



Association of Accounting Technicians of Sri Lanka

Level I Examination - July 2022

Suggested Answers

(104) BUSINESS ENVIRONMENT (BEN)

Association of Accounting Technicians of Sri Lanka

No.540, Ven. Muruththettuve Ananda Nahimi Mawatha,

Narahenpita, Colombo 05.

Tel : 011-2-559 669

Publication of the Education and Training Division

Level I Examination - July 2022

(104) BUSINESS ENVIRONMENT

SUGGESTED ANSWERS

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

SECTION - A

Suggested Answers to Question One:

1.1 (2)

1.2 (4)

1.3 (4)

1.4 (3)

1.5 (1)

1.6 (4)

1.7 (1)

1.8 (2)

1.9 (3)

1.10 (3)

(02 marks each, Total 20 marks)

1.11 False

1.12 True

1.13 True

1.14 True

1.15 False

(02 marks each, Total 10 marks)



1.16.

Features	Money Market	Capital Market
Duration of Funds	Deals with short-term loanable funds for a period of not exceeding one year.	It is a market for long-term funds exceeding period of one year.
Supply of Funds	Supplies funds for financing current business operations working capital requirements of industries and short period requirements of the government.	Supplies funds for financing the fixed capital requirements of trade and commerce as well as the long-term requirements of the government.
Deals with Instruments	It deals with instruments like commercial bills (bill of exchange, treasury bill, commercial papers etc.).	It deals with instruments like shares, debentures, Government bonds, etc.,
Role of Major Institution	The central bank and commercial banks are the major institutions in the money market.	Development banks and Insurance companies play a dominant role in the capital market.
Availability of Instruments	Money Market instruments generally do not have secondary market.	Capital market instruments generally have secondary markets.
Subdivision	In money market there is no such subdivision.	In capital market there is a division of primary market and secondary market.
Place of Transaction	Transactions mostly take place over the phone and there is no formal place.	Transactions take place at a formal place. Eg: stock exchange.

(02 marks)

1.17.

1. Using the same language medium
2. Use of paint that is not easily erased
3. Writing mistakes with a single line cut and full owner signature
4. Using the drawer's signature properly
5. Consideration of date and security of cheque
6. Record the relevant details in the counterfoil
7. Avoid signing blank cheques
8. Cash cheques are transferable so anyone can write as much as possible and crossing if they are written.
9. Correctly record the recipient's name on the cheque

(02 marks)

1.18.

Formal organization is a group of people created according to a well-defined structure, like AAT Sri Lanka, Central Bank of Sri Lanka.

Informal organization is a group of people created because of social functioning of individuals without a formal structure.

Ex - A group of friends, Facebook Community Group, WhatsApp Group

(02 marks)

1.19.

1. Generate new employment opportunities
2. Provide opportunities for the consumption of new revenue and services
3. Provide opportunities for the consumption of new goods and services
4. Using local resources for production
5. Development of new markets
6. Increase the standard of living of the people
7. Increasing economic growth
8. Increasing the national product
9. Leading to Sustainable Economic Development
10. Improving the quality of products
11. Creating fair competition
12. Reduce poverty

(02 marks)

1.20.

1. Improving education level in women
2. Increasing representation of women in the workforce
3. Changes in social attitudes (women should be considered as partners in profession and business)
4. Increased business sectors which require the involvement of women
5. The need to increase family income
6. Being frugal

(02 marks)

(Total 40 marks)

End of Section A

Suggested Answers to Question Two:***Chapter 01 [Part II] - Business Organizations***

(a) Partnership

(02 marks)

(b) The Key features of Partnership should be mentioned as stated below;

Key features of a Partnership

Ownership	Limited to 2 to 20. But there is no maximum limit for professional partnerships
Contribution to the capital	Contributing capital as agreed by the partner
Unlimited liability	Unlimited liability of partners
Management	Management is done by all or a few partners
Profit sharing	Profit is shared as agreed
Control	Governed by the collective control of the partners and in accordance with the Agreement and the Partnership Ordinance
Existence	No going concern
Legal Personality	There is no legal personality and must appear in the name of partners in-front of law
Registration	Registration is not compulsory if the registration is maintained in the names of all partners
Accounting and Auditing	Accounting and auditing are not mandatory
Dissolution	By the Court or by voluntary dissolution
Paying Taxes	Income Tax is not payable in the name of business and partners have to pay their taxes individually

(06 marks)(c) **Disadvantages of Partnership**

1. Unlimited Liability
2. Lack of continuity / Going Concern issues
3. Difficulty in attracting a larger pool of funds
4. Difficulty in Decision Making

(02 marks)**(Total 10 marks)**

Suggested Answers to Question Three:

Chapter 03 – Business Support Services

(a)

