



**Association of Accounting Technicians of Sri Lanka**

**Level I Examination - July 2023**

**Suggested Answers**

**(104) BUSINESS ENVIRONMENT (BEN)**

**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 (3)

1.2 (1)

1.3 (4)

1.4 (4)

1.5 (3)

1.6 (1)

1.7 (1)

1.8 (3)

1.9 (2)

1.10 (2)



*(02 marks each, Total 20 marks)*

1.11 False

1.12 True

1.13 False

1.14 True

1.15 True

*(02 marks each, Total 10 marks)*

**1.16. Formal organization** is a group of people created, according to a well-defined structure Eg: Department of Marketing, Central Bank of Sri Lanka, Quoted Company in Colombo Stock Exchange

**Informal organizations** are groups of people that are created as a result of the social functioning of individuals. These organizations are created without a formal structure informal organization can also operate within the formal organization.

Eg: A group of Friends, Facebook Chat group

**(02 marks)**

**1.17.**

Dual insurance is where an insurer puts its risk (life or property) into two or more insurance companies.

**(02 marks)**

**1.18.**

1. Value system
2. Organizational Culture
3. Vision Statement
4. Management Structure
5. Human resources
6. Other resources



**(02 marks)**

**1.19.**

1. Identify business opportunities and utilize them
2. Making changes or innovations in product
3. Production of new goods and modernization of goods and services in a proper manner with the production factors of labor, land and capital.
4. Determine the various alternatives that can be used to produce and determining the amount of work to be done.
5. Initiating and leading business activities
6. Forecasting business changes
7. Creating Jobs

8. Taking up and reducing business risk

**(02 marks)**

**1.20.**

Sustainable development is achieved by utilizing resources optimally for current usage without compromising the future consumption.

**(02 marks)**

**(Total 40 marks)**



***End of Section A***

***Suggested Answers to Question Two:***

***Chapter 01 Part I – Business Organizations and related concepts***  
***Chapter 01 Part II – Business Organizations***

**(a)**

Yes, Somasiri's vegetable selling business can be categorized as a business because it fulfills the human needs in every day life. In addition Somasiri's vegetable selling business possesses the below mentioned characteristics which are common to formal businesses.

1. Being an economic activity.
2. Purchase, sales or exchange.
3. A continuous process.
4. Motivated by Profit/Profit.
5. Risk & Uncertainty.
6. Creation of needs or creativity.

Therefore, Somasiri's vegetable selling business can be classified as a "business"

**(04 marks)**

**(b)**

**Ownership** - Owned by a person

**Capital** - In a Sole Proprietorship capital is provided by the owner alone

**Administration & decision making** – Business is administered by the owner or under his supervision. Therefore, business decisions are made by the businessman himself.

**Liability** – There is an unlimited liability. That is, he has to sacrifice his personal property to pay off external debt.

**Separate Legal Personality** – No separate legal personality. Can do the business only under the name of the businessman's personal name.

**Registration** – Registration is not mandatory. Any business other than in owner's name should be registered with the business registration office of the provincial council in terms of the business names ordinance No. 06 of 1918 as per the business name statute of the respective provincial Council.

**Profits and Losses** - Bears alone.

**Tax Payment** – Taxes should be paid personally in the name of the businessman. Taxes cannot be paid in the name of the business.

**Accounting and Auditing** – Accounting and auditing are not mandatory. They can be maintained for efficient use of funds.

**Going Concern** – There is no going concern

**(03 marks)**

**(c)**

1. Easy to get started
2. Lack of legal impact
3. Share profits and losses alone
4. Easy to control / decision making
5. Business can be improved with personal commitment
6. Protecting business privacy/ protecting the privacy of the business
7. Easy to dissolve the business
8. Self-satisfaction
9. Direct contract with customers
10. Being able to be highly frugal.



