



Association of Accounting Technicians of Sri Lanka

Level I Examination - January 2024

Suggested Answers

(104) BUSINESS ENVIRONMENT (BEN)

Association of Accounting Technicians of Sri Lanka

No.540, Ven. Muruththettuve Ananda Nahimi Mawatha,

Narahenpita, Colombo 05.

Tel : 011-2-559 669

A publication of the Education and Training Division

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level I Examination - January 2024

(104) BUSINESS ENVIRONMENT

SUGGESTED ANSWERS

**Twenty (20) Compulsory Questions
(Total 40 Marks)**

SECTION - A

Suggested Answers to Question One:

- 1.1 (3)
- 1.2 (4)
- 1.3 (1)
- 1.4 (3)
- 1.5 (4)
- 1.6 (1)
- 1.7 (1)
- 1.8 (1)
- 1.9 (3)
- 1.10 (2)
- 1.11 False
- 1.12 True
- 1.13 True
- 1.14 False
- 1.15. True



- 1.16.** Money is used to measure the value of goods and services. The goods and services are represented in monetary value for market exchange. Hence, money functions as a measure of accounts.
- 1.17.** The principle of “Utmost Good Faith” requires both the insurer and the insuree to disclose the material information. Both the parties in an insurance relationship shall disclose the material information in relation to the subject insured and the related aspects.
- 1.18.**
- (i) Hostile attitude in certain communities.
 - (ii) Less acceptance of women in facilitation agencies.
 - (iii) Inadequate government incentives.
 - (iv) Rooted in the concept in the of patriarchy.
 - (v) Excess household commitments of the women.
 - (vi) Less recognition for women as entrepreneurs.
 - (vii) Cultural barriers over women
 - (viii) Lack of encouragement towards women entrepreneurs.
 - (ix) The pressure exerted by the rules in some countries.
- 1.19.**
- (i) Enhancing the customers’ confidence in the business
 - (ii) Ability to compete successfully
 - (iii) Efficiency in financial aspects
 - (iv) Preserving the industrial relations
 - (v) Ensure existence of the business by providing quality goods and services.
 - (vi) Secure intellectual property.

- 1.20.** (i) Facilitating an able and continuous stock exchange
(ii) Protection of investors
(iii) Support for capital generation
(iv) Correct evaluation of Securities.
(v) Proper channelization of capital
(vi) Aid to capital formation
(vii) Facilities for speculation
(viii) Seasoning of Securities.
(xi) Clearing house of business information.

(02 marks each, 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)

Ownership	Limited to 2 to 20. But there is no maximum limit for professional partnerships.
Contribution to 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	Profits are 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 partner's 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	Dispersal 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.

(04 marks)

(b)

- The liability of the partners is unlimited.
- Lack of legal personality
- Issues on expanding the business due to the restricted access to capital lines.
- The success of business decisions depends on the management entrepreneurial ability of the partners.
- Lack of continuity
- The partner must endure the loss alone.
- Difficult to attract talented employees.

- Difficulty in managing as the business expands.
- Each partner is an agent of partnership and is liable for actions by other partners.
- Conflicts and disagreements among partners.

(03 marks)

(c)

- Contributing for the partnership
- Not to earn secret profits
- Performing for the best interest of the partnership
- Not involving any competitive business
- Act in good faith
- Contribute to losses
- Responsibility for the business of each partner individually and collectively
- Restraining from acting beyond their powers
- Working in partnership without any payment
- Restraining from transferring his share of partnership to another
- Restrain from using business property as personal property.
- Attend business activities diligently.
- Duty to share profits or losses in the partnership.
- Duty to indemnify for frauds.
- Duty to account to keep proper accounts on partnership activities.
- Duty to disclose all information relevant to partnership.

(03 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 03 Part IV- Auxiliary Services: Transportation

Chapter 04 Part IX – Organizations in Business: Electronic Business

(a)

- **Enabling economy in business:** A properly planned transportation can result in economic saving, enhancing the benefits of organized deliveries.
- **Improving the efficiency in the supply chain:** Srideva requires the transportation not only for the export deliveries, but also to source the raw materials and storage destinations. A reliable transportation system can result in enhanced efficiency in handling them.
- **Increase customer satisfaction:** Transportation helps to ensure that products arrive at the destination on time in good condition. This improves customers' satisfaction about the products.

- **Timely obtaining materials** – If there is a good transport system, it helps to obtain material on time for production. It results to avoid stock out situation in the business and to produce finished goods on time.

(04 marks)

(b)

- Enhanced customer service
- Better inventory management
- Competitive advantages
- Ability to do business at any time of the day
- Startup cost is low
- Lowering the price level as intermediaries are minimal
- Expansion the opportunity of product selection
- Minimize the use of documents
- Accelerating business
- Ease of use among people
- Save customers' time and effort
- Market expansion
- Opportunity to use new items.
- Increase efficiency of operation.

