



**Association of Accounting Technicians of Sri Lanka**

**Level I Examination - January 2026**

**Suggested Answers**

**(104) BUSINESS ENVIRONMENT (BEN)**

**Association of Accounting Technicians of Sri Lanka**

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**(104) BUSINESS ENVIRONMENT**

**SUGGESTED ANSWERS**

**Twenty (20) Compulsory Questions  
(Total 40 Marks)**

**SECTION - A**

***Suggested Answers to Question One:***

1.1 (4)

1.2 (1)

1.3 (3)

1.4 (3)

1.5 (2)

1.6 (4)

1.7 (3)

1.8 (3)

1.9 (2)

1.10 (4)

1.11 True

1.12 False

1.13 True

1.14 True

1.15 False

1.16 A formal organization is a deliberately planned structure with defined roles, rules, authority, and responsibilities to achieve specific goals.

1.17 The following are the characteristics of good money:

- General Acceptance
- Durability



- Portability
- Divisibility
- Uniformity
- Scarcity (Limited in supply)
- Stability of value
- Difficult to counterfeit (Inability to print easily)
- Not subject to frequent cancellation

**[Note to the examiner: having presented only two answers is sufficient to award full marks, no explanation is needed, since the action verb is “state”]**

**1.18** The local trade and can be distinguished from foreign (international) trade in many different aspects as below

Local Trade	Foreign (International) Trade
• Takes place within one country	• Takes place between different countries
• Uses local currency	• Uses foreign currencies
• Governed by national laws	• Governed by international trade laws
• Simple documentation	• Complex documentation
• Relatively easy regulations	• Complex regulations and practices

**[Note to the examiner: having presented only two answers is sufficient to award full marks, no explanation is needed, since the action verb is “state”]**

**1.19** The stakeholders of an organization may include

- Owners (Shareholder)
- Management
- General Public
- Employees
- Government
- Customers
- Creditors
- Suppliers

**[Note to the examiner: having presented only two answers is sufficient to award full marks, no explanation is needed, since the action verb is “state”]**

**1.20** The internal factors affecting the failure of SMEs include the below:

- Poor management and leadership
- Lack of financial management and control
- Inadequate planning and strategy
- Poor record keeping
- Lack of skilled employees
- Inefficient operations
- Poor marketing decisions
- Weak internal controls
- Lack of innovation
- Poor decision making

**[Note to the examiner: having presented only two answers is sufficient to award full marks, no explanation is needed, since the action verb is “list”]**

*(02 marks each, Total 40 marks)*



*End of Section A*

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

***Chapter 01: Business Organizations and Related Concepts***

**(a)**

**(1) Being an economic activity:**

A business organization has an objective or set of objectives. To achieve these objectives, organizations have limited resources. Therefore, economic activity takes place in any business organization. Accordingly, DK Juice Bar has an economic activity.

**(2) Purchase, sale or exchange:**

The primary purpose of a business is to buy and sell (trade). DK Juice Bar sells fruit juice and materials are purchased to produce fruit juice.

**(3) A continuous process:**

A business is not a one-time operation. It is an ongoing process of producing and distributing goods and services. It is a process that continues to grow and increase profitability in a number of business ventures.

**(4) Motivated by Profit / Profit:**

The indicator that shows the success of a business is profitability. The primary goal of a business is to earn maximum profits through the sale of goods and services. DK Juice Bar's intention is also to earn profit.

**(5) Risk and uncertainty:**

Risk is the uncertainty that exists against the achievement of business objectives. That is, the probability of not achieving the intended objectives. This is the nature of business. Such uncertainties, as well as risks, affect the various forces and conditions that prevail in the business environment.

**(6) Creation of needs or creativity:**

This means being a unit of innovation to adapt to changing business environments. Businesses can be identified as units that create products for human needs. It is characteristic of the business that it determines which products its customers want, how to produce them and when it is needed.

Therefore, **DK Juice** can be classified as a business.

