



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL 01 EXAMINATION - JULY 2026

(1604) BUSINESS ENVIRONMENT

02-08-2026

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 : 06

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 main elements of an organization are:

- (1) Profit motive, risk and competition.
- (2) A common goal, a group of people and interaction (structure).
- (3) Authority, leadership and team work.
- (4) Structure, resources and technology.

1.2 Which one of the following group consists of the external environment of an organization?

- (1) Vision statement and organizational culture.
- (2) Human resources and management structure.
- (3) Task environment and macro environment.
- (4) Mission statement and value system.

1.3 Which one of the following is **not** a factor of a good transport system?

- (1) Safety.
- (2) High Cost.
- (3) Capacity.
- (4) Speed.

- 1.4** The document by which an invitation is issued to the public to buy shares or debentures of a company is called as:
- (1) Prospectus.
 - (2) Share Warrant.
 - (3) Share Certificate.
 - (4) Articles of the Association.
- 1.5** Which one of the following is a commonly used criterion to define Small and Medium Enterprises (SME)?
- (1) Number of Employees.
 - (2) Type of Management.
 - (3) Age of the Business.
 - (4) Profit Earned.
- 1.6** A party who can cancel the crossing of a cheque is:
- (1) Bank.
 - (2) Drawee.
 - (3) Drawer.
 - (4) Payee.
- 1.7** Which one of the following is **not** supervised by the Central Bank of Sri Lanka?
- (1) Licensed Commercial Banks.
 - (2) Leasing Companies.
 - (3) Employees' Provident Fund.
 - (4) Colombo Stock Exchange.
- 1.8** Which one of the following is **not** an economic objective that the government works to achieve?
- (1) Full Employment.
 - (2) Economic Stability.
 - (3) Sustainable Development.
 - (4) Maximizing Profits.
- 1.9** Which one of the following best describes a direct distribution?
- (1) Goods are delivered to customers through one or more intermediaries.
 - (2) The seller directly sells the goods to the customers without intermediaries.
 - (3) Goods are traded only in the secondary market.
 - (4) Goods are distributed only through wholesalers and retailers.
- 1.10** The Image Clearing System for cheques in Sri Lanka is operated by:
- (1) Lanka Clear (Pvt) Ltd.
 - (2) Securities and Exchange Commission.
 - (3) Bank of Ceylon.
 - (4) Colombo Stock Exchange.

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** The money market is a market for purely short term funds.
- 1.12** The minimum number of shareholders of a private limited company is 2.
- 1.13** Durability is a characteristic of good money.
- 1.14** In a sole proprietorship, the owner is not personally liable for business debts.
- 1.15** The principle of indemnity in insurance is applicable for life insurance policies.

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** State two(02) characteristics of an entrepreneur.
- 1.17** State two(02) examples for instruments in the money market.
- 1.18** State two(02) ways the businesses contribute to the government to accomplish the government's economic objectives.
- 1.19** State two(02) documents used in the international trade.
- 1.20** Briefly explain what is meant by "Sustainable Environment".

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

Sachini and her friend **Kavishka** are planning to start a small cinnamon-based product business, in Matara, targeting both local customers and the tourist market. They are discussing the most suitable way to form a business by contributing capital equally. They also want to follow modern trade trends to reach more customers efficiently.

You are required to:

- (a) **State** a possible type of business organization which **Sachini** and **Kavishka** can consider to start the business. (02 marks)
- (b) **State** four(04) features of the business organization stated in (a) above. (04 marks)
- (c) **Explain** two(02) new trends in trade that can help business to reach customers efficiently. (04 marks)

(Total 10 marks)

Question 03

Kasun owns a small catering business in Colombo named **Kasun Catering** and delivers orders to customers in nearby towns. In order to manage daily operations smoothly, he depends on several business support services. Recently, he has also faced communication issues when coordinating orders and deliveries and wants to improve the effectiveness of communication in the business.

You are required to:

- (a) **List** two(02) support services required by a business other than communication. (02 marks)
 - (b) **Explain** three(03) reasons why the effective communication is important for **Kasun Catering**. (06 marks)
 - (c) **State** two(02) barriers for effective communication. (02 marks)
- (Total 10 marks)

Question 04

Isuru operates a small scale business in Kurunegala, producing coconut-shell handicrafts for local souvenir shops as an entrepreneur. After receiving orders from buyers in foreign countries, he plans to export his products. While expanding his business, he wants to clearly understand about reasons for failure of Small and Medium Enterprises (SMEs).

You are required to:

- (a) **State** three(03) differences between an entrepreneur and a manager. (03 marks)
 - (b) **List** three(03) factors that affect the failure of SMEs. (03 marks)
 - (c) **Explain** two(02) reasons why SMEs are important for the Sri Lankan economy. (04 marks)
- (Total 10 marks)

Question 05

Sahan operates a small distribution business in Gampaha, supplying household items to retail shops. He wants to improve delivery performance and to minimize delays and costs of the business. He is planning to use cheques for payments and to accept online payments.

You are required to:

- (a) **State** three(03) advantages of using cheques rather than cash by **Sahan's** business. (03 marks)
 - (b) **Explain** two(02) reasons for using Electronic Money by a business. (04 marks)
 - (c) **State** three(03) ways that a cheque can be dishonoured. (03 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

Serendib AI (Pvt) Ltd. is a Sri Lankan technology business established in 2023 by **Tharindu** and **Sewwandi**, two young professionals living in **Malabe**. They developed a simple AI-based system to help small supermarkets and distributors to plan their stock to reduce waste and to organize deliveries. The company provides the services through a website, and a mobile app. Customers pay a monthly fee and receive reports and alerts through the system itself.