(03 marks)

(c)

- Bill of lading
- Proforma invoice
- Commercial Invoice
- Letter of credit
- Certificate of Origin
- Insurance certificate
- Sanitary certificate

(03 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 03 Part V- Auxiliary Services: Insurance

(a)

- **Covers Legal Liabilities:** This type of insurance policy helps to cover all sorts of legal liabilities arising out of any unforeseen event. It helps family members of the employee even if something happens while working and the company's liability is to protect employees.
- **Accident Coverage:** Factory employees' insurance scheme offers protection against any accident injuries, death or disabilities. Nominated family member can receive the compensation if the policy holder dies. It helps companies to reduce their risk of making compensation.
- **Attract and retain the employee:** If the company has an insurance coverage for its employees it helps to attract and retain talented employees to the business.
- **Avoid/reduce the risk:** Cost insured on employees due to any accident can be transferred to insurance company. Therefore, the company does not incur any financial losses.
- **Improve performances:** Some insurance policy on employees help financial protection in terms of achieving financial goal such as children education, retirement, etc. It facilitates to increase motivation and finally it results to increase performance of the employees.

(04 marks)

(b)

The term "insurable interest" means, any party who obtains an insurance shall have the right over the subject (person, property) being insured. The following features must be present for a property to be insured:

- Having the benefit of the life or property of the relevant person and the disadvantage of it being destroyed
- Calculate the monetary value of the advantage or disadvantage
- Relationship between the insured and the property can be legally proved.

In this instance, XYZ Ltd is obtaining an insurance against the risk for its factory employees. The factory employees are covered under the employment agreement with XYZ Ltd and any risk over the staff may have a direct consequence to the business. Accordingly, there is an insurable interest.

(03 marks)

(c)

- Predictability
- Casualty
- Un Connectedness
- Verifiability

(03 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 03 Part 1 – Business Auxiliary Services: Functions of Money

(a)

- General acceptance
- Divisibility
- Easy to carry and store
- Uniformity / Easiness to identify
- Inability to print easily
- Consistence in value
- Durability
- Not common or scarce
- Nominal value should be higher than the commodity value
- Not subject to frequent cancellations

(04 marks)

(b)

(i)

- E-Wallet
- Debit cards
- Smart cards
- Macro Chips
- Prepaid cards

(02 marks)

(ii)

- Payments for utility (electricity, telephone, leasing, etc.)
- Money transfer between different bank accounts.
- Inquire the account balances
- Performing bank statements
- Open a fixed deposit
- Order for a cheque book

- Buy general insurance
- Apply a loan from bank
- Check statement online

(02 marks)

(c) The elements of a cheque may include:

- Identification number of the bank branch
- Date of the cheque
- Name of the bank and branch
- The amount (in numbers and words)
- Drawer's signature
- Cheque Number
- The recipient's name/ the term "cash"
- The term paid

(02 marks)

(Total 10 marks)



End of Section B

Suggested Answers to Question Six:

Chapter 04 - Organizations in Business

Chapter 02 - Business Environment and its impact on Businesses

Chapter 05 - Influences of the Government on Businesses

Chapter 07 - Entrepreneurship

(a)

- Separate legal personality, enabling to enter legal contracts in the name of the company.
- Limited liability to the shareholders to the level of their investment, against the losses made by the business.
- Ability to enhance funding via more legal and regulated channels.
- More confidence to the business partners, being an incorporated business.
- There is a going concern.
- Large scale operations will bring economies of scale.
- The possibility to recruit talented managers since the management is different from ownership and this makes management more efficient.
- Ability to attract large capital at once.
- Tax benefit can be obtained.

(04 marks)

(b)

- Political factors: Government support for the business, import restriction
- Economic Factors: the ban on the import of vehicles, Exchange rate
- Socio-cultural: the social recognition of the motor car users, lifestyle of people
- Technological factors: the modern techniques used for vehicle remodeling, frequent changes in the technology.
- Ecological factors: concerns over the environmental pollution due to vehicle usage, Material are disposed
- Legal Factors: Company act, Inland revenue Act, effect of changes in taxes

(06 marks)

(c)

- For employee engagement
- For reputation of the business
- To attract and retain talented staff to the business.
- To attract more investments.

(03 marks)

(d)

- Imposing taxes
- Providing advices and training
- Providing information
- Providing exchange facilities
- Providing finance facilities
- Fixed minimum/ maximum prices on goods and services
- Providing subsidies on goods and service
- Providing infrastructure facilities
- Laws and regulations
- Monetary controls

(03 marks)

(e) Every business may go through uncertainties and risks and some of them may challenge their existence. A courageous entrepreneur may look them as another opportunity for an improvement and make creative changes in the business. The ultimate objective of any business is its survival and hence the business must cope with the environment. Siri Motor House (Pvt) Ltd has understood the present environment and assessed the opportunities it can invest to ensure its survival. The business has thought beyond its usual business scope and evaluated its abilities to implement its new idea. This has helped the business to protect it from the uncertainty caused by the external environment. Also, it has provided it another opportunity to earn some considerable income in the short run, until the situation is back to normal. This also has helped the business to enhance its profitability and settle its dues without delays.

(04 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.

These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”. The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.



© 2021 by the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka). All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka).