



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2021

(104) BUSINESS ENVIRONMENT

14-03-2021
Afternoon
[02.00 - 5.00]

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time:** 03 hours. No. of Pages : 07
(2) **All questions should be answered.** No. of Questions : 06
(3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
(4) **State clearly assumptions made by you, if any.**
(5) **Action Verb Check List with definitions is attached. Each question will begin with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
(6) **100 Marks.**

SECTION A

Objective Test Questions (OTQs)

(Total 40 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.10. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Which one of the following, is an example for an informal organization?

- (1) Marketing Department. (2) Facebook chat group.
(3) Central Bank of Sri Lanka. (4) Ministry of Health.

1.2 Which one of the following is **not** a characteristic of a formal business?

- (1) Being an economic activity. (2) Involves a continuous process.
(3) There are no risk and uncertainty. (4) It is motivated by profit.

1.3 Which one of the following is the basis for classification of business organizations into private and public organizations?

- (1) Nature of Production. (2) Objective.
(3) Size. (4) Ownership.

1.4 Of the following, a situation which violates business ethics is:

- (1) Stealing information of a competitive business.
- (2) Issuing misleading messages.
- (3) Selling secret information of a business to an external party.
- (4) All of the above.

1.5 Which one of the following is **not** a benefit of Corporate Social Responsibility (CSR)?

- (1) It helps to attract potential stakeholders.
- (2) It improves the image of the business.
- (3) It has a conflict with the profit motive.
- (4) It develops customers' relations.

1.6 Consider the following statements regarding services:

- (a)** Services are intangible.
- (b)** Services can be stored and used later.
- (c)** It uses more labour to produce services.
- (d)** Production and consumption of a service occur simultaneously.

Of the above, the correct statements are:

- (1) **(a)** and **(b)** only.
- (2) **(c)** and **(d)** only.
- (3) **(a), (b)** and **(c)** only.
- (4) **(a), (c)** and **(d)** only.

1.7 Which one of the following is **not** a feature of a Joint Venture?

- (1) Participation of two or more parties.
- (2) Involves a long term project for a long term purpose.
- (3) Registration is not required.
- (4) There is no separate legal personality.

1.8 Of the following, who is **not** a participant in the Real Time Gross Settlement System?

- (1) Licensed Commercial Banks.
- (2) Central Bank of Sri Lanka.
- (3) Employees' Trust Fund.
- (4) Employees' Provident Fund.

1.9 Which one of the following is **not** a document required for the incorporation of a company?

- (1) Consent of Directors.
- (2) The Articles of Association.
- (3) Last year's Financial Statements.
- (4) Consent of Secretary / Secretaries.

1.10 Which one of the following is a reason for the failure of a Small and Medium Sized Enterprise (SME)?

- (1) Lack of management skills.
- (2) Developing an entrepreneurial culture.
- (3) Investment in research and development.
- (4) Sound working capital management.

*State whether each of the following statements from 1.11 to 1.15 is **True** or **False**. Write the answer (True/False) in your answer booklet with the number assigned to the question.*

1.11 Job security is an example for a want.

1.12 Maximum number of shareholders of a Public Limited Company is 50.

1.13 Psychological factors act as barriers for effective communication.

1.14 Liability of a sole proprietorship is limited.

1.15 A document by which general public is invited to take part in shares or debentures of the company is called a prospectus.

Write the answers for question No. 1.16 to 1.20 in your answer booklet with the number assigned to the question.

1.16 State two(02) basic features of a partnership.

1.17 Explain briefly, the meaning of "Sustainable Environment".

1.18 State two(02) objectives of the Government.

1.19 State two(02) steps that could be followed by an organization to meet the Corporate Social Responsibility (CSR) towards its employees.

1.20 State two(02) elements of a cheque. (02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

Business support services have become the most important aspect of businesses from small to large organizations. They help organizations to manage and solve the customers' requirements effectively and efficiently. These support services include money, insurance, communication, logistics and transportation.

