



Association of Accounting Technicians of Sri Lanka

Level I Examination - January 2025

Suggested Answers

(104) BUSINESS ENVIRONMENT (BEN)

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 (3)

1.2 (1)

1.3 (2)

1.4 (4)

1.5 (1)

1.6 (2)

1.7 (4)

1.8 (1)

1.9 (3)

1.10 (1)

1.11 True

1.12 True

1.13 False

1.14 True

1.15 True



1.16

- Social entrepreneurship
- Intra – Entrepreneurship
- Green Entrepreneurship
- Global Entrepreneurship
- Women Entrepreneurship
- Technology-driven solutions

(Any similar acceptable answers can be considered for marks)

1.17

- Economic downturns
- Regulatory changes
- Market competition
- Supply chain disruptions
- Managerial deficiencies
- Issues on operational process
- Lack of coordination between supplier network
- Low service quality
- Inability to meet the requirements of financial institutions to get financial support
- Bankruptcy of main customer or supplier
- Changes in government policies in relation to taxation
- Lack of support from international agencies (eg: IMF)
- Conflict between countries and within countries
- Lack of finance capital

(Any similar acceptable answers can be considered for marks)

1.18 Formal Organization has structured rules and procedures; Informal Organization relies on personal relationships and networks whereas An informal organization is a group of people that are created as a result of the social functioning of individual or it is created without a formal structure.

- 1.19**
- Shares
 - Debentures
 - Treasury Bonds
 - Corporate bonds

1.20 The cheque which is date of the cheque will be designated as a future date is called a **Post Dated Cheque**.

(02 marks each, Total 40 marks)



End of Section A

Suggested Answers to Question Two:

***Chapter 01 – Business Organizations and Related Concepts
Part V – Introduction to Business Organization***

(a) Disadvantages of a sole proprietorship:

(Two correct answers with adequate explanation are sufficient to secure full marks. Any similar answers can be considered for marking)

1. **Unlimited liability:** The owner of a sole proprietorship business is personally liable for all business debts. This may result him in losing his personal properties apart from his investment in the business, when the business makes a loss.
2. **Limited capital:** Since the sole proprietorship businesses are generally funded by an individual, they have limited capital. Ability of the individual owner to borrow may be limited. Raising funds is constrained to personal savings and loans.
3. **Lack of continuity:** The business may not survive the owner's death or retirement. Since the owner is considered as the business, when the owner ceases the business or upon his or her inability to continue or death, the business also discontinues.
4. **The success of business decisions depends on the management and entrepreneurial ability of the owner:** The success of the individual business depends largely on the owner. The does not always have the skills and talents in all aspects of the business. The lack of knowledge of the owners of business practice can lead to business failure.
5. **The owner must endure the loss alone:** The owner is directly responsible for all losses incurred.
6. **Lack of legal personality:** From a legal standpoint, the business is the owner. That is, the business has no legal status separate from the owner.
7. **Difficult to attract talented employees:** the going concern issue and the inability of employees to pay higher wages and salaries make it difficult to hire qualified and skilled workers.

8. **Difficulty in managing as the business expands:** As the business grows, i.e. employee numbers and production capacity, the owner may be unable to control the business on his own.

(04 marks)

(b) Documents required for incorporation of a private limited company:

(Three correct answers are sufficient to secure full marks, no explanation required. Any similar answers can be considered for marking)

- (i) Articles of Association.
- (ii) Statement of Company name
- (iii) Director details / Consent of the Initial Directors
- (iv) Consent of the secretary

(03 marks)

(c) Features of a private limited company:

(Two correct answers with adequate explanation are sufficient to secure full marks. Any similar answers can be considered for marking)

1	Ownership	Shareholders are the owners.
2	Capital	Obtained by issuance of shares. The issuance of public shares is prohibited and cannot be transferred freely.
3	Number of shareholders	Minimum 01, maximum 50.
4	Management	Managed by a Board of Directors. The minimum is 01 and there is no maximum limit.
5	Control	Governance is subject to statutory control and collective control of shareholders.
6	Legal Personality	There is a Legal personality.
7	Liability	Liability is limited.
8	Continuity	There is no going concern issue.
9	Incorporation	Incorporation is mandatory in terms of the Societies Act.
10	Accounting and Auditing	Accounting and auditing are mandatory. But the reports of the accounts should be submitted to the Registrar of Companies - only if requested.
11	Payment of Taxes	Taxes should be paid in the name of the 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, the word

		private company, shall end in the words "(Private) Limited" or by the abbreviation "(Pvt) Ltd".
14	Conducting Loan Payment Test	Dividends can be distributed at the consent of all shareholders without a test of credit ability.
15	Maintain a contact register	A unanimous resolution of shareholders may prevent the board of directors from maintaining a contact register detailing its transactions with the company.

