



Association of Accounting Technicians of Sri Lanka

Level I Examination - July 2021

Suggested Answers

(104) BUSINESS ENVIRONMENT (BEN)

Association of Accounting Technicians of Sri Lanka

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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 (1)

1.3 (4)

1.4 (1)

1.5 (4)

1.6 (2)

1.7 (3)

1.8 (3)

1.9 (1)

1.10 (2)



(02 marks each, Total 20 marks)

1.11 False

1.12 True

1.13 False

1.14 True

1.15 False

(02 marks each, Total 10 marks)

1.16. Types of companies incorporated under the Companies Act No.07 of 2007

- Unlimited Companies,
- Limited Companies [*Private Limited Companies, Public Limited Companies, Offshore Companies*]
- Companies Limited by Guarantee

(02 marks)

1.17. A medium of Exchange

Being a medium of exchange as a function of money is meant to act as an intermediary in the exchange of goods and services. In other words, any product or service can be exchanged for money, and money for any goods and services. This is a major and important function of money.

(02 marks)

1.18. Endorsement of a cheque

Endorsement of a cheque means changing the ownership of cheque. Endorsement is the writing of the recipient's name of the cheque, as the cheque states, on the back of the cheque. He/she allows permission to pay amount of cheque to endorsed person. There is no need to sign but name of the recipient should be there.

(02 marks)

1.19. Challenges faced by women entrepreneurship

- 1) More time should be devoted to home activities
- 2) Hostile attitudes in certain communities
- 3) Less acceptance of women in facilitation agencies
- 4) The pressure exerted by the values in some countries
- 5) Inadequate government incentives
- 6) Rooted in the concept of patriarchy
- 7) Gender inequality
- 8) Fear of failure
- 9) Lack of capital
- 10) Lack of confidence

(02 marks)

1.20. Main objectives of Central Bank of Sri Lanka

- 1) Creating economic and price stability
- 2) Establishment of financial sector / system stability

(02 marks)

(Total 40 marks)

End of Section A

*Suggested Answers to Question Two:***Chapter 01 I - Business Organizations****(a) Key features of Private Companies**

1	Ownership	Shareholders are the owners.
2	Capital	Obtained by issuance of shares. But, the issuance of public shares is prohibited, and cannot be transferred freely.
3	Number of shareholders	Minimum 01, maximum 50.
4	Management	Managed by a Board of Directors. The minimum is 01 and there is no maximum limit.
5	Control	Governance is subject to statutory control and collective control of shareholders.
6	Legal Personality	There is a legal personality.
7	Liability	Responsibility is limited.
8	Continuity	There is no going concern issue.
9	Incorporation	Incorporation is mandatory in terms of the Companies Act.
10	Accounting and Auditing	Accounting and auditing are mandatory. But the reports of the accounts should be submitted to the Registrar of Companies only if requested.
11	Payment of Taxes	Taxes should be paid in the name of the company.
12	Liquidation	The liquidation must be done voluntarily, by order of the court and under the supervision of the judiciary.
13	Company Name	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".
14	Conducting Loan Payment Test	Dividends can be distributed at the consent of all shareholders without a test of credit ability.
15	Maintain a contact register	A unanimous resolution of shareholders may prevent the board of directors from maintain a contact register detailing its transaction with the company.

(04 marks)

(b) Advantage of private companies

- 1) Ability to maintain the rights of relatives in the family.
- 2) Ability to retain control of the company among a limited number of people.
- 3) Ability to share profits among a limited number of people.
- 4) Liability is limited.
- 5) Being a legal personality.
- 6) Ability to raise more capital.
- 7) Lack of legal impact compared to public limited companies.
- 8) There is continuity of business (Going Concern).
- 9) Various tax incentives.
- 10) Effective management by a board of directors.
- 11) Ability to perform most of the work of the company without holding any unanimous resolution of all the shareholders.
- 12) Ability to distribute dividends to shareholders without a credit test.

(03 marks)

(c)

- 1) Better and speedy decision-making.
- 2) Increased manufacturing productivity.
- 3) Improved customer service.
- 4) Greater collaboration with stakeholders.
- 5) Improved financial performance.
- 6) Less administrative cost.
- 7) Less supervision cost.
- 8) Time and money can be saved because it is much quicker to send/ share information.
- 9) Social network could be used and it could be used as a marketing tool to the business.
- 10) Greater availability of websites are open for communication in every minute of the year.
- 11) Bridging the cultural gap. Greater access to the ICT has helped to build the bridging between cultures and given them opportunity to exchange information and ideas.
- 12) It could be used to learn about new technology used in export market.
- 13) It can be used to make payments easily.
- 14) It can be helped to take decision correctly.

