



Association of Accounting Technicians of Sri Lanka

July 2020 Examination - Level I

Suggested Answers (104)

(104) BUSINESS ENVIRONMENT

Association of Accounting Technicians of Sri Lanka

No.540, Ven. Muruththettuve Ananda Nahimi Mawatha,

Narahenpita, Colombo 05.

Tel : 011-2-559 669

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level I Examination-July 2020

(104) BUSINESS ENVIRONMENT

SUGGESTED ANSWERS

(Total 40 Marks)

SECTION - A

Suggested Answers to Question One:

- 1.1 (3)-Foods
- 1.2 (3)-Easy to start
- 1.3 (2)-Life insurance
- 1.4 (1)-Employees
- 1.5 (1)-Government
- 1.6 (4)-All of the above
- 1.7 (2)-Central Bank of Sri Lanka
- 1.8 (2)-Credit Cards
- 1.9 (4)- All of the above
- 1.10 (3)(a) and (c) only
- 1.11 False
- 1.12 False
- 1.13 True
- 1.14 False
- 1.16
1. Being an economic activity
 2. Purchase, sale or exchange
 3. Motivated by Profit /Profit
 4. Risk and uncertainty
 5. Creation of needs or creativity
 6. A continuous process
 7. Customer Satisfaction
 8. Growth and Expansion
 9. Dealing in number of transactions
 10. Managing human resources



1.17 Ways that a cheque can be Dishonoured

1. When the Drawer has stopped payment from the Bank Account
2. When the cheque is not written properly
3. When the account is closed
4. When the cheque is blurry and unclear
5. Where the drawer dies
6. Where there are insufficient funds in the account

- 1.18**
1. Drawer - Account Holder
 2. Drawee - The Bank which maintaining the account
 3. Payee - The person who has the name on the cheque, the receiver.

- 1.19**
1. Enabling Environment
 2. Modern Appropriate Technology
 3. Entrepreneurial Culture and Skills Development
 4. Access to Finance
 5. Market Facilitation
 6. Research and Development
 7. Resource Efficiency
 8. Regional Balance

- 1.20**
1. Ensuring customer confidence in the business
 2. Able to compete successfully
 3. Financial efficiency
 4. Strengthening industrial relations in the business
 5. Ensure existence of the business by providing quality goods and services
 6. Secure Intellectual Property
 7. Goodwill of the business is being improved

(02 marks each, Total 20 marks)

Suggested Answers to Question Two:***Chapter 1-II part-Business Organizations*****(a) Characteristics of sole proprietorship.**

Ownership	Owned by a person
Capital	Capital is provided by the owner alone
Administration and decision making	Business is administered by the owner or under his supervision. Therefore, business decisions are made by the businessman himself.
Liability	There is a limited liability. That is, he has to sacrifice his personal property to pay off external debt.
Separate Legal personality	No separate legal personality. Can do the business only under the name of the businessman's personal name
Registration	Registration is not mandatory. Any business other than in owner's name should be registered with the Business Registration Office of the Provincial Council in terms of the Business Names Ordinance No 6 of 1918 as per the business name statute of the respective Provincial Council.
Tax Payment	Taxes should be paid personally in the name of the businessman. Taxes cannot be paid in the name of the business.
Accounting and Auditing	Accounting and auditing are not mandatory. They can be maintained for efficient use of funds
Going Concern (Continuity)	There is no going concern

(04 Marks)***Chapter 3-Business Support Services*****(b) Qualities of Effective Communication**

1. Completeness
2. Brief
3. Consideration
4. Concreteness
5. Politeness
6. Correctness
7. Secret/Safety
8. Low Cost
9. Availability
10. Speed

(03 Marks)

(c) **Risks that a person can insure**

1. The risk of his own life
2. Potential Risk from Accidents
3. Fire and damage to buildings and other assets
4. Fire damage to buildings and other assets
5. Damage caused by vehicle accidents
6. Damage to online cash and safe money
7. Risk of non-receipt of credit from a debtor

(03 Marks)
(Total 10 Marks)

Suggested Answers to Question Three:

Chapter 4 – Trade in the Business Organization

(a) **Differences between local trade and foreign (International) trade**

Feature	Local Trade	International Trade
Legal system	single country – single legal system	Multi country – different legal systems
Currency	Single currency	Multiple currencies
Taxation	Local trade taxes only (VAT, NBT, etc.)	Local trade taxes and international trade taxes (custom duty, CESS, PAL, etc.)
Trading rules	Relatively simple	Complex
Payment methods	Cash or cash equivalents	Relatively complex such as Letter of Credit

(02 Marks)

(b) **Benefits that could be achieved through foreign trade**

More profit opportunities:

The domestic market may have a limited number of customers and hence the business may not be able to earn much profit by selling required volumes of goods and services.

Access to Raw Materials and Services:

All the raw materials and services required by the business may not be available within the country.

To have access to the right and high-quality raw materials at the lowest cost, they need to take part in international trade.

