



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2025

(104) BUSINESS ENVIRONMENT

03-08-2025

Afternoon

[02.00 – 5.00]

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

- (1) **Time:** 03 hours.
- (2) **All questions should be answered.**
- (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.**

No. of Pages : 07

No. of Questions : 06

**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** A document by which an invitation is issued to the public to buy shares or debentures of the company is called as:

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

**1.2** Which one of the following is correct with reference to a public corporation?

- (1) There is a legal personality.
- (2) It is managed by the Board of Directors appointed by the Minister.
- (3) Accounting and auditing are mandatory requirements.
- (4) All of the above.

**1.3** Which one of the following is **not** correct with reference to an entrepreneur?

- (1) He / She does not take risks.
- (2) He / She focuses on new business opportunities.
- (3) He / She has innovative ideas.
- (4) He / She has a self-confidence.

**1.4** Which one of the following is an example for an instrument in the Capital Market of Sri Lanka?

- (1) Commercial Papers.
- (2) Debentures.
- (3) Treasury Bills.
- (4) Bills of Exchange.

**1.5** Which one of the following is an instance for the dissolution of the partnership with a court order?

- (1) Due to death of a partner.
- (2) Due to termination of the partnership.
- (3) When a partner willfully violates the partnership agreement.
- (4) All of the above.

**1.6** Which one of the following is a disadvantage of a public limited company?

- (1) Increase in liquidity.
- (2) Losses are retained within the business.
- (3) To be able to make greater capital.
- (4) There is a legal personality.

**1.7** Which one of the following is **not** a criteria for accepting insurance as a risk?

- (1) Predictability.
- (2) Verifiability.
- (3) Casualty.
- (4) Confidentiality.

**1.8** Consider the following statements:

- (a)** Profit can be earned under the indemnity principle of insurance.
- (b)** Principle of subrogation does not affect a life insurance policy.
- (c)** Under the principle of proximate cause, the main cause of damage should be covered.

Of the above, the correct statements with reference to principles of insurance are:

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

**1.9** Which one of the following is a way of enhancing the performance of Small and Medium Entities (SMEs)?

- (1) Unable to access to finance.
- (2) Create an enabling environment by government.
- (3) Reduction of the quality of products.
- (4) Increasing the income tax on SMEs.

**1.10** Which one of the following is an example for electronic money?

- (1) Cheques.
- (2) Promissory Notes.
- (3) Credit Cards.
- (4) Commercial Papers.

*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** Lack of management skills is a reason for a failure of Small and Medium Entities (SMEs).

**1.12** Registration is required for a joint venture.

**1.13** Employees' Trust Fund (ETF) is an institution supervised by the Central Bank of Sri Lanka.

**1.14** Improving education level in women is a factor to rise in women entrepreneurship in Sri Lanka.

**1.15** An endorsement of a cheque allows changing the ownership of the cheque by signing on the back.

*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) differences between "Goods" and "Services".

**1.17** State four(04) elements of communication.

**1.18** Explain briefly what is meant by "Reinsurance".

**1.19** State two(02) participants in the Money Market of Sri Lanka.

**1.20** State two(02) entrepreneurship skills. (02 marks each, Total 40 marks)

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*End of Section A*

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## **SECTION B**

(Total 40 marks)

### **Question 02**

**ABC (Pvt) Ltd.** is a small-scale bakery business started by **Kumara** few years ago in Colombo. Initially, he operated the business as a sole proprietorship, selling homemade pastries and few more bakery items. As demand grew, he expanded his business by forming a partnership with his brother. Later, to secure additional funding and to improve operations, the business was registered as a private limited company. Now **ABC (Pvt) Ltd.** supplies products to supermarkets also. However, several challenges are being faced by the company as a Small and Medium Entity (SME) in Sri Lanka.

