



**Association of Accounting Technicians of Sri Lanka**

**January 2016 Examination - AA1 Level**

**Questions and Suggested Answers  
Subject No : AA15**

**BUSINESS OPERATIONS AND MANAGEMENT  
(BOM)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA  
EDUCATION AND TRAINING DIVISION

**AA1 Examination - January 2016**  
**(15) Business Operations and Management**

**SUGGESTED ANSWERS**

**SECTION A**

**Objective Test Questions (OTQs)**

All questions of this section to be answered.

(Total 40 marks)

*Suggested Answers to Question One:*

- |      |   |         |
|------|---|---------|
| 1.1  | – | (4)     |
| 1.2  | – | (4)     |
| 1.3  | – | (4)     |
| 1.4  | – | (3)     |
| 1.5  | – | (4)     |
| 1.6  | – | (3)     |
| 1.7  | – | (2)     |
| 1.8  | – | (3)     |
| 1.9  | – | (4)     |
| 1.10 | – | (1)     |
| 1.11 | – | (3)     |
| 1.12 | – | (3)     |
| 1.13 | – | (3)     |
| 1.14 | – | (2)     |
| 1.15 | – | (True)  |
| 1.16 | – | (True)  |
| 1.17 | – | (False) |
| 1.18 | – | (False) |
| 1.19 | – | (True)  |
| 1.20 | – | (True)  |

*End of Section A*

All four (04) questions of this section to be answered.

(Total 40 marks)

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***Suggested Answers to Question Two:***

- a) A major environmental change that has taken place in the last fifteen years is the globalization of business. The world has become a global village and business has become global in character. Organizations are venturing beyond national boundaries in the pursuit of business opportunities.

Toyota Motor Corporation makes cars in USA and India, Mc Donald's sells burgers in India and hamburgers in China, and Marks and Spencer's sells products in India. Every other product sold by Wal-Mart stores Inc. is made in India. This is the time when buildings are conceptualized in the US designed in India and built in China. Very recently, Ford Motor Co. (Ford) announced its plans to invest \$ 1 billion in products and plants in the Asia-Pacific region in the next few years to maintain its presence in the fast-growing markets.

As a result supportive services also plays a major role in facilitating the Globalization.

1. Finance : Loan facilities are required to by new lands, machineries, live stocks
  2. Insurance : Insurance policies are required to minimize the risk such as loss of harvest due to floods, fire, theft insurance, employee insurance, motor insurance.
  3. Transportation : Transportation network connects all the related parties. Speed, safety, cost, capacity and legal aspects should ne considered.
  4. Wherehousing : Warehouse facilities are required to storage raw materials as well as finished goods.
  5. Communication : Provide links between traders, stakeholders, customers.
- b) **Opportunities (let the candidate to choose any two of the following)**

***Free trade*** – Free trades is a policy in which a country does not levy taxes, duties, subsidies or quota on the import/export of goods or services from other countries. This allows consumers to buy goods and services comparatively at a lower cost.

***New markets*** – Numerous companies have started investing in different countries and luring customers for their brands. These ever expanding markets have helped countries to raise capital in terms of foreign domestic investments thus improving the economy of the country.

***Cheap labor*** – Most of the developing countries have labor at a lowest rate than developed countries. Hence, many businesses use these labor resources for their production through outsourcing, offshoring business practices.

***Expanding the operations*** – Many companies have opportunities to expand its business and operations through mergers, acquisitions, joint ventures, licensing, franchising or forming multinational companies.

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**Threats (let the candidate to choose any two of the following)**

***A shifting risk profiles*** – The increased scale of globalized operations is matched by the increased level of risk, ranging from fluctuations in interest and exchange rates to supply chain piracy.

***Regulatory obstacles*** – Fast changing regulations and local policies can have a dramatic impact on the profitability of cross-border investments, heightening uncertainty in rapid growth markets.

***Cultural differences*** – Managing workforces when operations are separated by thousands of miles, international time zones and cultural and religious differences can be an exacting challenge.

***Resource constraints*** – Increased competition for local talent often results in skills shortages in key functions. This creates increased demand for effective planning processes allied to dynamic resource management capabilities.

***Suggested Answers to Question Three:***

- a) ***Carrying cost*** – Carrying costs are the costs of holding items in inventory. These costs vary with level of inventory in stock and occasionally with the length of time an item is held. That is, the greater the level of inventory over a period, the higher the carrying costs. In general any cost that grows linearly with the number of units in stock is a carrying cost.

*Ex : Storage facility, material handling, labour, record keeping*

***Ordering costs*** – Ordering costs are the costs associated with replenishing the stock of inventory being held. Ordering costs react inversely to carrying costs. In general any cost that increases linearly with the number of orders is an ordering cost.

