



**ASSOCIATION OF ACCOUNTING TECHNICIANS  
OF SRI LANKA**

CURRICULUM 2020

**PILOT PAPER**

**Level I**

**104 - BUSINESS ENVIRONMENT (BEN)**

A publication of the Education and Training Division

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**Association of Accounting Technicians of Sri Lanka**  
**104- Business Environment (BEN)**  
**Pilot Paper**

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**Instructions to Candidates (Please Read Carefully)**

**Time Allowed:**

Writing : 03 hours

**Structure of Question Paper:**

- This paper consists of three Sections: Section A, Section B and Section C.
- All the questions of Section A, Section B and Section C should be answered.

**Marks:**

- Allocation of marks for each section:

<b>Section</b>	<b>Marks</b>
Section A	40
Section B	40
Section C	20
<b>Total</b>	<b>100</b>

- Marks for each question are shown with the question.
- The pass mark for this paper is 50%.

**Answers:**

- All answers should be written in the booklet provided, answers written on the question paper will not be considered for marking.
- Begin your answer of each question on a new page.
- All workings should be clearly shown.
- Do not write on the Margins.

**Answer Booklets:**

- Instructions are shown on the front cover of each answer booklet.

**Calculators:**

- Candidates may use any calculator except those with the facility for symbolic algebra and differentiation. No programmable calculators are allowed.

**Attached:**

- Action verb checklist – 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 checklist.

(Total 40 marks)

***Question 01***

**Select the most appropriate answer for question numbers 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 is an example for want?

- (1) Food.                      (2) Job security.              (3) House.                      (4) Safety.

1.2 Which one of the following is a disadvantage of sole proprietorship?

- (1) High degree of legal requirements.              (2) Unlimited liability.  
(3) Delay in making decisions.                      (4) High level of start-up capital.

1.3 Which one of the following is **not** an example for auxiliary service?

- (1) Education.    (2) Communication.  
(3) Insurance.    (4) Stores management.

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

- (1) Message.                      (2) Sender.                      (3) Sound.                      (4) Purpose.

1.5 The market where the short term loan demands and short term supplies take place among commercial banks is :

- (1) Treasury bond market.                              (2) Interbank call money market.  
(3) Share market.    (4) Corporate bond market.

1.6 Which one of the following is **not** a feature of a life insurance agreement?

- (1) Utmost good faith.                                      (2) A valid contract.  
(3) Indemnity.    (4) Insurable interest.

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

- (1) Transferee.
- (2) Commercial bank.
- (3) Payee.
- (4) Drawer.

1.8 Which one of the following is **not** a characteristic of a franchising arrangement?

- (1) Franchisor would usually allow the franchisee to use his brand name.
- (2) The profit would be usually shared by franchisee and franchisor.
- (3) Franchisor would usually provide training service to franchisee.
- (4) Franchisor would usually give technical support to franchisee.

1.9 Which one of following statements is correct with reference to a private limited company?

- (1) Maximum number of shareholders is 20.
- (2) Shares can be issued to the public.
- (3) Minimum number of directors is 1.
- (4) It is compulsory to publish annual report.

1.10 Which one of the following is an advantage of a partnership compared with a sole proprietorship?

- (1) Liability is limited.
- (2) There is a possibility of having more capital.
- (3) Decisional are taken by only one person.
- (4) There is no legal personality.

**State whether each of the following statements is true or false. Write the answer (true / false) in your answer booklet with the number assigned to the question:**

- 1.11 Treasury bill market is a part of money market.
- 1.12 Bargain power of employees is a component of porter's five forces model.
- 1.13 Saving customers' time and energy is a reason for the popularity of electronic commerce.
- 1.14 Offering awards of excellence is a non-financial incentive provided by the government to small and medium scale enterprises.
- 1.15 Enhancing the standard of living of people is a factor for contribution of business for social and cultural sustainability.

**Write answers for question Nos 1.16 to 1.20 in your answer booklet with the number assigned to the question.**

- 1.16 State four (04) characteristics of small and medium scale enterprises (SMES).
- 1.17 State two (02) differences between an entrepreneur and a business man.
- 1.18 List four (04) task environmental forces.
- 1.19 State four (04) instances where a cheque may be dishonored.
- 1.20 State four (04) duties of a partner.

