Association of Accounting Technicians of Sri Lanka

Level I Examination - July 2026

Question Paper and Suggested Answers

(1604) BUSINES ENVIRONMENT (BEN)

Association of Accounting Technicians of Sri Lanka

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

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(1604) BUSINES ENVIRONMENT

SUGGESTED ANSWERS

Twenty (20) Compulsory Questions
(Total 40 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (2)

1.2 (3)

1.3 (2)

1.4 (1)

1.5 (1)

1.6 (3)

1.7 (4)

1.8 (4)

1.9 (2)

1.10 (1)

1.11 True

1.12 False

1.13 True

1.14 False

1.15 False

1.16
- Risk-taking ability.
- Innovative and creative thinking.
- Self-confidence
- Flexibility
- Independence
- Motivated
- Vision
- Leadership
- Decision-making abilities
- Commitment and dedication
- Opportunity seeking
- Perceptive

1.17
- Treasury Bills
- Bills of Exchange
- Certificates of Deposit
- Commercial Paper
- Call Money
- Purchase Agreements

1.18
- Paying taxes to government.
- Creating employment opportunities.
- Producing goods and services
- Earning foreign exchange through exports
- Investment
- Minimizing the damage to the environment.
- Contributing to employment
- Use of local resources

1.19
- Commercial Invoice
- Bill of Lading
- Letter of Indemnity
- Certificate of Origin
- Insurance Certificate
- Performa Invoice
- Sanitary Certificate

1.20 A sustainable environment is one in which natural resources are used responsibly to meet present needs without reducing the ability of future generations to meet their own needs. It promotes environmental protection, efficient resource utilization, and reduction of pollution.

(02 marks each, Total 40 marks)

End of Section A

(Total 40 Marks) **SECTION - B**

Suggested Answers to Question Two:

Chapter 02: Different Types of Organizations

(a) Partnership
Private Limited Company

(02 marks)

(b) ***Key features of a partnership:***

(i) Ownership carried out by two or twenty people carrying on business together.
(ii) Partners share profits and losses according to the partnership agreement.
(iii) Partners have unlimited liability for business debts.
(iv) The business is managed jointly by the partners.
(v) Partnership is created through a partnership agreement.
(vi) Income tax is not payable in the name of business and partners have to pay their taxes individually
(vii) Accounting and auditing are not mandatory.
(viii) Registration is not compulsory if the registration is maintained in the names of all partners.
(ix) There is no legal personality and must appear in the name of partner's in-front of law.
(x) There is no going concern.

Key Features of Private Companies.

(i) The ownership can be represented by minimum one to maximum 50 shareholders
(ii) Every shareholder represents the ownership by the number of shares they own.
(iii) The management of the company will be run by the Board of Direcotrs
(iv) The shareholders will have limited liability for the losses by the business.

(v) The company will be registered (incorporated) under the regulations of the Companies Act No. 07 of 2007 with the Department of Registrar General.

(vi) The distribution of profits is not compulsory and it is based on the determination by the Board of Directors, subject to the certain regulations such as solvency test.

(vii) The accounts and audit is compulsory as per the relevant legal provisions.

(viii) Taxes should be paid in the name of the company.

(ix) There is no going concern issue.

(x) When referring to the name of the company, the word private company, shall end in the words "(Private) Limited" or by the abbreviation "(Pvt) Ltd."

(xi) Dividends can be distributed at the consent of all shareholders without a test of credit ability.

(xii) A unanimous resolution of shareholders may prevent the board of directors from maintaining a contact register detailing its transactions with the company.

(04 marks)

(c) Mentioned below are some of the new trends in trade that can help business to reach customers efficiently.

(i) E-Commerce (Online Business)

The business can sell products through websites or online marketplaces. Customers can place orders anytime from any location, increasing market reach and reducing selling costs.

(ii) Social Media Marketing

Using platforms such as Facebook, Instagram and TikTok enables the business to advertise products, communicate with customers, receive orders and promote products at a relatively low cost.

(iii) Extended time or 24/7 businesses

In the present, some businesses open their sales offices for extended time and some of them open even the whole day, 24 hours and all seven days, so that the customers can visit them anytime. This is mostly suitable for FMCG retailers, restaurants, etc.

(iv) Automated and Customized services

The businesses are automating certain repetitive tasks like order management, delivery tracking, feedback, etc. so that they can provide fast, extended and customized service to the customers with minimum cost.

(v) Technology orientation

The usage of bar codes, quick response code usage of self-service kiosks, online inquiries and ordering, etc. Further, the new technology allows the customers to experience well customized facilities via smart phones.