**(03 marks)**

**(Total 10 marks)**

***Suggested Answers to Question Three:***

***Chapter 04 - Trade in the Business Organizations***

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

**(a)**

This means the commercial and financial penalties imposed by one or more countries and targeted against a country, organization, group or individual.

**(02 marks)**

**(b)**

1. Restrictions on consumer and internet access
2. Payment problems
3. Developing technical issues
4. Customers' perceptions of payment methods and receipts.
5. Increase of start-up costs.

**(03 marks)**

**(c)**

**1 Contributing to employment**

The business sector leads an increase in the employment rate by hiring human resources for firms. This condition allows the government to accomplish its objectives. Particularly, it will create favorable conditions for employment stability, economic growth, and development, and income wealth reinvestment

**2 Minimize the damage to the environment**

The environment can be viewed as a field of sustainable development which is currently evolving. Businesses are moving towards an environmentally friendly approach and reducing environmental damage in every business decision and action.

**3 Use of local resources**

Increasing the country's resources for business purposes and using local resources would improve purchasing power of people. The contribution to the country's economic development, economic growth, and full employment is therefore higher.

**4 Paying taxes properly**

Businesses pay from time to time, 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.

**5 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.

**(05 marks)**

(Total 10 marks)

### ***Suggested Answers to Question Four:***

**Chapter 03 - Business Support Services**  
**Chapter 04 - Trade in the Business Organizations**

(a)

**1 Balanced logistics system**

It means systems that retain the same degree of transport to the production company as the distribution of the commodity to the end, consumer after processing. Often such systems are seen in consumer goods firms.

**2 Heavy inbound logistic systems**

Transportation to production process complex systems that is a simple process until the process is carried over the customer. An example is the complex process that often involves the production process of some manufactured large-scale aircraft carriers.

**3 Heavy Outbound Logistic Systems**

Depending on the type of product the company is producing, it means the delivery service systems that need to be implemented to deliver a complex process to the customer.

**4 Reverse Logistic Systems**

This means a system of flow with product suppliers, even after delivering the goods to the customer. Relationships should be maintained even after the product is sold, such as packaging reusable gas cylinders and removal of packaging that may harm the environment.

(04 marks)

(b)

**1 More profit opportunities**

The domestic market may have limited number of customers, and hence the business may not be able to earn much profit by selling required volumes of goods and services

**2 Access to raw materials and services**

All the raw materials and services required by the business may not be available within the country. To have access to the right and high-quality raw material at the lowest cost. They need to take part in international trade.

**3 Tax benefits**



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

#### 4 Competitive advantage

When the local market is not much attractive for business, domestic international competition.

#### 5 Access to global markets

There is an opportunity to access the global market.

(06 marks)

(Total 10 marks)

### *Suggested Answers to Question Five:*

*Chapter 03 - Business Support Services*  
*Chapter 07 - Contribution of Entrepreneurship*

(a)

1. Low cost
2. Availability
3. Speed
4. Completeness
5. Brief
6. Consideration
7. Concreteness
8. Politeness
9. Correctness
10. Safety /Secret



(03 marks)

(b)

- 1 **Cost Effective** : This allows easily to communicate with customers at low cost.
- 2 **Easy to setup** : This helps business quickly and easily adopt whatsapp and start communicating with customers.
- 3 **Deliver insights** : Business can understand more about customer engagement and make more actable decisions and experience through conversational insight.

- 4 **Help to reach wide use base** : Due to the number of people who already use regular version of Whatsapp, business version helps companies to reach many customers including local and global.
- 5 **Improve customer experience and engagement** : This allows to send customized messages to customers. Therefore, it helps to improve the overall customer experience. It also allows businesses to engage with customers, build relationship and improve customer loyalty.

