



Association of Accounting Technicians of Sri Lanka

Level I Examination - January 2022

Suggested Answers

(104) BUSINESS ENVIRONMENT (BEN)

Association of Accounting Technicians of Sri Lanka

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ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

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(104) BUSINESS ENVIRONMENT

SUGGESTED ANSWERS

**Twenty (20) Compulsory Questions
(Total 40 Marks)**

SECTION - A

Suggested Answers to Question One:

- 1.1 (4)
- 1.2 (4)
- 1.3 (2)
- 1.4 (1)
- 1.5 (2)
- 1.6 (3)
- 1.7 (1)
- 1.8 (1)
- 1.9 (4)
- 1.10 (4)
- 1.11 False
- 1.12 False
- 1.13 True
- 1.14 False
- 1.15 True



(02 marks each, Total 30 marks)

1.16. Food, Water, Clothing, Shelter, Sleep

(02 marks)

1.17.

- **Entrepreneurship** is innovation and risk management to identify business opportunities and satisfying human needs.
- **Entrepreneurship** is the intermediary between capital and labour.
- **Entrepreneurship** is the process of changing the existing system by introducing new products and services, creating new organizational systems or using new ingredients.
- Facing uncertainty is **Entrepreneurship**.
- **Entrepreneurship** is the process of designing, launching and running a new business.
- An entrepreneur who creates an opportunity and takes advantage of it. The entrepreneurial process includes all the functions and functions involved in creating organizations to take advantage of opportunities.

(02 marks)

1.18. Differences between goods and services

| Goods | Services |
|--|---|
| Tangible things | Intangible objects |
| Production and consumption do not occur simultaneously | Production and consumption occur simultaneously |
| Homogenous nature | Vary in terms of time and location (Heterogeneous) |
| Can be stored and used later | Cannot be stored and used later |
| More capital is used to produce | More labor is used to produce |
| Ownership maybe delegated | Claims cannot be transferred |
| Often the quality of each item is same | Service quality varies depending on the individuals/ service provider |
| Commodity related customer relationships are low | Service related customer relationships are high |
| Quantitative measurement is easy | Measuring quality is not easy |
| The customer is not involved in the product | The customer is involved in the product |
| Purchased goods can be returned | Services purchased cannot be transferred |

(02 marks)

1.19. Reasons for growing of need for entrepreneurship

1. Due to the intense competition in today's business world, new things must be created to stay in the business world (that is, the need for innovation)
2. The need for diversified businesses to utilize existing resources efficiently
3. The need to transform business with the adoption of new technology in the face of globalization in a changing world
4. The need to successfully run a business in a rapidly changing business environment
5. The need to create new jobs through new businesses
6. Need to improve quality of life, increase personal income and meet the opportunity of consuming quality goods
7. The need to produce more goods and services to accelerate economic growth
8. The need for economic development and sustainable development

(02 marks)

1.20.

1. Participation of two or parties
2. A temporary project for short-term purpose
3. Most of the time it doesn't have a business name or specific business location
4. Registration is not required
5. There are no special rules applicable
6. No going concern

(02 marks)

(Total 40 marks)



End of Section A

Suggested Answers to Question Two:***Chapter 01 [Part II] - Business Organizations*****(a)****(i) Sole Proprietorship****(01 mark)****(ii)**

| | | |
|----|------------------------------------|--|
| 1 | Ownership | Owned by a person |
| 2 | Capital | Capital is provided by the owner alone |
| 3 | Administration and decision making | Business is administered by the owner or under his supervision. Therefore, business decisions are made by the businessman himself. |
| 4 | Liability | There is a limited liability. |
| 5 | Separate Legal personality | No separate legal personality. |
| 6 | Registration | Registration is not mandatory. |
| 7 | Profits and Losses | Bears alone |
| 8 | Tax Payment | Taxes should be paid personally in the name of the businessman. Taxes cannot be paid in the name of the business. |
| 9 | Accounting and Auditing | Accounting and Auditing are not mandatory |
| 10 | Going concern | There is no going concern |

(03 marks)**(b) Key features of a Public Limited Company**

- Ownership** - Shareholders are the owners of public limited company.
- Capital** - Capital is raised by the issuing of shares. The issuance of shares to public or other securities may be issued.
- Number of Shareholders** - The minimum number of shareholder is 01 and there is no maximum limit.
- Management** - In a public limited company, management is done by a Board of Directors.
- Responsibility** - Responsibility is limited and there is a separate legal personality.
- Control** - Governance is subject to statutory control and collective control of shareholders.
- Legal Personality** - There is a separate legal personality.
- Incorporation** - Incorporation is mandatory in terms of the Companies Act No. 07 of 2007.

