



Association of Accounting Technicians of Sri Lanka

Level I Examination - January 2021

Suggested Answers

(104) BUSINESS 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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(104) BUSINESS 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 (4)

1.4 (4)

1.5 (3)

1.6 (4)

1.7 (2)

1.8 (3)

1.9 (3)

1.10 (1)



(02 marks each, Total 20 marks)

1.11 True

1.12 False

1.13 True

1.14 False

1.15 True

(02 marks each, Total 10 marks)

1.16. Basic features of a partnership:

Ownership	Limited to 2 to 20. But there is no maximum limit for professional partnerships
Contribution to the capital	Contributing capital as agreed by the partner
Unlimited liability	Unlimited liability of partners
Management	Management is done by all or a few partners
Profit sharing	Profit is shared as agreed
Control	Governed by the collective control of the partners and in accordance with the Agreement and the Partnership Ordinance
Existence	No going concern
Legal Personality	There is no legal personality and must appear in the name of partners in-front of law
Registration	Registration is not compulsory if the registration is maintained in the names of all partners
Accounting and Auditing	Accounting and auditing are not mandatory
Dissolution	By the Court or by voluntary dissolution
Paying Taxes	Income Tax is not payable in the name of business and partners have to pay their taxes individually

(02 marks)

1.17. Meaning of 'sustainable environment':

Sustainable environment is a step of sustainable development process. In that concept, it is expected to preserve the environmental resources for the future while utilizing them in the present maintaining the ecological equilibrium. Hence, balance of the sustainable environment and standard usage and maintenance of environmental resources have become a major concern today.

(02 marks)

1.18. Objectives of the government:

1. Management of economic activities
2. Providing resources for social capital
3. Providing welfare facilities for the unemployed, low income earners and pensioners
4. Controlling market monopolies and enhancing market competitiveness
5. Supply of public and welfare goods/items which are not provided by the private sector
6. Taking necessary actions to protect the environment
7. Taking necessary actions to protect consumers / consumers rights/ environment

8. Reduction of income distribution inequality
9. Ensuring the freedom of choice of people
10. Protecting the social environment and the culture
11. Economic growth and development
12. Full employment
13. Economic stability
14. Creating a fair income policy
15. Creating a good international trade
16. Sustainable development
17. Protect consumers from unfair competition, trade misconducts etc.
18. Fair distribution of wealth and income or reduction of income inequality

(02 marks)

1.19. Steps to be followed to meet the CSR towards the employees of an organization:

1. Taking actions to improve employer-employee relationships
2. Conducting business ventures in a positive manner
3. Focusing on employees' personal goals as well
4. Protection of equality of work
5. Ensure occupational health and safety
6. Providing fair compensation for industrial accidents and occupational diseases
7. Practicing non-discrimination policies
8. Implementation of insurance as a risk cover

(02 marks)

1.20. Elements of a cheque:

1. Identification number of the Bank Branch
2. Date
3. Name of the Bank and the Branch
4. Recipient's name or the term 'cash'
5. Amount [Money] in letters and numbers
6. The term 'paid'
7. Signature of the drawer
8. Cheque number
9. Account number [Current Account]
10. Surveying magnetic stripe

(02 marks)

(Total 40 marks)

End of Section A

Suggested Answers to Question Two:

Chapter 03 - Business Support Services

(a) Functions of Money:

- A medium of exchange
- Standard of value
- A medium of deferred payments
- Store of value

(02 marks)

(b) Principles of insurance:

- Insurable interest
- Utmost good faith
- Indemnity
 - Contribution
 - Subrogation
- Proximate cause

(02 marks)

(c) Why insurance is important for a business organization:

1. The uncertainty of business losses is reduced

Businesses today face many risks. In the world of business huge number of properties is used and those could be damaged due to various reasons such as fire, flood etc. Insurance companies have introduced a large number of insurance policies to cover the risks of various businesses. If insurance covers have been taken to these assets, compensation could be paid by the insurance companies to reduce or avoid the damage. As a result of this, insurance risks have been contributing to the business development as businesses could continue to be successful in the event that they are insured and compensated for the risks involved.