(03 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 03 - Business Support Services

(a)

- 1) Language and cultural diversity / Lack of understanding.
- 2) Physical factors - Noises, Accidents, Riots.
- 3) System malfunctions - Internet problems, Gaps in the data system.
- 4) Psychological factors - Differences in mental status of people engage in communication.
- 5) Negative attitudes - Negative attitudes of people regarding modern ICT.
- 6) Health disorders of the parties into communication.

(03 marks)

(b)

- 1) Risk can be divided into another party.
- 2) Compensation for damages caused to buildings, factories, and other property by fire or other incident.
- 3) Compensation for damages to goods and money from thieves.
- 4) Accepting the risk of not receiving the receivables.
- 5) Insurance coverage for product liability, employee liability and public liability.
- 6) To support the investment required for the economic development of the country.
- 7) It is impact for the contribution of the business.
- 8) It helps for the development of the international trade.
- 9) It is a good investment path and to avoid uncertainty.
- 10) Helps to minimize financial losses.
- 11) Helps to promote business continuously.
- 12) Protects employees of the business.
- 13) Helps to attract and retain employees.

(03 marks)

(c) Principles of Insurance

- 1) **Insurable Interest:** This means that the insured subject should be entitled to the subject matter of the insured.
- 2) **Utmost good faith:** This means that all the parties into an insurance policy should provide complete and accurate facts about all matters deemed important in respect of the subject matter. That is that belief in the fact that both sides will expose all matters is called the principle of the utmost good faith.
- 3) **Indemnity:** This means that in the event of any damage, only a sufficient amount of compensation will be paid to restore the property. This principle of insurance prevents insurers from profiting. Also, this is not applicable to life insurance.
- 4) **Contribution:** The contribution principle in insurance is a rule that specifies what happens when a person buys insurance from multiple companies to cover the same event, and that event occurs. The principle holding that two or more insurers each liable for a covered loss should participate in the payment of that loss. Many insurance policies stipulate the formula under which contribution among multiple insurers will take place.
- 5) **Subrogation:** This is a term describing a right held by most insurance carriers to legally pursue a third party that caused an insurance loss to the insured. This is done in order to recover the amount of the claim paid by the insurance carrier to the insured for the loss.
- 6) **Proximate cause:** It is the cause having the most significant impact in bringing about the loss under a first-party property insurance policy, when two or more independent perils operate at the same time. When a property is damaged, those may be several reasons why the damage is caused. This means that the most immediate reason or proximate cause should be covered from insurance policy.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 04 - Trade in the Business Organizations

(a)

- 1) Water ways - Ships / Vessels
- 2) Air ways - Planes / Aircrafts

(02 marks)

(b)

- 1) Market expansion.
- 2) Reduce inventory and paperwork.
- 3) Reduce intermediate cost.
- 4) Expand the market space and the customer space.
- 5) Minimize business interruptions.
- 6) Ability to do business at any time of the day.
- 7) Startup cost is low.
- 8) Opportunity to use new items.
- 9) Accelerating business.
- 10) Ease of use among people.
- 11) Save customers' time and effort.

(04 marks)

(c)

Document	Purpose
<i>Proforma Invoice</i>	This is to provide information about the goods for the confirmation by the importer. This may include information such as price of commodity, quantity, transportation type, freight cost and type of delivery, insurance and date of loading, weight of commodity, types of packing, number of boxes, offer price and validity date.
<i>Commercial Invoice</i>	This is the final invoice, communicating the value of the goods and other charges born by the exporter.
<i>Certificate of Origin</i>	This is to verify the country where the goods traded were produced. This is required as a part of the treaty and tariff requirements.
<i>Bill of Lading (B/L)</i>	This is to verify the contract between the shipper of the goods and the carrier. The importer needs the original as proof of ownership to take possession of the goods.