9. **Continuity** - There is going concern for a public limited company.
10. **Accounting and auditing** - Accounting and auditing are mandatory.
11. **Payment of taxes** - Taxes should be paid in the name of company.
12. **Liquidation** - The liquidation may be done voluntarily, by order of the court and under the supervision of the judiciary.
13. **Company name** - When referring to the name of the company, limited company which is a listed company shall end in the words "Public Limited Company" or by the abbreviation "PLC".
14. **Voting Rights** - A member is entitled to vote according to the number of shares he holds.
15. **Possibility of listing on the stock market** - There is a possibility of listing on the stock market.
16. **Maintain a contact register** - The Board of Directors should maintain a contact register which contains the details of the transactions with the company.
17. **Necessity of conducting credit check list** - A test of the ability to pay back the dividend to shareholders is required.

(06 marks)
(Total 10 marks)

Suggested Answers to Question Three:

Chapter 03 - Business Support Services (Insurance)

(a)

- Fire Insurance Policy
- Property Insurance Policy
- Theft and Burglary Insurance Policy

(02 marks)

(b)

Insurable Interest:

According to the principle of **insurable interest** following must be presented and proved for a property to be insured.

- Benefits from the property in monetary terms and the specific disadvantage if it is destroyed.
- Should be able to calculate the monetary value of the disadvantage
- Relationship among the insured and the property can be legally proved

Accordingly, from the storeroom caught with fire **Kohu Ltd.** must benefit that can be assessed in monetary value, and similarly the loss to the **Kohu Ltd.** should be proved specifically in monetary terms. Further, any proof like a legal contract, should be presented to prove the relationship between **Kohu Ltd.** and the storeroom.

Proximate cause:

Proximate cause means that when an insured property is damaged, the most immediate reason should be covered by the insurance policy. So, the insurance policy obtained by **Kohu Ltd.** should cover 'fire' as a proximate cause to claim damages.

Example: A building with fire insurance cannot be compensated for, when the building destroy by fire when the fire was caused by tree crashes or vehicle collisions.

(04 marks)

(c) Insurance contributes not only to the business development, but also the economic development of the country.

1. Insurance companies engage in various investments

Insurance generated funds by collecting premium. Insurance engaged in various investments such as government securities. These funds are employed invested in industrial development of a country from generation of funds and utilize for the economic development of the country.

2. Expansion of business

Insurance contributes for the business expansion and as a result national production and economic growth of the country become favorable and increase.

3. Insurance has a favorable impact on the financial stability

One of the most important industries in the service sector is insurance. They are large tax payers in the state. As a result the insurance industry plays a critical role in maintaining the stability of the financial system.

4. Provide safety and security to individuals and businesses

Insurance provides financial support and reduces uncertainties that individuals and business face at every step of their life cycle. It provides an ideal risk mitigation mechanism that can potentially cause.

5. Provide employment opportunities

To alleviate the unemployment problem by generating a larger number of employment opportunities in the insurance industry.

6. Positive impact on business development and sustainability

It is used as a remedy for thieves, natural disasters and employees frauds. Therefore, it affects to sustain the business.

7. Provide support to dependents

Wellbeing of a family is important for all and health of family members is the biggest concern. Most medical insurance policy protects individuals financially against different type of health risk.

8. Promote economic growth

The insurance sector makes a significant impact on the overall economy by mobilizing domestic savings. Insurance also enable mitigation of losses, financial stability and promotes trade and commerce activities.

9. Spread of risk

Insurance facilities moving of risk of loss form the insured to the insurer. From the insurance risks can be spread among a large number of people.

(04 marks)
(Total 10 marks)

Suggested Answers to Question Four:

Chapter 04 - Trade in the Business Organizations
Chapter 05 - Influence of the Government to Business

(a)

1. Facilitate market access enabling the business to reach the correct customer at the correct time
2. Improves the distribution efficiency (by reducing the cost of distribution)
3. Create a balance between product concern and customer concern
4. Speeding up the supply chain
5. Provision of additional services (including transportation, logistics clearance, warehousing etc.)
6. Reducing the burden of the business

(03 marks)

(b)

1. Nature of the product
2. Volume of delivery
3. Distance of delivery
4. Middleman
5. Cost of distribution

6. Market regulations
7. Competitive advantage
8. Speed of delivery / Response time
9. Associated cost / Additional cost
10. Credibility / Information credibility
11. Easy access via online platform
12. Variety / Opportunities for choice

(03 marks)

(c)

1. Influence of the Government on Business as a Customer

The Government has a huge impact on businesses by purchasing the various goods and services that the Government needs. As a customer, the government's impact on the existence and development of businesses.

2. Influence of the Government on Business as a Competitor

The government is also doing some businesses with the private sector. Government enterprises such as public corporations, departments and government entities, compete with the private sector businesses by providing goods and services to the market.

