ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2017

(AA25) BUSINESS LAW AND ETHICS

Instructions to candidates (Please Read Carefully):

(1) Time Allowed: Reading : 15 minutes
    Writing : 03 hours.

(2) All questions should be answered.

(3) Answers should be in one language, 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 begins 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

Objective Test Questions (OTQs)

Ten (10) compulsory questions
(Total 20 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.7. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Which one of the following institutions has the power to enact laws according to the constitution?

   (1) Magistrate’s Court.          (2) Supreme Court.

1.2 Which one of the following laws is applicable only to Tamil inhabitants of the Jaffna peninsula in northern Sri Lanka?

   (1) English Law.                 (2) Kandyan Law.
   (3) Thesawalamai Law.            (4) Muslim Law.
1.3 Which one of the following is not a function of the Securities and Exchange Commission of Sri Lanka?

(1) Advise the government on the development of the securities market.
(2) Regulate the listing and issue of securities in a licensed stock exchange.
(3) Direct a licensed stock exchange to reject any application made to it for listing.
(4) Negotiate project proposals with investors.

1.4 Which one of the following is a method of terminating a contract?

(1) By performance.     (2) By frustration.
(3) By breach.          (4) All of the above.

1.5 Which one of the following is a remedy available to a buyer in a Sale of Goods contract?

(1) Lien.               (2) Resale.

1.6 Which one of the following is not an essential element of a contract of sale of goods?

(1) Transfer of property. (2) Goods.
(3) Place.               (4) Price.

1.7 The document required by an importer (a buyer) to claim goods on arrival is:

(1) Bill of Lading.      (2) Letter of Credit.

Write short answers for question Nos. 1.8 to 1.10 in your answer booklet with the number assigned to the question.

1.8 State two(02) types of intellectual properties recognized under the Intellectual Property Act No. 36 of 2003.

1.9 State two(02) types of leases operated in Sri Lanka.

1.10 State two(02) types of holidays and leave to which employees are entitled under the Shop and Office Employees' Act No. 19 of 1954.

(02 marks each, Total 20 marks)

End of Section A
SECTION B
Five (05) compulsory questions
(Total 25 marks)

Question 02

Sunimal imports sugar from Pakistan since 2005 and sells to wholesale traders in the Colombo city. Payments in advance are made to Pakistan suppliers by Sunimal before dispatching goods to Sri Lanka. Now he wants to change the method of payment to letter of credit method.

Explain, to Sunimal how the letter of credit method is operated. (05 marks)

Question 03

A has stolen B’s cheque which had been crossed as “Not Negotiable” and given it to D to settle the amount due to D from him. D accepted it without knowing that it has been stolen and presented it to his Bank.

Explain whether D is entitled to claim the amount on this cheque. (05 marks)

Question 04

The development of Information Technology has led to many advancements in society. Further, it leads to many malpractices in society too. Computer Crimes Act No. 24 of 2007 is one of the legal statutes prevailing in Sri Lanka to protect against computer crimes.

(a) State three(03) offences covered under the Computer Crimes Act No. 24 of 2007. (03 marks)

(b) State two(02) other legal statutes prevailing in Sri Lanka regarding information communication technology. (02 marks)

(Total 05 marks)

Question 05

Dilan, who was an Accountant of PLN Associates had resigned with effect from 31\textsuperscript{st} December 2016 to join a multinational company. He has completed 10 years of service at PLN Associates as at the date of resignation. His salary for the month of December 2016 was Rs.120,000/-. 

(a) State two(02) criteria to be fulfilled by an employee to get entitled to gratuity payment at the date of resignation. (02 marks)

(b) Calculate the amount to be paid to Dilan as the gratuity assuming that he is entitled for the gratuity payment. (03 marks)

(Total 05 marks)
“It is the responsibility of a professional accountant to act in the interest of internal stakeholders as well as external stakeholders. Independence is one of the fundamental principles of professional ethics that an accountant should adhere to when dealing with public matters.”