***(02 marks each – 40 marks)***

***End of Section A***

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**Four (04) compulsory questions****SECTION B**

(Total 40 marks)

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**Question 02**

Trade and auxiliary services are the two components of commerce. Simply, trading means buying and selling in which ownership of a good or service transferred from one person to another person through exchange for a price. Trade is an inevitable part in fulfilling modern humans' needs and wants.

**You are required to:**

- (a) **Identify** the four (04) channels of distribution. (02 marks)
  - (b) **Explain** three (03) reasons why foreign trade is important for a country. (06 marks)
  - (c) **State** four (04) characteristics of wholesale trade. (02 marks)
- (Total 10 marks)**

**Question 03**

**Sustaining Energy (Pvt) Ltd.** is a solar panel manufacturing company. It considers about the impact of its decisions on the planet, and the people and associated benefits when it evaluates alternative options to choose the best. The management of the company takes much pride of its awareness of social responsibility and its contribution to preserve natural resources and social justice.

**You are required to:**

- (a) **State** three (03) main goals of a business like **Sustaining Energy (Pvt) Ltd.** (03 marks)
  - (b) **List** three (03) advantages of corporate social responsibility for **Sustaining Energy (Pvt) Ltd.** (03 marks)
  - (c) **Explain** the importance of business ethics for **Sustaining Energy (Pvt) Ltd.** (04 marks)
- (Total 10 marks)**

### ***Question 04***

Commercial banks play a key role not only in enhancing business activities but also in the convenient management of life of ordinary people. Whether it is a transaction within a country or a transaction between countries, the contribution of commercial banks in making the transactions efficiently is remarkable. However, the functions of commercial banks are adequately monitored by the Central Bank.

**You are required to:**

- (a) **State** four (04) services of a commercial bank for a business. **(02 marks)**
  - (b) **State** three (03) functions of the Central Bank of Sri Lanka. **(03 marks)**
  - (c) **Explain** three (03) types of electronic money used in today's context. **(05 marks)**
- (Total 10 marks)**

### ***Question 05***

Insurance is a very important supportive service to the business. Insurance is a form of risk management, primarily used to hedge against to risk of potential financial loss.

**You are required to:**

- (a) **Explain** four (04) reasons why insurance is important for a business organization. **(06 marks)**
  - (b) **List** four (04) types of insurance policies used in Sri Lanka. **(02 marks)**
  - (c) **List** four (04) principles of insurance. **(02 marks)**
- (Total 10 marks)**

***End of Section B***

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**A compulsory question.****SECTION C**

(Total 20 marks)

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**Question 06**

After completing the AAT qualification and university degree, **Saman** started his own professional education teaching centre in Trincomalee five (05) years ago with five (05) students. As a winner of two all island AAT prizes, his expertise in AAT and teaching experience helped him to grow his business to the current position with five hundred (500) students and he is always proud of it. **Saman** also received the Best SME award last week for his contribution to the society and the Sri Lankan economy.

However, as a sole proprietor, he has some limitations to expand the business. Though the level of awareness about the importance of professional qualifications increases among parents and students, he is not able to expand the business further due to lack of capital and increasing competition.

**Saman** faces many challenges faced by typical SMEs nowadays in Sri Lanka. However, as an entrepreneur facing challenges is not new to **Saman**. He has been successful in converting threats into opportunities during past five years.

**You are required to:**

- (a) **State** two (02) advantages and two (02) disadvantages of a sole proprietorship. **(04 marks)**
- (b) **Assess Saman's** business environment using SWOT analysis. **(06 marks)**
- (c) **State** four (04) challenges faced by Sri Lankan SMEs. **(04 marks)**
- (d) **List** four (04) characteristics of entrepreneurs. **(02 marks)**
- (e) **Identify** four (04) contributions of entrepreneurship for a country. **(04 marks)**