(vi) Extended market

Opening many branches in order to cover many customers and enable the customers to visit their centers at any part of the country.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 03: Supportive Services to Businesses

(a) A business may require various supportive services as listed below:

(i) Banking services
(ii) Transport services
(iii) Warehousing and logistic services
(iv) Insurance Services

(02 marks)

(b) Better communication will be essential for Kasun Catering due to following reasons:

(i) Better Customer Service

Clear and fast communication helps receive accurate customer orders and reduces mistakes in deliveries.

(ii) Better Coordination

Employees can coordinate food preparation, delivery schedules and customer requirements efficiently.

(iii) Faster Decision-Making

Managers receive timely information, enabling quick decisions regarding orders, staff allocation and deliveries.

(iv) Better Management of Operations

Better communication will enable the management of Kasun Catering to manage its operations by better planning, organizing, directing and controlling, engaging with the internal and external parties.

(v) Optimizing the resource allocation

The resource allocation can be optimized for its benefits when the communication is facilitated to connect the right person at the right time.

(vi) Supporting performance evaluations

The communication is essential to measure the success and identify the factors which needs improvement, presenting the right data at the right time.

(06 marks)

(c) Every business may face different barriers for effective communication. Few of them are presented below:

- Physical factors
- System malfunctions
- Negative thoughts
- Phycological factors
- Language & cultural diversity
- Health disorders

(02 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 06: Contributions of Entrepreneurship and Small and Medium Enterprises (SMEs) to the Development of an Economy

(a) The differences between an entrepreneur and a manager are stated in the table below:

Feature	Entrepreneur	Manager
Ownership	Entrepreneurs are the owners of the businesses.	Managers are not owners, but works for the business.
Risk Taking	Take business risks, in their capacity as owners.	Have limited risk in line with their official duties.
Innovation and Creativity	Starting new business opportunities.	Manages existing operations.
Responsibility	Responsible for society and the government.	Responsible for the company owner's actions.
Power / Authority	Creates itself	Position is vested with authority.
Focus	Focus on opportunities.	Focus on business problems.

(03 marks)

(b) The factors affecting the failure of SMEs are listed below:

- Internal Factors
- Immediate Environmental Factors
- Macro Environment

(03 marks)

(c) Importance of SMEs to Sri Lankan economy.

- **Create Employment Opportunities**
  SMEs create employment opportunities, helping reduce unemployment and improve living standards.
- **Economic Development**
  SMEs contribute to national income, encourage entrepreneurship and support regional economic growth.
- **Opportunity for local industries**
  SMEs provide business opportunities for local manufacturers and labour by new start up and expansion.
- **Support for GDP Growth**
  The SMEs contribute to a considerable proportion of the GDP and their contribution has recorded a significant growth in the recent periods.
- **Mobilizing Domestic Savings**
  Mobilizing domestic savings is a process of capital formation. SMEs pool the capital from domestic sources to carry out the business activities. As such savings converted as an investment through which people are able to enhance their domestic income.
- **Poverty Alleviation:**
  As the SMEs started with a limited investment, it gives an opportunity to start up entrepreneurship at any level of people. It contributes to earning profit by entrepreneur as well as people are able to get employment opportunity through which the poverty level of people can be eradicated or reduced.
- **Income Distribution:**
  SMEs contribute for job creation. In particular, their role as major employers in the secondary labor market of absorbing semi-skilled and unskilled labor help those in the lowest income quartile to boost up earnings out of SME wages. This particular role extends to fighting social inequality especially in developing countries where there exists a wider gap in earning capacity among groups of the society.
- **Regional Development:**
  The role of SMEs in creating jobs also extends to poverty reduction this is the reason why SMEs continue to survive even where there is noticeable economic development. What

this means is that the poverty reduction role SMEs play is not confined to developing countries alone, it rather works in advanced economies as well.

- **Flexibility and ability to adapt to new economic milieu:**
  One unique characteristic of SMEs is their flexibility. It emanates from the fact that they are less capital intensive and more labor intensive, use mostly unskilled and semi-skilled labor and have a simple managerial structure amenable to change.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 03: Supportive Services to Businesses

(a) Advantages of using cheques rather than cash.

(i) Physically safer than carrying cash.
(ii) Provides documentary evidence of payment.
(iii) Convenient for making large payments.
(iv) Easy to maintain records via check counterfoils, cashbooks and bank statements
(v) Facilitates better planning and control
(vi) Possible to maintain a favourable relationship with the bank.

(03 Marks)

(b) Reasons why businesses use electronic money

(i) Speed and Convenience
Payments can be made instantly without physically visiting a bank.

(ii) Reduced Transaction Costs
Electronic payments reduce cash-handling costs and improve efficiency in business operations.

(iii) Coping with the global trends
It is always essential and beneficial for business to adopt the global practices which facilitates benefits and reliability.