*Ex : Requisition, purchase costs, transportation, shipping, receiving, inspection*

***Shortage costs*** – This is also referred to as stock out costs, occur when customer demand cannot be met because of insufficient inventory. Shortages occur because carrying inventory is costly. As a result shortage costs have an inverse relationship to carrying costs as the amount of inventory on hand increases the carrying cost increases, whereas shortage cost decrease.

*Ex : Loss of sales, loss of profit, customer dissatisfaction and loss of goodwill*

- b) **(let the candidate to choose any two of the following)**

***Continuous inventory systems*** – In a continuous inventory system a continual record of the inventory level for every item is maintained. Whenever the inventory on hand decreases to a predetermined level, referred to as the reorder point, a new order is placed to replenish the stock of inventory. An order that is placed is for a fixed amount that minimizes the total inventory costs. This amount is called the economic order quantity.

***Periodic inventory systems*** – In a periodic inventory system the inventory is counted at specific time intervals. After the inventory in stock is determined, the order is placed for an amount that will bring inventory back up to a desired level and inventory level is not monitored at all during the time interval between orders.

**The ABC classification system** - In this system each class of inventory requires different levels of inventory monitoring and control – the higher the value of the inventory, the tighter the control. Class A items should experience tight inventory control; B and C requires more relaxed attention.

**Economic order quantity models** – In a continuous or fixed-order-quantity system when inventory reaches a specific level, referred to as the reorder point, a fixed amount is ordered. The most widely used and traditional means for determining how much to order in a continuous system is the economic order quantity (EOQ) model.

**Just in time (JIT) inventory system** – This inventory system strives toward an ideal state in which production quantities are equal to delivery quantities. This minimizes carrying cost, the expense of storing and moving inventories from storage to production floors. Materials are brought more frequently and in smaller amounts. ‘just-in-time’ to be used and finished goods are produced and delivered ‘just-in-time’ to be sold.

**Suggested Answers to Question Four:**

a)

	<b>Marketing Mix</b>	<b>Promotional Mix</b>
1	Set of controllable variables that firm can use to influence the buyer's response.	Any activity to raise awareness of a product or to encourage customers to purchase a product.
2	MArketiNg mix considered of product / price / place and promotion	Promotional mix consisted of advertising, sales promotion, public relations, direct marketing and personal selling.
3	MArketiNg mix is a planned mix of activities	Promotional mix is a coordination of activities performed directly interact with customers.
4	MArketiNg mix is used to create a value for their product.	Promotional mix is used to inform, persuade and reminder about the product.

b) (i) **Advertising** – Advertising is a form of non-personal promotion a company engages in a one-way communication with prospect or customer.

**Sales promotion** - It represents all marketing activities other than personal selling, advertising and public relations.

**Public Relations**

**Direct marketing**

**Personal selling**

(ii)

	<b>Advantages</b>	<b>Disadvantages</b>
Advertising	Large amount of people can be accessed with minimum effort.	Expensive and unable to obtain Customer feedback since it is in one-way communication.
Sales promotion	Can create positive business or corporate image.	Time consuming and large segment of people cannot be attended within a shorter period.

### ***Suggested Answers to Question Five:***

- (a) Telecommunications and network technologies are internetworking and revolutionizing business and society. Businesses have become network enterprises. Businesses have become networked enterprises. The internet, intranets and extranets are networking business processes and employees together and connecting them to their customers, suppliers and other business stakeholders. Modern organizations commonly use these three technological applications to carry out their day to day business processes efficiently.

#### **Intranet**

An intranet is a network inside an organization that uses Internet technologies to provide an Internet-like environment within the enterprise for information sharing, communications, collaboration and the support of business processes. An intranet is protected by security measures such as passwords, encryption and firewalls and thus can be accessed by authorized users through the Intranet. A company's intranet can also be accessed through the intranets of customers, suppliers, and other business partners via extranet links.

Intranets provide an enterprise information portal that supports communication and collaboration, web publishing, business and management and intranet portal management.

#### **Extranet**

Extranets are network links that use Internet technologies to interconnect the intranet of a business with the intranets of its customers, suppliers, or other business partners. Companies can establish direct private network links among themselves or create private, secure Internet links called Virtual Private Networks (VPNs) or a company can use the unsecured Internet as the extranet link between its intranet and consumers and others but rely on the encryption of sensitive data and its firewall systems to provide adequate security. Thus, extranets enable customers, suppliers, consultants, subcontractors, business prospects and others to access selected intranet Web sites and other company databases.

Web browser technology of extranet makes customer and supplier access to intranet resources a lot easier and faster than previous business methods. Extranets enable a company to offer new kinds of interactive web-enabled services to their business partners.

