



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2023

(104) BUSINESS ENVIRONMENT

27-08-2023

Afternoon

[02.00 - 5.00]

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

- (1) **Time:** 03 hours. No. of Pages : 06
- (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 Select from the following, an advantage of a partnership comparing with a sole proprietorship:

- (1) Unlimited Liability. (2) No Legal Personality.
(3) Distribution of Risk. (4) Quick Decision Making.

1.2 Which one of the following is **not** an element of a transport system?

- (1) Processing. (2) Terminal. (3) Power. (4) Mode.

1.3 Which of the following factor is **not** an opportunity of the globalization?

- (1) Free Trade. (2) Cheap Labour.
(3) Expanding the Operation. (4) Cultural Differences.

1.4 Consider the following major intervention policies set out by the Ministry of Industry and Commerce:

- (a)** Enabling environment.
- (b)** Modern appropriate technology.
- (c)** Access to finance.

Of the above, policy / policies that enhance the performance of SMEs in Sri Lanka is/are:

- (1) **(a)** only.
- (2) **(a)** and **(c)** only.
- (3) **(b)** and **(c)** only.
- (4) All of the above.

1.5 Consider the following statements:

- (a)** Payments can be made by cheques.
- (b)** Receives interests on the account balance.
- (c)** Ability to operate standing order instructions.

Of the above, the benefit/s a current account holder gets from a current account is / are:

- (1) **(a)** only.
- (2) **(a)** and **(b)** only.
- (3) **(a)** and **(c)** only.
- (4) All of the above.

1.6 Select the correct statement from the following with reference to the financial market:

- (1) Capital market can be divided into two as primary market and secondary market.
- (2) Money market is a market for purely long-term funds.
- (3) Treasury bills and commercial bills are main instruments in the capital market.
- (4) Equity shares are example for an instrument in money market.

1.7 A document which is issued giving the right to buy shares of a company in the future at a currently agreed price is:

- (1) Share Warrant.
- (2) Prospectus.
- (3) Share Certificate.
- (4) Article of Association.

1.8 Which one of the following is **not** in composition of the financial system of Sri Lanka?

- (1) Financial Institutions.
- (2) Central Bank of Sri Lanka.
- (3) Ministry of Trade.
- (4) Financial Market.

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

- (1) There is no Going Concern. (2) Registration is required.
(3) Involvement of two or more parties. (4) It is operated for a short term purpose.

1.10 Which one of the following is a reason for the growing importance of entrepreneurship?

- (1) Ability to make free decisions.
(2) The need for economic and sustainable development.
(3) Avoiding problems in the business.
(4) All of the above.

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 Principle of indemnity in insurance creates profits from insurance.

1.12 Endorsement is the writing on the back of the cheque as the recipient flows his or her name as stated in the cheque.

1.13 Changes in government policies in relation to taxation is an internal factor which cause failure in SMEs.

1.14 Change in social attitudes is a factor to rise for contribution of women entrepreneurship.

1.15 The Colombo Stock Exchange (CSE) operates as the only share market in the Sri Lankan economy.

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 the difference between “a formal Organization” and “an Informal Organization”.

1.17 Explain briefly what is meant by “Dual Insurance”.

1.18 List two(02) variables of the internal environment of a business.

1.19 List two(02) roles of an entrepreneur.

1.20 Define what is meant by “Sustainable Development”. (02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

Somasiri sells vegetables near Colombo-Horana main road. He uses his small lorry as his shop and displays price boards around the lorry. Majority of his customers are passengers of the road who are travelling back from offices.

You are required to:

- (a) **Explain** whether you can classify “**Somasiri’s vegetable selling**” as a business. (04 marks)
 - (b) **Explain** three(03) characteristics of a Sole Proprietorship. (03 marks)
 - (c) **State** three(03) advantages of a sole proprietorship. (03 marks)
- (Total 10 marks)

Question 03

Edmond Tea which is a Ceylon tea brand is popular in Russia for several decades. **Mr. Edi Hewage**, the founder of **Edmond Tea** was personally engaging in marketing and branding of their products in the Russian market. Trade sanctions have been imposed by Russia on many products due to Ukraine - Russia invasion. Hence, he is in the view that there will be a negative influence on the global political instability on his tea business and is planning to convert it into E-Trade:

You are required to:

- (a) **Define** what is meant by “Trade sanctions”. (02 marks)
 - (b) **State** three(03) disadvantages of Electronic Trade to **Edmond Tea**. (03 marks)
 - (c) **Explain** three(03) economic objectives that the government expects to achieve through businesses. (05 marks)
- (Total 10 marks)

Question 04

Express Logistics is in the business of providing logistic services to Sri Lankan companies who are engaged in international businesses. With the prevailing economic crisis, they are experiencing a drastic decline in their profit margins due to higher costs. Hence the management of the company is planning to start a new business targeting the export market.

You are required to:

- (a) **Explain** two(02) types of logistic systems used depending on the type of the product of an organization. (04 marks)
 - (b) **Explain** three(03) advantages of moving to International Trade . (06 marks)
- (Total 10 marks)

Question 05

Sanjeewa is the Head of Marketing at **Clean Wash (Pvt) Ltd**. **Sanjeewa** thought of creating WhatsApp groups, by adding sales representative of each province of **Clean wash (Pvt) Ltd**. to convey important and urgent messages among the team members. However, some representatives are not regular users of these chat groups. In addition to these groups **Sanjeewa** is a member of the WhatsApp group created for senior management.

You are required to:

- (a) **State** three(03) qualities of the above communication method used by **Clean wash (Pvt) Ltd.** (03 marks)
- (b) **Explain** two(02) importances of continuing the above communications to the company. (04 marks)
- (c) **State** three(03) supportive services that **Clean Wash (Pvt) Ltd.** requires for the smooth functioning of the business activities other than “Communication”. (03 marks)
- (Total 10 marks)
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End of Section B

SECTION C

(Total 20 marks)

Question 06

Shantha is a sole proprietor resides in Wadduwa. He has a business which trades house-hold cleaning tools. He collects these tools from small scale home-based manufacturers and sell them to Ampara and Monaragala regions. His products are very popular in those areas. He has three small lorries and a house which has been converted to a store.

The products which he is trading are comparatively cheaper and are of second grade quality. He is in the view that this quality and price is matching with the requirements of the customers of the market segment. However, according to his opinion, this second grade quality is not matched with the requirements of the customers in other areas, especially those who are in Western Province.

Recently he found it difficult to bear the increasing fuel cost in the country. Further suppliers also increase the price due to increase in fuel cost and imported material cost. This has led him to increase the selling prices of the cleaning tools. This price increase has disappointed most of his customers initially. Due to import restrictions imposed by the government, manufacturers face difficulties to find the material required to manufacture some of these tools.

Therefore, **Shantha** expects to understand his internal & external business environment by using a suitable analysis. In the meantime, **Shantha** is trying to expand his business to Anuradhapura area with one of his friend as a partnership. A bank loan was also approved by the bank for expansion of the business.

You are required to:

- (a) **Assess** the business environment of **Shantha** using SWOT analysis. (06 marks)
- (b) **Assess** whether **Shantha** is an entrepreneur or a business person. (04 marks)
- (c) **Explain** three(03) types of partners with whom **Shantha** can join in forming the partnership. (06 marks)
- (d) **Identify** two(02) risks that **Shantha** cannot insure. (02 marks)
- (e) **State** two(02) facilities that the government provides to business organizations. (02 marks)
- (Total 20 marks)
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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.