



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2017

(AA25) BUSINESS LAW AND ETHICS

21-01-2017  
Afternoon  
[1.45 – 5.00]

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

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

No. of Pages : 06  
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 institutions has the power to enact laws according to the constitution?

- (1) Magistrate's Court. (2) Supreme Court.  
(3) Provincial Council. (4) Parliament.

**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.
- (3) Stoppage in transit.
- (4) Action for specific performance.

**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.
- (3) Certificate of Origin.
- (4) Bill of Exchange.

*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)

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*End of Section A*

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## **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<sup>st</sup> 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)

## Question 06

“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)

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*End of Section B*

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## **SECTION C**

Three (03) compulsory questions

(Total 30 marks)

## Question 07

- (a) On 01<sup>st</sup> 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<sup>st</sup> March 2016 **Saparamadu** sold his house to **Perera** for Rs.3 million. On 15<sup>th</sup> March 2016, the house was destroyed by fire and on 20<sup>th</sup> March 2016 **XYZ Insurance Ltd.** agreed to pay Rs.3 million under the insurance policy. On 30<sup>th</sup> 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)

### Question 09

**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. (06 marks)
- (b) **State** four(04) duties of an agent. (04 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) **A** offered to sell his car to **B** in a letter by post which was posted on 02<sup>nd</sup> January 2016. The letter was reached to **B** on 10<sup>th</sup> January 2016 due to a postal delay. **B** posted his letter of acceptance to buy the car on 13<sup>th</sup> 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<sup>th</sup> January 2016 and the Postal Department again delivered it to the correct recipient (that is **A**) on 30<sup>th</sup> 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<sup>th</sup> January 2016 and sold his car to **C** on 16<sup>th</sup> January 2016. However, this letter of revocation was reached to **B** on 18<sup>th</sup> 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. (12 marks)

- (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<sup>st</sup> 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<sup>th</sup> 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<sup>nd</sup> 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. (13 marks)

(Total 25 marks)

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*End of Section D*

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## ACTION VERB CHECK LIST

| Knowledge Process   | Verb List  | Verb Definitions  |
|---|--|---|
| <b>Level 01<br/>Comprehension</b><br><br>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). |   |

| Knowledge Process  | Verb List          | Verb Definitions  |
|--|--------------------|---|
| <b>Level 02<br/>Application</b><br><br>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. |

| Knowledge Process  | Verb List            | Verb Definitions   |
|--|----------------------|--|
| <b>Level 03<br/>Analysis</b><br><br>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.                          |