1. A medium of Exchange

- 1) Getting rid of the difficulties in the goods exchange system
- 2) Transfer is easy and efficient
- 3) Leading to specialization and division of labor
- 4) Expansion of production activities in the economy

2. Standard of Value

- 1) Able to account for transactions in the economy
- 2) Comparison of value of goods and services
- 3) Facilitating transactions in the economy
- 4) To be able to allocate the resources of the economy efficiently

3. Acting as a Deferred Payment Medium – Deferred Payment

- 1) Measuring future payments
- 2) Settlement of debt with interest
- 3) Easy to keep track of future payments
- 4) Improving business and consumer quality of life
- 5) Easy to obtain goods and services on credit basis

5. Store of Value

- 1) Absolute liquidity
- 2) Easy to hold cash balances
- 3) Not being obsolete
- 4) Although the market price uncertainty of non-financial assets increases, the position of the currency decreases

(04 marks)

(b) Benefits to a Current Account Holder

- 1) Payments can be made by cheque
- 2) To be able to advise the Bank to pay standing orders
- 3) Able to obtain standing orders
- 4) Obtaining Bank overdraft Facilities
- 5) Able to get status reports
- 6) Safe
- 7) Easy to prove paid
- 8) It is Important when obtaining bank loans

(03 marks)

- (c) In a **Post-dated cheque** the date of the cheque is designated as a future date. This is an action taken by the drawer to prevent the submission of the cheque for payment before a specified date whereas an **Open Cheque** is a cheque which is not crossed. The recipient can make the cash directly from the counter.

(03 marks)
(Total 10 marks)

Suggested Answers to Question Four:

Chapter 04 – Trade in the Business Organizations / Chapter 06 – SMEs as a Backbone of an Economy

(a)

1. Creation of more profit opportunities
2. Access to Raw materials and services
3. Gain benefits from competitive advantage
4. Obtain tax benefits
5. Access to more global markets
6. Reduced Dependence on Local Market
7. Opportunity for Diversification
8. Increased growth avenues / opportunities for the Business

(03 marks)

(b)

1. Providing advices and training

Providing the guidance different departments and other government agencies in various fields such as manufacturing, technology, quality control, business planning, and marketing and business financing. Those are;

- Industrial Development Board
- Industrial Technology Institute
- National Institute of Business Management
- Export Development Board
- National Apprentice and Industrial Training Authority
- Sri Lanka Standards Institute
- National Institute of Design

2. 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. Information relating to the export would provide by the Export Development Board and Department of Commerce.

3. 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.

4. Providing Financial Support

Government provides the financing of various investment needs for fixed capital and working capital. Through state banks loans are given to businesses. This is decisive for small and medium enterprises (SMEs), for which the credit constraints are more binding than for large firms.

5. Providing Tax Reliefs

Tax relief for small and large companies generally aims to achieve goals that will benefit the community or the region where they operate.

(04 marks)

(c)

1) Contributing to employment

Giger Ltd. provides various employment opportunities in the country. This condition allows the government to accomplish its objectives. Particularly, it will create favorable conditions for employment stability, economic growth and development, and income wealth reinvestment.

2) Minimizing the damage to the environment

The environment can be viewed as a field of sustainable development which is currently evolving. Businesses are moving towards an environmentally friendly approach and reducing environmental damage in every business decision and action.

3) Use of local resources

Increasing the country's resources for 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.

4) Paying taxes properly

Giger Ltd. may pay taxes based on their income or profits, without defaulting on the government tax. It will provide the necessary funds to carry out the role of the government.

5) Follow the policies of the Government

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

6) 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.

7) Increase in foreign reserves

The company is an export company and it gives to increase foreign reserves to the country.

(03 marks)
(Total 10 marks)

Suggested Answers to Question Five:

Chapter 03 – Business Support Services
Chapter 04 – Trade in the Business Organizations

(a)

- 1) Timely procurement of required physical and human resources
- 2) Provision of finished products to the market on time
- 3) Timely obtaining the goods and materials as per the requirement
- 4) Continuously distribute products to the customer
- 5) Expanding its market
- 6) On-time distribution of Finished Goods to the Customers
- 7) Customer Satisfaction due to on-time receipts of orders without delays

(03 marks)

(b)

Element of transport system	Examples
The way	Highways, Railways, Water ways, Air ways, Pipe Lines
Mode	Buses, Trains, Ships/Vessels, Planes, Carts, Motor Vehicles, Bicycles, Lorries
Power	Fuel power, Electricity power, Gas power, Men Power, Animal Power, Winds Power, Solar Power, Coal Power
Terminal	Bus Stands, Railway Stations, Airports, Harbors

(03 marks)

(c) Reasons for the popularity of the Electronic Trade

1. Ability to do business at any time of the day
2. Startup cost is low
3. Market Expansion
4. Lowering the price level as intermediaries are minimal