(03 marks)
(Total 10 marks)

Suggested Answers to Question Three:

Chapter 03 – Business Support Services

Part 1 – Use of Money, Functions of Money and Business and Financial System

(a) Main function of money - Being a Medium of Exchange:

Money acts as an intermediary, simplifying trade by providing a common measure of value and hence it eliminates the requirement of accepting or paying goods and services with other goods and services (barter), enhancing its value as an accepted common exchange medium.

(02 marks)

(b) Types of accounts in commercial banks:

(Two correct answers with adequate explanation are sufficient to secure full marks. Any similar answers can be considered for marking)

(i) Current Accounts: This is a type of account that most of the businesses maintains in banks, used for regular transactions and payments. They facilitate payments and withdrawals via cheques and the business can enjoy overdraft facilities upon satisfying the requirements of the bank. However, they do not pay interest for the amount held in deposit.

(ii) Savings Accounts: This is very common type of accounts maintained for saving money with interest earnings. They are treated as short term investment since the business can withdraw its money anytime.

(iii) Fixed Deposit: Different banks offer different types of Fixed Deposits ranging from three months to many years. They are used as investments for earning higher interest rates over a fixed period. The businesses are not allowed to withdraw before the agreed period of deposits matures, unless the business may have to forgo the interest income.

(iv) **Time Deposits:** these deposits are similar to the Fixed Deposit Account. The difference is that there is no definite maturity and the ability to deposit money from time to time.

(04 marks)

(c) Advantages of using cheques over cash:

(Four correct answers are sufficient to secure full marks. Explanation is not necessary. Any similar answers can be considered for marking)

- (i) Reduces the risk of theft.
- (ii) Provides written proof of payment.
- (iii) No need to carry large amounts of cash.
- (iv) Can be post-dated for future transactions.
- (v) Helps in matching payment with bank statements.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Four:

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

Part V – Business Ethics

Part VI – Social Responsibility

Part VII – Sustainable Development

(a) Benefits expected by a business organization from the Code of Ethics:

(Three correct answers are sufficient to secure full marks. Explanation is not necessary. Any similar answers can be considered for marking)

- To motivate employees to adhere to the same ethics.
- Enhancing the reputation of the institution
- Preventing misconducts
- Accountability
- Regulatory compliance
- Ensuring confidence customers about the institution
- encourages repeat business and loyalty from customers

(03 marks)

(b) Strategies/actions to achieve social responsibility:

(Two correct answers with adequate explanation are sufficient to secure full marks. Any similar answers can be considered for marking)

- Reporting – Most organizations publish the company’s information and provide various financial information when inviting the public. This is also a legal requirement.
- Transparency – that is to say, to do what is said and done, to do “good governance”
- Principles – That is, using an agreed-upon policy framework for doing business and deciding on what not to do.
- Codes – This is a reflection of the quality of information, respect for others.
- Accountability – The obligation to take responsibility for what they do. Managers in particular are held accountable.
- Verifiability – To investigate their activities by reviewing themselves.
- Determine CSR Goals – Determining CSR goals focus for event such as sustainability, reducing carbon foot print or other initiatives.

(04 marks)

(c) Benefits of using sustainable practices:

(Three correct answers are sufficient to secure full marks. Explanation is not necessary. Any similar answers can be considered for marking)

- (i) Reduces operational costs through efficient resource usage.
- (ii) Competitive Advantage: Differentiates the business in the market, attracting eco-conscious consumers.
- (iii) Long-term Viability: Ensures business continuity by protecting natural resources.
- (iv) Enhanced Brand Image: Positively impacts the company's reputation and public perception.
- (v) Social support for doing business.
- (vi) Having a good social environment gives businesses the input and market they need.
- (vii) Lack of government control as it fulfills social responsibility.
- (viii) Increasing interdependence among business-friendly sectors.
- (ix) Able to attract potential stakeholders.