**(Total 20 marks)**

***End of Section C***



# Action Verbs Check List

Analysis (4)	Draws Connections Among Ideas and Solve Problems	Analyze	Examine in details to find the solution or outcome
		Differentiate	Constitute a difference that distinguishes something
		Discuss	Examine in detail by arguments
		Compare	Examine to discover similarities
		Contrast	Examine to show differences
		Outline	Make a summary of significant features
		Communicate	Share or exchange information
Application (3)	Uses and Adapts Knowledge in New Situations	Apply	Put to practical use
		Calculate	Ascertain or reckon with mathematical computation
		Demonstrate	Prove or exhibit with examples
		Prepare	Make or get ready for particular purpose
		Solve	Find solutions through calculations and/or explanation
		Assess	Determine the value, nature, ability or quality
		Graph	Represent by graphs
Comprehension (2)	Explains Ideas and Information	Define	Give the exact nature, scope or meaning
		Explain	Make a clear description in detail using relevant facts
		Describe	Write and communicate the key features
		Interpret	Translate in to understandable or familiar terms
		Recognize	Show validity or otherwise using knowledge or contextual experience
Knowledge (1)	Recalls Facts and Basic Concepts	List	Write the connected items
		Identify	Recognize, establish or select after consideration
		State	Express details definitely or clearly
		Relate	Establish logical or causal connections
		Draw	Produce a picture or diagram
Level of competency	Description	Action Verbs	Verb Definitions



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**SUGGESTED ANSWERS**

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**Objective Test Questions (OTQs)**

Twenty (20) compulsory questions

**SECTION A**(Total 40 marks)

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**Answers for Question 01**

- |                |                 |                     |
|----------------|-----------------|---------------------|
| <b>1.1</b> - 2 | <b>1.6</b> - 3  | <b>1.11</b> - True  |
| <b>1.2</b> - 2 | <b>1.7</b> - 4  | <b>1.12</b> - False |
| <b>1.3</b> - 1 | <b>1.8</b> - 2  | <b>1.13</b> - True  |
| <b>1.4</b> - 3 | <b>1.9</b> - 3  | <b>1.14</b> - True  |
| <b>1.5</b> - 2 | <b>1.10</b> - 2 | <b>1.15</b> - True  |

(2 marks each, 30 marks)

- 1.16** - Investment is low.
- Family members are employed.
  - Have a market.
  - The business is targeted to the local markets.
  - Staff is less.

(½ mark each – 2 marks)

**1.17**

<b>Entrepreneur</b>	<b>Businessman</b>
Commences a business with his own idea or new concept.	- Commences a business with an existing idea or concept.
He is an innovator.	- He is a traditionalist.
He faces risks.	- He does not like to face risks.

(1 mark each -2 marks)

- 1.18** - Consumers
- Suppliers
  - Competitors
  - Pressure groups

(½ mark each – 2 marks)

- 1.19** - Insufficient funds in the account.
- Where the drawer becomes bankrupt.
  - Where the drawer stops payment.
  - Where the account has been closed.
  - Because of an error in writing the cheque.

*(01 mark each – 2 marks)*

- 1.20** - Observe good faith.
- Be responsible for any fraudulent act and bear the loss of such act.
  - Attend business activities diligently.
  - Not to work for own personal profits.
  - Not to earn profit from competitive business.

*(½ mark each – 2 marks)*

*(2 marks each, Total 40 marks)*

***End of Section A***

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**Four (04) compulsory questions****SECTION B**

(Total 40 marks)

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**Answers for Question 02****Unit 4 – Trade in business organizations.**

- Learning outcomes - Identify the meaning of trade and channels of distribution.
- Recognize new trends in retail, wholesale, import and export trade.