3. Influence on businesses as a provider of infrastructure and essential services

Government provides the infrastructure for starting and running a business such as highways, communication networks, electricity water, education, health care, manpower development, security services, and sanitation services. These can be introduced as economic and social infrastructure to encourage the private sector.

4. Influence of Government as a Regulator

Administration and supervision of business activities in a country is a responsibility of the government. The Government operates across the country through the establishment and operation of various government agencies, corporations, statutory boards and commissions to monitor and supervise the business. Therefore ODO should also adhere regulations and laws implemented by the government.

5. Influence of Government on Business as an Encouragement Provider

The government has some incentives to run, expand and develop businesses. The central government as well as the provincial councils and local authorities [Municipal Councils] are giving the incentives in various ways.

6. By providing financial support/ facilities, the government supports business development

Financial support/ facilities mainly, the concessionary loans given to businessmen by state banks and other government institutions are considered. It provides the financing of various investment needs for fixed capital and working capital.

7. Government support the businessmen in providing advices and training

The government has various institutions to provide advices and training needs. ODO also can obtain those facilities from an organization to improve their business.

8. Providing information

A set of systems and methods are introduced by the government to provide the information that businesses need. The department of Census and Statistics provides various information. When preparing a strategy to ODO such information is required.

9. Providing exchange facilities

Provide special facilities when buying foreign currency for business purposes, minimizing the barriers to exchange transactions and granting permission to open foreign currency accounts.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 02 - Business Environment and Its Impact on Business Organizations
Chapter 03 - Business Support Services [Money and Banking]

(a)

- Currency/ Cash
- E-money [E-wallet, implicit money]
- Credit card
- Cheques and bank money

(02 marks)

(b)

- 1) Acceptance of deposits of Current Accounts, Savings Accounts and Fixed Deposits
- 2) Transfer of deposits between customer accounts
- 3) Providing up-to-date, fixed bank overdraft facilities
- 4) Provision of advance facilities
- 5) Implement standing orders in the name of customers
- 6) Collecting the collections of Customers
- 7) Stock Issue Management of Priced Companies
- 8) Providing financial advisory services
- 9) Purchase and sale of treasury bonds

- 10) Issue and Transfer Bank Drafts and Payment Orders
- 11) Issue of Letters of Credit
- 12) Leasing services
- 13) Mortgage servicing
- 14) Issuing e-money such as credit cards, debits, smart cards
- 15) Provide Foreign Exchange Transaction Facilities
- 16) Vault facilities
- 17) Provision of Bank Guarantees

(04 marks)

(c) To be a successful business, it is essential to satisfy the aspirations of the stakeholders. Thus, it is required to identify the strengths & weaknesses and threats & opportunities in a specific way. If a business ignores to respond to its environmental demands, businesses tend to be collapsed. According to the given facts, the following benefits could be gained by **Bandara Tea Shop** by analyzing its environment.

1. Encourage business growth into new areas

Environment analytics can benefit by encouraging them to be protective in how they operate. If the company can identify new segment they can expand those businesses to that segment.

2. Identification of opportunities

Even a business is solid in the business it should not hesitate to seek further expansion in their businesses. Therefore, analyzing the external environment will facilitate the business to identify the opportunities that exist in the market.

3. Identification of threats

When there is a huge competition in the market, the companies have to face number of threats from their competitors also. A proper environment analysis could assist managers to identify the relevant threats from the external environment in advance.

4. Helps in achieving objectives

External environmental analysis enables business enterprise to study the environment and formulate the strategies accordingly which will result in successful attachment in objectives.

5. To understand the market

Every business should not be in constant with the market place and should be aware of what is happening in the market place to decide and their implement strategies.

6. Forecasting market trends / future

Environment often changes. Hence environment analysis helps to forecast the future prospects of the business concern.

7. Identification of strengths and weaknesses

Once the company identifies its strengths the company should take necessary steps to consolidate its strength by further improvements. Further, identification of weaknesses of the businesses also has an equal importance for the organization in order to move forward by mitigating such weaknesses to an acceptable level.

