and Strategy**

**SUGGESTED ANSWERS**

**SECTION – A**

Objective Test Questions (OTQs)

Ten (10) compulsory questions

(Total 20 marks)

*Suggested Answers to Question One:*

Question No.	Answer
1.1	(3)
1.2	(4)
1.3	(2)
1.4	(3)
1.5	(4)
1.6	True
1.7	False
1.8	True
1.9	True
1.10	True

*(Total 20 marks)*

*End of Section A*

**Five (05) compulsory questions**  
**(Total 25 marks)**

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

**Importance of management for an organization:**

- It helps in the achievement of organizational goals by directing, coordinating and controlling physical, financial and human resources in the most efficient and effective manner. This leads to optimum utilization of scarce resources.
- Effective and efficient utilization of resources leads to less wastage. This leads to increase in profits.
- It leads to an effective organizational structure with clear lines of authority and responsibility.
- It benefits the society as a whole through creating employment opportunities and leading to economic production that raises the standard of living of individuals.
- It reduces costs - It gets maximum results through minimum input by proper planning and by using minimum input and getting maximum output. This helps in cost reduction.
- It enables the organization to survive in changing environment. It keeps in touch with the changing environment.
- It encourages innovation in the organization. Innovation brings new ideas, new technology, new modules, new products etc. This makes organization more competitive and efficient.
- It improves corporate image. If the management is good then the organization will produce good quality goods and services. This will improve the goodwill and corporate image of the organization. A good corporate image brings many added benefits to the organization.
- It motivates employees by providing financial and non-financial incentives. These incentives increase the willingness and efficiency of the employees. This results in boosting productivity and profitability of the organization.

In conclusion, it could be mentioned that the success or the failure of any organization seriously depends on the application of management in that organization.

*(05 marks)*

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

Characteristics of Bureaucracy:

- i. Specialization
- ii. Hierarchy / rigid organizational structure
- iii. Rules and Regulations
- iv. Impersonality / clear systems and procedures
- v. Appointed officials
- vi. Career officials / specialists
- vii. Full-time officials
- viii. Public / private division
- ix. Formal written communication
- x. Technical competence

***(05 marks)***

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

#### **1. Interpersonal Skills**

Interpersonal skills are the skills that are used when engaged in face-to-face communication with one or more people. Using words is only the tip of the iceberg. Good interpersonal communication skills enable us to work more effectively in groups and teams, which may be either formal or informal. It is often desirable to build strong relationships with others, which can lead to better communication and understanding. Developing empathy for others is also highly important.

#### **2. Listening Skills**

Listening is a vital interpersonal communication skill. When communicating 45% of time is spented for listening. Reflection and clarification are common techniques used by managers to ensure that you heard and understood what was intended.

#### **3. Presentation Skills**

The thought of giving a presentation or talk to a group of people can be very alarming to the novice; even hardened professionals can feel nervous. Good planning and practice, however, can help to alleviate these fears and enable managers to present information clearly and effectively. Further use non-verbal signals, gestures, facial expression, body language even appearance become important matters for the effective presentations.

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4. **Writing Skills**

Communication skills are not limited to direct interaction with other people and the spoken word. The ability to be able to write clearly and effectively is a key for communication. Poor written communication can be frustrating for the reader and potentially damaging for the author. It is important for managers to understand and overcome common mistakes and improve how to communicate using the written word.

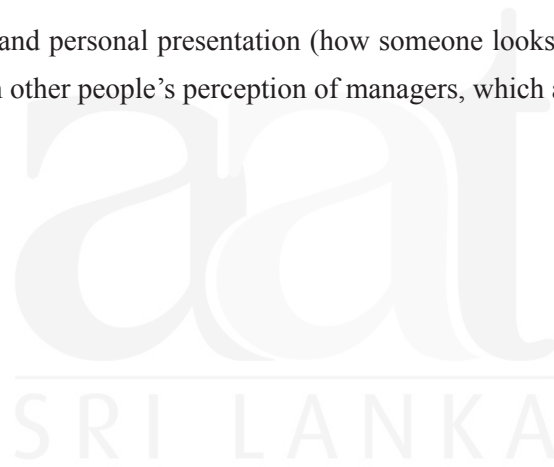
5. **Personal Skills**

Personal skills are the skills that used are to maintain a healthy body and mind.

Developing Personal Skills can help with communication processes. Improving self-esteem and building confidence can help managers to feel more positive about themselves and their abilities including ability to communicate.

Personal appearance and personal presentation (how someone looks and how someone behave) can have a bearing on other people's perception of managers, which affects communication.

*(05 marks)*



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

**Difference between strategic control and operational control:**

<b>Strategic Control</b>	<b>Operational Control</b>
Need information from many sources	Need information from few sources
Need more information from external sources	Need more information from internal sources
Focus on future	More focus on current, day - today operations
Objective is to generate alternatives to face predicted scenarios	Objective is to measure what happens really to correct deviations if any.
More concerned with measuring the accuracy of the decision premise.	Operating decisions tend to be concerned with the quantitative value of certain outcomes.
These models are less precise.	These models are generally very precise in the narrow domain they apply.
Relies on variable reporting interval.	The typical operating measurement is concerned with operations over some period of time, pieces per work, profit per quarter etc...

