



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2025

(104) BUSINESS ENVIRONMENT

09-02-2025
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 Which one of the following group consists only human wants?

- | | |
|--------------------------------------|------------------------------------|
| (1) Job Security, Shelter and Food. | (2) Water, Shelter and Food. |
| (3) Frocks, Job Security and Breads. | (4) Food, Job Security and Shirts. |

1.2 Select from the following, the minimum number of directors of a Private Limited Company:

- | | | | |
|--------|--------|--------|--------|
| (1) 1. | (2) 7. | (3) 5. | (4) 2. |
|--------|--------|--------|--------|

1.3 Which one of the following is **not** a variable of the internal environment of a business?

- | | |
|-----------------------------|-----------------------|
| (1) Organizational Culture. | (2) Suppliers. |
| (3) Management Structure. | (4) Vision Statement. |

1.4 Which one of the following is correct with reference to the Money Market?

- (1) Shares and debentures are instruments in the money market.
- (2) It is the market for trading in financial assets for maturities of greater one year.
- (3) The Colombo Stock Exchange is used to sell and buy securities of the money market.
- (4) The Central Bank of Sri Lanka and the commercial banks are the main institutions in the money market.

1.5 Which one of the following is **not** a participant of a Real Time Gross Settlement System?

- (1) Employees' Trust Fund.
- (2) Central Bank of Sri Lanka.
- (3) Licensed Commercial Banks.
- (4) Primary dealers in Government Securities.

1.6 Which one of the following is **not** an element of the process of communication?

- (1) Sender.
- (2) Risk.
- (3) Feedback.
- (4) Channel.

1.7 Consider the following statements:

- (a) Creating new things to face intense competitions.
- (b) Diversifying businesses to utilize existing resources efficiently.
- (c) Producing more goods and services to accelerate economic growth.

Of the above, the reason/s for the growth in the entrepreneurship is / are:

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

1.8 By obtaining an insurance cover, an individual can insure;

- (1) risk of non-receipt of credit from a debtor.
- (2) the business losses to be incurred in the future.
- (3) the losses due to a decision of managers.
- (4) the losses due to market change.

1.9 Which one of the following is **not** a principle of insurance?

- (1) Indemnity.
- (2) Proximate Cause.
- (3) Confidentiality.
- (4) Insurable Interest.

1.10 A person who can cancel the crossing of a cheque is:

- (1) Drawer.
- (2) Bank.
- (3) Drawee.
- (4) Payee.

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 stakeholder is a person, group or organization that has an interest or concern in an organization.
- 1.12 Identifying business opportunities, satisfying human needs through innovation and risk management is entrepreneurship.
- 1.13 The money market can be divided as primary market and secondary market.
- 1.14 A credit card is an example for E-money.
- 1.15 Small and Medium Size Enterprises (SMEs) contribute a significant percentage (%) to the Gross Domestic Product in Sri Lanka.

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

- 1.16 Identify two(02) new trends in entrepreneurship.
- 1.17 State two(02) environmental factors which affect the failures of SMEs.
- 1.18 State the difference between a “Formal Organization” and an “Informal Organization”.
- 1.19 State two(02) examples for instruments in the capital market.
- 1.20 Explain briefly what is meant by a post-dated cheque. (02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

Ann Perera started a sole proprietorship as **Ann Enterprises** in 2020. With expansion of her business to global market, **Ann** is planning to convert her business as a private limited company.

You are required to:

- (a) **Explain** two(02) disadvantages of a sole proprietorship. (04 marks)
- (b) **Identify** three(03) documents required for incorporation of a private limited company. (03 marks)
- (c) **Explain** two(02) features of a private limited company. (03 marks)
- (Total 10 marks)

Question 03

Avish is a small scale business owner engaged in the business of processing coconut products. He obtained a loan from a commercial bank to purchase a new machinery for the production facility. This investment helped to increase the production capacity of the business. The bank's financial services also assisted in managing the finance and ensuring timely payments. **Avish** often uses cheques to streamline the financial operations of his business.

You are required to:

- (a) **Explain** "Being a Medium of Exchange" as a main function of money. (02 marks)
 - (b) **Explain** two(02) types of accounts that a business organization can maintain in commercial banks. (04 marks)
 - (c) **State** four(04) advantages of using cheques than cash when making business transactions. (04 marks)
- (Total 10 marks)

Question 04

A thriving business operates by prioritizing ethical conduct, fulfilling its obligations to stakeholders, and adopting sustainable practices. Adherence to ethical principles fosters trust, attracts investment, and enhances the company's reputation. Embracing sustainable practices minimizes environmental impact and contributes to a healthier planet, promoting long-term viability.

You are required to:

- (a) **List** three(03) benefits expected by a business organization from the Code of Ethics. (03 marks)
 - (b) **Explain** two(02) strategies / actions to be introduced by a company for achievement of the social responsibility. (04 marks)
 - (c) **State** three(03) benefits for a business by using sustainable practices. (03 marks)
- (Total 10 marks)

Question 05

Sri Lanka's traditional import-export landscape is undergoing a shift, driven by the e-commerce boom. Online marketplaces and digital payment systems are disrupting traditional trade channels, offering unmatched convenience and reach. This trend has opened new avenues for businesses to expand their markets and to reduce costs.

You are required to:

- (a) **Explain** two(02) main documents used in foreign trade (international trade). (03 marks)
 - (b) **Explain** two(02) new trends to be adopted in Sri Lanka's traditional trade activities in line with modern world. (04 marks)
 - (c) **State** three(03) advantages gained by customers using E-commerce. (03 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Arial started a sole proprietorship as **Arial Textiles** and it is engaged in garments items for kids. He is considering to expand its operations to export market. He has hired a consultant to convert the business as a Public Limited Company for raising more capital and to identify challenges of the business.

Now he has four factories in Sri Lanka and skilled labour force, established suppliers' relationships and a strong customer base facilitated to grow his business. However, due to limited financial resources, dependence on a few key customers and lack of IT knowledge, the business has faced challenges when expanding its business. There is a demand for ladies garments items in some Europe countries. He is planning to diversify his business to many garment items understanding demand in the world while adhering to sustainable practices. Further cost of production has increased drastically due to depreciation of rupee against US dollar.

Due to economic downturns, consumers' spending also reduces in Sri Lanka. Rising competition from domestic and international changes in fashion trends and supply chain disruptions caused by factors such as natural disasters, political instability, trade restrictions & labor shortages impact to the business of **Arial Textiles**.

The consultant has identified the importance of logistics in the garment manufacturing industry. Efficient transportation, warehousing, and inventory management are crucial for ensuring timely delivery of products to customers. **Arial Textiles** must carefully consider factors such as transportation, warehousing costs, and inventory management techniques to minimize logistical challenges.

You are required to:

- (a) **State** three(03) advantages of a Public Limited Company. (03 marks)
- (b) **Assess** business environment of **Arial Textiles** using SWOT analysis. (06 marks)
- (c) **State** three(03) critical factors to be considered when selecting a transportation mode for a business. (03 marks)
- (d) **Explain** three(03) ways how a good transportation system will help **Arial Textiles**. (05 marks)
- (e) **State** three(03) entrepreneurship skills required by **Arial** as an entrepreneur. (03 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.