Competitive advantage:

When the local market is not much attractive for business, international market will be affected for new businesses. The businesses earn competitive advantages.

Tax benefits:

Most of the companies have given special concessions for the businesses who export goods and services since they earned foreign currency for the economy.

Access to global markets:

You not to manage the uncertainty in the domestic market and diversify the business opportunities, businesses may seek global market opportunities.

Specification:

Foreign trade leads to specification and encourage production of different goods in different countries. Goods could be produced at a comparatively low cost.

Exchange of Technical know-how:

Sri Lankan industries can develop technical know-how imported from developed countries. This helps in the development of the country and the economy of the world at large.

Increase in efficiency:

Due to international competition a country attempt to produce better quality goods at minimum price. This helps to increase efficiency.

(06 Marks)

Chapter 1 – II – Business Organizations

(C) Advantages of incorporating the company as a public limited company

1. To be able to make great capital
2. Limited shareholder liability
3. There's a going concern
4. Separate legal personality
5. Easy to obtain debt capital / Debentures to be issued publicly
6. Shares are freely transferrable
7. Can get listed in stock market
8. To achieve economies of scale by engaging in large scale business activities
9. Management becomes efficient since management is done by the board.
10. Recruit talented managers at higher salaries to do business / mobilize top level human resources.
11. Increase in liquidity.
12. Various tax incentives.
13. Make it easy to attract investors.

(02 Marks)

(Total 10 Marks)

Suggested Answers to Question Four:

Chapter 07-Contribution of Entrepreneurship

(a) Skills required by an entrepreneur

Leadership skills

The leader of an entrepreneur's business is himself. There are employees or followers in the business. This skill reflects the motivation and motivation of followers to work diligently and courageously to get their work accomplished.

Interpersonal skills

An entrepreneur's ability to maintain a good working relationship with insiders and outsiders is a key to success or the ability to work with all stakeholders to focus on their work.

Communication skills

Ability to use information that can serve a purpose or to achieve own objectives by giving information available, in a manner that makes others aware of it.

Basic management skills

Completing skills in basic management functions such as planning, organizing, directing and controlling.

Creativity

If somebody does the same thing, he won't be able to get better results. Entrepreneur must try new things to find for the best work.

Willingness to learn

An entrepreneur should update the changes in technology, change in industry, sales processes, etc, and always seeks knowledge.

Risk taking

In order to achieve the creativity, an entrepreneur must have great ideas and plans and he should take the risks when implementing. That ability is required as an entrepreneur.

(04 Marks)

(b) Benefits of Entrepreneurship

1. Provide opportunities to make the best use of individual skills.
2. Make a higher commitment and lead to higher returns.
3. A person's social acceptance / social status and reputation.
4. To have a high standard of living.
5. Personal financial capability and benefits.
6. Increased emotional satisfaction.
7. Opportunity to demonstrate new creativity.
8. Opportunities to implement their ideas.
9. Provide opportunity for initiatives.
10. Ability to make free decisions.
11. Being able to take the lead instead of following others

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12. Being able to create an environment where people can live freely and comfortably because of their independence.

Corporate Benefits of Entrepreneurship

1. Expansion of business
2. Being able to easily compete to the rivalry
3. To be able to expand the market share
4. To be able to expand the business continuously
5. Ensuring the existence of the business
6. Potential to increase profitability
7. Become the best in the industry
8. Become a satisfactory organization that able to fulfill its social obligations
9. Being able to be recognized by the government
10. To be a safe institution in society

Social and Economic Benefits of Entrepreneurship

1. Generate new employment opportunities
2. Provide opportunities for the consumption of new revenue and services
3. Provide opportunities for the consumption of new goods and services
4. Using local resources for production
5. Development of new markets
6. Increase the standard of living of the people
7. Increasing economic growth
8. Increasing the national product
9. Leading to Sustainable Economic Development
10. Improving the quality of products
11. Creating fair competition
12. Reduce poverty

(04 Marks)
(Total 10 Marks)

Chapter 06-SMEs as a Backbone of an Economy

(C.) Factors for Failure of SME

- Financial problems.
- Inability to face the competition in the market.
- Weak points in management.
- Less entrepreneurial skills.
- Insufficient infrastructure facilities.
- Less awareness of modern technology.
- Due to high competition from large organizations.
- Poor planning.
- Lack of management skills.

- Low quality.
- Changes in government policies.
- There is no relationship among customers and suppliers.
- Lack of financial discipline.
- Bankruptcy of main Customer or Supplier
- Poor working capital management.

(02 Marks)
(Total 10 Marks)

Suggested Answers to Question Five:

Chapter 2- Business environment and its effect on business organizations

(a) Opportunities of globalization

Free Trade - Free trade is a policy in which a country does not levy taxes, duties, subsidies or quota on the import/export of goods or services from other countries. There are countries that have resolved to free trade in specific regions. This allows consumers to buy goods and services, comparatively at a lower cost.

