



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2017

(AA25) BUSINESS LAW AND ETHICS

15-07-2017
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 The main elements of an insurance contract are:

- (1) Indemnity, premium and subrogation.
- (2) Proposal, premium and exemption clauses.
- (3) Premium, uncertainty and insurable interest.
- (4) Proposal, history of the assured and exemption clauses.

1.2 Which one of the following is **not** considered as a good under the Sale of Goods Ordinance?

- (1) a motor car.
- (2) harvest which is to be severed from land before sale.
- (3) a building.
- (4) a copyright.

1.3 Select from the following the insurance in which the principle of indemnity is **not** involved:

- | | |
|-----------------------|-----------------------|
| (1) Life Insurance. | (2) Fire Insurance. |
| (3) Marine Insurance. | (4) Health Insurance. |

1.4 Which one of the following is a negotiable instrument?

- | | |
|--------------------------|-----------------------|
| (1) a Bills of Exchange. | (2) a Cheque. |
| (3) a Promissory Note. | (4) All of the above. |

1.5 According to the Sale of Goods Ordinance, which one of the following is **not** an implied condition?

- (1) The goods shall correspond with the description.
- (2) The seller has a right to sell.
- (3) The goods shall correspond with the sample.
- (4) The goods shall be free from any change.

1.6 Which one of the following is **not** a duty of an agent?

- | | |
|--------------------------------------|---|
| (1) Duty to exercise care and skill. | (2) Duty to receive commission in time. |
| (3) Duty of accountability. | (4) Duty for not making secret profit. |

1.7 Consider the following statements related to contracts used in international trade:

- (a) FOB contracts normally follow the name of the port of departure.
- (b) Under FOB contracts, the seller has an obligation to place the goods on board of a ship that is berthed at the departure port.
- (c) Under CIF contracts, cost of putting the goods into the ship has to be borne by the seller.

Of the above, the correct statement/s is/are:

- | | |
|-----------------------|-----------------------|
| (1) (a) and (b) only. | (2) (a) only. |
| (3) (a) and (c) only. | (4) All of the above. |

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) powers of the Supreme Court of Sri Lanka as provided for in the Constitution of 1978.

1.9 State the difference between Personal Law and Territorial Law.

1.10 State two(02) primary functions of the Board of Investment (BOI) of Sri Lanka.

(02 marks each, Total 20 marks)

End of Section A

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

Amal and **Bimal** are the only shareholders and directors of **A&B Ltd.** **Hemal** who is a friend of **Amal** and **Bimal** was introduced to **OM Land Developers Ltd.** as a director of **A&B Ltd.** by **Amal** and **Bimal**. However, he was not yet appointed as a director of the company. **Hemal** bought an expensive land from **OM Land Developers Ltd.** for **A&B Ltd.** However, **A&B Ltd.** refused to pay for the land saying that they have never appointed **Hemal** as a director and they have never asked him to buy the land. **OM Land Developers Ltd.** sue **A&B Ltd.** to recover the money.

Explain, whether **A&B Ltd.** is liable to pay for the land purchased by **Hemal**. (05 marks)

Question 03

Dhanapala wrote a cheque for Rs.100,000/- in favour of **Dhanasiri**. The name of the banker and words "*not negotiable*" were written on the face of the cheque across it. However, the signature on the cheque is not clear and the amount in numbers stated Rs.100,000/- while in letters it says "*ten thousand rupees only*". **Dhanapala's** account balance has only Rs.5,000/-.

Explain the responsibility of the bank, with regards to this cheque. (05 marks)

Question 04

Payment system used in international trade is really a significant factor. It includes different currencies in different countries. Normally in every contract of international trade, a clause dealing with payment system is included.