Insurance Certificate	This is to verify the goods transported international borders are covered with adequate insurance arrangements.
Letter of Indemnity	This is to verify the exporter accepts the whole risk of any possible damages to the goods shipped and hence requesting the shipping agent to provide a clean bill of lading.
Sanitary Certificates	This is to confirm the condition of goods and certain goods may require the clearance from an authorized regulatory body in the exporter country.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 07 - Contribution of Entrepreneurship

(a)

Entrepreneur	Business Person
Start a business with own concepts and new ideas.	Business starts with an existing idea or concept
The business rival is himself.	Other businesses are business rivals
Focuses on new business opportunities.	Always doing the existing, own business
Innovator.	Thinks traditionally.
Take the risks.	Works with safety.
When problems occur, working hardly to overcome the problems	Problems are avoided and overstated.
Looks for new business opportunities.	Uses opportunities seen by another.

(03 marks)

(b)

Below mentioned are some of the ways by which the performance of Saman's business could be enhanced as a SME.

- **Enabling the environment**

In order to enhance the ease of doing business and to improve the competitiveness and support the government must establish a conducive environment for SME development including setting policies and regulatory & institutional framework, coordination and simplification & rationalization of procedures.

- **Modern Appropriate Technology**

The government should facilitate the acquisition and adoption of state of the art modern and appropriate clean technologies for SMEs to increase quality, innovative productive and competitive products. Industrial policy thrust is directed towards the promotion of knowledge based, technology intensive industry while focusing on regional industrialization.

- **Entrepreneurial Culture and Skills Development**

Government should promote, facilitate and support entrepreneurship development and build capacity at schools, universities, technical and vocational training institutions and focus on Youth and Women and strengthen capacity of institutions providing such training and skills development on entrepreneurship and SME development.

- **Access to Finance**

Government should facilitate support and strengthen the mechanisms for easy and affordable access to finance to SMEs through the banks, financial institutions. Each bank should have SME desk to facilitate to credit and expanding the SME re-finance schemes. Further establishing angel fund and venture arrangement will strengthen the SMEs in Sri Lanka.

- **Market Facilitation**

Government recognizes the importance of internationalization and will facilitate and support SMEs to access local and export market.

- **Research and Development**

Government recognizes the importance of research and development as a powerful process to develop cost effective modern technologies, innovations and market oriented

new designs with a view to improve product development, process development, productivity improvement and to increase the competitiveness.

- **Resource Efficiency**

Government recognizes the importance of resource efficiency as it improves the competitiveness of the SMEs through cost saving and it helps to protect the natural environment thus maintain sustainable foundation for future development.

- **Regional Balance**

Government recognizes the importance of balanced regional growth in terms of the overall economic development strategy, for which, improving supply and demand for public and private sector financial and non-financial Business Development Service Providers (BDS) with various incentive schemes.

- Participate in trade fairs and exhibitions as necessary.

- Hiring and retaining a competent cadre of managers and employees to assist the strategic direction of Saman's business.

(04 marks)

Chapter 08 – Finance Market in Sri Lanka

(c)

- 1) To mobilize savings and capital formation.
- 2) It enables companies to raise permanent capital.
- 3) It stimulates industrial growth and economic development of the country by ensuring steady flow of savings into productive purposes and mobilizing funds for investments.
- 4) It serves as a reliable guide about the performance and financial position of companies / corporates.
- 5) It ensures the effective utilization of funds at the public interest.
- 6) Capital markets provide funds for the projects in backward areas.
- 7) Creates the platform to attract foreign investors and capital.
- 8) It enables the well- managed, profit making companies to raise limitless funds by fresh issue of shares from time to time.
- 9) Scarce resources are thus diverted to efficiently run enterprises for better utilization.
- 10) It enables government to raise funds for undertaking projects through sale of securities on the stock exchange. Thus, stock exchange serves as a platform for raising public dept.

(03 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Six:

Chapter 05 – Influences of the Government to Business, the Importance of Business Ethics and Social Responsibility of a Business

(a)

1) Contributing to employment/ Providing job opportunities

Happy Super is a supermarket chain in Sri Lanka with more than 300 outlets island-wide, providing employment opportunities by hiring human resource to outlets. In addition to that it helps indirectly to increase job opportunities in farms.

2) Use of local resources

Happy Super launched a network of dairy farmers and vegetable growers enabling them to sell their fresh vegetables and a range of dairy products to their nearest Happy Super outlet. The contribution to the country's economic development, economic growth and full employment is therefore higher.