Explain what is meant by “independence” as a fundamental principle of professional ethics. (05 marks)

SECTION C
Three (03) compulsory questions
(Total 30 marks)

Question 07

(a) On 01\textsuperscript{st} January 2016 Saparamadu obtained an insurance cover for his house against fire from XYZ Insurance Ltd. for Rs.3 million. After obtaining the insurance cover, on 01\textsuperscript{st} March 2016 Saparamadu sold his house to Perera for Rs.3 million. On 15\textsuperscript{th} March 2016, the house was destroyed by fire and on 20\textsuperscript{th} March 2016 XYZ Insurance Ltd. agreed to pay Rs.3 million under the insurance policy. On 30\textsuperscript{th} March 2016, Saparamadu received Rs.3 million from Perera as the sale proceed from sale of house.

Discuss whether Saparamadu is entitled to receive the compensation under the insurance policy from XYZ Insurance Ltd. (06 marks)

(b) A cheque is commonly used as a negotiable instrument. Every cheque is a bill of exchange but every bill of exchange is not a cheque.

State four (04) characteristics of a cheque. (04 marks)

(Total 10 marks)

Question 08

Aminda is a sole proprietor who is doing his business for over 15 years. Aminda is planning to convert his business to a private limited liability company.

(a) Explain to Aminda regarding the requirements that he should satisfy to convert his businesses to a private limited liability company. (04 marks)

(b) Explain three (03) features of a private limited liability company. (06 marks)

(Total 10 marks)
Rose acts as the agent of Kumar. At her capacity as the agent, several contracts were made by Rose on behalf of Kumar with Silva over a period of years. Compensation is paid by Kumar on loss of any contract entered into by Rose on behalf of Kumar. Later Kumar terminated Rose’s agency but it was not notified to Silva. Rose continued to deal with Silva on behalf of Kumar. Silva incurred a significant loss from a contract which was entered into with Rose and it has been entered into after terminating of Rose’s agency. Silva claimed compensation from Kumar for the loss incurred by him due to the above contract.

(a) **Explain whether Silva is entitled to claim compensation from Kumar under the law of agency.**

(b) **State four (04) duties of an agent.**

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**SECTION D**

A compulsory question

(Total 25 marks)

**Question 10**

(a) A offered to sell his car to B in a letter by post which was posted on 02\(^{nd}\) January 2016. The letter was reached to B on 10\(^{th}\) January 2016 due to a postal delay. B posted his letter of acceptance to buy the car on 13\(^{th}\) January 2016, but the letter was handed over to an apparently similar address in a wrong direction.

The receiver of this letter has handed over it to the nearest post office on 20\(^{th}\) January 2016 and the Postal Department again delivered it to the correct recipient (that is A) on 30\(^{th}\) January 2016. Meanwhile, since A did not hear from B within a reasonable time period regarding B’s acceptance, A posted his letter of revocation to B on 15\(^{th}\) January 2016 and sold his car to C on 16\(^{th}\) January 2016. However, this letter of revocation was reached to B on 18\(^{th}\) January 2016. B was expecting to buy it as he is of the opinion that he has accepted the offer relating to it.

**Discuss** the legal right of B in this regard.

(b) Nimal entered into a contract with Kamal to sell 100 computers out of a bulk of computers stored in the warehouse of Nimal on 01\(^{st}\) March 2016. At the time of entering into the contract, it was agreed not to separate the 100 computers from the rest of computers stored in the warehouse. Entire slot of computers had been imported by Nimal on 20\(^{th}\) February 2016. There was no any condition included in the contract regarding the time of passing the ownership to Kamal. However after entering into the contract, Kamal contacted Nimal and instructed Nimal to store his 100 computers separately and Nimal stored those computers as instructed by Kamal. However, on 02\(^{nd}\) March 2016, the entire warehouse was destroyed by flood including the 100 computers. Nimal did not have an insurance cover against the damages by flood. Nimal argued that Kamal need to bear the loss of 100 computers.

