



Association of Accounting Technicians of Sri Lanka

Level I Examination - July 2024

Suggested Answers

(104) BUSINESS ENVIRONMENT (BEN)

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THE 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 (2)

1.2 (2)

1.3 (4)

1.4 (4)

1.5 (2)

1.6 (1)

1.7 (3)

1.8 (1)

1.9 (2)

1.10 (3)

1.11 True

1.12 True

1.13 False

1.14 False

1.15 True



1.16. Stating any two of the below advantages would permit full marks

1. Facilitating Market Access
2. Distribution efficiency
3. Provision of additional services
4. Reduces the burden of the business
5. Speeding up the supply chain
6. Increase the market reach
7. Cost Effective
8. Improve Productivity
9. Increase Sales
10. Save Time
11. Improve Customer Service

1.17.

Green Entrepreneurship is an entrepreneurship activity focused on raising awareness on environmental issues and social issues or needs and creating a positive impact on the natural environment.

Alternate Answer

Green Entrepreneurship is the practice of building businesses that prioritize environmental sustainability, offering eco-friendly products or services while aiming for both economic success and a positive environmental impact.

1.18. Stating any two of the below differences would permit full marks

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.

1.19. Stating any two of the below would permit full marks

- Insufficient Funds
- Signature Mismatch
- Drawer has stopped payment from the Bank Account
- Cheque is not written properly
- Drawer's Account is closed
- Cheque is blurry and unclear

1.20. Stating any two of the below would permit full marks

Entrepreneur	Manager
The key to starting a business	Runs the startup business
The risk-bearing entrepreneur experiences profits or losses	The manager exercises his / her ability to carry out the business well
Entrepreneur is the owner of the business	The manager is an employee of the business
The entrepreneur is responsible for the society and the government	The manager is responsible for the business owner's actions
Power creates itself	The position is vested with authority
Business opportunities are identified	Identifies business problems
It focuses on social benefits and social responsibility	Focuses on the benefits of the business



(02 marks each, Total 40 marks)

End of Section A

Suggested Answers to Question Two:

Chapter Business Organizations and Related Concepts

(a) Stating any two of the below would permit full marks

- (1) Unlimited companies
- (2) Companies limited by guarantee
- (3) Public Companies
- (4) Offshore Companies
- (5) Listed Companies

(02 marks)

(b)

Feature	Sole Proprietor	Limited Liability Company
Legal personality	No legal personality: The owner and the business are same in front of the eyes of the law.	Separate legal personality: The owner and the business are different in front of the eyes of the law.
Control	Controlled by the Owner	Governance is subject to statutory control and collective control of shareholders
Continuity	Low: The business does not continue after the life of the owner.	High: The business's existence doesn't get impacted by the owner's existence.
Accounting and Auditing	Not Compulsory	Compulsory due to the legal regulations.

(04 marks)

(c) Stating any two of the following advantages and disadvantages (two of each) would permit full marks

Advantages of a private limited company

- Ability to maintain the rights of relatives in the family
- Ability to retain control of the company among a limited number of people
- Ability to share profits among a limited number of people
- Ability to raise more capital
- Liability is limited
- Being a legal personality
- Lack of legal impact compared to public companies
- There is a continuity of business (Going Concern)
- Effective management of the board by management
- Ability to perform most of the work of the company without holding any unanimous resolution of all the shareholders
- Ability to distribute dividends to shareholders without a credit test
- Various tax incentives

Disadvantages of a private limited company

- There is less capital mobilization compared to public companies
- The stock market cannot be documented / cannot be an official listed company
- Unable to transfer the shares freely
- To comply with the legal requirements of the Companies Act
- Incorporation can be complex and costly
- High Cost of Administration

(04 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 03 Part 1 – Business Auxiliary Services: Functions of Money

(a)

Currency refers to the coins and notes issued by the Monetary Authority of the Country (Central Bank of Sri Lanka) under its main currency unit. These are called statutory valid money or charter money.

Alternate Answer

Currency refers to the system of money in general use within a particular country or economic region, typically consisting of paper notes and coins issued by a government or central bank, used as a medium of exchange for goods and services.

(02 marks)

(b) Stating any four of the below would permit full marks

- (1) Correct Date
- (2) Payee Name
- (3) Amount in Words and Figures
- (4) Signature
- (5) Avoid Alterations
- (6) Using Counterfoil
- (7) Language: Use the same language medium
- (8) Use of paint that is not easily erased

(04 marks)

(c) Explaining any two of the below would permit full marks

- (1) Enhanced Flexibility and Convenience:** E-money allows for quick and easy transactions without the need to carry physical cash, making it accessible anytime and anywhere through e-devices.
- (2) Enhanced Security:** E-money transactions are typically encrypted and secured, reducing the risk of theft, loss, or fraud compared to handling physical cash.
- (3) Historical Records:** The usage of E money is becoming increasing popular because it has a strong digital record of record of each and every transaction made.
- (4) Reduce Fraudulent activities:** Since E-Money makes available a detailed historical records of each and every transaction made. It is very easy to keep track of

transactions and trace them back through economy. It increases security and helps to reduce fraudulent activities.

