



Association of Accounting Technicians of Sri Lanka

Level I Examination - July 2025

Suggested Answers

(104) BUSINESS ENVIRONMENT (BEN)

Association of Accounting Technicians of Sri Lanka

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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

SECTION - A

(Total 40 Marks)

Suggested Answers to Question One:

1.1. (3)

1.2. (4)

1.3. (1)

1.4. (2)

1.5. (3)

1.6. (2)

1.7. (4)

1.8. (3)

1.9. (2)

1.10. (3)

1.11. True

1.12. False

1.13. False

1.14. True

1.15. True



1.16. Differences between Goods and Services

Aspect	Goods	Services
(i) Tangibility	Goods are tangible	Services are intangible
(ii) Storage ability	Can be stored	Cannot be stored.
(iii) Ability to distinguish	Goods can be separated from the manufacturer / provider	Service can't be separated from the provider
(iv) Time difference between provision and consumption	Goods can be consumed at a different point of time from its provision / purchase	Service must be consumed at the point of purchase / provision.
(v) Uniqueness	Goods are provided in standard colour, size, weight, shape, etc.	Service differs from user to user, even though they are procured from the same provider.
(vi) Customer Relationship	Commodity-related customer relationships are low.	Service-related customer relationships are high.
(vii) Input to Produce	Most capital is used to produce	It takes more labor to produce.
(viii) Measurement	Quantitative measurement is easy.	Measuring quality is not easy.
(ix) Customer Involvement	The customer is not involved in the product.	The customer is involved in the product.
(x) Refundability or Return	Purchased goods can be returned.	Services purchased cannot be refunded.

(Expect only two differences.)

1.17.

- Sender
- Message
- Receiver
- Mode/Channel
- Aims
- Feedback & Response

(Expect only two elements.)

1.18.

Reinsurance is the process where an insurance company insures part of its risk with another insurance company to reduce potential losses. In other words, it is a process of insuring by an insurance provider against a risk, that is already insured with them.

1.19.

- Government
- Central Bank of Sri Lanka
- Licensed Commercial Banks
- Insurance Companies
- Private and Public Banks
- Mutual Funds Institutions
- Non-Banking Financial Institutions
- Public

(Expect only two institutions)

1.20.

- Innovation and creativity
- Risk-taking skills
- Critical thinking skills
- Problem solving skills
- Leadership skills
- Resilience skills
- Adaptability skills
- Communication skills
- Interpersonal skills
- Decision making skills



(Expect only two skills.)

(02 marks each, Total 40 marks)

End of Section A

Suggested Answers to Question Two:***Chapter 01 Part I – Business Organizations and Related Concepts******Part II – Introduction to Business Organization******Chapter 06 SMEs as a Backbone of an Economy*****(a)**

- Being an economic activity.
- Purchase, sale or exchange.
- A continuous process.
- Motivated by profit.
- Risk and uncertainty.
- Creation of needs or creativity.

*(Expect only three characteristics)****(03 marks)*****(b) Differences between a Partnership and a Limited Liability Company**

Feature	Partnership	Private Limited Company
(i) Legal Personality	No separate legal identity.	Separate legal entity from its owners.
(ii) Control	Managed by partners jointly. The partnership deed / agreement provides the required authority.	Managed by board of directors, subject to statutory and collective control by shareholders.
(iii) Accounting & Auditing	It is not mandatory.	Detailed financial statements; audit mandatory under the Companies Act and other regulations.
(iv) Liability	Unlimited liability.	Limited liability.

(04 marks)**(c)**

- **Access to Finance:**

SMEs often face difficulty in obtaining loans or credit facilities from banks due to lack of collateral or credit history.

- **Competition from Large Businesses:**

Larger competitors may have better economies of scale, making it harder for SMEs to compete on price and marketing.

- **Limited Management Expertise:**

Since the business is managed by the owners themselves, limitations in their competency and capacity may impact the management expertise required for the business.