**You are required to:**

- (a) **State** three(03) characteristics of a formal business. (03 marks)
  - (b) **State** differences between a partnership and a limited liability company based on the following characteristics:
    - (i) Legal Personality.
    - (ii) Control.
    - (iii) Accounting and Auditing.
    - (iv) Liability. (04 marks)
  - (c) **Explain** two(02) challenges to be faced by **ABC (Pvt) Ltd.** as a SME. (03 marks)
- (Total 10 marks)

### **Question 03**

**Rohan** owns a small textile business in Kandy. Initially, he managed transactions using cash, but, he faced difficulties in handling high value payments. In order to streamline the business operations, he opened a current account in a commercial bank. Thereafter, he started using cheques to pay suppliers and opened an online platform to his customers to make transactions.

**You are required to:**

- (a) **State** three(03) services provided by a commercial bank to a business. (03 marks)
  - (b) **State** two(02) importances of crossing a cheque. (02 marks)
  - (c) **Explain** three(03) functions of money. (05 marks)
- (Total 10 marks)

## Question 04

**Nimal** started a handicraft business as **Nimal Handicraft** in Galle. The business is engaged in selling traditional Sri Lankan wooden carvings. Initially, **Nimal** relied on local tourists, but with the rise of global trade and e-commerce, **Nimal** expanded his market by exporting crafts to international customers through online platforms. In order to distribute his products efficiently, he partnered with logistics companies for global shipping and use retail stores for local sales.

**You are required to:**

- (a) **Explain** two(02) importances of managing a distribution channel in a proper way. (04 marks)
  - (b) **Identify** three(03) parties that could be involved in the distribution channel of **Nimal Handicraft**. (03 marks)
  - (c) **State** three(03) contributions made by entrepreneurship for the economic development of the country. (03 marks)
- (Total 10 marks)

## Question 05

**Deepthi** started an eco-friendly packaging entity as a sole proprietorship in Colombo promoting sustainability by using biodegradable materials. In order to expanding the business, she partnered with different organizations, including sole proprietorships, partnerships, and private limited companies. Adopting sustainable practices gain an advantage for the business of **Deepthi** in current context.

**You are required to:**

- (a) **State** three(03) characteristics of a sole proprietorship. (03 marks)
  - (b) **Explain** two(02) barriers for effective communication that **Deepthi** might be faced in her business. (04 marks)
  - (c) **Explain** two(02) reasons why adopting practices of environmental sustainability is important for a business organization. (03 marks)
- (Total 10 marks)

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*End of Section B*

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## **SECTION C**

(Total 20 marks)

### **Question 06**

**Quality Tea (Pvt) Ltd.** is a tea export company in Nuwara Eliya and **Ravi** is the managing director of this company. Initially, the company supplied the tea packets with different flavours to local retailers, but as demand increased, business was expanded into international markets. To manage growing operations, the company had to ensure effective communication with suppliers, buyers, and logistics providers. Further, the management of the company has been discussing with the union leaders on the revision of wages in line with the recently implemented minimum wage rate requirement. The company is facing challenges such as language barriers, time zone differences, and delays in responses to customers. To overcome these challenges, the company decided to adopt multiple modes of communication, including emails, video calls, social media, etc.

In addition to that, the government policy on ban on chemical fertilizer in 2019 had badly affected the daily harvest. Also, few African countries imposed restrictions on products imports from South Asian countries. However, there is an increasing demand for organic tea, which creates opportunities in the international market. The business faced threats such as global competition and risk of exchange rate fluctuations.

**Ravi** also recognized the importance of having a relationship between business and government. While incentives and infrastructure developments provided by the government are benefited the operations, challenges like bureaucratic delays and taxation policies are affected the profitability of the business. By adapting to these factors and leveraging the right resources, the company successfully expanded its tea export business.

**You are required to:**

- (a) **Assess** the business environment of **Quality Tea (Pvt) Ltd.** using PESTEL Analysis. (06 marks)
- (b) **Identify** two(02) business supportive services that help **Quality Tea (Pvt) Ltd.** to operate effectively. (02 marks)
- (c) **Explain** two(02) reasons for the importance of having a relationship between the government and a business. (04 marks)
- (d) **State** four(04) reasons why **Quality Tea (Pvt) Ltd.** needs to take part in foreign trade (international trade) (04 marks)
- (e) **State** four(04) factors for successes in E-commerce of **Quality Tea (Pvt) Ltd.** (04 marks)

(Total 20 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

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

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

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

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