***(03 marks)***

**(b) A sole tradership and partnership can be distinguished as follows:**

Basis	Sole Proprietorship	Partnership
<b>(i)</b> Ownership	<ul style="list-style-type: none"> <li>Owned by a single individual (Proprietor)</li> </ul>	<ul style="list-style-type: none"> <li>Owned by two or more persons (Partners)</li> </ul>
<b>(ii)</b> Profit and Losses	<ul style="list-style-type: none"> <li>Profits and losses are borne by the owner alone</li> </ul>	<ul style="list-style-type: none"> <li>Profits and losses are shared among partners according to the agreement</li> </ul>
<b>(iii)</b> Management	<ul style="list-style-type: none"> <li>Managed and controlled by the owner</li> </ul>	<ul style="list-style-type: none"> <li>Managed jointly by partners or as agreed</li> </ul>

**[Note to the examiner: the differences shall be stated strictly for the above three criteria only. No lengthy explanation is essential.]**

**(03 marks)**

**(c) A private limited company may have several advantages compared with a partnership as below:**

Feature	Explanation
<ul style="list-style-type: none"> <li>Limited liability</li> </ul>	Shareholders' liability is limited to their investment, unlike partners who have unlimited liability.
<ul style="list-style-type: none"> <li>Separate legal entity</li> </ul>	The company is legally separate from its owners, whereas a partnership is not.
<ul style="list-style-type: none"> <li>Continuity of existence</li> </ul>	A private limited company continues even if shareholders change, unlike a partnership which may dissolve.
<ul style="list-style-type: none"> <li>Easier capital raising</li> </ul>	Can raise funds by issuing shares.
<ul style="list-style-type: none"> <li>Higher credibility</li> </ul>	More trust from banks, suppliers, and investors compared to partnerships.

**[Note to the examiner: Any four relevant answers are sufficient to award full marks. No explanation is required since the action verb is "state".]**

**(04 marks)**

**(Total 10 marks)**

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

### ***Chapter 03: Business Support Services***

**(a)** There are different types of insurance policies that Anushka may consider. The purpose and need of the insurance may differ based on the business priorities. Such insurances may include the below:

- (i) Fire insurance
- (ii) Marine insurance
- (iii) Burglary / Theft insurance
- (iv) Machinery breakdown insurance
- (v) Employer's liability / Workmen's compensation insurance
- (vi) Public liability insurance
- (vii) Credit insurance
- (viii) Motor insurance
- (ix) Life insurance

**[Note to the examiner: Any two insurances are sufficient to award full marks. No explanation is essential since the action verb is "state"]**

**(02 marks)**

**(b)** There are different principles which govern the insurance, as below:

- (i) Utmost good faith
- (ii) Insurable interest
- (iii) Indemnity
- (iv) Subrogation
- (v) Contribution
- (vi) Proximate cause

**[Note to the examiner: Any two principles are sufficient to award full marks. No explanation is essential since the action verb is "state"]**

**(02 marks)**

(c) Insurance is important for Anushka's Business as well as economic development. The reasons for this importance is explained as below:

**Insurance is important to Anushka's business due to the following reasons:**

- Protection: insurance provides financial protection against unexpected losses, reducing business risk and uncertainty.
- Business continuity: insurance ensures the continuity of business even operations after accidents or disasters by mitigating the damages.
- Supports investments: Insurances encourages large-scale investment in machinery and exports by priving an assurance on the compensation against certain losses.
- Trust and credibility: insurance improves creditworthiness when obtaining bank loans since they can be used as a source of guarantee in certain instances.
- Assurance to employees and management: insurance protects employees and management from financial hardship in certain difficult circumstances.
- Strengthening growth: insurance promotes investment and entrepreneurship, supporting the economic growth and supports industrial growth and economic expansion.
- Facilitating wider market access: insurance facilitates international trade and exports via providing covers against certain losses.
- Employment growth: insurance generates direct and in direct employment opportunities.
- Financial contribution: insurance mobilizes long-term savings for national development and supports the financial system stability.