(a)

**0-Level**

Producer → Customer

**1-Level**

Producer → Retailer → Customer

**2-Level**

Producer → Wholesaler → Retailer → Customer

**3-Level**

Producer → Wholesaler → Agent/ Broker → Retailer → Customer

(02 marks)

**(b)**

- (1) **Division of labor and specialization** – Foreign trade leads to division of labor and specialization at the world level. Some countries have natural resources thus they should export raw materials and import finished goods from countries which are advanced in skilled manpower. Thus foreign trade gives benefits to all the countries and thereby leading to division of labor and specialization.
- (2) **Optimum allocation and utilization of resources** – Due to specialization, unproductive lines can be eliminated and wastage of resources can be minimized or avoided. In other words, resources are channelized for the production of only those goods which would give highest returns. Thus there is rational allocation and utilization of resources at the international level due to foreign trade.
- (3) **Equality of prices** – Prices can be stabilized by foreign trade. It helps to keep the demand and supply position stable, which in turn stabilizes the prices.
- (4) **Availability of multiple choices** – Foreign trade helps in providing a better choice to the consumers. It helps in marketing available new varieties to consumers all over the world, thus giving the consumers a wide variety of options to choose from.
- (5) **Ensures quality and standard goods** – Foreign trade is highly competitive. In order to maintain and increase the demand for goods, the exporting countries have to keep up the quality of goods. Thus foreign trade ensures that the quality and standard of goods produced are maintained.
- (6) **Raises standard of living of the people** – Imports can facilitate standard of living of the people. This is because people can have a choice of new and better varieties of goods and services. By consuming new and better varieties of goods, people can improve their standard of living.
- (7) **Generates employment opportunities** – Foreign trade helps in generating employment opportunities, by increasing the mobility of labor and resources. It generates direct employment in import sector and indirect employment in other sectors of the economy.
- (8) **Facilitates economic development** – Imports and exports facilitate economic development of a nation. This is because with the import of capital goods and technology, a country can generate growth in all sectors of the economy, i.e. agriculture, industry and service sectors.

- (9) **Assistance during natural calamities** – During natural calamities such as earthquakes, floods, famines, etc. the affected countries face the problem of shortage of essential goods. Foreign trade enables a country to import food grains and medicines from other countries to help the affected people.
- (10) **Maintains balance of payment position** – Every country has to maintain its balance of payment position. Since every country has to import which results in outflow of foreign exchange, it also deals in export for the inflow of foreign exchange.
- (11) **Brings reputation and helps earn goodwill** – A country which is involved in exports earns goodwill in the international market. For e.g. Japan has earned a lot of goodwill in foreign markets due to its exports of quality electronic goods.
- (12) **Promotes world peace** – Foreign trade brings countries closer. It facilitates transfer of technology and other assistance from developed countries to developing countries. It brings different countries closer due to economic relations arising out of trade agreements. Thus, foreign trade creates a friendly atmosphere for avoiding wars and conflicts. It promotes world peace as such countries try to maintain friendly relations among themselves.

**(Any 4 benefits of explaining will gain 06 marks)**

**(c)**

1. Purchasing of goods with the purpose of resale.
2. Selling goods in lots / batches.
3. Providing trade discounts.
4. Storage of goods in large quantities.
5. Conduct of sales promotion activities.
6. Carrying out market researches.
7. Providing transport service when distributing goods in bulk.

**(Any 4 of the answers will gain 02 marks)**

### Answers for Question 03

**Unit 1 – Concepts of business and different types of organization.**

**Unit 5 – Influences of the government to business, the importance of business ethics and CSR of a business.**

Learning outcomes – Explain concepts of business.

- Identify and explain the importance of business ethics.
- Recognize the need of CSR to achieve the business objectives.

**(a)**

- (1) Maximisation of owners' wealth.
- (2) Long-term growth.
- (3) Improvement in employees' welfare.
- (4) Protection of natural environment or reducing negative impact on environment.
- (5) Improvement of local community's life style.
- (6) Maximising customers' satisfaction. **(Any three points - 03 marks)**

**(b)**

- (1) Enhance the reputation of the business.
- (2) Improvement in employees' moral.
- (3) Possibility to attract green consumers.
- (4) Tax benefits.
- (5) More support from local community. **(Any three of the answers will gain 03 marks)**

**(c)**

**(1) Corresponds to Basic Human Needs:**

The basic need of every human being is that they want to be a part of the organization which they can respect and be proud of, because they perceive it to be ethical. Everybody likes to be associated with an organization which the society respects as a honest and socially responsible organization. The HR managers have to fulfill this basic need of the employees as well as their own basic need that they want to direct an ethical organization. The basic needs of the employees as well as the managers compel the organizations to be ethically oriented.