2. Business efficiency is increased with insurance

As insurance ensures the quick recovery, businesses could have smooth operations without damaging the market. It gives the opportunity to the owner for the maximization of profit. The uncertainty of loss may affect the mind of the businessman adversely. The insurance is removing the uncertainty, stimulates the businessman to work hard.

Further, such insurance covers encourage new investments, research and development initiatives and innovations in businesses.

3. **Business Contribution**

In any business particularly partnership business may discontinue at the death of any partner although the surviving partners can restart the business. The insurance policies provide adequate funds at the time of death. Each partner may be insured for the amount of his interest in the partnership and his dependents may get that amount at the death of the partner. With the help of property insurance, the property of the business is protected against disaster. Therefore, business could be continued.

4. **Facilitates the trade**

When companies proceed their trade activities with insurance they will be able to continue their global expansions of business operations smoothly in the dynamic business world. This would help for the development of international trade.

Eg- Marine hazard insurance

5. **Enhancement of credit**

The business can obtain a loan by pledging the policy as collateral for the loan. The insured persons are getting more loans due to the certainty of payment at their deaths. In the case of death, this value can be utilized for setting the loan with the interest.

6. **Welfare of Employees**

The welfare of the employee is the responsibility of the employer. Accidents and sickness benefit, pensions are generally provided by group insurance. The premium for group insurance is generally paid by the employer. The employees will devote their maximum capacities to complete their jobs when they are assured of the above benefits. The struggle and strife between employees and employers can be minimized easily with the help of such schemes.

(06 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 02 - Business Environment and its Effect on Business Organizations
Chapter 04 - Trade in the Business Organizations

(a) Disadvantages of an improperly managed distribution channel:

1. Loss of profits due to the increased cost of bad distribution
2. Poor / bad customer relationships
3. Loss of reputation
4. Increased legal cost
5. Loss of competitive advantage in the market / in the industry
6. Damages to the market share / customer base
7. Incur additional cost

(03 marks)

(b) Factors to be considered when selecting a good distribution channel:

1. Nature of the product
2. Volume of delivery
3. Distance of delivery
4. Middlemen
5. Associated cost / Cost of distribution
6. Market regulations / limitations
7. Competitive advantage of using the selected distribution channel

(03 marks)

(c) Why business needs to expand the operations globally:

1. Enhancement of profit opportunities

When companies move to international markets it expands the customer base and volumes of goods and services. This creates more opportunities to earn more profit for the organizations.

2. Opportunities for innovations

It is important to expand business operations globally to capture more opportunities for innovations, to create globally renowned brands and to attract foreign investments. Such business organizations can share business knowledge, experience, technology and resources via very powerful international collaborations.

3. Access of Raw materials and Services

With global expansion of the companies it gives the opportunity to access required high quality raw materials which is not available within the country. Also, globally expanded businesses could easily find skilled employees as the globalization enables labor for moving around the world.

4. Access to global markets

For a business, going global with the local identity is a strong way to create new markets and to earn global market opportunities. Business could be diversified and this would allow maintaining the revenue more stable.

5. Competitive advantage

When the local market is not much attractive for business, competitive advantage could be gained through international market. It allows to access new customers and markets where competitors do not operate.

6. Tax benefits

Most of the companies have given special concessions for the businesses who export goods and services since they earned foreign currency for the economy.

7. New customer base

With the global expansion companies will be able to expose to new customers from different markets. This allows investing new products and services to a new customer base.

8. Reduce Cost/Cost saving

Setting up a business in a new country, a business will be able to reduce their operational cost and save money. These organizations can benefit from the economies of scale in both manufacturing and selling globally. Many companies have found that it is advantageous to move some of their manufacturing operations to other countries due to cheaper labour cost and more affordable talent.