**[Note to the examiner: Having presented three factors under each category with a small explanation is essential to award full marks.]**

**(06 marks)**

**(Total 10 marks)**

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

### ***Chapter 04: Trade in Business Organizations***

#### **(a) Factors to be considered for an effective logistics system**

- Availability of transportation facilities
- Cost of transportation
- Distance and location
- Time management
- Warehousing and storage facilities
- Handling and packaging
- Inventory management
- Infrastructure facilities
- Documentation and compliance
- Risk management and insurance

**[Note to the examiner: Any three factors are sufficient to award full marks. No explanation is essential since the action verb is “state”]**

***(03 marks)***

#### **(b) Tharindu may experiences certain disadvantages if the distribution channels are not managed properly. Some of those disadvantages may include:**

- **Increase in distribution costs** due to inefficiencies, resulting in a negative impact on the profitability.
- **Delays in delivery**, causing customer dissatisfaction resulting in a risk of losing the market share.
- **Damage or deterioration of goods**, especially spices due to the low quality warehousing or delivery facilities, resulting in negative customer feedback.
- **Loss of overseas buyers and market reputation** resulting negatively on the brand name.
- **Poor coordination with intermediaries**, increasing the cost of supply chain, ultimately resulting negatively on the market channels and profitability.
- **Higher inventory holding costs**, due to damages and delays resulting in loss of profitability.
- **Reduced competitiveness in international markets**, due to negative customer experiences, ultimately impacting on the long market standing.
- **Lower profits** due to wastage and inefficiency and due to increased cost of logistics, threatening the survival of the business.

**[Note to the examiner: Any three factors are required to be explained in short for their cause-effect. Explanation is essential for awarding full marks]**

***(05 marks)***

- (c) A **unilateral trade agreement** is a trade arrangement where **one country grants trade benefits** (such as tariff reductions or market access) **to another country without expecting reciprocal benefits** in return.

**Example:** A developed country allowing duty-free access to imports from a developing country.

[Note to the examiner: Any similar answer, explaining the context is required to award full marks]

(02 marks)

(Total 10 marks)

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

***Chapter 07 : Contribution of Entrepreneurship***

***Chapter 05 : Influences of the Government to Business, Importance of Business Ethics and Social Responsibility of a Business.***

- (a) **Ways to enhance the performance of Lanka Crafts as an SME in Sri Lanka**

- Improving product quality and design to compete with imported goods
- Using modern technology and tools in production
- Providing training and skill development for employees
- Effective cost control and financial management
- Developing strong branding and marketing strategies
- Expanding online and export markets
- Accessing government incentives and SME support schemes
- Improving productivity and efficiency
- Strengthening supplier relationships
- Encouraging innovation and creativity

[Note to the examiner: Any three ideas are sufficient to award full marks. No explanation is essential since the action verb is “state”]

(03 marks)

- (b) **Ways how the government influences businesses**

- (1) Influence of the Government on Business as a Customer.
- (2) Influence of the Government on Business as a Competitor.
- (3) Influence on businesses as a provider of infrastructure and essential services.
- (4) Influence of Government as a Regulator.
- (5) Influence of Government on Business as an Encouragement Provider.
- (6) By providing financial support facilities, the government supports business development.

Mark should be awarded for the following also

- Tax policies (tax concessions, VAT, income tax)
- Trade policies (import duties, export incentives)
- Labour laws and regulations
- Training and development programs for SMEs
- Financial support schemes (loans, grants, subsidies)
- Licensing and registration requirements
- Environmental regulations
- Infrastructure development (roads, ports, utilities)
- Monetary and fiscal policies
- Price controls and standards

**[Note to the examiner: Any three ideas are sufficient to award full marks. No explanation is essential since the action verb is “state”]**

**(03 marks)**

**(c)**

**(1) Responsibility towards the Society:**

A business social responsibility towards society involves acting ethically and contributing to common well-being beyond profit, focusing on environment protection, ethical operations, etc.