(04 marks)

(Total 10 marks)

End of Section B



Suggested Answers to Question Six:

(a)

- **Access to global markets** - Export its products to European countries and obtain the popularity among customers under a famous supermarket brand.
- **Access to raw materials and services** - Company has turned into a foreign raw material supplier in Thailand.
- **More profit opportunities** - Company has received new orders for gloves from local and foreign buyers though some of the regular orders from European countries were cancelled during the COVID-19 pandemic.
- **Tax benefits** - **Rubex** has received the concessions given by banks and several other government bodies for local exporters.
- **Competitive advantage**
- **Increased revenue**

(03 marks)

(b)

| | |
|---|--|
| <p><u>Strengths:</u></p> <ul style="list-style-type: none"> • Being a listed company in the Colombo Stock Exchange • New factory automation (use of new technology) • Being an exporter to European countries • Popularity of the brand of the business among customers • One-month on the job training for new recruits (capabilities of employees) • Operate a semi-automated process with limited labour involvement. | <p><u>Weaknesses:</u></p> <ul style="list-style-type: none"> • Unpleasant (unavoidable smelly) working environment • Higher labor turnover • Non-availability or limited availability of raw material • Leaving of employees after getting the 1 month of job training |
| <p><u>Opportunities:</u></p> <ul style="list-style-type: none"> • Possibility of finding foreign raw material suppliers • Receipt of new orders for gloves from local and foreign buyers due to COVID - 19 pandemic • Tax and other concessions given by banks and the government for exporters. • Receipt of concessions from banks and other government bodies | <p><u>Threats:</u></p> <ul style="list-style-type: none"> • Dollar crisis resulting from the COVID-19 pandemic • Selling rubber plantations for housing projects • Job opportunities' in the garment factories located in the area • Cancellations of regular orders due to COVID-19 pandemic |

(06 marks)

(c) On one hand **Rubex** is a manufacturer, and on the other hand it is an exporter. Thus, transport and logistics play a vital role in **Rubex**.

1. Ability to continuously meet customer needs

Transportation and logistics services enable the right product in the right quantity and quality, at the right time, in the right place, at the right price for the right customer.

2. Reducing cost by planning and executing all their tasks

Transportation and logistics services provide guidance on how to reduce costs and maintain the supply chain by researching the market for a manufacturing company, designing needs and making decisions about products and purchases.

3. Ability to cope with competition

Having planning and managing logistic system will results to reduce cost. It will affect to reduce the price of the items. That price is lesser than the competitors price. Therefore the company can compete easily in the market and gain competitive advantage.

4. Reduce time by maximizing the contribution of machinery and employees

Business like Rubex, material procurement, inventory control, product planning might be successful when transport and logistics services and efficient and effective. A proper planning and manage in logistics result to reduce the time.

5. Be able to increase market price

When the Rubex has a proper transportation and logistics system they can meet customers' orders early. Therefore they are able to continuously meet customer needs and it to increase market price.

6. Ability to source right materials

Transport and logistics services can be beneficial when a manufacturing company is able to buy the right materials for the product in right quantity, quality and the time.

(04 marks)

(d) According to the information given in the case, **Rubex** has significantly contributed in achieving the economic growth and development in Sri Lanka by;

1. Use of local resources

Increasing the country's resources for **Rubex** business purposes and using local resources would improve purchasing power of people. The contribution to the country's economic development, economic growth and full employment is therefore higher.

2. Contributing to employment

The business sector leads an increase in the employment rate by hiring human resources for firms. This condition allows the government to accomplish its objectives. Particularly, it will create favorable conditions for employment stability, economic growth and development, to reduce the poverty, and increase income wealth reinvestment. As a manufacturer and exporter **Rubex** provide the job opportunities in various ways.

Ex- Giving job opportunities in the factory.

3. Support to reduce deficit in trade account of the balance of payment

Earning foreign exchange as a popular exporter having quite an established market in European countries, **Rubex** helps to increase the export income. Finally, it results to contribute the economic development of the country.

4. Minimizing the damage to the environment

The environment can be viewed as a field of sustainable development which is currently evolving. **Rubex** may also move towards an environmentally friendly approach and reducing environmental damage in every business decision and action.

5. Follow the policies of the Government

Businesses are bounded to implement the policies that the government implements from time to time. As a result, entrepreneurs contribute immensely to the implementation of the Government's Fiscal Policy and other relevant policies in the economy.

6. Creating and income policy

Rubex helps to increase income of villagers who manufactures coconuts. As well as those families may work in factories of **Rubex**. It results to increase the income level of those families.

7. Binding and adherence to rules

Businesses comply with the rules and regulations enacted by the government from time to time. It helps businesses to create a good business environment.

(04 marks)

(e)

1. Stock exchange helps an investor to convert his shares into cash quickly and thus increases the liquidity of his investments.
2. The fact that a security is dealt on a stock exchange makes it a good collateral security for obtaining loan from banks.
3. The stock exchange safeguards, investor's interest and ensures fair dealing by strictly enforcing its rules and regulations.
4. An investor can easily assess the real worth of securities in his hands, as market quotations are published daily in the newspapers and in websites.
5. Stock Exchange provides a mechanism by which purchase and sale of listed securities take place in a matter of few minutes.

(03 marks)

(Total 20 marks)

End of Section C



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