New Markets - The opportunities for new markets has increased dramatically. Numerous companies have started investing in different countries and luring customers for their brands. These ever-expanding markets have helped countries to raise capital in terms of foreign domestic investments, thus improving the economy of the country.

Cheap labour- Most of the developing countries have labour at a lowest rate than the developed countries. Hence, many businesses use these labour recourses for their production through Outsourcing, Offshoring business practices.

Expanding the operations - Many companies have opportunities to expand its business and operations through mergers, acquisitions, joint ventures, licensing, franchising or forming multinational companies.

(04 Marks)

Chapter 5-Influences of the Government to Business, the Importance of Business Ethics and Social Responsibility of a Business

(b) Areas of Social Responsibility

1. Social Responsibility towards the society
2. Social Responsibility towards Consumers
3. Social Responsibility towards Employees
4. Social Responsibility towards Investors

(02 Marks)

(c) Advantages

- Social support for doing business
- Having a good social environment gives businesses the input and market they need.
- Lack of government control as it fulfills social responsibility
- Increasing interdependence among business-friendly sectors
- Able to attract potential stakeholders
- Improving the image of the business

Suggested Answers to Question Six:

Chapter 1-II- Business Organizations

(a) **Advantages of a limited liability company**

1. Ability to maintain the rights of relatives in the family
2. Ability to retain control of the company among a limited number of people
3. Ability to share profits among a limited number of people
4. Ability to raise more capital
5. Liability is limited
6. Being a legal personality
7. Lack of legal impact compared to public companies
8. There is a continuity of business (Going Concern)
9. Effective management of the board by management
10. Ability to perform most of the work of the company without holding any unanimous resolution of all the shareholders
11. Ability to distribute dividends to shareholders without a credit test
12. Various tax incentives

Disadvantages of Private Companies

1. There is less capital mobilization compared to public companies
2. The stock market cannot be documented / cannot be an official listed company.
3. Unable to transfer the shares freely
4. To comply with the legal requirements of the Companies Act
5. Incorporation can be complex and costly
6. High Cost of Administration

(04 marks)

Chapter 1-II- Business Organizations

(b) **Documents required to be submitted for the incorporation of COCONUT MART**

1. **The Articles of Association** -Document showing information relating to the objectives of the company, the rights and obligations of the shareholders, management and administration.
2. **Statement on Company Name** -A statement stating that the company name is not identical or similar to the name of an existing company
3. **Consent of Directors** - List of those who were willing to serve as founding directors
4. **Consent of Secretary/Secretaries** - Document expressing consent to serve as founding secretary.

(Note-listing down any two would be sufficient)

(02 marks)

Chapter 2- Business environment and its effect on business organizations

(c) COCONUT MART using SWOT Analysis

SWOT Analysis is the technique of analyzing strengths, weaknesses, opportunities, and threats within a business environment.

Identification of internal and external factors that make a favorable or adverse impact on achieving the objectives of an organization is included in SWOT analysis. If a business has set its objectives properly, it is appropriate to use SWOT analysis to achieve those objectives.

As per COCONUT MART the strengths, weaknesses, Opportunities and Threats can be stated as below.

Strengths

- This business is continuing for 30 years
- Mr. Jayasiri owner of COCONUT MART has an excellent entrepreneur leadership
- COCONUT MART is a well reputed export oriented business
- COCONUT MART considers Supply chain management and quality assurance

Weaknesses

- Due to the new management, well experienced and loyal management as well as factory staff are resigning
- Mr. Jayasiri is planning to retire
- Capital can't be expanded since this is a sole proprietorship

Opportunities

- Goods are sold to foreign markets, hence it is expanded to international market
- The government has introduced concessions

Threats

- Due to COVID 19 pandemic demand for product was reduced
- Significant drop in revenue
- Facing difficulty to get sufficient raw materials

(06 marks)

Chapter 3- Business Support Services

(d) Three reasons why an efficient transportation is important for COCONUT MART

- **Timely obtaining the materials as per the requirement**
Raw material could be obtained on time through efficient transport system, otherwise stocks could be hold unnecessarily
- **Timely obtaining the goods as per the requirement**
If an efficient transport system is implemented finished goods could be delivered to the

customers on time. As a result, customer satisfaction will increase

- **Continuously distribute products to the customer**

If the country has an efficient transport system it facilitates to deliver the goods continuously, built to improve relationships with customers and improves loyalty of the business

- **Expanding its market**

Market could be reached through efficient transport system and the costs on transport also could be reduced.

- **To get the staff to attend work on time**

Staff member could attend the work without delay and it results to increase their efficiency

- **To maintain the business connections**

Business connections could be improved through efficient transport systems

(06 marks)

Chapter 4- Trade in the Business Organizations

(e.) Two new trend in trade

- Technology orientation:
- One roof solution:
- Extended business hours:
- Extended market:
- Enhanced customer service:
- Outsourcing
- Online Business

(02 marks)

(10 marks)

End of Section C

Notice:

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