- (5) **Save time and Resources:** The main reason to use in E-money is that it reduces time and resources. Transactions can be made at anywhere.
- (6) **Lifestyle:** The modern technology changes the lifestyle where the people perceive using the latest trends is an improved lifestyle. E money is also perceived in the same way by considerable users.
- (7) **Acceptance:** many businesses across the world enable the enhanced use of e money.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 05 - Influences of the Government on Businesses
Chapter 07 – SME's

- (a) ***Stating any three of the below would permit full marks***

1. Economic Growth
2. Economic development
3. Fill employment
4. Economic stability
5. Creating a fair income policy
6. Creating a good international trade
7. Sustainable development

(03 marks)

- (b) Responsibilities of Digith Printers to the society

- (1) **Environmental Responsibility:** Minimizing the environmental impact of their operations by adopting eco-friendly printing practices and reducing waste.
- (2) **Ethical Business Practices:** Operating transparently and fairly, ensuring honest dealings with customers, suppliers, and employees.
- (3) **Community Engagement:** Supporting local communities through employment opportunities, responsible resource use, and participation in social initiatives.

(03 marks)

(c) **Stating any two of the reasons below would permit full marks**

- **SMEs contribute to the Gross domestic product of Country.**

As per the World Bank report, formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These percentages are significantly higher when informal SMEs are included. In Sri Lanka, nearly 52% of the GDP encompassed by Small Medium Business which is comparatively greater than the other South Asian and South East Asian Countries.

- **Creating employment opportunities**

Generating employment opportunity is one of the benefits of Small medium enterprise and large share of jobs created by SME in developed and developing countries. According to the industrial survey conducted by the Department of Census and Statistics (2017) there are 45% of employments created by the Small Medium Enterprise in Sri Lanka

- **Mobilizing domestic savings**

Mobilizing domestic savings is a process of capital formation. SMEs pool the capital from domestic sources to carry out the business activities. As such savings converted as an investment through which people are able to enhance their domestic income.

- **Poverty alleviation**

As the SMEs started with a limited investment, it gives an opportunity to start up entrepreneurship at any level of people. It contributes to earn profit by entrepreneur as well as people are able to get employment opportunity through which the poverty level of people can be eradicated or reduced.

- **Income distribution**

SMEs contribute for job creation. In particular, their role as major employers in the secondary labor market of absorbing semi-skilled and unskilled labor help those in the lowest income quartile to boost up earnings out of SME wages.

- **Regional development**

The role of SMEs in creating jobs also extends to poverty reduction this is the reason why SMEs continue to survive even where there is a noticeable economic development.

- **Flexibility and ability to adapt to new economic milieu**

One unique characteristic of SMEs is their flexibility. It emanates from the fact that they are less capital intensive and more labor intensive, use mostly unskilled and semi-skilled labor, and have a simple managerial structure amenable to change.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 04 - Trade in the Business Organizations
Chapter 05 - Influences of the Government to Business, the Importance of Business Ethics and Social Responsibility of a Business
Chapter 07 - Entrepreneurship

(a) Stating any two of the differences below would permit full marks

Feature	Wholesale Trade	Retail trade
Parties	Manufacturer (Seller) and Wholesaler (Buyer)	Retailer (Seller) and Consumer (Buyer)
Quantity Sold	Generally larger quantities of goods sold to businesses / retailers / other wholesales	Generally smaller quantities of goods directly sold to individual customers
Type of Customers	Serves Businesses (B2B Transactions)	Serves Individual Consumers (B2C Transactions)
Mode of Sales	This involves considerable level of credit transactions	These transactions are completed with cash and cash equivalents
Frequency of Movements	Repetitively takes place between the same parties	Not necessarily the same buyers and sellers take part.
Trade Discounts	Used considerably	Not used much

(02 marks)

(b) Explaining any two of the impacts below would permit full marks

(1) Fluctuating Raw Material Prices

Climate change disrupts the availability and cost of rare wood imported from Indonesia, leading to increased expenses and financial uncertainty for Tharush Furniture.

(2) Supply Chain Disruptions

Environmental changes can cause delays or shortages in the supply of imported wood, affecting production schedules and the ability to meet customer demand on time.

(3) Creates new markets and opportunities

New markets and opportunities are created in different countries and people can enter those markets.