3) Minimize damage to the environment

Businesses are moving towards an environmentally friendly approach and reducing environmental damage in every business decision and action. Happy Super considers the distribution of organic fertilizers to organic farmers, and plans to manufacture organic fertilizer as a part of CSR project using organic waste from their outlets.

4) Follow the policies of the government

Businesses are bounded to implement the policies that the government implements from time to time. As a result, entrepreneurs contribute immensely to the implementation of the Government's Fiscal Policy and other relevant policies in the economy. Happy super promotes the government priority of using organic fertilized in an effective way.

5) Economic Growth and Development

Happy Super facilitates to improve real income of the farmers and it affects for the economic growth. As well as it improves quality of life farmers that means it supports for economic development.

6) Creating a Fair Income Policy

Happy Super creates a project to reduce poverty of vegetables farmers giving more income for farmers. They have island wide network of small scale vegetables growers and dairy farmers.

7) Sustainable development

They are planning to produce organic fertilizers. It helps to protect environment and it helps for future generation's health.

8) Paying taxes properly

Businesses pay taxes, based on their income or profits, without defaulting on the government tax. It will provide the necessary funds to carry out the role of the government.

9) Binding and adherence to rules

Businesses comply with the rules and regulations enacted by the government from time to time. It helps businesses to create a good business environment.

(05 marks)

Chapter 02 - Business Environment and its Effect on Business Organizations

(b)

PESTEL is a tool to analyse the impact of external environmental forces on the operations of an organization. It stands for political, economic, socio-cultural, technological, ecological / environmental and legal forces in the macro environment. According to the information available in the given case, it could be assessed and noted that, most of the domains / forces of the external business environment are favorable to Happy Super.

- **Political Environment** - This is favorable as Happy super aligns with the government priorities by initiating a CSR project of distributing organic fertilizer to organic farmers.
- **Economic Environment** – This consists with consumer purchasing power, income level, production and price level. This also favorable as Happy super aligns with the economic priorities and future requirements of the country as it plans to manufacture organic fertilizer using the organic waste from their outlets.
- **Ecological Environment** - This is favorable in the Happy super as well because it ensures the environmental-friendly waste disposal, and the preservation of nature.
- **Socio-cultural Environment** - Basic benefit, values and perception of people in society. The company move to produce organic fertilize due to perception of people as per the Happy Super case.

- **Technological Environment** - This is conducive as Happy Super has invested in needed technology and provides the relevant technical knowledge to the farmers via industry collaboration.
- **Legal Environment** - This seem to be not unfavorable as the government will establish suitable legal and institutional framework to facilitate its priorities in promoting organic fertilizer and balanced regional development.

(06 marks)

Chapter 05 – Influences of the Government to Business, the Importance of Business Ethics and Social Responsibility of a Business

(c)

1. Social support for doing the business
2. Improved image of the business
3. Able to attract potential stakeholders in the future
4. Increasing interdependency among business-friendly sectors
5. Less government control as it fulfills social responsibility
6. Eligible for tax releases / tax benefits
7. Having a good social environment gives businesses the input and market they need.

(03 marks)

Chapter 05 – Influences of the Government to Business, the Importance of Business Ethics and Social Responsibility of a Business

(d) Environment sustainability can be considered as a development plan which helps future generations to live freely and do their business activities in an environment friendly manner. This can also be considered as a bridge to maintain the long-term coordination and relationship between the business and the environment.

According to the case give, Happy Super engages in following initiatives to ensure the environmental sustainability.

- Distribution of organic fertilizer to organic farmers.
- Manufacture organic fertilizer using the organic waste from their outlets.
- Provide relevant technical knowledge to needed farmers through an industrial collaboration.

- Forming a network of dairy farmers and vegetable growers to ensure a higher income for small-scale farmers, through reducing food wastage in transportation and eliminating commissions earned by middlemen.
- Not doing any environmental pollution activities in any land.
- Not doing and engaging in any activity that destroys the culture of the country.
- Not signing any agreement that destroy the bio diversity.
- Reducing the earnings profits which earns in a way that destroys the natural environment zones.

(04 marks)

<i>Chapter 07 - Contribution of Entrepreneurship</i>

(e) Entrepreneurship skills required by an entrepreneur

- Leadership skills
- Interpersonal skills
- Communication skills
- Basic management skills
- Conceptual skills
- Philosophical skills



(02 marks)

(Total 20 marks)

<i>End of Section C</i>

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