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## Internet

The Internet is a global network of computers that communicate via TCP/IP protocol. The Internet is the basis for the World Wide Web, Email, P2P applications, VOIP (Voice over internet protocol), and hundreds of other uses. Although the basic data being transmitted in each of these cases may be virtually identical, each case requires special treatment of the data with regard to data integrity, speed, redundancy, and error correction. The success of the Internet is for this reason attributed to its flexibility in providing a platform for the differing data protocols and their individual needs.

Substantial cost savings can arise because applications that use the internet and internet-based technologies are typically less expensive to develop, operate and maintain than traditional systems.

(b)

Surf	Point-and-click your way to thousands of hyperlinked Web sites and resources for multimedia information, entertainment, or electronic commerce
e-Mail	Use e-mail and instant messaging to exchange electronic messages with colleagues, friends and other Internet users
Discuss	Participate in discussion forums of special-interest newsgroups, or hold real time text conversations on Web site chat rooms
Publish	Post your opinion, subject matter, or creative work to a Web site or weblog for others to read
Buy and Sell	Buy and sell practically anything via e-commerce retailers, wholesalers, service providers and online auctions
Download	Transfer data files, software, reports, articles, pictures, music, videos and other types of files to your computer system
Compare	Log onto and use thousands of Internet computer systems around the world
Other uses	Make long-distance phone calls, hold desktop video conferences, listen to radio programs, watch television, play video games, explore virtual worlds, etc.

*End of Section B*

**One question of this section to be answered.**  
**(Total 20 marks)**

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***Suggested Answers to Question Six:***

- (a) Recruitment methods can be divided into two categories such as internal and external methods. In internal methods, DEES can reach out to the applications from within the company. That means applications could be called for existing workers of DEES first for those who meet required level of skills and qualifications with experience.

On the other hand in the external methods, DEES can attempt to attract candidates from the labor market. Job advertisements, using the service of job agencies, educational institutes, write-ins, walk-ins and internet, etc can be considered as popular external recruitment methods adopted by organizations.

Recruitment can be done as a systematic process and following steps are involved.

***Identifying the job vacancies*** – job vacancies identified through managers of the company of DEES based on their requirement and proper HR planning.

***Analyzing the job requirements*** – Minimum qualifications required for selling especially online of DEES garments based on job specification. E.g. internet and computer literacy, experience in customer handling.

***Consider factors affecting to recruitment*** – Establishing a sound HR policy of DEES, cost involved, labour market conditions for online selling personnel should be considered before deciding the recruitment method.

***Preparing a job application form*** - DEES will prepare job application forms and make visible for the people at their supermarkets. The vacancies will be advertised online and in newspapers. Attractive colors, phrases and a format should be used, so that there will be high level professionalism and appealing.

***Selecting recruitment method***

***Implementation*** - Implementation of the selected recruitment method.

***Evaluation*** - Evaluation of the recruitment effort.

- (b) Market segmentation is dividing the market into distinct segments that have common needs or will respond similarly to a market action.

Example: A country like **Z** with educated, cultural oriented people, needs in tropical climate will be mostly similar. People in moderate climate, needs will be similar.

Market segmentation enables DEES Company to target different categories of customers who perceive the full value of their garment products. Segmentation variables can be divided into four categories such as geographic, demographic, psychographic and behavioral.

**Geographic segmentation**

In geographic segmentation customer market classification is based on geographic location. Marketing division of DEES may use geographic segmentation because the customers in different areas are as follows.

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Country **Z** has,

- (a) Climate - both tropical and moderate climates
- (b) Density - urban , sub urban and rural areas  
City - York, or other cities of 2

This may be a valuable approach for a large company like DEES that operates in different geographic areas such as urban, sub urban and rural in both climates .

### **Demographic segmentation**

This strategy is where the intended audience for DEES garments is divided into categories based on demographic variables such as,

- (a) gender : males and females
- (b) Age : 15-25, 26-35, 36-45, 46-55 etc..
- (c) occupation : private sector, government sectors
- (d) Social class : Lower, Middle, Upper

As possible demographic segmentation variables given above, according to the demographic factors DEES can identify appropriate segments for serving their garment products.

This strategy is very simple to apply as government statistical data is readily available in most countries.

### **Psychographic segmentation**

This strategy is where the intended audience for DEES garments is divided into categories based on lifestyle and personality characteristics as follows.

- (a) Life style – Culture oriented
- (b) Personality – ambitious

These two groups of buyers within the same demographic group can exhibit very different psychographic profiles.

This segmentation gives a much better insight into the consumer as a person, which more likely leads to the identification of underlying needs and motives. As a result this segmentation should deliver a much better understanding of the consumer to DEES.

### **Behavioural Segmentation**

- (a) Occasions : Regular occasion  
Special occasion
- (b) Benefits : Quality of garments  
Price of garments

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*End of Section C*

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***Notice :***

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.

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