



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2021

(104) BUSINESS ENVIRONMENT

31-10-2021
Afternoon
[02.00 - 5.00]

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time:** 03 hours. No. of Pages : 07
(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.**

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 an example for a want?

- (1) Food. (2) Job security. (3) Shelter. (4) Clothing.

1.2 Which one of the following is **not** a feature of a Joint Venture?

- (1) Registration is compulsory. (2) Participation of two or more parties.
(3) It is created for a short term purpose. (4) There is no going concern.

1.3 The special advantage of a partnership business when compared with a sole proprietorship business is:

- (1) Compulsory accounting. (2) Quick decision making.
(3) Unlimited liability. (4) Distribution of risk.

1.4 Which one of the following is a way of a direct distribution channel?

- (1) Manufacturer → Consumer.
- (2) Manufacturer → Retailer → Consumer.
- (3) Manufacturer → Agent → Consumer.
- (4) Manufacturer → Whole seller → Retailer → Consumer.

1.5 Which one of the following is a reason for dishonoring a cheque?

- (1) When there is no cash in the account.
- (2) When the account is closed.
- (3) When the drawer has stopped the payment from the bank account.
- (4) All of the above.

1.6 An example of a subject matter that a person **cannot** insure is:

- (1) Life of a person.
- (2) Accounting losses of a business in the future.
- (3) Cash in transit.
- (4) Potential risk from accidents.

1.7 Which one of the following is considered as a characteristic of a service?

- (1) It is tangible.
- (2) It can be stored.
- (3) It takes more labour to produce.
- (4) It is homogenous in nature.

1.8 Which one of the following is **not** supervised by the Central Bank of Sri Lanka?

- (1) Employees' Provident Fund.
- (2) Licensed Commercial Bank.
- (3) Colombo Stock Exchange.
- (4) Leasing Companies.

1.9 A postdated cheque is a cheque:

- (1) issued with a future date.
- (2) issued with a past date.
- (3) in which the validity period has been expired.
- (4) in which there is no validity period.

- 1.10** Which one of the following is correctly explains the Social Entrepreneurship?
- (1) Social Entrepreneurship is the creativity generated by the employees in business organizations.
 - (2) Social Entrepreneurship involves serving society through innovations.
 - (3) Social Entrepreneurship is an entrepreneurship activity focused on raising awareness on environmental issues.
 - (4) Social Entrepreneurship involves trading products with the world.

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** A formal organization can be defined as a group of people which is created as a result of the social functioning of individuals.
- 1.12** The Articles of Association is the main document that specifies the regulations for a company's operations.
- 1.13** If a cheque is crossed, the recipient of that cheque can withdraw the cash directly from the bank counter.
- 1.14** An entrepreneur is able to manage risks.
- 1.15** Near money is the money that has 100% liquidity currencies.

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

- 1.16** State two(02) different types of companies that can be incorporated under the Companies Act No. 07 of 2007.
- 1.17** Explain briefly, what is meant by "a medium of exchange" which comes under functions of money.
- 1.18** Explain briefly, what is endorsement of a cheque.
- 1.19** List two(02) challenges faced by women entrepreneurship.
- 1.20** State the two(02) main objectives of the Central Bank of Sri Lanka.

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

COCO is a Private Limited Company incorporated in 2003. **COCO** exports 'dried coconuts' to European market. At present, **COCO** maintains factories in four locations in Sri Lanka, employing 200 people. The Head office of **COCO** is located in Colombo. All operations of head office and factories are connected through an Enterprise Resource Planning (ERP) system.

You are required to:

- (a) **State** four(04) features of a Private Limited Company. (04 marks)
- (b) **State** three(03) advantages of incorporating **COCO** as a Private Limited Company.(03 marks)
- (c) **State** three(03) advantages of using Information and Communication Technologies (ICT) in **COCO** as an export oriented company. (03 marks)

(Total 10 marks)

Question 03

SafeGlove is a manufacturer of gloves and its production factories are located in the Katunayaka free trade zone. **Jenny** who is the Logistics Manager of **SafeGlove** is responsible for export processing in **SafeGlove**. One of **Jenny's** job responsibilities is to ensure the properties of **SafeGlove** against any sea hazards, thefts, or fire. For this purpose, **Jenny** has to continuously communicate and coordinate with factories, shipping lines and insurance agents.