**(04 marks)**

**(c)**

1. Insurance
2. Financial services
3. Transportation
4. Banking
5. Logistic



**(03 marks)**

**(Total 10 marks)**

**End of Section B**

***Suggested Answers to Question Six:***

(a)

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Products are very popular</li> <li>• The products which he is trading are comparatively cheaper</li> <li>• Availability of transport facilities and logistics (Lorries, stores etc.)</li> <li>• Availability of approved bank loan facility</li> </ul>	<ul style="list-style-type: none"> <li>• Product are second grade quality</li> <li>• Limited Market</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Possibility of expanding into other areas (A new market in Anuradhapura)</li> <li>• Diversifying into new business opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing Cost of Production (Fuel cost) etc.</li> <li>• Increase in price of imported material</li> <li>• Material Shortage</li> <li>• Suppliers also increase the price</li> <li>• Import restrictions imposed by the government</li> </ul>

**(06 marks)**

(b)

***If the answer is Business person***

Shantha is a business person since he has taken an existing business idea and he has not innovated his own idea and he is more in to buying selling business. And also he fulfills the most of the business person characteristics such as think traditionally, and starting with an existing idea or concept.

***If the answer is an entrepreneur***

Shantha is an Entrepreneur since he has started a business with a new concept to exploit a new market / business opportunity. He has also taken risks and committed to succeed his business by overcoming problems tactfully.

**(04 marks)**

(c)

- **General partner**

The general partner is the partner who involves in the management of the business and whose responsibility is unlimited, who is known by public, and who enjoys all the business privileges.

- **Active partner**

Active partners are general partners who actively participate in the business and have an unlimited liability. They often receive a salary apart from the profit share.

- **Priority partner**

A general partner, whose name is the first name mentioned in the joint deed or other documents relating to the partnership. This partner is the first to call for tax or other matters.

- **Dormant or Sleeping Partner**

A partner who takes no shares in the active business of a company or partnership, but is entitled to a share of the profits, and subject to a share in losses and the public is unaware that he is a partner who does not participate in management.

- **Limited Partner**

A partner in a limited partnership where the liability is limited to the extent of capital he invested is called a limited partner. They do not participate in management activities and are unknown to the public.

- **Silent Partner**

An unlimited partner who has unlimited liability and is responsible for capital gains but not participating in management activities. The public is aware that he is a partner.

- **Secret Partner**

A partner with an unlimited liability, who invests capital to a business, earns profit and engaged in management. He is called a confidential partner because he acts in a way that the public does not know he is a partner.

- **Partner in profits only**

He is the only profit-making partner who invests in capital and with an unlimited liability. He does not contribute to the loss. Such partners are not allowed to participate in the management of the business.

- **Quasi Partner**

A partner who does not contribute capital but instead give a loan and has an interest rate that varies on annual profits.

Sometimes when a partner retires, he receives the money he needs from the business. The public knows he is a partner and the responsibility is unlimited. He also does not participate in management activities.

- **Nominal Partner**

This means a partner who makes a profit or losses by using only his or her reputation as a professional or businessman without investing in capital of the partnership. He does not participate in the management of the business and the responsibility is unlimited.

**(06 marks)**

**(d)**

1. Losses in the future that cannot be accounted for financially
2. Losses due to decisions of managers or entrepreneurs
3. Business risks due to natural causes (obsolescence, depletion, evaporation)
4. Damages due to inability to understand the future market.
5. Losses due to pattern change, market boom, recession
6. Personal injury (failure of exams, loss of love), based on their ability and strength

**(02 marks)**

**(e)**

1. Financial facilities
2. Providing exchange facilities
3. Improve management skills through training and guidance
4. Promote entrepreneurship
5. Introducing designs for new products that can be offered to the export market through National Institute of Designing.

6. Management Development – Training of Public and Private Sector Managers and Related Supervisory officers.
7. Conduct Managerial research – Collect data on the relevant field.
8. Provide technical advisory services to industries.
9. Implementation of technical Training programs.

***(02 marks)***

***(Total 20 marks)***



***End of Section C***

**Notice:**

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

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