9. Enhance reputation of the company

It is important to expand business operations globally to capture more opportunities for improve the reputation of the company and it helps to create globally renowned brands.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 07 - Contribution of Entrepreneurship

(a) Characteristics on an entrepreneur:

- Work with a vision / Visionary
- Creativity
- Self-confidence
- Perceptive
- Ability to identify new business opportunities
- Manage the risk
- Self-motivation
- Innovativeness
- Fast decision making / Decisiveness
- Dedication / Commitment / Hard-working
- Independence
- Achievement orientation / Target oriented
- Optimistic / Optimism
- Flexibility / Being flexible
- Perspective
- Startup ability
- Organization of resources
- Consistency
- Environmentally friendly
- Leadership
- Self-awareness
- Resilience
- Social friendly



(04 marks)

(b) Importance of entrepreneurship to Sri Lankan economy:

Economic development cannot be achieved without entrepreneurship. It is the decisive factor in the economic development of a country; especially a developing country like Sri Lanka. If economic development is a machine, entrepreneurship is like the essential fuel needed to operate that machine. Hence, the contribution made by entrepreneurship in economic development could be emphasized via the following reasons.

1. Creation of Job Opportunities

Entrepreneurship firms contribute a large share of new jobs. It provides lots of entry level jobs that allow the unskilled workers to get training and necessary experience. This creates labor-intensive manufacturing opportunities and provides successful solutions to the unemployment problem prevailing in the economy.

2. Community Development

A community can work pretty brilliantly if the employment base gets divided into lots of small entrepreneurial companies. It helps in making a better quality of use of the community.

3. Promotes Research and Development

Innovation is the greatest pillar of entrepreneurship and lots of innovated ideas are tested by them. Expansion of the market due to the creation of new commodities and make use of local technologies facilitate research and development.

4. Enhance the Standard of Living

The standard of living is a concept build on an increase in the amount of consumption of a variety of goods and services over a particular period by a household. Building an entrepreneurship culture enhances standard of living of the people.

5. Economic Independence

Entrepreneurship plays an important role in national economy. Industrialist always make efforts to produce umpteen substitutes of previously imported products and thus helps to reduce the depending for goods on other foreign nations. The level of competitiveness and efficiency resulting to reduction in commodity prices so as to eliminate monopolies in the market economy in Sri Lanka.

6. Infrastructure Growth

The economic development of a nation depends on the development of the infrastructure. To develop the business, entrepreneurs insist the government to develop their areas using infrastructure.

7. Raise Foreign Capital

Entrepreneurs not only attract funds from domestic investors but also raise their investment from the individual and institutions situated in foreign countries. In such a way it increases the flow of foreign capital in the nation and results in economic development.

8. Capital Formation

Entrepreneurs can mobilize funds, when the public savings has invested in the industries, and then there is an optimum utilization of national resources.

(06 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 02 - Business Environment and Its Effect on Business Organizations
Chapter 06 - SMEs as a Backbone of an Economy

(a) Stakeholders of Ayurvedic Hospital:

- Owners (Dr. Gunadasa)
- Employees or Doctors, Nurses etc.
- Customers [including foreign visitors]
- Suppliers
- Government
- Banks
- Registered Institutions
- General Public

(02 marks)

(b) Actions taken by the Ayurvedic Hospital to prevent environmental pollution:

- Prevent from the activities that harm the environment
- Planning the production of Ayurvedic medicine minimizing the effect on the environment
- Managing the wastes of the hospital in a productive manner
- Moving to a green policy in the production of medicine and the delivery of Ayurvedic service
- Use a recycling process
- Make the awareness relating to environment protection
- Coordinate with the required regulatory organizations and get the instructions on environmental protection
- Attach an environmental report to its final accounts of the business / or to the annual report of the organization
- Gather knowledge and implement programmes on environment protection.
- Use an eco-friendly packaging system for preventing post damages that occur to the environment by disposing of packages.