- **Limited Staff and Resources:**

Due to the limited capital and restricted external funding is restricted, the business may have to run with minimum staff and resources to maintain a low-cost business form.

- **Opportunities for Growth is limited:**

The financial and operational capacity limits may hinder the growth compared to the larger businesses.

- **Entry into the global market is challenging**

Sri Lankan SMEs struggle to enter global markets due to limited knowledge, resources and capacity to meet international standards and complete effectively.

- **Skills shortages, poor management practices and workforce training limit SME productivity and innovation.**

There is evidence that SMEs have higher skills deficiencies than large firms and SME training effort is on average significantly weaker per employee than in larger firms. SMEs often face challenges in attracting and retaining highly qualified personnel and staff with relevant skills and have greater difficulties in identifying workers with sought-after skills in the labor market.

- **Lack of networks that can contribute to a lack of information, know-how, and experience of domestic and international markets.**

(Expect only two challenges)

(03 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 03 - Business Support Services

(a) Services Provided by a Commercial Bank to a Business

- Accepting deposits through various deposit schemes and accounts.
- Providing credit facilities to business such as loans, overdrafts, and other credit facilities.
- Facilitating payment services such as cheque clearing and electronic fund transfers.
- Offering trade finance services for imports and exports, such as Letter of Credits, Trade Guarantees, etc.
- Facilitating foreign currency exchange.
- Transfer of deposits between customer accounts.
- Implement standing orders in the name of customers.
- Collecting the collections of customers.
- Stock issue Management of priced companies.
- Providing financial advisory services.

- Purchase and sale of Treasury Bonds.
- Leasing Services.
- Mortgage Services.
- Issuing e-money such as credit cards, debit cards and smart cards.

(Expect only three services.)

(03 marks)

(b) Importance of Crossing a Cheque

- Ensure that the value of the cheque is received by the recipient.
- Provide extra security.
- Avoiding cash at the bank counter without debiting an account.
- Enhance accountability.

(Expect only two importances.)

(02 marks)

(c) Functions of Money

- **Medium of Exchange:**

Money act as an intermediary in the enhance of goods and services, eliminating the problems in the barter system in measuring the value of exchange.

- **Store of Value:**

Money maintains value over time, allowing purchasing power to be saved in secured means. Keeping money in cash means of accumulating assets.

- **Unit of Account / Standard of Value**

Provides a standard measure for valuing goods and services, which is accepted by all parties involved.

- **Standard of Deferred Payment:**

Enables transactions to be settled in the future, with the agreement of the parties to the transaction.

(Expect only three functions.)

(05 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 04 – Trade in Business Organizations

Chapter 07 – Contribution of Entrepreneurship

(a) Importance of Managing a Distribution Channel Properly

- Facilitating Market Access

By managing the distribution channel appropriately, the business can ensure timely delivery of products, which may ultimately result in improving the customers' satisfaction with the business's products and performance.

- Distribution Efficiency

Managing the distribution channel in a proper way may help the business to reduce distribution costs and increase efficiency, by eliminating wastages, damage, excess cost in storage and transportation.

- Enhance Market Coverage

When the business manages its distribution channel appropriately, it allows the business to enhance the market coverage and sales opportunities, resulting in enhanced profitability and market stability.

- Reducing the Burden of the Business

The business which maintains the right distribution channel in the right manner can maintain its product quality during transit, protecting them from possible damage, perishing, appropriate temperature, ventilation, lighting and other physical conditions.

- Competitive Advantage

Managing the right distribution channel effectively will bring competitive advantages to the business, ensuring a higher performance and stability in the market, which is better than its competitors.