(iv) Realtime updates
Electronic money facilitates real time updates without waiting for clearance, cash in transit or other delays.

(v) Enhanced security
Electronic payments reduce the need to handle cash, minimizing risk of theft, loss and fraud. They also provide secure authentication methods.

(04 Marks)

(c) Ways how a cheque can be dishonored.

(i) Insufficient funds in the account.

(ii) Signature differs from the specimen signature.

(iii) Alterations on the cheque without proper authentication.

(iv) Post-dated cheque

(v) Stale cheque,

(vi) Payment stopped by the drawer.

(vii) When the account is closed.

(03 Marks)

(Total 10 marks)

End of Section B

SRI LANKA

(Total 20 Marks) **SECTION - C**

Suggested Answers to Question Six:

Chapter 02: Different Types of Organizations

(a) The Features of Serendib AI (Pvt) Ltd, as a Private Limited Company

The features of Serendib AI (Pvt) Ltd can be discussed as below:

Features	Narration
(i) Ownership	• Owned by its shareholders (initially Tharindu and Sewwandi). • Ownership is represented by shares. • Ownership consists of the liability limited to the extent of their investment only.
(ii) Legal Status	• It is a separate legal entity from its owners. • The company can own property, enter contracts, sue and be sued in its own name. • The owners will not be held responsible for any business debts, unless they have given a personal guarantee in writing.
(iii) Management	• Managed by directors appointed by the shareholders. • Day-to-day activities are carried out by managers and employees under the direction of the board. • The management is subject to various provisions of the act and relevant regulations.

(03 arks)

(b) Assessment of the business environment

Chapter 01- Part II: Concepts of a Business, Business Environment, and its Effect on Business Organizations

Assessment of the business environment of Serendib AI (Pvt) Ltd. using PESTEL Analysis.

Factor	Assessment
(i) Political Factors	o Changes in government policies, taxes and approval procedures create uncertainty and may delay business operations.
(ii) Economic Factors	o Inflation increases operating expenses. o Exchange rate fluctuations increase the cost of importing computers and equipment.

Factor	Assessment
(iii) Social Factors	o Customers increasingly accept digital services. o Clients expect environmentally responsible business practices, influencing purchasing decisions.
(iv) Technological Factors	o The business depends heavily on internet connectivity, email, websites and mobile applications. o Power failures and internet disruptions negatively affect service quality.
(v) Environmental Factors	o Proper disposal of electronic waste is necessary. o Environmentally friendly practices improve the company's image.
(vi) Legal Factors	o Compliance with data privacy laws is essential. o Intellectual property laws help protect software innovations.

(06 Marks)

(c) Positive impacts of digitalization for Serendib AI (Pvt) Ltd.

Chapter 01- Part II: Concepts of a Business, Business Environment, and its Effect on Business Organizations

(i) Improved Operational Efficiency

Automation enables faster stock planning, report generation and customer support while reducing manual work.

(ii) Wider Market Reach

The website and mobile application allow customers throughout Sri Lanka and overseas to access services at any time.

(iii) Better Decision-Making

Real-time reports and AI-generated information help customers manage inventory efficiently, reducing waste and improving business performance.

(iv) Enhanced Customer Service

Via the usage of digital resources, fast, reliable and customized services can be provided to their customers.

(v) Optimized economic performance

Digitalization can enable multiple benefits to the business and hence it may result in cost reduction, increased profitability, enhanced sustainability and expanded supply chain relationships.

(vi) Work From Home and Virtual Meetings

It facilitates to work anywhere, and it results to do work without any issue in external environment.

(vii) Less use of Paper

The use of paper is generally reduced by digital documents, email and cloud storage, which contributes to waste reduction and forest conservation.

(06 marks)

(d) Benefits of social responsibility

Chapter 07: Importance of Business Ethics and Social Responsibility of a Business

Benefits of social responsibility for a business like Serendib AI (Pvt) Ltd.

(i) Builds customer trust and a positive corporate image.
(ii) Improves customer loyalty and business reputation.
(iii) Enhances long-term profitability and business sustainability.
(iv) Better employee morale
(v) Easier investor attraction
(vi) Improved relationships with regulators and the community
(vii) Acceptance by society and wider stakeholder group.

(03 arks)

(e) Reasons for the popularity of electronic trade.

Chapter 04: Trade in Business Organizations

Reasons for the popularity of electronic trade.

1. Customers can buy and sell products or services 24 hours a day from any location.
2. Electronic trade reduces operating costs and allows businesses to reach a larger market quickly.
3. Electronic trade eliminates the need for physical cash and related risks.
4. Electronic trade minimize the use of documents.
5. Market expansion.
6. Start up cost is low.

(02 Marks)

(Total 20 marks)

End of Section C

Notice:

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