(03 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 04 – Trade in the Business Organizations

Part 6 – Import and Export

Chapter 02 – Business Environment and Its Effect on Business Organizations

Part 10 – Impact of Globalization on Business Expenses

(a) Main documents used in foreign trade:

(Two correct answers with adequate explanation are sufficient to secure full marks. Any similar answers can be considered for marking)

1. **Bill of Lading:** This is a document issued by a carrier (for example, a shipping company) acknowledging that the goods were received for shipment. This document shall be submitted in the original copy format when the goods are unloaded.
2. **Letter of Credit:** A guarantee from the importer's bank, ensuring the exporter will receive payment on fulfilling the terms of the agreement.
3. **Commercial Invoice:** A document provided by the exporter, detailing the goods sold and the amount due. This shows the price of the goods being exported and other charges such as insurance and freight, the mode of payment, the currency and other necessary details for the transaction between the importer and exporter.
4. **Proforma Invoice** - To provide information about the goods for the confirmation by the importer. This Explanation may include information such as price of commodity, quantity, transportation type, freight cost and type of delivery, insurance and date of loading, weight of commodity, types of packing, number of boxes, offer price and validity date.
5. **Certificate of Origin** - To verify the country where the goods traded were produced. This may be required as a part of the treaty and tariff requirements.
6. **Insurance Certificate** - To verify the goods transported via international boarder are covered with adequate insurance arrangements.
7. **Letter of Indemnity** - To verify the exporter accepts the whole risk of any possible damages to the goods shipped and hence requesting the ship to provide a clean bill of lading.
8. **Sanitary Certificates** - Certain goods may require the clearance from an authorized regulatory body in the exporter country, confirming the condition of goods.

(03 marks)

(b) New trends in Sri Lanka's traditional trade activities:

(Two correct answers with adequate explanation are sufficient to secure full marks. Any similar answers can be considered for marking)

1. **E-commerce integration:** Adopting online platforms for buying and selling products. This will enable the global opportunities for buyers from overseas providing expanded market for the local businesses.
2. **Digital payment systems:** Utilization of electronic payment methods for secure and fast transactions. This shall enhance clear documentation of the transactions with minimum risk and effort.
3. **Logistics technology:** Use of advanced logistics solutions for efficient supply chain management. This can increase the control over the cost and inventory, leading for fast deliveries, agile lead time and reduction in inventory risks.
4. **Technology orientation:** Most of the organizations rely on new tools, machines, or software to grow and improve. Using technology in their work helps to make things faster, easier, and more efficient.
5. **One roof solution:** Offering a wide range of services from one entity to the customers.
6. **Extended business hours:** Extended business hours provide the opportunity to increase sales with new and returning customers, and some organization open is 24 hours every day.
7. **Enhanced customer services:** Customer service enhancement involves improving the aspects of service that directly interact with customers, aiming to increase satisfaction, loyalty, and retention. This improvement is critical for businesses that want to face competitive and ensure their customers have positive experiences.
8. **Extended markets:** To attract more customers in the country and availability of goods and services to the customers. Business can expand their branches.

(04 marks)

(c) Advantages for customers using E-commerce:

(Three correct answers are sufficient to secure full marks. Explanation is not necessary. Any similar answers can be considered for marking)

1. Ability to shop from anywhere at any time.
2. Access to a broad range of products and services.
3. Easy comparison of prices from different sellers.
4. Products delivered directly to the customer's doorstep.
5. Easy to order
6. No need to withdraw cash and be able to use electronic money
7. Save customer time and effort opportunity to use new items
8. Lower price

(03 marks)
(Total 10 marks)



End of Section B

Suggested Answers to Question Six:

Chapter 01 – Business Organizations and Related Concepts (Part V – Introduction to Business Organization)

Chapter 02 – Business Environment and Its Effects on Business Organization (Part 5 – Business Environment Analysis)

Chapter 03 – Business Support Services (Part VI – Transportation)

Chapter 07 – Contribution of Entrepreneurship (Part II – Characteristics of an Entrepreneur)

(a) Three advantages of a Public Limited Company:

(Three correct answers are sufficient to secure full marks. Explanation is not necessary. Any similar answers can be considered for marking)

1. Access to Capital, by issuing shares to the public.
2. Enhanced Credibility, making it easier to secure loans, attract investors, and build trust with customers and suppliers.
3. Limited Liability securing the shareholders to protect their personal assets from business debts.
4. Enhanced business capacity, with the higher investment and market spread, towards multi industries.
5. There's a going concern
6. Separate legal personality
7. Easy to obtain debt capital/ Debentures to be issued publicly
8. Shares are freely transferrable.
9. Can get listed in stock market.
10. To achieve economies of scale by engaging in large scale business activities.
11. Management becomes efficient since management is done by the board.
12. Recruit talented managers at higher salaries to do business / mobilize top level human resources.
13. Increase in liquidity.
14. Various tax incentives.
15. Make it easy to attract investors.

