



## ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

### LEVEL II EXAMINATION MODEL PAPER - AUGUST 2023

### (104) BUSINESS ENVIRONMENT

● Instruction to candidates (Please Read Carefully):

(1) **Time Allowed:** Reading : 15 minutes.

Writing : 03 Hours.

No. of Pages : 04

No. of Questions : 07

(2) **All questions should be answered.**

(3) **Answers should be in the medium applied for, in the booklets provided**

(4) **State clearly assumptions made by you, if any**

(5) **Action Verb Check List with definitions is attached. Each question will begin with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**

(6) 100 Marks.

#### SECTION A

(Total 40 marks)

#### Question 01

Select the most correct answer for questions No. 1.1 to 1.10. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1. What is the organization type that incorporated and can't exchange shares in the Colombo stock exchange?

1) Private limited companies

2) Public limited companies

3) Guaranteed companies

4) Partnership businesses

1.2. What is the business type that temporarily joins together for a specific business purpose and does not require registration?

1) Partnership business

2) Limited liability company

3) Charity organization

4) Joint venture

1.3. An experienced fund manager deploys the funds collected from various investors in various productive investments.

- 1) Debentures
- 2) Treasury bills
- 3) Treasury bonds
- 4) Unit Trusts

1.4. Select the statement that contains components only in the macro environment.

- 1) Government, Suppliers, HR Department, Exchange rate
- 2) Government, Exchange rate, Inflation, Political instability
- 3) Suppliers, Customers, Climate, Natural disasters
- 4) Goodwill, Marketing Department, Management, Employees

1.5. What is not an element of Porter's five-force analysis?

- 1) Threats of new entries
- 2) Rivalry among competitors
- 3) Inbound logistics
- 4) Bargaining power of customers

1.6. What does mean by the term Brexit?

- 1) Withdrawal of the United Kingdom from the Commonwealth
- 2) Withdrawal of Brazil from the European Union
- 3) Withdrawal of southern Ireland from Britain
- 4) Withdrawal of the United Kingdom from the European Union.

1.7. Which instrument is not used by the Central Bank of Sri Lanka to control the money supply?

- 1) Standing Lending facility rate
- 2) Standing Deposit facility rate
- 3) Open market activity
- 4) Floating exchange rate

1.8. What is the incoterm in which the seller is responsible until the cargo is transported to the named port?

- 1) CIF
- 2) FOB
- 3) CNF
- 4) CPT

1.9. Consider the following statements

- A. Drawing two parallel lines on the cheque sheet
- B. "Account payee only" has been mentioned on the cheque
- C. Having a bank account number and a bank branch name mentioned on the cheque
- D. "Cash" written on the cheque instead of a name

In which of the above cases does a cheque not be cashed at the bank counter?

- 1) A, B, and D only
- 2) A, and D only
- 3) A, B, and C only
- 4) All of above

**1.10.** What are the conflicting objectives of commercial banks?

- |                              |                                |
|------------------------------|--------------------------------|
| 1) Lending and Deposits      | 2) Assets and Liabilities      |
| 3) Liquidity and Liabilities | 4) Liquidity and Profitability |

State whether each of the following statements from 1.11 to 1.15 is True or False. Write the answer (True/False) in your answer booklet with the number assigned to the question.

- 1.11.** The principle of contribution states that the insurance will only cover you for the loss that has happened.
- 1.12.** Only Demand deposits can request an overdraft facility from a bank
- 1.13.** Treasury bonds are a long-term investment instrument
- 1.14.** Investing in debentures can earn higher interest income than a fixed deposit
- 1.15.** Holding currency notes to meet a possible future risk is called a speculative motive.

Write the answers for questions No. 1.16 to 1.20 in your answer booklet with the number assigned to the question.

- 1.16.** State 2 Objectives of Starting Central Bank
- 1.17.** List down 2 key players in the secondary bond market
- 1.18.** State 2 differences between current account and savings account
- 1.19.** List two characteristics of a business
- 1.20.** What is the full term abbreviated by CIF and FOB related to Inco Terms?

(02 marks each, Total 40 marks)

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*End of Section A*

## **SECTION B**

(Total 40 Marks)

### **Question 02**

ABC Industries, a thriving startup, has experienced significant growth over the past few years. As they plan to expand further, the founders are contemplating the most suitable type of business organization for their enterprise. They have three options in mind a sole proprietorship, Partnership, Private limited company, and a PLC company.

- a) Explain two differences between a sole proprietorship and Partnership Business. (3 marks)
- b) If ABC is considering to gather large capital, what is the most suitable business modal? Justify your answer. (4 marks)
- c) Identify 3 risks that ABC can insure. (3 marks)

(Total 10 marks)

### **Question 03**

XYZ Global Traders, a well-established import-export company, is facing a crucial decision regarding its future business strategy. Over the years, the company has successfully operated in the domestic market, specializing in the import of electronic gadgets and exporting local handicrafts. However, the management team is now contemplating expanding into international trade to capitalize on new opportunities.

- a) What is the difference between a Letter of credit and Cash in advance? (3 marks)
  - b) List 4 reasons for international trade? (4 marks)
  - c) Explain two insurances related to shipments? (3 marks)
- (Total 10 marks)

### Question 04

Entrepreneurship refers to the process of identifying opportunities, taking calculated risks, and creating new ventures or businesses to bring innovative ideas, products, or services to the market. An entrepreneur is an individual who initiates and drives this process, often with the goal of achieving financial success and making a significant impact.

- a) List 4 Entrepreneurial skills (3 marks)
  - b) Compare entrepreneur and Manager (3 marks)
  - c) State 3 characteristics of Entrepreneur (4 marks)
- (Total 10 marks)

### Question 05

The financial market plays a crucial role in the functioning and development of an economy. Its importance stems from the various roles and functions it performs, impacting economic growth, capital allocation, and overall stability.

- a) Explain the difference between the money market and the capital market? (3 marks)
  - b) Explain the difference between Primary Money market and Secondary Money Market (3 marks)
  - c) Investing in unit trusts is less risky than investing directly in the stock market. Can you agree with this statement? Give reasons for your answer (4 marks)
- (Total 10 marks)

*End of Section B*

## SECTION C

(Total 20 marks)

### Question 06

**FastFund** is a private limited company providing microfinancing facilities. Their primary objective is to provide microfinance loans for the immediate cash needs of small and medium entrepreneurs. During the Covid19 pandemic period, the inflation rate is seen rising as the government printed money to provide various forms of unilateral transfers to the people. Economic experts are of the view that the inflation rate increases because the money supply increases.

Recognizing that the crisis will be resolved gradually, this financial company is planning to expand its company. They are considering making this decision against the backdrop of a slight reduction in credit availability of their customers due to the economic crisis.

- a) State 2 Advantages and 2 disadvantages of private limited companies. (4 marks)
- b) Explain 3 ways that FastFund can raise capital for its expansion (3 marks)
- c) Explain three instruments that a country's central bank can use to control rising inflation (3 marks)
- d) An advisor has pointed out that investing in preferred stocks is preferable to investing in common stocks in the stock market if one expects to earn high returns. Give your opinion on this (4 marks)
- e) If FastFund is going to incorporate as a public limited company, State one advantage and one disadvantage being public limited company. (2 marks)
- f) State two ways in which small and medium enterprises contribute to the growth of an economy (2 marks)
- g) Identify one strength and one weakness for FastFund (2 marks)

(Total 20 marks)

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*End of Section C*



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