



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2022

(104) BUSINESS ENVIRONMENT

28-08-2022

Afternoon

[02.00 - 5.00]

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

- (1) **Time:** 03 hours. No. of Pages : 06
- (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** The document by which an invitation is issued to the public to buy shares or debentures of the company is called as a:

- (1) Shares Certificate. (2) Prospectus.  
(3) Share warrant. (4) Incorporation Certificate.

**1.2** Which one of the following is **not** included in the M7 classification of business resources?

- (1) Men. (2) Methods. (3) Minutes. (4) Memory.

**1.3** Which one of the following is a quality of an Effective Communication System?

- (1) Completeness. (2) Speed. (3) Politeness. (4) All of the above.

**1.4** Which one of the following is a risk that a businessman can insure?

- (1) Losses in the future financial periods.
- (2) Damage due to inability to understand future market.
- (3) Potential risk from accidents.
- (4) Losses due to decisions of managers.

**1.5** A partner who contributes to capital of the partnership but does not participate in management affairs is known as:

- (1) Limited Partner.
- (2) Active Partner.
- (3) General Partner.
- (4) Nominal Partner.

**1.6** Which one of the following is **not** considered as a type of endorsement?

- (1) Blank endorsement.
- (2) Restrictive endorsement.
- (3) Special endorsement.
- (4) Unconditional endorsement.

**1.7** Which one of the following is an example for an instrument in capital market?

- (1) Ordinary shares.
- (2) Commercial papers.
- (3) Treasury bills.
- (4) Cheques.

**1.8** Which one of the following is **not** a characteristic of an entrepreneur?

- (1) Focusing on new business opportunities.
- (2) Inflexibility.
- (3) Innovative and creativity.
- (4) Ability to manage risk.

**1.9** Consider the following statements:

- (a)** Undermining employees' skills.
- (b)** Stealing business secrets.
- (c)** Confidential listening to telephone conversations.

Of the above, the situations that violates the business ethics are:

- (1) **(a)** and **(b)** only.
- (2) **(a)** and **(c)** only.
- (3) **(b)** and **(c)** only.
- (4) All of the above.

**1.10** Which one of the following is an internal factor that contributes to the failure of SMEs?

- (1) Inability to get financial support from the banks.
- (2) Bankruptcy of a main supplier.
- (3) Lack of managerial skills and insights.
- (4) Change in government policies.

*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** Organizations are having unlimited resources to achieve their objectives.

**1.12** A participant of Real Time Gross Settlement System is licensed commercial banks.

**1.13** Green entrepreneurship is a main trend in entrepreneurship.

**1.14** Drawee can make a general crossing of a cheque.

**1.15** A private limited company can issue shares to the public.

*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) differences between money market and capital market.

**1.17** State two(02) things to be considered when writing a cheque.

**1.18** Explain briefly the difference between a formal organization and an informal organization.

**1.19** State two(02) social and economic benefits of entrepreneurship.

**1.20** State two(02) factors contribute to the rise of woman entrepreneurship in Sri Lanka.

(02 marks each, Total 40 marks)

*End of Section A*

## **SECTION B**

(Total 40 marks)

### **Question 02**

**Chinthaka** and **Kithmina** are Architects by profession. They are interested in opening a shop of ornamental items with contribution of equal capital. Though **Chinthaka** is concerned about registering their business as a private limited company, **Kithmina** doesn't like it.

**You are required to:**

- (a) **State** a possible type of business organization, which **Chinthaka** and **Kithmina** can consider in starting their business other than a private limited company. (02 marks)
  - (b) **Explain** three(03) features of the business organization stated in (a) above. (06 marks)
  - (c) **State** two(02) disadvantages of the business organization stated in (a) above. (02 marks)
- (Total 10 marks)

### Question 03

**Jayanada** is having a steel fabrication workshop at Kaluthara. He buys steel required for different customer orders from Colombo. **Jayanada** normally makes cash payments to steel suppliers. He has a current account also in a leading commercial bank and sometimes, he issues post-dated cheques and open cheques to some steel suppliers.

**You are required to:**

- (a) **Explain** two(02) reasons why money is important to a business organization. (04 marks)
  - (b) **Identify** three(03) benefits available to a current account holder. (03 marks)
  - (c) **Explain** the difference between “a post-dated cheque” and “an open cheque”. (03 marks)
- (Total 10 marks)

### Question 04

**Giger Ltd.** is manufacturing flower pots mainly for the export market using coconut husk, a by-product from coconut production. At the start-up of this business, entire production processes were mainly done manually. However, with the passage of time, some processes were converted into machine intensive processes.

**You are required to:**

- (a) **State** three(03) main reasons for entering into the international trade. (03 marks)
  - (b) **Explain** two(02) ways how the government may support **Giger Ltd.** doing their business operations. (04 marks)
  - (c) **Explain** two(02) ways as to how **Giger Ltd.** may contribute to the development of the country. (03 marks)
- (Total 10 marks)

### Question 05

**Cake & Bake** is a cake shop engaged in manufacturing and selling cakes and other bakery items. It has 14 branches within Colombo and Gampaha districts. **Cake & Bake** is popular among its customers for its online ordering and delivery facilities. It has outsourced all its transportation requirements. Therefore, the selection of the transportation outsourced partner has become a critical decision for **Cake & Bake**, due to the nature of their raw materials and finished goods.

**You are required to:**

- (a) **State** three(03) advantages gained by **Cake & Bake** using a good transportation system. (03 marks)
  - (b) **Identify** three(03) elements of a transport system with an example each. (03 marks)
  - (c) **State** four(04) reasons for the popularity of the electronic trade. (04 marks)
- (Total 10 marks)

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*End of Section B*

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## **SECTION C**

(Total 20 marks)

### **Question 06**

**Richi Cookies** is a popular biscuit brand in Sri Lanka. **Richard Mudalige** started this cookie production in 1970s as a family business. **Renuka Mudalige**, the spouse of **Richard Mudalige** is the owner of the cookie recipes as she was baking cookies for their family and other friends as her hobby. Their friends encouraged them to start this business mainly due to the great taste of cookies of **Renuka Mudalige**. With that encouragement, they started the cookie business focusing grand hotels at that time. There are positive comments received on the biscuit brand from customers.

During the past decades, the business evolved as a popular biscuit brand in Sri Lanka. However, this evolution was filled with ups and downs when facing the changes in the business environment. Emergence of the open economy, issues with civil war, political instability & changes in government policies, impact of global economy, changes in attitudes and preferences of general public, etc. towards biscuit consumption are some of the external issues faced by them during the last five decades. Recently they are facing a problem to get required raw materials to the business. Most of the material used for these products are imported items and there is a shortage in the market due to dollar crisis.

On the other hand, **Richard Mudalige** and **Renuka Mudalige** are not having their own child to look after them and their business. They manage the business with limited number of employees who are very competent.

At present, **Richard Mudalige** and **Renuka Mudalige**, who are in their 80s are looking for a buyer to sell this business as they do not have an heir to hand over their business.

**You are required to:**

- (a) **Explain** the internal and external business environment of **Richi Cookies**. (06 marks)
- (b) **Assess** the business environment of **Richi Cookies** to be considered by a potential buyer using SWOT. (06 marks)
- (c) **State** three(03) determinants of distribution channel which can be considered by **Richi Cookies**. (03 marks)
- (d) **State** three(03) challenges faced by Sri Lankan SMEs. (03 marks)
- (e) **State** two(02) ways how **Richi Cookies** can support to achieve environmental sustainability. (02 marks)

(Total 20 marks)

End of Section C

## **ACTION VERBS CHECK LIST**

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

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

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

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