*(05 marks)*

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

Leadership is important for an organization:

- i. To provide the proper guidance
- ii. To motivate followers / employees
- iii. To create confidence among followers / employees
- iv. To initiate the task / goal
- v. To build the morale among followers / employees
- vi. For proper co-ordination
- vii. To initiate and implement a change / changes

*(05 marks)*

*(Total 25 marks)*

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***End of Section B***

**Three (03) compulsory questions**  
**(Total 30 marks)**

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

**(a) Barriers for rational decision making:**

- i. Insufficient data, information and knowledge
- ii. Dynamic, uncertain environment
- iii. Limited competency of the decision maker
- iv. Personal prejudices / personal favoritisms in decision making
- v. Stereotyping
- vi. Bounded rationality in decision making
- vii. Satisficing
- viii. Halo effect
- ix. Heuristic principle

**(04 marks)**

**(b) Rational decision making process:**

**Step 01**

**Problem identification and analysis**

A problem is a gap between the actual result and the expected result. First, to make a decision, the problem should be identified through symptoms. Symptoms are the ways in which the problem comes out. Then, should analyze the problem with its associated other problems, and causes of the problem.

**Step 02**

**Generate alternative solutions**

To resolve a problem we can have several (more than one) solutions which are known as alternatives. Second step of the decision making process is the identification of all the feasible alternative solutions available to solve the problem.

**Step 03**

**Evaluate alternative solutions**

Evaluate the identified alternative solutions in terms of their cost and benefits. Simply do a comparison among costs and the benefits of identified alternative solutions.

**Step 04**

**Select the best alternative**

After the evaluation of alternatives, can select the best alternative to be applied. The best solution is the most practical solution which minimizes the cost and maximizes the benefits.

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**Step 05****Implement the decision**

Next step is the implementation of the best alternative solution selected in the previous step, without unnecessary delays.

**Step 06****Monitor the success of the decision / Evaluate the decision outcome**

Here, look back to ensure the success of the decision made. It is like a simple review. Based on this review decision maker can re-decide it or can continue the decision.

*(06 marks)*

*(Total 10 marks)*

***Suggested Answers to Question Eight:*****(a) Relationship between performance and employee motivation:**

There are three determinants of employee performance as depicted in the below formula.

$$\text{Performance} = (\text{Ability} \times \text{Working Environment} \times \text{Motivation})$$

Employee motivation is a major determinant of employee performance. Without motivation, ability and a constructive working environment is useless. Without motivation employees will not apply their real ability at their maximum level into the working environment. Also, according to the above formula if motivation is zero, entire formula becomes zero. **It means, if there is no motivation, there is no performance.** So, we can identify a direct linear relationship between performance and motivation.

*(04 marks)*

**(b) Maslow's hierarchy of needs theory:****Physiological need**

Physiological needs are the physical requirements for human survival. If these requirements are not met, the human body cannot function properly and will ultimately fail. Physiological needs are thought to be the most important, and they should be met first (food, shelter, clothing...).

**Safety Needs**

Once a person's physiological needs are relatively satisfied, their safety needs take precedence and dominate the behavior. Safety and security needs include: personal security, financial security, health and well-being and safety needs against accidents and illnesses.



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<b>Social Needs</b>	After physiological and safety needs are fulfilled, the third level of human needs emerged. It is about the interpersonal and involves feelings of belongingness.
<b>Esteem Needs</b>	Esteem needs are ego needs or status needs develop a concern with getting recognition, status, importance, and respect from others/society.
<b>Self-Actualization Needs</b>	This level of needs refer to what a person's full potential is and the realization of that potential in his/her life.

*(06 marks)*

*(Total 10 marks)*

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

**(a) Levels of Corporate Social Responsibility:**

<b>Economic Responsibility</b>	Economic responsibility is the first level of CSR, and it is defined as a corporation's duty to produce goods and services that are needed and/or desired by consumers at a reasonable price.
<b>Legal Responsibility</b>	Legal responsibility is the second level of CSR. It is about the duties of an organization as a legal citizen. There are several legal obligations to which any business should comply with. Protecting the rights of the employees, rights of the customers, tax liability, health and safety compliances are some of the legal responsibilities of a corporate.
<b>Ethical Responsibility</b>	Ethical responsibility occupies the third level of CSR, and it deals with justice, fairness and practices that corporations are expected to demonstrate within the marketplace, culture and the environment.
<b>Philanthropic Responsibility</b>	Corporations are not just economic entities, they are also considered as functioning members (corporate citizens) of a society. Philanthropic responsibilities are expected to be carried out by corporations willingly. Donating money to worthy causes, giving technical resources for free to communities and helping people who have been affected by natural disasters.