At the beginning, **Tharindu** and **Sewwandi** managed the business by themselves. Later, they registered it as a private limited company to build trust with large customers and to attract investors. Further, customers' perception on digitalization is a factor to build trust of customers. They also hired a small team to handle customers' support services and software updates.

As the business grows, **Serendib AI (Pvt) Ltd.** faces several challenges. The company needs to purchase computers and other equipment from abroad and these purchases are delayed sometimes due to the import procedures. They heavily depend on communication services such as internet, email, and online meetings, as most services are delivered digitally. When there are internet problems or power cuts, customers complain about delays. A team of the company visit clients' shops, deliver training sessions, and handle hardware setup when needed.

The external environment also affects the company's operations. Changes in government rules and taxes and approval processes create uncertainty. Inflation and exchange rate fluctuations increase operating costs. The management is also cautious about legal matters such as data privacy and protecting their software innovations. In addition, some clients expect environmentally friendly practices, including the proper disposal of old electronic items.

You are required to:

- (a) **State** features of **Serendib AI (Pvt) Ltd.** with reference to the following:
 - (i) Ownership. (ii) Legal status. (iii) Management. (03 marks)
 - (b) **Assess** the business environment of **Serendib AI (Pvt) Ltd.** using PESTEL Analysis. (06 marks)
 - (c) **Explain** three(03) positive impacts of digitalization for **Serendib AI (Pvt) Ltd.** (06 marks)
 - (d) **State** three(03) benefits of social responsibility for a business like **Serendib AI (Pvt) Ltd.** (03 marks)
 - (e) **State** two(02) reasons for the popularity of the electronic trade. (02 marks)
- (Total 20 marks)

End of Section C

Action Verbs Check List

Level	Action Verb	Definition	Detailed Instructions for Students
REMEMBER Recalling facts, terms, basic concepts, or answers without necessarily understanding what they mean.	Identify	Recognition of someone or something.	Find and name key parts of the topic.
	Define	Meaning of a word or concept.	Provide a clear meaning of a term or concept.
	Recognise	Awareness of something seen before.	Spot and acknowledge something from previous learning.
	State	Clear and concise expression of information.	Express key facts or concepts in a straightforward way.
	List	A series of names, numbers, or items.	Write down key points in an organized manner.
	Record	Entry of details into a system (not accounting).	Enter relevant details clearly and accurately.
UNDERSTAND Comprehending the meaning of informational materials and being able to interpret or explain it.	Construct	Formation of something by combining elements.	Bring together different parts into a meaningful whole.
	Differentiate	Recognition of differences between two or more things.	Highlight distinctions between concepts or items.
	Discuss	Consideration of different ideas and opinions about a topic.	Explore various perspectives and provide insights.
	Explain	Clarification of something in greater detail.	Provide a logical and detailed description.
	Illustrate	Use of examples, charts, or visuals to clarify a point.	Support explanations with appropriate examples or visuals.
	Interpret	Explanation of the meaning of information or actions.	Explain what something means in your own words.
	Describe	A detailed account of something.	Provide relevant details in a structured manner.
	Summarise	A brief statement of the main points.	Present key information concisely.
APPLY Using learned material in new and concrete situations. It requires the practical application of knowledge and skills.	Apply	Use of knowledge, skills, or rules in a situation.	Utilise relevant knowledge or techniques to achieve an outcome.
	Calculate	Determination of a value through mathematical or logical methods.	Use numerical or logical processes to reach a solution.
	Determine	Establishment of something through research or calculation.	Find out or conclude something after calculation or research.
	Demonstrate	Display of a process or method.	Show a clear example through structured steps.
	Prepare	Organisation of materials or information for use.	Arrange necessary details before engaging in a task.
	Use	Application of a concept, tool, or method for a purpose.	Implement relevant knowledge or resources appropriately.
	Present	Sharing of information effectively.	Deliver key insights clearly and professionally.
ANALYSE Breaking down information into its components to understand its structure and relationships.	Analyse	Detailed examination of something to understand its components.	Break down information into key parts for better understanding.
	Compare	Examination of similarities and/or differences.	Point out the key commonalities and distinctions.
	Distinguish	Recognition of unique characteristics.	Identify what makes things different from each other.
	Examine	Inspection of something to determine its nature.	Look at something closely to understand it better.
	Outline	Summary of the main points.	Provide an organised overview of key aspects.
	Conduct	Organisation of elements for an experiment, survey, or study.	Follow structured steps to carry out a task systematically.
	Report	Structured presentation of findings.	Present analysed information in a clear and logical format.
EVALUATE Making judgments about the value or quality of ideas or materials based on criteria or standards.	Advise	Offering of suggestions or recommendations.	Provide informed guidance based on analysis.
	Evaluate	Critical assessment of value, effectiveness, or impact.	Judge the quality or relevance of something based on criteria.
	Formulate	Development of a structured approach or plan.	Create a well-defined method or strategy.
	Recommend	Suggestion of a suitable course of action.	Propose an approach backed by logical reasoning.
CREATE Combining elements in novel ways to form a coherent or functional whole; the ability to generate new ideas, products, or ways of understanding.	Create	Generation of something new.	Develop something original and purposeful.
	Assess	Estimation or evaluation of quality, ability, or nature.	Provide a reasoned judgment based on available information.
	Develop	Expansion or refinement of an idea, product, or concept.	Strengthen and improve an idea over time.
	Propose	Suggestion of a plan or concept for consideration.	Present an idea or structured recommendation.
	Synthesis	Combination of different elements to form a coherent whole.	Integrate multiple ideas or insights into a meaningful conclusion.
	Design	Creation of a structured plan for something	Formulate a detailed structure for a product or process.
	Compile	Assembly of information from various sources.	Organise collected data into a comprehensive format.