**Discuss** whether Kamal should bear the loss of 100 computers.
# ACTION VERB CHECK LIST

<table>
<thead>
<tr>
<th>Knowledge Process</th>
<th>Verb List</th>
<th>Verb Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 01</td>
<td>Comprehension</td>
<td></td>
</tr>
<tr>
<td>Recall</td>
<td>Define</td>
<td>Describe exactly the nature, scope, or meaning.</td>
</tr>
<tr>
<td>&amp; explain</td>
<td>Draw</td>
<td>Produce (a picture or diagram).</td>
</tr>
<tr>
<td>important</td>
<td>Identify</td>
<td>Recognize, establish or select after consideration.</td>
</tr>
<tr>
<td>information</td>
<td>List</td>
<td>Write the connected items one below the other.</td>
</tr>
<tr>
<td></td>
<td>Relate</td>
<td>To establish logical or causal connections.</td>
</tr>
<tr>
<td></td>
<td>State</td>
<td>Express something definitely or clearly.</td>
</tr>
<tr>
<td></td>
<td>Calculate/Compute</td>
<td>Make a mathematical computation</td>
</tr>
<tr>
<td></td>
<td>Discuss</td>
<td>Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.</td>
</tr>
<tr>
<td></td>
<td>Explain</td>
<td>Make a clear description in detail revealing relevant facts.</td>
</tr>
<tr>
<td></td>
<td>Interpret</td>
<td>Present in an understandable terms.</td>
</tr>
<tr>
<td></td>
<td>Recognize</td>
<td>To show validity or otherwise, using knowledge or contextual experience.</td>
</tr>
<tr>
<td></td>
<td>Record</td>
<td>Enter relevant entries in detail.</td>
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<tr>
<td></td>
<td>Summarize</td>
<td>Give a brief statement of the main points (in facts or figures).</td>
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<thead>
<tr>
<th>Knowledge Process</th>
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<th>Verb Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 02</td>
<td>Application</td>
<td></td>
</tr>
<tr>
<td>Use knowledge in</td>
<td>Apply</td>
<td>Put to practical use.</td>
</tr>
<tr>
<td>a setting other</td>
<td>Assess</td>
<td>Determine the value, nature, ability, or quality.</td>
</tr>
<tr>
<td>than the one in</td>
<td>Demonstrate</td>
<td>Prove, especially with examples.</td>
</tr>
<tr>
<td>which it was</td>
<td>Graph</td>
<td>Represent by means of a graph.</td>
</tr>
<tr>
<td>learned / Solve</td>
<td>Prepare</td>
<td>Make ready for a particular purpose.</td>
</tr>
<tr>
<td>closed-ended</td>
<td>Prioritize</td>
<td>Arrange or do in order of importance.</td>
</tr>
<tr>
<td>problems</td>
<td>Reconcile</td>
<td>Make consistent with another.</td>
</tr>
<tr>
<td></td>
<td>Solve</td>
<td>To find a solution through calculations and/or explanation.</td>
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</table>

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<th>Verb Definitions</th>
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<tbody>
<tr>
<td>Level 03</td>
<td>Analysis</td>
<td></td>
</tr>
<tr>
<td>Draw relations</td>
<td>Analyze</td>
<td>Examine in detail in order to determine the solution or outcome.</td>
</tr>
<tr>
<td>among ideas and</td>
<td>Compare</td>
<td>Examine for the purpose of discovering similarities.</td>
</tr>
<tr>
<td>compare and</td>
<td>Contrast</td>
<td>Examine in order to show unlikeness or differences.</td>
</tr>
<tr>
<td>contrast</td>
<td>Differentiate</td>
<td>Constitute a difference that distinguishes something.</td>
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<tr>
<td></td>
<td>Outline</td>
<td>Make a summary of significant features.</td>
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