(Expect only two importances.)
(04 marks)

(b) Parties Involved in the Distribution Channel

- Manufacturers.
- Agents
- Retailers.
- Customers

(Expect only three parties)
(03 marks)

(c) Contributions of Entrepreneurship to Economic Development

- Creation of employment opportunities.
- Encouraging innovation and new product development.
- Increasing national income through higher production and exports.
- Stimulating competition, leading to better quality products and services.
- Providing marketing opportunities for household industries.
- Encouraging opportunities for the women participation in the economy.
- Sourcing the local market, reducing the imports, saving the foreign exchange reserves.
- Creating and setting the stage for large scale production.

- Enhance the living status of people.
- Improving the quality of life of people.
- Protection of traditional production techniques.

(Expect only three contributions)

(03 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 01 – Business Organizations and Related Concepts

Chapter 03 – Business Support Services

Chapter 02 - Business Environment and Its Effects on Business Organization

(a)

Ownership	Owned by a Person
Capital	Capital is provided by the owner alone
Administration and decision making	Business is administered by the owner or under his supervision. Therefore, business decisions are made by the businessman himself.
Liability	There is a limited liability.
Separate Legal Personality	No separate limited personality.
Registration	Registration is not mandatory.
Profits and Losses	Bears alone.
Tax Payment	Taxes should be paid personally in the name of the businessman.
Accounting and Auditing	Accounting and auditing are not mandatory.
Going Concern	There is no going concern.

(Expect only three characteristics)

(03 marks)

(b) Barriers to Effective Communication in Deepthi's Business

- **Language Barriers:**

Misunderstandings may occur with suppliers, customers, or partners who speak different languages, when Deepthi is not fluent in such languages which is different from her mother tongue.

- **Technological Barriers:**

Poor internet connectivity or lack of access to communication tools could disrupt business operations when making communications via digital channels.

- **Noise / External Barriers:**

The external barriers such as noise which is beyond Deepthi's control may affect the effectiveness of communication made and the intended result may not be accomplished.

- **Technical jargons or codes:**

When Deepthi doesn't have adequate understanding of the technical jargons or codes used in certain regions / industries/ groups, her communication may be defective.

- **Vague non-verbal clues:**

Communication is not only about the verbal communication tools, but the non-verbal tools such as hand gestures, body languages, signs and props, etc. may create barriers if they are not used properly.

- **Lack of presentation skills:**

When Deepthi lacks in presentation skills, her emotions, empathy, facial expressions, etc. may create barriers to communicate the message and provide the feedback to the other party.

- **Negative Thoughts**

Negative thoughts of the employees regarding modern technology communication.

- **Psychological Factors**

Different people may be in different mental states at times of communication. Therefore, not everyone has the opportunity to communicate with equal effectiveness.

(Expect only two barriers)

(04 marks)

(c) Importance of Adopting Environmental Sustainability Practices

- **Enhances Brand Image:**

When the business practices the sustainability initiatives, it can improve customers' trust and loyalty by showing commitment to the environment.

- **Regulatory Compliance:**

The businesses which adopt the sustainability practices easily meet environmental regulations and avoids legal penalties.

- **Competitive Advantage:**

The businesses practicing sustainability practices differentiate themselves in the market from their competitors.

- **Long-Term Cost Savings:**

Efficient resource use reduces waste and operational costs can be resulted from sustainable business practices.

- **Lack of Government Control**

Lack of government control as it fulfills social responsibility. Some practices are enforced by the government. If the business adopt those control can be reduced.

(Expect only two reasons)

(03 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Six:***Chapter 02 – Business Environment and Its Effects on Business Organization******Chapter 03 – Business Support Services******Chapter 05 – Influences of the Government to Business, Importance of Business Ethics and Social Responsibility of a Business.******Chapter 04 – Trade in the Business Organizations*****(a) PESTEL Analysis of Business Environment**