You are required to:

- (a) **List** three(03) barriers that **Jenny** may face when communicating with local and foreign stakeholders. (03 marks)
- (b) **State** three(03) benefits of insurance for **SafeGlove**. (03 marks)
- (c) **Explain** any two(02) principles of insurance. (04 marks)

(Total 10 marks)

Question 04

Dias is a Director of Chamber of Commerce in Sri Lanka. He has been invited to deliver a keynote speech at a workshop conducted by the Department of Agriculture. Nearly 100 small scale spice growers are invited for this workshop. **Dias** has planned to explain the export potential in Sri Lanka, international trade procedures and current trends in businesses to these small scale spice growers.

You are required to:

- (a) **Identify** two(02) ways of transportation that can be used by an export-oriented spice grower. (02 marks)
 - (b) **State** four(04) benefits of Electronic Trade (E-Trade) for a spice manufacturer who wishes to export his/her products to the European market. (04 marks)
 - (c) **Explain** two(02) primary documents that are used when exporting spices to foreign countries. (04 marks)
- (Total 10 marks)

Question 05

Saman is an engineer by profession and a grower of organic vegetables. He started his organic vegetable business 5 years ago as a sole proprietorship and now the business has converted to a private limited company as a Small and Medium Sized Enterprise (SME). **Saman** is planning to list the company in the Colombo Stock Exchange to raise more capital to the business. **Saman** has recently won an award for the most outstanding entrepreneur in Sri Lanka.

You are required to:

- (a) **State** three(03) differences between an entrepreneur and a business person. (03 marks)
 - (b) **Explain** two(02) ways by which the performance of **Saman's** business could be enhanced as a SME. (04 marks)
 - (c) **State** three(03) reasons for importance of capital market for the economic development of the country. (03 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Happy Super is a supermarket chain in Sri Lanka with more than 300 outlets island-wide. Apart from selling various brands of Fast Moving Consumer Goods (FMCG), **Happy Super** has a product range under their own brand name of **Happy Super**. The supermarket recently launched a network of dairy farmers and vegetable growers enabling them to sell their fresh vegetables and range of dairy products to their nearest **Happy Super** outlets.

Happy Super's project of forming the network for dairy farmers and vegetable growers was initially started in the district of Monaragala. The objective of this project was to ensure a higher income for small-scale farmers, through reducing food wastage in transportation and eliminating commissions earned by intermediary sellers. '**Happy Super**' has arranged a fleet of vehicles to reach the doorsteps of farmers and collect their harvest. This arrangement has ensured small-scale farmers to receive a higher income. The initial success of this project has signaled the management of **Happy Super** to expand it to other districts, including Nuwara Eliya, Kandy and Matale. Currently, **Happy Super** has an island-wide network of 800 small-scale vegetable growers and dairy farmers.

Happy Super's management is now considering distribution of organic fertilizers to organic farmers in Monaragala at free of charge as a Corporate Social Responsibility (CSR) project of the company. **Happy Super** plans to manufacture organic fertilizer for this CSR project by using the organic waste from their outlets. Apart from providing organic fertilizers to its vegetable farmers, **Happy Super** expects to provide the relevant technical knowledge to those farmers through an industrial collaboration with the Department of Agriculture, University of Peradeniya.

You are required to:

- (a) **Explain** the contribution of **Happy Super** in achieving the economic objectives of the Sri Lankan government. (05 marks)
- (b) **Assess** the business environment of **Happy Super** using PESTEL analysis. (06 marks)
- (c) **State** three(03) benefits available to **Happy Super** by launching the above mentioned CSR project. (03 marks)
- (d) **Explain** two(02) ways in which **Happy Super** can direct its business focus towards the environmental sustainability. (04 marks)
- (e) **State** two(02) entrepreneurship skills required by an entrepreneur. (02 marks)

(Total 20 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.