(4) Access to skilled labour

Globalization enables labour for moving around the world. Therefore, skilled employees could be found in different countries.

(5) Economies of scale

Increase in economies of scale. Economies of scale in both manufacturing and selling processes is increased due to entering to the global environment

(6) Access to new technology and knowledge

The organization will have more access to new technologies and knowledge through globalization.

(04 marks)

(c) Stating any four of the impacts below would permit full marks

- (1) Innovation
- (2) Adaptability / Flexibility
- (3) Ability to take and manage Risk
- (4) Strategic Thinking
- (5) Vision
- (6) Creativity
- (7) Self-confidence
- (8) Perceptive
- (9) Able to Identify New Business Opportunities

- (10) Stay Motivated
- (11) Decisiveness / Fast Decision
- (12) Commitment - Commitment / Dedication / Hardworking
- (13) Independence
- (14) Achievement Oriented – Achievement
- (15) Optimistic

(04 marks)

(Total 10 marks)



End of Section B

Suggested Answers to Question Six:

Chapter 02 - Business Environment and its impact on Businesses

Chapter 03 Part 1 - Business Auxiliary Services: Functions of Money

Chapter 03 Part V- Auxiliary Services: Insurance

Chapter 05 - Influences of the Government to Business, the Importance of Business Ethics and Social Responsibility of a Business

(a) SWOT assessment of the business environment of Eco-Clean

(1) Strengths:

- Innovative Business Model:
- Strong Brand Reputation:
- Malika's Knowledge on Business
- Supportive Partnerships
- Caters to growing Market Segment

(2) Weaknesses:

- Employee Turnover
- Reliance on Specific Suppliers (Dependence on eco-friendly product suppliers)
- (iii) Dissatisfied Customers
- (iv) Limited Resources

(3) Opportunities:

- Expanded Market / Market Growth
- Technological Advancements
- Supportive Government policies
- Focus on Sustainability aspect

(4) Threats:

- Unfavorable Economic Conditions
- Unreliable Suppliers
- (iii) Increased competition

(06 marks)

(b) Stating any four of the stakeholders below would permit full marks

- (1) Clients/Customers
- (2) Employees
- (3) Suppliers
- (4) Government/Regulatory Authorities
- (5) Competitors
- (6) Society
- (7) Creditors
- (8) Banks
- (9) Owners

(02 marks)

(c) Stating any four of the services mentioned below would permit full marks

- (1) Payment Processing Services
- (2) Cash Management Services
- (3) Foreign Exchange Services
- (4) Issuing bank drafts
- (5) Maintenance of vaults to safeguard valuable articles and important documents of individuals and businesses.
- (6) Fulfillment of Standing Orders
- (7) Acceptance of deposits of current accounts, savings accounts and fixed deposits
- (8) Remittances
- (9) Issuing letters of Credits
- (10) Leasing Services
- (11) Stock Issue Management of quoted companies
- (12) Provision of Bank Guarantees
- (13) Issuing e-money such as credit cards, debit cards and smart cards.
- (14) Providing Financial advisory services

(04 marks)

(d) Explaining any two of the reasons mentioned below would permit full marks

- (1) Risk Mitigation:** Insurance protects Eco-Clean against potential risks such as property damage, accidents, or liability claims, ensuring the business can recover from unforeseen events without severe financial loss.
- (2) Compliance and Credibility:** Having appropriate insurance coverage enhances Eco-Clean's credibility with clients and partners, showing that the business is prepared for contingencies and complies with legal requirements.

- (3) Business Contribution:** In any business particularly may discontinue at the death of any partner. The insurance policies provide adequate funds at the time of death of the partner. With the help of property insurance, the business is protected against disaster, tremendous wasters or loss.
- (4) Welfare of Employees:** The welfare of the employees is the responsibility of employer. Providing an insurance facility to employees will enhance welfare facilities of them. It results to increase motivation towards work.
- (5) Enhancement of Credit Outlook:** The business can obtain a loan by pledging the policy as the collateral for the loan. The insured persons are getting more loans due to the certainty at their deaths.

(04 marks)

(e) Ways how Eco-Clean contributes to a more sustainable future in Sri Lanka.

- (1) Promoting Eco-Friendly Practices:** Eco-Clean raises awareness about sustainable practices among its clients and the broader community, encouraging the adoption of environmentally friendly products and methods in everyday life.
- (2) Supporting Green Initiatives:** By partnering with green building initiatives and other environmental programs, Eco-Clean contributes to broader sustainability efforts in Sri Lanka, helping to drive systemic change toward a more eco-conscious society.

(04 marks)

(Total 20 marks)

End of Section C

Notice:

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