(2) **Credibility in the public:**

Ethical values of an organization create credibility in the public eye. People will like to buy the product of a company if they believe that the company is honest and is offering value for money. The public issues of such companies are bound to be a success. Because of this reason only the cola companies are spending huge sums of money on the advertisements now-a-days to convince the public that their products are safe and free from pesticides of any kind.

(3) **Credibility with the Employees:**

When employees are convinced of the ethical values of the organization they believe that organization is in high esteem. It creates common goals, values and language. The HR manager will have credibility with the employees just because the organization has credibility in the eyes of the public.

(4) **Better Decision Making :**

Respect for ethics will force a management to take various economic, social and ethical aspects into consideration while taking the decisions. Decision making will be better if the decisions are in the interest of the public, employees and company's own long term good.

(5) **Profitability:**

Being ethical does not mean not making any profits. Every organization has a responsibility towards itself also i.e., to earn profits. Ethical companies are bound to be successful and more profitable in the long run though in the short run they can lose money.

(6) **Protection of society:**

Ethics can protect the society in a better way than even the legal system of the country. Where law fails, ethics always succeed. The government cannot regulate all the activities that are harmful to the society. A HR manager, who is ethically sound, can reach out to agitated employees, more effectively than the police.

**(Any four of the answers will gain 04 marks)**

**(Total 10 marks)**

## Answers for Question 04

### Unit 3 – Supportive services to the businesses.

- Learning outcomes - Identify the role of supportive services.
- Explain the importance of managing supportive services for the success of a business.

#### (a)

- (1) Accepting the surplus money as deposits.
- (2) Lending money to the businesses.
- (3) Enabling cheque transactions.
- (4) Provide on-demand overdraft facility.
- (5) Exchanging foreign currency.
- (6) Facilitate currency remittance.
- (7) Consultancy.
- (8) Facilitate international business through mediation.

(Any four of the answers will gain 04 marks)

#### (b)

- (1) Issue coins and notes.
- (2) Function as banker of all banks.
- (3) Set financial policies.
- (4) Act as the banker of the government.
- (5) Control exchange rates.
- (6) Conduct economic researches.

(Any three correct answers will gain 03 marks)

**(c)**

**(1) Credit cards:**

Cards that are issued by a commercial bank or authorized institution that allows a person to obtain goods or services up to specified value from authorized dealers are known as credit card. There is a credit limit and customer can buy goods and service up to the limit.

**(2) Debit card:**

An account holder can use this card to withdraw money as well as purchase goods and services. This is issued by the commercial banks.

**(3) Smart cards:**

This is an integrated circuit card. A chip with a specified money value is embedded in the card. Once a transaction is completed using this the value of transaction is debited to the card and the balance is reduced.

**(4) Bit coin:**

Transactions are verified by network nodes and recorded in a public distributed ledger called the block chain. User can transact directly without needing an intermediary.

**(Any three - 05 marks)**

**(Total 10 marks)**

## Answers for Question 05

### Unit 3 – Supportive services to the business.

- Learning outcomes - Explain the importance of managing supportive services for the success of a business.
- Explain characteristics of supportive service.

(a)

(1) **Provide safety and security:**

Insurance provides financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss.

(2) **Business efficiency is increased with insurance:**

When the owner of a business is free from the botheration of losses, he will certainly devote much time to the business. The carefree owner can work better for the maximization of the profit. Businessmen are guaranteed payment of a certain amount from the insurance policies at the death of the person; at the damage, destruction or disappearance of the property or goods. The uncertainty of loss may affect the mind of the businessmen adversely. The insurance, is removing the uncertainty and stimulates the businessmen to work hard.

(3) **Spreading of risk:**

Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. Whenever a loss occurs, it is compensated out of funds of the insurer.

(4) **Enhancement of Credit:**

The business can obtain a loan by pledging the policy as collateral for the loan. The insured persons are getting more loans due to the certainty of payment at their deaths. The amount of loan that can be obtained with such pledging of policy, with interest, thereon will not exceed the cash value of the policy. In the case of death, this value can be utilized for settling the loan along with the interest. If the borrower is unwilling to repay the interest, the lender can surrender the policy and get the amount of loan and interest thereon paid.