(04 marks)

(c) Challenges faced by Small and Medium Sized Enterprises (SMEs) in Sri Lanka:

1. Limited access to strategic resources

Some specific barriers and market failures prevent SMEs from accessing strategic resource including finance, management capabilities, human resources and knowledge networks placing them at a serious competitive disadvantage.

2. Skills shortages, poor management practices and workforce training limit SME productivity and innovation

SMEs often face challenges in attracting and retaining super performing staff with relevant skills. Also, SMEs appear to be relatively behind in establishing collaboration with education and training institutes.

3. Insufficient use of Information Technology

Due to the lack of investment in technology and new work processes it become difficult to adoption of digitalized market opportunities. Most SMEs do not have their own websites.

4. Low Productivity

Due to the small-batch production and non-mass distribution it creates lack of economies of scale and higher transition cost relative to large enterprises.

5. Competition in large enterprises

SMEs have to face the competition of large organizations due to the lack of the networks of knowledge, know-how and expertise. Also, Inability to compete with large enterprises in terms of R & D and innovations are some of the barriers that SMEs face with the competition in large enterprises.

6. Lack of Leadership Skills

Due to the lack of academic background to the leader of an SME, it becomes a challenge to running a business and lead people with correct decision making.

(04 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Six:

Chapter 02 - Business Environment and Its Effect on Business Organizations

(a) Ways in which Refrsh Ltd. uses E-commerce:

1. Online App for Delivery

Refresh Ltd. could use E-commerce to purchase the transport services from the outsourced service providers connecting with them via an online app. Also, company can make the payments to those service providers via that online app, or as a direct online transfer, which is the form of B2B in E-commerce.

2. Online Sales

Refresh Ltd. could use the company web site to receive customer orders. Accordingly company can deliver the order from the nearest outlet, which falls under B2C form of E-commerce. Refresh Limited can establish an online platform in the web site for customer feedback which will be analyzed for decision making in the future.

3. Online Payment

Refresh Ltd. could use the company web site to do the payments through the online payment gate. And also this company could handle the transactions [receipts and payments basically] via an online app connecting to respective banks, which will reduce the time, energy and even the transaction processing cost.

4. Credit card payment

Most of the payments are made through cheques by Refresh Ltd. However, they have swipe machines to accept debit and credit cards. Customer can use their cards without cash.

5. Integrated Supply Chain Activities

Refresh Ltd. is planning to integrate all supply chain activities through an ERP system.

(06 marks)

(b) Advantages of an effective transportation system:

- Timely procurement of required physical and human resources
- Provision of finished products to the market on time
- Timely obtaining the goods and materials as per the requirement
- Continuously distribute products to the customer'
- Expanding its market
- Getting to the right market on time
- Transportation enables customers to purchase goods from anywhere
- Could minimize the cost of transportation
- Could eliminate the wastage of fruits and vegetables due to poor transportation and so that could eliminate a huge loss to the company
- Could expand the market [customer base] effectively
- Continuous and smooth distribution of goods

(04 marks)

(c) Qualities of a good transportation system:

- Speed
- Safety
- Low cost
- Capacity
- Availability
- Adhering to the local and international standards
- Legality



(03 marks)

(d) Advantages of using cheques than using cash:

- Easy to prove the payment
- Level of safety is high
- Ability to delay or suspend payments
- Transactions can be made by writing a post-dated cheque even without money in the current account
- Easy to make large payments
- Making it safer to pay by cheque

(03 marks)

(e) E-communications that could be used by Refresh Ltd.

- Receiving customer orders via the company web-site to the outlets/ Internet.
- Receiving the payments from customers via online payment gate given in the company web site.
- Communicate the level of stocks in outlets connecting via the network.
- Connect with suppliers and transport service providers via an ERP system [or even using an app]
- Email
- Fax
- Social Media

(04 marks)

(Total 20 marks)

End of Section C



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