(03 marks)

(b) SWOT Analysis of Arial Textiles:

(A similar assessment with adequate factors is sufficient to secure full marks. Explanation and presentation in a table format is not necessary)

<p>Strengths:</p> <ul style="list-style-type: none"> ○ Established supplier relationships. ○ Skilled labor force. ○ Strong customer base in Sri Lanka. ○ Existing manufacturing facilities (four factories). ○ Being a proprietor ability to make quick decisions. 	<p>Weaknesses:</p> <ul style="list-style-type: none"> ○ Limited financial resources. ○ Dependence on a few key customers. ○ Lack of IT knowledge.
<p>Opportunities:</p> <ul style="list-style-type: none"> ○ Demand for ladies' garments in European countries. ○ Potential for diversification into other garment items. ○ Growing global emphasis on sustainable practices. ○ Potential to leverage IT for improved operations and market reach. 	<p>Threats:</p> <ul style="list-style-type: none"> ○ Negative consequences of the foreign exchange ○ Rising competition from domestic and international players. ○ Changes in fashion trends. ○ Supply chain disruptions (natural disasters, political instability, trade restrictions, labor shortages). ○ Decreased consumer spending due to economic downturns. ○ Increased cost of production due to currency depreciation. ○ Vulnerability to economic downturns in Sri Lanka. ○ Low customer spending on garments. ○ Natural disasters ○ Depreciation of rupee trade restriction ○ Labor shortage

(06 marks)

(c) Three critical factors to be considered when selecting a transportation mode:

(Three correct answers are sufficient to secure full marks. Explanation is not necessary. Any similar answers can be considered for marking)

1. **Cost**, including freight charges, fuel costs, and any additional fees.
2. **Speed**, based on the nature and urgency and safety of the goods.

3. **Reliability**, in terms of delivery time, reputation and previous experiences.
4. **Distance** from the place of origin of the goods to delivery
5. **Availability**, based on the nature of the vessel, capacity required and the volume to be transported.
6. **Safety**
7. **Capacity**
8. **Standard and International Norms**
9. **Legality**

(03 marks)

(d) Three ways a good transportation system will help Arial Textiles:

(Three correct answers with adequate explanation are sufficient to secure full marks. Any similar answers can be considered for marking)

1. **Market Expansion:** A reliable transportation system can enable Arial Textiles to reach new markets, particularly in Europe. Timely delivery of goods to international customers is essential for capturing market share and building a global presence.
2. **Cost Reduction:** Efficient transportation can minimize costs associated with logistics. Optimized routes, consolidated shipments, and negotiated freight rates can contribute to significant savings.
3. **Improved Customer Satisfaction:** A good transportation system ensures timely delivery of products, which enhances customer satisfaction and loyalty. Meeting delivery deadlines is crucial for building trust with customers, especially in the competitive garment industry.
4. **Competitive Advantage:** Arial Textiles may enjoy a competitive advantage if it may secure a good transportation system than its competitors. While trading globally, this will enable them to reduce lead times, improve inventory turnover and enhance customer trust and loyalty.
5. **Increasing the production by facilitating mass production.** - Textile Transportation is a complicated process that involves handling, transporting, and storing textile products and materials good transport system helps to carry out the production efficiently and effectively.

6. Timely delivery of goods. - The time it takes to deliver goods depends on several factors, including the delivery service, the distance, and the destination country. However, with a good transportation system goods can be delivered on time.
7. Good quality goods at low cost. - Ensuring goods are packaged safely and supply the goods to the customer in good quality. Also, due to the low cost in transportation the customer is in a position to receive the good quality products at low cost.
8. Reaching employees on time. - Most of the garment entities have deployed transport facility to transport their staff. Hence, organization is in a position to bring down employees to their factories on time.
9. Getting the production materials to the factories on time. - Organization can use the fastest method of transport with low cost while paying attention to maintain the quality of the materials. This will ensure that materials are reached to the factory on time.

(05 marks)

(e) Three entrepreneurship skills required by Arial:

(Three correct answers are sufficient to secure full marks. Explanation is not necessary. Any similar answers can be considered for marking)

1. Leadership skills
2. Interpersonal skills
3. Communication skills
4. Basic management skills
5. Financial Management skills
6. Strategic Planning skills
7. Adaptability and Innovation skills
8. Risk Management skills
9. Change Management skills

(03 marks)

(Total 20 marks)

End of Section C

Notice:

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