



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2024

(104) BUSINESS ENVIRONMENT

18-02-2024  
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.**

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**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 a disadvantage of a sole proprietorship?

- |                          |                                   |
|--------------------------|-----------------------------------|
| (1) Easy to start.       | (2) Quick decision making.        |
| (3) Unlimited liability. | (4) Minimum laws and regulations. |

**1.2** Which one of the following is **not** a main element of an organization?

- |                        |                                 |
|------------------------|---------------------------------|
| (1) A group of people. | (2) Having a common purpose.    |
| (3) A structure.       | (4) Having a written agreement. |

**1.3** Select the correct statement with reference to the Money Market:

- (1) It is a market for purely short-term funds.
  - (2) Its transactions are made in the Colombo Stock Exchange.
  - (3) Shares and debentures are main instruments in the money market.
  - (4) There are two sub divisions as primary market and secondary market.
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**1.4** Which one of the following is correct with reference to an entrepreneur?

- (1) He / She is an employee of the business.
- (2) He / She thinks traditionally.
- (3) He / She focuses on new business opportunities.
- (4) He / She cannot manage risk.

**1.5** Which one of the following is a determinant of distribution channel used by a business?

- (1) Nature of product.
- (2) Cost.
- (3) Distance.
- (4) All of the above.

**1.6** Balances in the current accounts of commercial banks are called as:

- (1) Bank money.
- (2) Near money.
- (3) Implicit money.
- (4) Electronic Money.

**1.7** Which one of the following is **not** a function of a commercial bank?

- (1) Issuing currency notes and coins.
- (2) Providing leasing facilities.
- (3) Providing overdraft facilities.
- (4) Accepting deposits.

**1.8** Consider the following statements:

- (a) Creating employment opportunities in the country.
- (b) Contributing to the gross domestic product of the country.
- (c) Represents a major part in the export market.

Of the above, the importances of SMEs are:

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

**1.9** Which one of the following is **not** a force in the task environment of a business?

- (1) Customers.
- (2) Competitors.
- (3) Economic Environment.
- (4) Suppliers.

**1.10** Which one of the following is **not** a factor of good transportation system?

- (1) Speed.
- (2) High cost.
- (3) Capacity.
- (4) Safety.

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** Registration is required for a joint venture.
- 1.12** Facing uncertainty is entrepreneurship.
- 1.13** Protection of equality of work is an action taken by a business for Corporate Social Responsibility (CSR) towards employees.
- 1.14** A document by which an invitation is issued to the public to buy shares or debentures of the company is called as a share warrant.
- 1.15** Skills shortage, poor management practices and limited workforce training are challenges faced by Small and Medium Size Enterprises (SMEs.).

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

- 1.16** Explain briefly “Standard of Value” as a function of money.
- 1.17** Explain briefly what is meant by “Utmost Good Faith” in insurance.
- 1.18** State two(02) challenges faced in women entrepreneurship.
- 1.19** List two(02) benefits of establishing and implementing a code of business ethics.
- 1.20** List two(02) functions of the Colombo Stock Exchange. (02 marks each, Total 40 marks)

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*End of Section A*

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## **SECTION B**

(Total 40 marks)

### **Question 02**

**Sunil** and **Nimal** live in Olugama. It is an area where mango plantation is done successfully. **Sunil** and **Nimal** thought of starting a mango business. Accordingly, they buy mangoes from Olugama and transport those to Colombo for wholesale trade. They are planning to operate this business in the name of **S & N Enterprises** as a partnership.

**You are required to:**

- (a) **Explain** four(04) characteristics of a partnership. (04 marks)
- (b) **State** three(03) disadvantages of a partnership. (03 marks)
- (c) **State** three(03) duties of a partner. (03 marks)
- (Total 10 marks)

### Question 03

**Srideva** acquired a small-scale tea factory at Thalawakele. He thought of converting this factory to produce a new tea product for the European market. With that intention, he converted the factory to have fully automated processes which enabled the production of high-quality instant tea leaves with different flavours for the export market. It is the belief of **Srideva** that having a good transportation is very essential for the smooth running and growth of his business.

