



Association of Accounting Technicians of Sri Lanka

July 2017 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 - July 2017
(AA15) Business Operations and Management

SUGGESTED ANSWERS

SECTION A

Objective Test Questions (OTQs)

Twenty (20) compulsory questions

(Total 40 marks)

Suggested Answers to Question One:

Question	Answer
1.1	(2)
1.2	(4)
1.3	(4)
1.4	(4)
1.5	(3)
1.6	(1)
1.7	(3)
1.8	(2)
1.9	(4)
1.10	(4)
1.11	(4)
1.12	(3)
1.13	(3)
1.14	(4)
1.15	(4)
1.16	Job Analysis
1.17	Positioning
1.18	Intranet
1.19	Executive Support System
1.20	ISO 9001 : 2008

(Total 40 marks)

End of Section A

Four (04) compulsory questions
(Total 40 marks)

Suggested Answers to Question Two:

(a)

	Criteria	Description
1	Ownership	One individual. The owner of the business makes all the business decisions. However, the sole proprietorship may have employees. They could handle various tasks with less authority.
2	Liability	Unlimited Liability. Owner of the business accepts whole responsibility for the business liabilities. In case of bankruptcy, the owner should use his / own personal properties to meet financial obligations.
3	Legal identity	The business has no legal identity. Any legal matters should be made under the name of the owner.
4	Registration	Not compulsory. Registration is not compulsory. However, if the business is carried under any other name other than the owner's name, the business should be registered under the Business Name Registration Ordinance.
5	Capital	Capital is raised personally (savings, loans). Hence, the capital will be comparatively low.
6	Profit / Loss	Gains profit or bears the loss alone by the owner.
7	Tax liability	Pays tax under the owner's name. Not under the business name.
8	Accounting and Auditing	It's not compulsory. However, it is maintained for efficient use of money.
9	Going Concern	There is no going concern, since the business could close with the death or any incapability of the owner. However, the business is carried out by the family generally.
10	Risk	There is a less risk due to less restrictive regulations than other business entities.

(06 marks)

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- (b) Insurance is a form of risk management primary used to hedge against the risk of potential financial loss.

Insurance is more useful to the business society.

1. **Uncertainty of business losses is reduced.**

In world of business commerce and industry, a huge number of properties are employed. The owner of a business might foresee contingencies that would bring great loss. It could be reduced through insurance.

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 owner can involve more for the maximization of the profit. The uncertainty of loss may affect the mind of the businessman adversely. If the uncertainty is reduced, business efficiency is increased.

3. **Distribution of risk.**

Nobody knows when a flood or earthquake comes and destroy the business. If business is insured the risk on loss could be transferred fully or partially to the insurance company.

4. **Enhancement of credit**

The business can obtain loan by pledging the policy as collateral for the loan. The insured person are getting more loans due to certainty of payment at their deaths.

5. **Business continuation**

In any business, particularly partnership business may discontinue at the death of any partner although the surviving partner can restart the business. 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 with the help of property insurance. If the property of business is protected through insurance against disasters or any other losses, business could continue without more financial losses.

6. **Welfare of employee**

The welfare of employees is the responsibility of the employer. The premium for group insurance is generally paid by the employer. The struggle and strife between employees and employer can be minimized easily with the help of such insurance schemes.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Three:

(a) (I) Elements of the internal business environment:

- i. Value systems
- ii. Mission and organizational goals
- iii. Management / Organizational structure
- iv. Human Resource / Work force
- v. Organizational culture

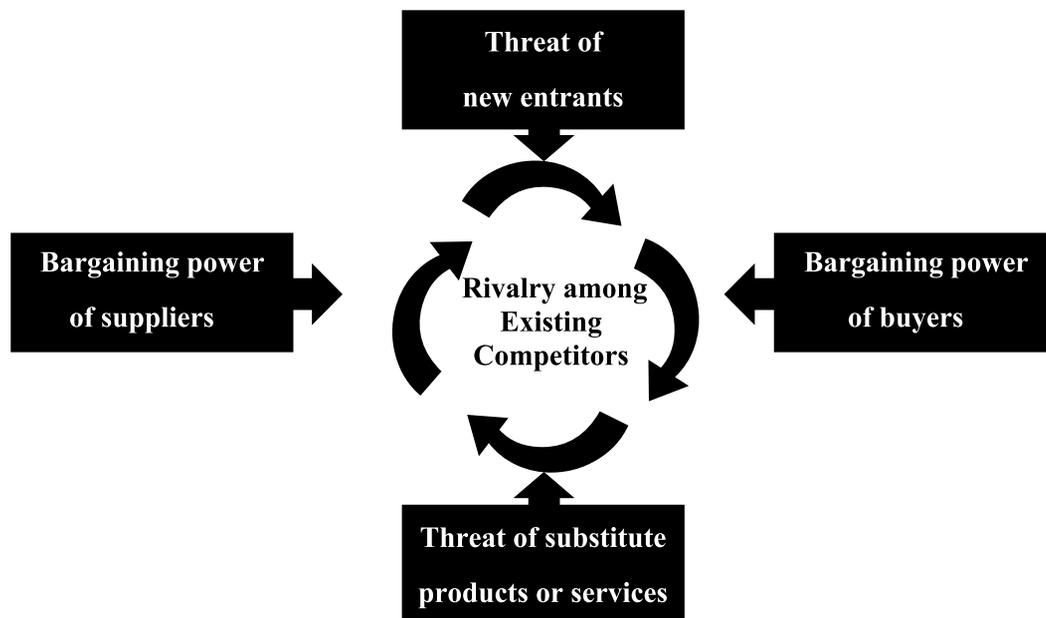
(03 marks)