*(06 marks)*

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(b)

**Importance of the culture in an organization:**

- i. Culture gives the uniformity to the organization
- ii. Culture motivates employees / helps to motivate employees
- iii. Culture improves the loyalty
- iv. Culture is a one source of strengthening the competitiveness
- v. Culture creates the identity for an organization
- vi. Culture provides the direction to the organization

*(04 marks)*

*(Total 10 marks)*



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*End of Section C*

**A compulsory question  
(25 marks)**

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***Suggested Answers to Question Ten:*****(a) Challenges faced by Supul Furniture Company Limited:**

*(06 marks)*

**1. Globalization:**

Globalization has its impact in every field of management. It brought a lot of interesting possibilities, profitable opportunities and the whole world considers as global market. Even though this company has a good reputation and a well-positioned brand name, company faces a **decline in demand**. It is mainly due to the heavy competition from the imported furniture and other alternatives. Basically, this **foreign competition** is a big challenge to domestic producers.

**2. Ethics and Social responsibility and their relationship to corporate governance:**

It emphasis on high standards of ethical behaviour and corporate governance policies to prevent managers from acting in self-interest rather than the best interests of the organization and its stakeholders.

**3. Quality Management:**

The businesses today have a compelling need to improve their work continuously in order to meet customers' needs and expectations. The company should provide quality products to customers to face threat of substitutes such as steel and plastic furniture.

**4. The management of workforce diversity and different cultures:**

Accommodating various diversities in terms of age, gender, culture, race and other differences continuous to be an important organizational opportunity and challenge for today's managers. Managing diversity workforce is a challenge.

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5. **Managing E-Business World:**

Electronic business, internet based linages has grown rapidly throughout the world. This has been facilitated by the rapid improvements in information technology.

6. **Knowledge management and learning organizations:**

If businesses are to survive in this ever changing business world today they have to become a learning organization that continuously learns, grows, adapts and changes according to environment changes.

7. **Information Technology:**

Nowadays, businesses cannot exist without the influence of information technology. The management is in need of exploring the possibilities of online marketing. Marketers and managers should know the in and out of information technology and how it could bring benefits to the organization as it enhances the operations, fastens the processes.

8. **Competing with the Low-Cost Labour:**

One of the greatest challenges that managers would have is to find a way to minimize the cost of operations. Markets compete with the low-cost labour many other countries can afford.

(b) **Advantages and disadvantages of a functional organizational structure:**

Advantages	Disadvantages
It is a foundation for specialization	Unable to see the overall targets (goals and objectives) of the entire organization
Easy supervision	Once the departments become bigger, co-ordination difficulties
It reduces the cost / reduces the supervisory cost	Inter departmental conflicts
Easy Co-ordination	Narrow training focusing on the respective department/s
It facilitates employee training / effective training	Slow to react in response to environmental change
Improve the management efficiency	The specialization will lead to a narrow view point and lack of overall perspective.
Effective training	

(08 marks)

(c) **SWOT Analysis:**

<b>Strengths</b> <ul style="list-style-type: none"><li>• Good reputation</li><li>• Strong brand name</li><li>• Well experienced staff</li><li>• Mr. Upuls' experience</li></ul>	<b>Weaknesses</b> <ul style="list-style-type: none"><li>• Ad hoc decision making</li><li>• Consider only prevailing circumstances in decision making</li><li>• Inappropriate organizational structure</li><li>• Lack of delegation of authority. (Key functions related to operations, human resources, marketing and finance are handled by one senior manager)</li></ul>
<b>Opportunities</b> <ul style="list-style-type: none"><li>• Diversification opportunities</li><li>• Grants and subsidies from the government</li><li>• Government support to boost the domestic industries</li></ul>	<b>Threats</b> <ul style="list-style-type: none"><li>• Declining demand for the product</li><li>• Heavy foreign competition</li><li>• Threat of substitutes in the market</li></ul>

Having considered the above mentioned SWOT analysis for Supul Furniture Limited, it could be concluded that, threats are more powerful than opportunities for this company. Hence, the company should focus on the development of strengths to overcome weaknesses, to capture opportunities, to face challenges.

*(08 marks)*

(d)

**Primary activities in the Porter's Value Chain Model:**

- i. Inbound logistics
- ii. Operations
- iii. Outbound logistics
- iv. Sales and Marketing
- v. Services

*(03 marks)*

*(Total 25 marks)*

**End of Section D**

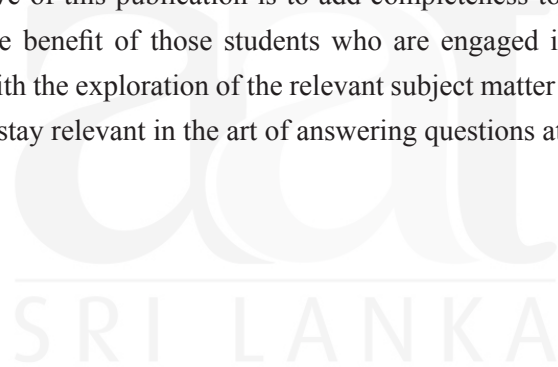
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The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.



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