**You are required to:**

- (a) **Explain** two(02) advantages of good transportation to **Srideva** as an exporter of tea in the European tea market. (04 marks)
  - (b) **State** three(03) advantages of using new technology to **Srideva's** business. (03 marks)
  - (c) **State** three(03) documents used in foreign trade. (03 marks)
- (Total 10 marks)

### Question 04

**Subhoda** is the Chief Accountant of **XYZ Ltd.** which is a rubber manufacturing company in Sri Lanka. According to the instructions of the Board of Directors of the company, **Subhoda** is searching a good insurance policy for their factory employees.

**You are required to:**

- (a) **Explain** two(02) advantages gained by **XYZ Ltd.** by having an insurance policy for its factory employees. (04 marks)
  - (b) **Explain** the term "Insurable Interest" with reference to the insurance policy of the factory employees. (03 marks)
  - (c) **Identify** three(03) criteria for accepting insurance as a risk. (03 marks)
- (Total 10 marks)

### Question 05

**Sumal Enterprise** which is importing sports equipment has its main branch in Main Street, Colombo. It is engaged in the wholesale business and its customers are in different parts of the country. **Sumal Mendis**, the owner of the business has allowed some customers to pay through credit cards and cheques as a strategy of retaining the customers. Further, he is planning to register for internet banking facility with his bank.

**You are required to:**

- (a) **State** four(04) characteristics of good money. (04 marks)
  - (b) (i) **State** two(02) examples of electronic money other than credit cards. (02 marks)  
(ii) **State** two(02) services that can be performed using the internet banking facility. (02 marks)
  - (c) **State** four(04) elements of a cheque. (02 marks)
- (Total 10 marks)

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*End of Section B*

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## **SECTION C**

(Total 20 marks)

### **Question 06**

**Siri Motor House (Pvt) Ltd.** is engaged in sale of brand new and used vehicles and it has four branches in Colombo, Kaluthara, Kandy, and Dehiwala operated as car sales. **Athula Siriwardene** started this business about four decades ago as a sole proprietorship. At that time, he had only Dehiwala car sale. Later, **Athula** incorporated the business as a Private Limited Liability Company, by appointing his wife, son, and himself as directors of the business. With that, **Siri Motor House (Pvt) Ltd.** was able to obtain loan capital from several financial institutions. Further, they entered into contracts with two leasing companies to provide leasing facilities to their customers.

During the recent three-year period, they faced different issues with the Covid-19 pandemic, the easter attack, and the economic crisis resulting from the political instability in the country. All vehicle imports were banned by the government in March 2020. This has resulted increasing the cost of used vehicles in the country by 100% or more. With the increased living cost, drastic decrease of sales were evident in car sales of the **Siri Motor House (Pvt) Ltd.** **Athula** had to request from the financial institutions to re-schedule their loan facilities. The staff of all car sales were reduced and for several months, the salaries of the remaining staff were paid from the personal savings of **Athula**, due to “no sales” at any car sales.

As a survival strategy, **Shanaka**, the son of **Athula Siriwardene**, who is also a director of the company, came up with the idea of starting a “Vehicles Re-modeling” business. They targeted the owners of the vehicles who want to change their vehicle but who cannot go for a new vehicle due to import restrictions and/or who do not have enough money due to the economic crisis. This survival strategy emerged as a success with the creative ideas of **Shanaka** who had contacts with small-scale automobile re-engineering companies, enabled them to have easy access to necessary skills, expertise and required spare parts and components.

**You are required to:**

- (a) **Identify** four(04) possible advantages that **Siri Motor House (Pvt) Ltd.** can enjoy as an incorporated company. (04 marks)
- (b) **Assess** the business environment of **Siri Motor House (Pvt) Ltd.** using PESTEL analysis. (06 marks)
- (c) **State** three(03) reasons as to why an organization needs to fulfill its responsibilities towards stakeholders. (03 marks)
- (d) **State** three(03) ways in which the government influences businesses. (03 marks)
- (e) **Explain** how “the creativity” has helped **Siri Motor House (Pvt) Ltd.** for success of the business. (04 marks)

(Total 20 marks)

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*End of Section C*

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## **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.