(5) **Business Continuation:**

In any business, particularly partnership, business may be discontinued at the death of any partner although the surviving partners can restart the business. In both cases the business and deceased partner will suffer economically. The insurance policies provide adequate funds at the time of death. Each partner may be insured for the amount of his interest in the partnership and his dependents may get that amount at the death of the partner. With the help of property insurance, the property of the business is protected against disasters.

(6) **Welfare of Employees:**

The welfare of employees is the responsibility of the employer. Therefore, the latter has to look after the welfare of the former which can be provided for early death, provision for disability and provision for old age. These requirements are easily met by the life insurance, accident and sickness benefit, pensions which are generally provided by group insurance. The premium for group insurance is generally paid by the employer. This plan is the cheapest form of insurance for employer to fulfill their responsibilities. The employees will devote their maximum capacities to complete their jobs when they are assured of the above benefits.

(Any 4 matters - 06 marks)

(b) (1) Life Insurance.

(2) Fire Insurance.

(3) Marine Insurance.

(4) Motor vehicle Insurance.

(5) Money in transit Insurance.

(Any four policies - 02 marks)

© (1) Insurable interest.

(2) Utmost good faith.

(3) Indemnity.

(4) Subrogation.

(5) Contribution.

(6) Proximate Cause.

(Any four principles - 02 marks)

(Total 10 marks)

***End of Section B***

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**A compulsory question.**

**SECTION C**

(Total 20 marks)

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**Answers for Question - 06**

**Unit 1 – Concepts of a business and different types of organization.**

**Unit 2 – Business environment and its effect on business organization.**

**Unit 6 – SMEs as the back bone of an economy.**

**Unit 7 – Contribution of entrepreneurship.**

- Learning outcomes
- Assess different types of organizations.
  - Analyze the business environment and its effects on the organization.
  - Assess the significance of SMEs in an economy.
  - Explain importance of entrepreneurship to development.

(a)

**Advantages:**

- (1) Easy to establish.
- (2) Work by yourself.
- (3) Tax advantages.
- (4) Privacy.

**(01 mark each, 02 marks)**

**Disadvantages:**

- (1) Unlimited liability.
- (2) Risk for personal assets.
- (3) Business dependant.
- (4) Limited capital available.

**(01 mark each, 02 marks)**

- (b)
- |                      |   |                   |
|----------------------|---|-------------------|
| <b>Strengths</b>     | - AAT prize winner.                                       |                   |
|                      | - He is having AAT qualification and degree.              | <b>(1½ marks)</b> |
| <b>Weaknesses</b>    | - Lack of capital.  |                   |
|                      | - The business is a sole proprietorship.                  | <b>(1½ marks)</b> |
| <b>Opportunities</b> | - Increasing awareness about the programme among parents. |                   |
|                      | - He won the best SME award.                              | <b>(1½ marks)</b> |
| <b>Threats</b>       | - Increasing competition.                                 |                   |
|                      | - Challenges faced in SME sector.                         | <b>(1½ marks)</b> |

**(c)**

- (1) Reluctance of mainstream commercial banks to lend money
- (2) Lack of technical skills
- (3) Maintaining the quality of outputs
- (4) Lack of infrastructure
- (5) Competition from large scale businesses
- (6) Issues related to business regulations

**(Any four appropriate issues will gain 04 marks)**

**(d)**

- (1) Risk takers
- (2) Innovators
- (3) Self-motivated
- (4) Future oriented
- (5) Ability to sense opportunities / gaps in the market
- (6) Flexibility
- (7) Optimistic

**(Any four appropriate characteristics will gain 02 marks)**

**(e)**

- (1) Balance regional development.
- (2) Support the development of their society.
- (3) Job creation.
- (4) Utilization of abundant resources.
- (5) Introduction of new technology.
- (6) Improve standard of living.
- (7) Increase GDP and per capita income.

**(Any four appropriate contributions will gain 04 marks)**

**(Total 20 marks)**

***End of Section C***