**(2) Responsibility towards the Consumer:**

A businessman needs to be trustworthy, free from fraud, fair and reasonable. Businessmen need to follow the below mentioned steps to do so:

- Providing accurate information about goods and services
- Provision of goods and services without altering
- Price and other activities as promised
- Providing quality products to customers

**(3) Social Responsibility towards Employees**

Businesses must ensure employees' safety, health, and equality. Social responsibility to employees can be fulfilled by:

- Taking measures to improve employer-employee relationships.
- Conducting business ventures in a positive manner.
- Focusing on employees' personal goals.
- Protecting equality of work.
- Adopting a safety program to ensure occupational safety and a healthy environment.
- Compensating for accidents and diseases.
- Implementing insurance policies for risk cover.

**(4) Social Responsibility towards Investors**

Managers are responsible for making a reasonable return on the money of owners, shareholders, and other funders. Managers must also ensure that resources are not misused and are managed in an efficient and transparent manner.

*(04 marks)*

*(Total 10 marks)*

*End of Section B*



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

***Chapter 02 : Business Environment and Its Effects on Business Organization***

***Chapter 03 : Business Support Services***

***Chapter 07 : Contribution of Entrepreneurship***

**(a) SWOT Analysis of Jayalath Exports (Pvt) Ltd.**

**Strengths**

- Long business experience since 1998 in the spice industry
- Exporting value-added and processed spices
- Private Limited Company status with limited liability
- Established international markets in Europe and Asia
- Investment in modern packaging and international certifications
- Strong relationships with smallholder farmers
- Use of digital platforms and e-commerce

**Weaknesses**

- High cost of production due to inflation and raw material shortages
- Dependence on agricultural yields affected by climate change
- High logistics and shipping costs
- Exposure to foreign exchange shortages
- Dependence on external transport and port efficiency

**Opportunities**

- Growing global demand for organic and sustainable Sri Lankan spices
- Expansion through digital trade and e-commerce platforms
- Market diversification into new countries
- Value addition through branding and product innovation
- Support from trade agreements and export promotion schemes

**Threats**

- Strong competition from India, Vietnam, and other spice exporters
- Global disruptions such as pandemics and geopolitical issues

- Climate change and irregular weather patterns
- Frequent policy changes in Sri Lanka
- Exchange rate volatility

**[Note to the examiner: At least two factors under each aspect shall be assessed. Answer can be considered for full marks based on the strength of the assessment.]**

**(06 marks)**

**(b) Ways how the global business environment impacts on Jayalath Exports (Pvt) Ltd.**

- **Global economic conditions** – Inflation, recessions, or growth in global markets affect demand, prices, and profitability of spice exports.
- **International trade disruptions** – Events such as pandemics or geopolitical conflicts cause shipping delays and higher logistics costs.
- **Foreign exchange rate fluctuations** – Changes in exchange rates affect export earnings and cost of imported inputs.
- **Global competition** – Strong competitors from countries like India and Vietnam influence pricing and market share.
- **International standards and regulations** – Requirement for quality certifications and food safety standards increase compliance costs.
- **Global demand trends** – Rising demand for organic and sustainable products creates new opportunities.

**[Note to the examiner: Any two areas with short explanation is required to award full marks.]**

**(04 marks)**

**(c) Elements of a transport system required for Jayalath Exports (Pvt) Ltd.**

- Transport infrastructure (roads, ports, warehouses)
- Modes of transport (road, sea, air)
- Power
- Terminal

**(03 marks)**

**(d) Advantages of an effective transportation system for Jayalath Exports (Pvt) Ltd.**

- Ensures timely delivery of goods to international buyers
- Reduces transportation and handling costs
- Maintains quality of exported spices
- Improves customer satisfaction and reputation
- Enhances export competitiveness

**[Note to the examiner: Any three appropriate advantages can be considered for full marks. Explanation is not required since the action verb is “state”.]**

**(03 marks)**

**(e) Social and economic benefits of entrepreneurship**

- Creation of employment opportunities
- Increase in national income and export earnings
- Encourages innovation and value addition
- Promotes regional and rural development
- Improves living standards of people
- Drive the economic growth
- Improve the quality of product
- Reduce poverty
- Create fair competition
- Lead to sustainable economic development

**[Note to the examiner: Any four benefits can be considered for full marks. Explanation is not required since the action verb is “state”.]**

**(04 marks)**

**(Total 20 marks)**

*End of Section C*

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These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”. 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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