

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2026

(104) BUSINESS ENVIRONMENT

25-01-2025

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 The maximum number of shareholders of a private limited company is:

(1) 2. (2) 20. (3) 30. (4) 50.

1.2 Which one of the following is **not** a feature of a current account?

(1) Interest can be earned by the account holder.
(2) Payments can be made by cheques.
(3) It can be used to make standing orders.
(4) It facilitates for bank overdraft facilities.

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

(1) Licensed Commercial Banks. (2) Employees' Provident Fund (EPF).
(3) Employees' Trust Fund (ETF). (4) Leasing Companies.

1.4 Which one of the following instruments is **not** used in the money market of Sri Lanka?

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

1.5 Which one of the following highlights the importance of entrepreneurship?

(1) It reduces employment.	(2) It promotes innovations.
(3) It increases imports.	(4) It weakens competition.

1.6 Which one of the following is an element in the process of communication?

(1) Receiver.	(2) Feedback.
(3) Mode.	(4) All of the above.

1.7 Which one of the following is **not** a benefit of establishing and implementing a Code of Business Ethics?

(1) Preventing misconducts.
(2) Ensuring customers' confidence in the business.
(3) Decreasing customers' loyalty.
(4) Discouraging unfair practices.

1.8 If the name of the transferee only is used as the endorsement, it is a:

(1) Restrictive endorsement.	(2) Special endorsement.
(3) Blank endorsement.	(4) Conditional endorsement.

1.9 Which one of the following is correct regarding a Public Limited Company?

(1) It cannot be listed in the Colombo Stock Exchange.
(2) Shares are permitted to issue to the public.
(3) It is not compulsory to publish the annual report.
(4) There are no legal requirements for the formation.

1.10 Which one of the following is a reason for dishonouring a cheque?

- (1) Lack of cash in the account.
- (2) When the drawer has stopped payment from the bank.
- (3) When the account is closed.
- (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 Money market is a market for purely short-term funds.

1.12 Services are tangible things and can be stored.

1.13 Women entrepreneurship is a main trend in entrepreneurship.

1.14 In a direct distribution, only the manufacturer and the consumer involve in the distribution channel.

1.15 Entrepreneurship mainly refers to avoiding risks and maintaining stability without creating new businesses.

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

1.16 Briefly explain what is meant by a formal organization with an example.

1.17 State two(02) characteristics of good money.

1.18 State the difference between local trade and foreign (international) trade.

1.19 State two(02) stakeholders of an organization.

1.20 List two(02) internal factors which affect the failure of SMEs.

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

Dilshan and **Kavindi** live in Galle. They noticed a high demand for fresh fruit juices among tourists in the area. In order to take advantage of this opportunity, they decided to start a small juice bar near the beach as **DK Juice Bar**. At the beginning, they want to understand the most suitable form of organization for themselves.

You are required to:

(a) **Explain** whether **DK Juice Bar** can be classified as a business. (03 marks)

(b) **State** differences between a partnership and a sole proprietorship based on following characteristics:

- (i) Ownership.
- (ii) Profit and Losses.
- (iii) Management. (03 marks)

(c) **State** four(04) advantages of a private limited company comparing with a partnership. (04 marks)

(Total 10 marks)

Question 03

Anushka owns a small garment factory in Kurunegala, producing casual wear for the local market. She plans to export garments to Europe market under a new brand name to expand her business. Since **Anushka** is investing heavily in machinery and raw materials, she wants to ensure that her business is financially and operationally protected from risks. Therefore, **Anushka** is considering different types of insurance covers and wishes to understand how insurance supports not only for her business but also for the wider economy.

You are required to:

(a) **State** two(02) different types of insurance policies that **Anushka** can enter into. (02 marks)

(b) **State** two(02) principles of insurance. (02 marks)

(c) **Explain** three(03) reasons why insurance is important for **Anushka's** Business as well as economic development. (06 marks)

(Total 10 marks)

Question 04

Tharindu is the Operations Manager of a Sri Lankan spice exporting company. The company purchases cinnamon and pepper from local farmers and exports them to Europe and Middle East countries. To handle this process effectively, **Tharindu** must plan the logistics for transporting goods from rural areas to the port, complete the necessary import-export procedures, and also understand how global factors such as international trade agreements and foreign exchange fluctuations impact the business.

You are required to:

- (a) **State** three(03) factors to be considered by **Tharindu** for an effective logistic system. (03 marks)
- (b) **Explain** three(03) disadvantages that **Tharindu** might face due to not managing distribution channels properly. (05 marks)
- (c) **Explain** what is meant by a “Unilateral Trade Agreement”. (02 marks)

(Total 10 marks)

Question 05

Lanka Crafts, a Sri Lankan Small and Medium Sized Enterprise (SME) producing handicrafts, faces challenges in competing with imported goods. Government's policies such as tax concessions and training programs influence its operations. At the same time, the organization realizes the need to act responsibly towards employees, customers, and suppliers to sustain stakeholders' trust and long-term growth of the organization.

You are required to:

- (a) **State** three(03) ways how the performance of **Lanka Crafts** could be enhanced as a SME in Sri Lanka. (03 marks)
- (b) **State** three(03) ways how the government influences on businesses. (03 marks)
- (c) **Explain** two(02) social responsibility areas where **Lanka Crafts** needs to be fulfilled its social responsibility towards stakeholders. (04 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Jayalath Exports (Pvt) Ltd. is a Sri Lankan agribusiness company established in 1998, initially as a sole proprietorship cultivating and selling spices such as cinnamon, pepper, and cloves to local traders. Over the years, the business expanded and was incorporated as a Private Limited Liability Company. Currently, the company exports processed and value-added spices to countries in Europe and Asia and has its head office in Colombo with two processing centers in Galle and Kandy.

Despite its growth, **Jayalath Exports (Pvt) Ltd.** has faced numerous challenges in the past decade. The global COVID-19 pandemic disrupted shipping routes, delayed deliveries, and increased logistics costs. More recently, Sri Lanka's economic crisis, coupled with high inflation, shortage of foreign currency, and frequent policy changes created further uncertainties. Additionally, climate change and irregular weather patterns have affected agricultural yields, creating difficulties in sourcing raw materials consistently. It resulted to increase in cost of production. Further, the company has to face the competition from India, Vietnam, etc.

On the positive side, globalization and digital trade have opened new opportunities. The company has started selling directly to international buyers via e-commerce platforms, and foreign demand for organic and sustainably produced Sri Lankan spices has increased. To remain competitive, **Jayalath Exports (Pvt) Ltd.** has invested in modern packaging, international certifications, and stronger relationships with smallholder farmers.

The management team is currently reviewing its long-term strategy. They wish to analyse their internal strengths and weaknesses, as well as the external opportunities and threats, to decide on future expansions. At the same time, they are conscious of the importance of transport infrastructure in ensuring timely exports, as well as the entrepreneurial drive needed to contribute to Sri Lanka's overall economic development.

You are required to:

- (a) **Assess** the business environment of **Jayalath Exports (Pvt) Ltd.** using SWOT analysis. (06 marks)
- (b) **Explain** two(02) ways how the global business environment impacts on **Jayalath Exports (Pvt) Ltd.**'s business. (04 marks)
- (c) **State** three(03) elements of a transport system required for **Jayalath Exports (Pvt) Ltd.** (03 marks)
- (d) **State** three(03) advantages of an effective transportation system for **Jayalath Exports (Pvt) Ltd.** (03 marks)
- (e) **State** four(04) social and economic benefits of entrepreneurship. (04 marks)

End of Section C

(Total 20 marks)

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.