<ul style="list-style-type: none"> Political 	<p>The political factors have a reasonable impact on the business, which includes the below:</p> <ul style="list-style-type: none"> Government policy on exporting tea. Ban on chemical fertilizers Bureaucratic delays.
<ul style="list-style-type: none"> Economic 	<p>Since the business involves in international business, the economic factors have a strong influence. This includes the factors below:</p> <ul style="list-style-type: none"> Exchange rate fluctuations Global competition Opportunities from organic tea demand. Taxation policies
<ul style="list-style-type: none"> Social 	<p>Since the product is a part of daily consumables which is a part of the routine diets, the social factors are important due to their influence. This includes the below:</p> <ul style="list-style-type: none"> Increasing global preference for organic and healthy beverages. Health concerns among different age groups The lifestyle changes among the consumers. Peoples habits, values and norms.
<ul style="list-style-type: none"> Technological 	<p>The global business is now going through a radical change due to the technological revolution and hence this factor is significantly influencing the business. This includes:</p> <ul style="list-style-type: none"> Use of e-commerce platforms Online communication tools. New technologies in tea manufacturing.
<ul style="list-style-type: none"> Environmental 	<p>As the post industrialization businesses have caused significant harm to the eco-system, environmental factors have become a serious concern. This includes the factors below:</p>

	<ul style="list-style-type: none"> ○ Sustainability requirements ○ Adaptation to eco-friendly farming practices.
<ul style="list-style-type: none"> • Legal 	<p>The business must obey to the regulations in different legal territories and hence the below factors are of much concern:</p> <ul style="list-style-type: none"> ○ Compliance with export regulations ○ Trade restrictions by some countries. ○ Implementing minimum wage rate requirement.

(06 marks)

(b) Business Supportive Services

The business support services performed by the following agencies are helpful to Quality Tea (Pvt) Ltd

- Government Export Promotion Agencies; Ex: Export Development Board (EDB).
- Banking and financial services
- Insurance Services
- Transport Services
- Accounting and Tax Consultancy Services
- Logistics, Warehousing and Forwarding services
- IT and digital services
- Communication services

(Expect only two services)

(02 marks)

(c) Importance of Relationship Between Government and Business

It is important for the businesses to have a good relationship with the government. Such an interactive relationship can enhance benefits mutually as below:

- Facilitating economic stability and growth:

The Government will contribute greatly to business growth and development by providing the necessary infrastructure, tax concessions, political stability, market facilities and other things that the private sector cannot achieve without the Government support. Similarly, businesses appear to be contributing to the increase in government revenue by paying taxes on time.

- Contributing to Employment:

On the other hand, businesses contribute to economic growth by contributing to employment, providing more employment and using local resources, and increasing GDP through the production of goods and services.

- Compliance to the rules and provide social services & manage sustainability:
When businesses carry out their business activities, complying with the rules and waste in

order to achieve regulations imposed by the government the sustainable development expected by the government, they would make it easier for the government to do so.

- The government can identify the market trends, consumer priorities and areas where government influence is required, with the information obtained from businesses.
- The government can initiate Public-Private-Partnership (PPP) activities for the benefit of communities, supporting the economic development.
- Businesses can support for the success of government initiatives and vice versa.

(Expect only two reasons)

(04 marks)

(d) Reasons to Engage in Foreign Trade

- Access to larger markets.
- Increased revenue potential / more profit opportunities.
- International brand recognition.
- Meeting global demand for organic tea.
- Earning in foreign currency
- Opportunities for enhanced diversifications
- Access to raw materials and services.
- Competitive advantage.
- Tax benefits.

(Expect only four reasons)

(04 marks)

(e) Success Factors in E-Commerce

- User-friendly website and online store.
- Reliable logistics and timely delivery.
- Secure and convenient payment systems.
- Effective digital marketing and customer engagement.
- Understanding and clarity of e-commerce customers and related aspects.
- Enabling the customers with the choice of multiple payment platforms.
- Real time customer service channels.
- Be transparent.
- Personal attention.
- Attractive web store front, shopping features, multimedia product catalogue page.

(Expect only two factors)

(04 marks)

(Total 20 marks)

End of Section C

Notice:

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