(II) Difference between Macro Environment and Micro Environment:

Macro Environment	Micro Environment
Comparatively large in scale	Comparatively small in scale
Difficult to control	Comparatively, easier to control
Highly complex and difficult to predict the behavior	Less complexity, and quite easy to predict the behavior
Consists of larger forces such as political, economic, socio-cultural and technological	Consists of persons and parties such as suppliers, distributors and different pressure groups

(03 marks)

(c) Porter's Five Forces Model:



Porter's five forces of competitive position analysis was developed in 1979 by Michael E. Porter of Harvard Business School as a simple framework for assessing and evaluating the competitive strength and position of a business organization. Those five forces are:

-
- Competitive rivalry (competition among competitors)
 - Threat of substitutions
 - Threat of new entrants
 - Bargaining power of suppliers
 - Bargaining power of buyers / customers

Competitive rivalry (competition among competitors)

- The key driver is the number and capability of competitors in a particular market.
- Many competitors, offering undifferentiated products and services, will reduce the market attractiveness.

Threat of substitutions

- Where close substitute products exist in a market, it increases the likelihood of customers switching to alternatives in response to price increases.
- This reduces both the power of suppliers and the attractiveness of the market.

Threat of new entrants

- Profitable markets attract new entrants, which erodes profitability.
- Unless incumbents have strong and durable barriers to entry, for example, patents, economies of scale, capital requirements or government policies, then profitability will decline to a competitive rate.

Bargaining power of suppliers

- An assessment of how easy it is for suppliers to drive up prices. This is driven by:
 - The number of suppliers of each essential input
 - The uniqueness of their product or service
 - The relative size and strength of the supplier
 - The cost of switching from one supplier to another

Bargaining power of buyers / customers

- An assessment of how easy it is for buyers to drive prices down. This is driven by:
 - The number of buyers in the market
 - The importance of each individual buyer to the organization
 - The cost to the buyer of switching from one supplier to another
- If a business has just a few powerful buyers, they are often able to dictate terms.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Four:

(a) (i)

Recruitment is the process of finding and attracting suitably qualified applicants to apply for job vacancies in the organization. Recruitment creates a pool of qualified job applicants from which organization will select the most appropriate candidates. Selection is the process of making the best choice of the most suitable applicant from the pool of applicants recruited to fill the relevant job vacancy.

The difference between recruitment and selection is: recruitment creates a pool of applicants, it is not a final decision or a decision making point in Human Resource Management (HRM). But, in selection organization has to make the final decision regarding the most suitable candidate. So, selection is a decision making point in HRM.

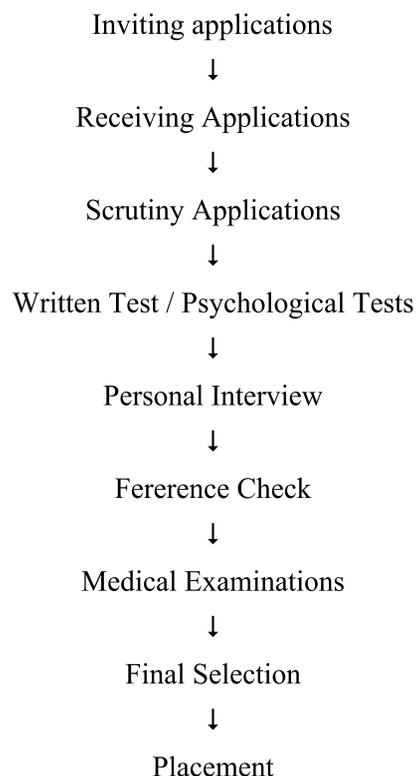
(03 marks)

(ii) Identify the steps involved in the selection process.