5. Opportunity to use new items
6. Expansion the opportunity of product selection
7. Minimize the use of documents
8. Accelerating business
9. Ease of use among people
10. Save customers' time and effort

(04 marks)

(Total 10 marks)



End of Section B

Suggested Answers to Question Six:

(a)

Internal environment is a collection of factors within a business that effect on the operations of the business. These factors are controllable to managers within the scope of business environment. Factors of Internal environment or Internal Environment variables would be as follows;

- 1) Value system of the Organization
- 2) Organizational Culture
- 3) Vision Statement
- 4) Management / Organizational structure
- 5) Human resources

Examples of Internal environment variables of Richie Cookies would be as follows;

- *Organizational Culture:* Since Richi Cookies is a family business with a limited number of employees, It can be stated that 'Power Culture' exists in the organization.
- *Organizational Structure:* Flat organizational structure, Business is managed by founders with several competent employees
- *Human Resources:* The limited number of employees working in the business who are competent and loyal to the business.

External environment of a business is a collection of factors and forces that are not controllable to managers, and indirectly influence on business operations. External environment consists of;

- Task environment [customers, suppliers, competitors, intermediaries, pressure groups] and
- Macro environment [political & legal environment, economic environment, social & cultural environment, technological environment, natural environment, demographic environment, global environment].

Examples of External environment variables of Richie Cookies would be as follows;

- *Suppliers :* Foreign Suppliers for most of the Materials
- *Customers :* Consumers of Richi Cookies brand
- *Political & Legal Environment :* Political Instability, Civil War, Changes in Government policies
- *Economic Environment:* Emergence of Economic Environment (Consequences such as exchange volatility etc.)

- *Social and Cultural Environment* : Changes and attitudes and preferences of general public towards biscuit consumption
- *Natural Environment* : Natural Disasters
- *Global Environment*: Impact of globalization, Global trends etc.

(06 marks)

(b)

Strengths

- 1) Known Brand which is loved by its customers
- 2) Competent and loyal Employees
- 3) Positive Customer feedbacks
- 4) Ownership of unique biscuit recipes.

Weaknesses

- 1) Dependence on imported raw materials. (This would result in non-availability of raw materials which can impact the operations of business)
- 2) Low degree of diversification of its products
- 3) Being a Family owned business
- 4) Non availability of a heir to handover the business.
- 5) Being led by Renuka and Richard who are at their 80s.

Opportunities

- 1) Potential of diversifying its product portfolio
- 2) Substitute [or move to] local raw materials. It can be done via sub-contracting / outsourcing easily.
- 3) Entering into international trade (Exporting Biscuits)

Threats

- 1) Problem of getting required raw materials as the material used for these products are imported items and there is a shortage in the market due to dollar crisis.
- 2) Changes in attitudes and preferences of general public towards biscuit consumption.
- 3) Political instability.
- 4) Changes in government policies.
- 5) Possibility that current employees leave the organization.

According to the above assessment, it could be noted that, comparatively external environment is less favorable to the business. Thus, it is better if the buyer of this business has go for locally produced raw materials or to any other feasible option to lower the product price, and change the attitude of general public towards biscuit consumption. Internal strengths are favorable as **Richi Cookies** is a popular brand, and employees are very competent.

(06 marks)

(c)

- 1) Nature of the product
- 2) Volume of delivery
- 3) Distance of delivery
- 4) Middlemen
- 5) Cost of distribution
- 6) Market regulations
- 7) Competitive advantage

(03 marks)

(d)

- 1) The ability to access strategic resources is critical for SME competitiveness.
- 2) Skills shortages, poor management practices and workforce training limit SME productivity and innovation.
- 3) Lack of economies of scale and scope.
- 4) Higher transaction costs relative to large enterprises.
- 5) Lack of networks that can contribute to a lack of information, know-how, and experience of domestic and international markets.
- 6) Increased market competition and concentration from large multinational enterprises caused by globalization and economic integration.
- 7) Lack of capital.
- 8) Barriers and market failures impose restrictions to SMEs to explore to SMEs to explore strategic resources and make it a competitive disadvantage.

(03 marks)

(e)

1) Refuse

If there is more solid waste is left behind after consuming a product, it should not be used or should be rejected in the market.

2) Reduce

Production should be planned to minimize its waste to its maximum level. The business should concentrate on byproducts of waste items.

3) Reuse

Several items like bottles, cylinders, containers can be produced for using again and again.

4) Recycle

Waste items can be used as a prime material of a different production.

5) Replace

A business can move to using bio gradable materials instead of non-degradable materials.

6) Rethink

Re-thinking about reducing solid waste products, or re-thinking before consuming them or Re-thinking about how to manage them.

(02 marks)

(Total 20 marks)

End of Section C

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.



© 2021 by the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka). All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka).