



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2016

(AA25) BUSINESS LAW AND ETHICS

16-07-2016  
Afternoon  
[1.45 – 5.00]

• **Instructions to candidates** (Please Read Carefully):

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

No. of Pages : 07  
No. of Questions : 10

- (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 courts has the prime instance criminal jurisdiction in Sri Lanka?

- (1) Magistrate's Court. (2) District Court.  
(3) Court of Appeal. (4) Supreme Court.

**1.2** Which one of the following is considered as the most supreme source of law in Sri Lanka?

- (1) Supreme Court. (2) Commercial High Court.  
(3) The Constitution. (4) Case Law.

**1.3** Which one of the following is correct regarding the legal system of Sri Lanka?

- (1) There is no residual-law in the Sri Lankan legal system.
- (2) Mediation is a non-judicial dispute resolution method.
- (3) Court of Appeal is the highest court in appellate jurisdiction.
- (4) All of the above.

**1.4** Which one of the following is **not** a type of endorsement?

- (1) Blank endorsement.
- (2) Special endorsement.
- (3) Unconditional endorsement.
- (4) Restrictive endorsement.

**1.5** An agency relationship which is made retrospectively is known as creation of an agency:

- (1) by estoppel.
- (2) by ratification.
- (3) by necessity.
- (4) by expression.

**1.6** Which one of the following category of employees is covered under the Employees' Provident Fund (EPF) Act No.15 of 1958?

- (1) Contract employees.
- (2) Permanent and non-permanent employees.
- (3) Daily wage earners.
- (4) All of the above.

**1.7** Which one of the following is **not** a method of payment used in the International Trade?

- (1) Letter of Credit.
- (2) Money Order.
- (3) Collection Agreement.
- (4) Payment in Advance.

*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) regulatory institutions in Sri Lanka.

**1.9** State two(02) types of persons protected by law because they do not possess full contractual capacity.

**1.10** State two(02) methods of terminating a contract.

(02 marks each, Total 20 marks)

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*End of Section A*

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## **SECTION B**

Five (05) compulsory questions

(Total 25 marks)

### **Question 02**

**ABC Ltd.** has allowed one of their external consultants **Anil** to officially use their CEO's room in the head office. **Kamal** who is a stationery supplier, honestly believing **Anil** to be the CEO of the company enters into a contract to supply stationery to **ABC Ltd.** When **Kamal** claims payment for the supplies made, **ABC Ltd.** refuses to settle it as **Anil** is an external consultant and not an employee of **ABC Ltd.**

**Explain** whether **Kamal** is entitled to claim the payment from **ABC Ltd.** (05 marks)

### **Question 03**

"Mainly there are two types of contracts in International Trade, namely Free On Board (FOB) and Cost, Insurance and Freight (CIF), each of which has its own features, that differentiate those two contracts".

**Explain** the differences between FOB contracts and CIF contracts. (05 marks)

### **Question 04**

One of the main differences between a cheque and a bill of exchange is that a cheque can be crossed, whereas a bill of exchange cannot be crossed. Crossing of a cheque gives more protection to the cheque.

**Explain** two(02) types of crossings with their legal effects. (05 marks)

### **Question 05**

**Amal**, a father of two children who is an Assistant Manager works for a reputed supermarket in Colombo since 2012. One day he met with an accident while returning to home with his two children after school and injured severely. As a result he was required to bed rest for one year. Due to that, he couldn't attend to his job responsibilities properly. Now the Human Resource Manager has decided to terminate his employment due to incapacity and long sick leave.

(a) **Explain Amal** whether this is a "Termination of Employment" in terms of the Termination of Employment of Workmen (Special Provision) Act. (03 marks)

(b) **State** two(02) categories of employees excluded under the Termination of Employment of Workmen (Special Provision) Act. (02 marks)

(Total 05 marks)

## Question 06

An accountant plays a key role in any organization and involves in making key decisions. When reviewing the financial records of a company for reporting purpose, an accountant must remain impartial and loyal to ethical requirements. The accountant working in a private or public sector may encounter ethical issues regardless of the industry he works for. He must be continuously vigilant in order to reduce the opportunities for manipulating financial records by outside forces. Otherwise it might lead to both ethical and criminal violations.

**State** five(05) main ethical issues faced by an accountant. (05 marks)

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*End of Section B*

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## **SECTION C**

Three (03) compulsory questions

(Total 30 marks)

## Question 07

**Nissanka** and **Kapila** commenced a partnership in the business of buying and selling furniture named “NK Partnership” in the year 2014. There was no partnership agreement among them. Therefore they followed the Partnership Ordinance 1890 to solve the matters related to conduct of the partnership.

In January 2016, **Nissanka** bought some furniture items on credit in the name of “NK Partnership” and sold those with a profit margin. However, he did not share the profit earned from the above transaction with **Kapila**. As a consequence of it, a dispute was arisen between **Nissanka** and **Kapila**. Now they have decided to dissolve the partnership.

- (a) **Explain** whether **Nissanka** is liable to share the profit earned from the above transaction with **Kapila**. (06 marks)
- (b) **State** four(04) instances where a partnership could be dissolved with the intervention of the court. (04 marks)
- (Total 10 marks)

### Question 08

- (a) Law of insurance could be defined as a contract where the insurer agrees with the insured that on the occurrence of an uncertain event, the insurer will pay a sum of money to the insured and in return the insured will pay the insurer a premium. There are two basic categories of insurance namely indemnity insurance and contingency insurance.

**Explain** the above two(02) basic categories of insurance. (04 marks)

- (b) **Sunil** has obtained two insurance policies to cover his office building for fire from two separate insurance companies namely **RR Insurance Ltd.** and **Ceylo Insurance Ltd.** for Rs.500,000/- and Rs.750,000/- respectively. Due to a fire caused by a leakage of electricity, the building suffered a loss of Rs.300,000/-. **Sunil** argued that he is entitled to claim Rs.300,000/- each from both the insurance companies.

**Explain** whether **Sunil** is entitled to claim Rs.300,000/- each from both the insurance companies. (06 marks)

(Total 10 marks)

### Question 09

The objectives of the Money Laundering Act No. 5 of 2006 are to prohibit money laundering in Sri Lanka and to provide necessary measures to combat against money laundering. Any person who commits an act which falls within the definition of money laundering or any person who aids and abets money launders is guilty of committing the offence. The Money Laundering Act applies to any resident person in Sri Lanka who commits an act, any institute carrying on a business in Sri Lanka (whether incorporated in Sri Lanka or outside Sri Lanka) or any act committed within Sri Lanka.

- (a) **Explain** the meaning of “Money Laundering”. (05 marks)

- (b) **State** five(05) unlawful activities as per the Money Laundering Act No. 05 of 2006. (05 marks)

(Total 10 marks)

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*End of Section C*

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## **SECTION D**

A compulsory question

(Total 25 marks)

### **Question 10**

- (a) **Rasith** lost his certificates folder which contained originals of his degree certificate, Membership certificate of AAT, birth certificate and other important certificates while travelling by bus after an interview. As those certificates are highly important to him, he published an advertisement in a weekend newspaper that he would give a reward of Rs.20,000/- to anyone who would return the certificates folder. **Nishadi** who was unaware of the advertisement regarding the reward, found the certificates folder and returned it to the **Rasith's** postal address which was stated on the back of the cover. After returning the certificates folder, she got to know about the reward and claimed it from **Rasith**. But he refused to give the reward to **Nishadi**.

**Discuss** whether **Nishadi** is legally entitled to claim the reward from **Rasith**. (12 marks)

- (b) **Saman** a dealer in computers and computer accessories bought a used computer from **Leslie** for Rs.60,000/- after paying the full amount in cash. After obtaining the computer from **Leslie**, **Saman** did few minor repairs to it and displayed it in his showroom. **Jayalal**, a customer of **Saman**, while searching for an accessory of a computer, saw this computer and wanted to buy it. Then **Saman** sold it for Rs.80,000/- to **Jayalal**. Three months later, this computer was recovered by the police as it was revealed that it had been stolen by **Leslie**. With the intervention of the police the computer was returned to the original owner. **Saman** returned Rs.80,000/- to **Jayalal** and sued against **Leslie** for Rs.60,000/- which he had paid.

**Discuss** whether **Saman** is entitled to recover Rs.60,000/- from **Leslie**. (13 marks)

(Total 25 marks)

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*End of Section D*

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## **ACTION VERB CHECK LIST**

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<b>Level 01 Comprehension</b>  Recall & explain important information	<b>Define</b>	Describe exactly the nature, scope, or meaning.
	<b>Draw</b>	Produce (a picture or diagram).
	<b>Identify</b>	Recognize, establish or select after consideration.
	<b>List</b>	Write the connected items one below the other.
	<b>Relate</b>	To establish logical or causal connections.
	<b>State</b>	Express something definitely or clearly.
	<b>Calculate/Compute</b>	Make a mathematical computation
	<b>Discuss</b>	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	<b>Explain</b>	Make a clear description in detail revealing relevant facts.
	<b>Interpret</b>	Present in an understandable terms.
	<b>Recognize</b>	To show validity or otherwise, using knowledge or contextual experience.
	<b>Record</b>	Enter relevant entries in detail.
<b>Summarize</b>	Give a brief statement of the main points (in facts or figures).	

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<b>Level 02 Application</b>  Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	<b>Apply</b>	Put to practical use.
	<b>Assess</b>	Determine the value, nature, ability, or quality.
	<b>Demonstrate</b>	Prove, especially with examples.
	<b>Graph</b>	Represent by means of a graph.
	<b>Prepare</b>	Make ready for a particular purpose.
	<b>Prioritize</b>	Arrange or do in order of importance.
	<b>Reconcile</b>	Make consistent with another.
	<b>Solve</b>	To find a solution through calculations and/or explanation.

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<b>Level 03 Analysis</b>  Draw relations among ideas and compare and contrast / Solve open-ended problems.	<b>Analyze</b>	Examine in detail in order to determine the solution or outcome.
	<b>Compare</b>	Examine for the purpose of discovering similarities.
	<b>Contrast</b>	Examine in order to show unlikeness or differences.
	<b>Differentiate</b>	Constitute a difference that distinguishes something.
	<b>Outline</b>	Make a summary of significant features.