1. Evaluation of applications
2. Selection examinations
3. Conducting interviews
4. Background investigation
5. Final decision and offering job.

(04 marks)

Alternative Answer



(b) Advantages of external recruitment over internal recruitment:

1. Infusion of new blood to the organization.
2. New employees may bring new ideas and knowledge.
3. Comparatively easy to train according to the organizational and job needs.
4. Can select for money.
5. Minimum conflicts.
6. Can possess variety of skills.

(03 marks)

(Total 10 marks)

Suggested Answers to Question Five:

(a) **Needs and Wants:**

Needs are the basic physiological and psychological requirements of humans which are essentially to be fulfilled in their living. Wants are the alternative ways that needs are being fulfilled. Below given is an example for needs and wants.

Need	Wants
Hunger (Foods)	Rice, Vegetables, Fruits
Clothing	Shirt, T-shirt, Frock, Saree, Blouse
Shelter	House, Apartment, Palace

Even though needs are basic and common to every human wants are different. Also not like needs, wants are unlimited and complex. **Business people create only wants;** goods and services to fulfil human needs. They can't create needs. **Humans take needs by birth.**

(04 marks)

(b) Characteristics of effective market segmentation:

- Measurable:** The value or the volume of the segment should be clearly measurable, simply in terms of the number of customers within the segment.
- Substantial:** The size of the market segment should quantitatively enough to generate an income to set off the marketing budget / expenses of the segment.
- Accessible:** It should be easy to assess the market segment without barriers.
- Differentiable:** An effective market segment should be internally homogeneous, but externally heterogeneous. Simply it means, the requirements and preferences of the customers within the segment should be equal, but different from the outside customers of the segment.

(06 marks)

(Total 10 marks)

End of Section B

One (01) compulsory question
(Total 20 marks)

Suggested Answers to Question Six:

(a) Reasons for the main issues faced by Agro Product PLC (APP) regarding the launch of newly develop machinery:

1. The product is based on apparently stable technology aiming at specific market. However, the company has failed to identify the;
 - market needs (they had ignored suppliers and customers)
 - market demand properly due to non-conducting market research.
2. Isolation of the Product Development Department, when the company developed the new product. THis caused communication problems amongst other departments such as marketing production and finance, etc..
3. No evidences on conducting pilot run before launching of the new product.
4. New product was produced without getting proper orders.
5. Lack of product differentiation frequently ended up with frustration because the new product is not absolutely innovative in the market.
6. Unexpected technical problems. Product development involves activities with a certain degree of uncertainties. But the company has not allocated suffcient resources to address these unexpected issues.
7. Problem solution delay. Delayed on unresolved issues may overload the company technical capabilities or simply result in lack of resources.
8. Main person of the product development department who involved to develop the product has resigned.
9. Reputation and revenue of other products are declining.

(06 marks)

(b) Steps in the new product design process:

- i. Idea generation
- ii. Feasibility study
- iii. Form design
- iv. Functional and product design
- v. Pilot run and Pilot tests
- vi. Launch the new product

(06 marks)

(c) Objectives of an effective rewards system:

- i. To ensure a fair and equitable payment for employees' efforts, competencies and strengths
- ii. Attract (recruit) high-performing employees and retain them
- iii. To motivate employees towards the better performance
- iv. To reinforce favorable employee behavior
- v. To communicate the significance of employees to the business organization
- vi. To ensure the social status of employees
- vii. To improve cooperation and unity among employees (team members)

(04 marks)

(d) Benefits of outsourcing of the market survey:

- i. Save money
- ii. Focus on core competence
- iii. Availability of flexible staffing with outsource companies
- iv. Quality deliverable with skilled and competent staff
- v. Gain access to global resources
- vi. Decrease the time to market

(04 marks)

(Total 20 marks)

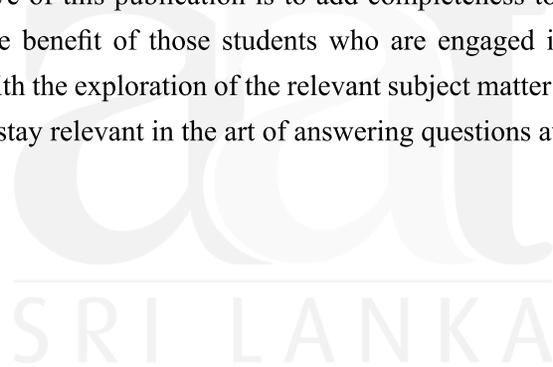
End of Section C

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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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