You are required to:

- (a) **State** two(02) functions of money. (02 marks)
 - (b) **State** two(02) principles of insurance. (02 marks)
 - (c) **Explain** three(03) reasons why insurance is important for an business organization. (06 marks)
- (Total 10 marks)

Question 03

MN (Pvt) Ltd. (MN) is a large-scale local producer of bottled fruit jam. Its farms and production factory are located in the Southern Province. **MN** recently received an invitation from a supermarket chain in Maldives to supply jam bottles. The Managing Director of **MN**, **Mrs. Hemali**, is considering the possibilities of further improving the quality of the products and distribution channels of the company.

You are required to:

- (a) **State** three(03) disadvantages of an improperly managed distribution channel. (03 marks)
 - (b) **Identify** three(03) factors to be considered when selecting a good distribution channel. (03 marks)
 - (c) **Explain** two(02) reasons as to why a business needs to expand its operations globally. (04 marks)
- (Total 10 marks)

Question 04

Mr. Arjun, the Assistant Secretary to the Ministry of Education is planning to prepare a proposal to apply for an international grant of US Dollar (\$) 5 million to develop an entrepreneurial education within the Sri Lankan education system. **Mr. Arjun** understands the problems encountered when attempting to start a business. Further, he plans to encourage local and international organisations to lend a hand to these potential entrepreneurs to acquire resources.

You are required to:

- (a) **State** four(04) characteristics of an entrepreneur. (04 marks)
- (b) **Explain** three(03) reasons why entrepreneurship is important to Sri Lankan economy. (06 marks)
- (Total 10 marks)

Question 05

Dr. Gunadasa is a famous Ayurveda doctor in the Central Province since 1990. He owns a local Ayurvedic hospital in Kandy, which is managed by his elder son **Asiri**. Maintaining good customers' satisfaction is considered as the number one at their Ayurvedic hospital. Foreigners who visit Kandy are frequently visit the hospital for various ayurvedic treatments. **Asiri**, has just completed a Degree in Business Management and plans to expand his father's business further in the local and international markets.

You are required to:

- (a) **Identify** four(04) stakeholders of the above organization. (02 marks)
- (b) **State** four(04) actions that can be taken by the management of "Ayurvedic Hospital" to prevent environmental pollution. (04 marks)
- (c) **Explain** two(02) challenges faced by Small and Medium Sized Enterprises (SMEs) operating in Sri Lanka. (04 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Refresh Ltd. has a supermarket chain with 40 outlets in Western Province. These outlets sell fast moving consumer goods (FMCG) as well as fresh vegetables and fruits. The company owns three acres of farmyards in the Central Province and distributes its products from there to 40 outlets in the Western Province. **Refresh Ltd.'s** supermarket outlets sell both local and foreign branded goods to ensure that their customers' needs are satisfied. Most of the payments are made through cheques by **Refresh Ltd.**

Refresh Ltd. does not operate its own transport arrangement, instead it hires vehicles to transport fresh fruits and vegetables through an online app. The management believes that this arrangement helps them to minimise the costs of transportation. However, in many instances, outlet managers have complained about the low quality of service provided by these outsourced delivery vehicles drivers. In recent years, wastage of fruits and vegetables due to poor transportation has become a huge loss to the company. Therefore, the management is now planning to purchase two trucks to deliver their fruits and vegetables.

All the cashiers at **Refresh Ltd.** are equipped with swipe machines to accept debit and credit card payments. With COVID-19 pandemic, the management has planned to invest in developing the company's own website with online payment facilities. This would enable all the outlets of the company to connect via network with each other and to use the electronic communication options in their business operations. The newly recruited IT manager is planning to incorporate all supply chain activities in the planned website through an ERP system.

You are required to:

- (a) **Explain** three(03) ways by which **Refresh Ltd.** uses E-commerce to its business operations. (06 marks)
- (b) **Identify** four(04) advantages available to **Refresh Ltd.** through an efficient transportation system. (04 marks)
- (c) **State** three(03) qualities of a good transportation system. (03 marks)
- (d) **State** three(03) reasons to consider using cheques as more advantageous than using cash. (03 marks)
- (e) **State** four(04) examples for electronic communications that could be used by **Refresh Ltd.** (04 marks)

(Total 20 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.