(a) **State** two(02) methods of payment used in international trade. (02 marks)

(b) **Explain** any one of the payment methods stated at (a) above. (03 marks)

(Total 05 marks)

Question 05

Bindu obtained a life insurance policy from **JJ Insurance Ltd.** The insurance company asked him whether he has suffered from a serious illness during the past year. Though, **Bindu** had recently suffered from a serious heart attack and had undergone surgery, he did not disclose that fact to the insurance agent or anywhere in the application. However, after entering into the contract **Bindu** again suffered a serious heart attack and was hospitalized for a few weeks. In the meantime, the insurance company got to know that **Bindu** was a heart patient and rejected **Bindu's** claim.

Explain whether the insurance company can reject **Bindu's** claim. (05 marks)

Question 06

Compliance with the fundamental principles in professional ethics may be subject to threats such as self-interest threat, self-review threat, advocacy threat, familiarity threat and intimidation threat, etc. However, there are safeguards that may reduce or eliminate such threats.

- (a) **State** two(02) safeguards created in the work environment. (02 marks)
- (b) **State** three(03) safeguards created by profession, legislation and regulation. (03 marks)
- (Total 05 marks)

End of Section B

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

Abhi, Bhumi and Sumi are partners of **ABS Partnership**. **XYZ Ltd.** is a competitor of **ABS Partnership**. **Sumi** bribed one of the Directors of **XYZ Ltd.** to obtain confidential information of their clients and provided advice to **ABS Partnership** based on that information. **XYZ Ltd.** got to know that one of their directors was bribed by one of the partners of **ABS Partnership** and they filed a case against all the partners of **ABS Partnership**.

You are required to:

Discuss the liability of the other partners of **ABS Partnership** in this regard. (10 marks)

Question 08

Nanda wrote a book titled "*Veera Purushaya*" in 1990 and obtained the copyright for it. He had given the authorization to **Ranga** to translate the book. However, **Nanda** passed away in 2000. After publishing the translation, **Ranga** started publishing new books under the same title "*Veera Purushaya*". **Nanda's** children wish to sue **Ranga** under the copyright law.

You are required to:

- (a) **Explain** the works protected by copyright law under the Intellectual Property Act No.36 of 2003. (05 marks)
- (b) **Explain** whether **Ranga** has any liability under the copyright law. (05 marks)
- (Total 10 marks)

Question 09

Nimal, Malani and **Asha**, permanent employees of **RIO Lanka PLC** resigned from the company with effect from 30th June 2017. They have submitted applications to withdraw their Employees' Provident Fund (EPF) benefits.

You are required to:

Explain with reasons whether they can withdraw their EPF balance under each of the following circumstances according to the Employees' Provident Fund Act No. 15 of 1958.

- (a) **Nimal**, resigned from the company attaining the age of 50 years, to start his own business. (03 marks)
- (b) **Malani**, resigned from the company to get married in December 2017. (03 marks)
- (c) **Asha**, resigned from the company after getting an employment in a foreign company on a contract basis. (04 marks)
- (Total 10 marks)

End of Section C

SECTION D

A compulsory question

(Total 25 marks)

Question 10

- (a) **Amal** and **Amali** got married in 2012 and they are separated in December 2016. They are thinking of getting a divorce. **Amal** promised **Amali** on their son's birthday to make a monthly payment of 50,000/- for her. **Amali** requested this to be in writing and said *"if you do not pay as you promised I will take you to court"*. After the third month, he stopped the payment. **Amali** told him that she will sue him. **Amal** said *"Good luck with that! No court will enforce an agreement between husband and wife!"*

He also said *"I have been paying money for you to do nothing! Guess what love and taking care of family is not a good consideration for a contract!"*.

Very upset from the argument she had with **Amal** she took her son for shopping. The son saw the latest *"gadget man"* toy through a shop window and asked **Amali** to buy it for him. **Amali** saw a label that says *"half-price sale! Come grab your toy!"*. **Amali** picked up a *"gadget man"* toy and asked for the price. Shop keeper said that it is Rs.20,000/- and it could be bought for Rs.15,000/-. **Amali** was not happy with the price and she returned the toy. She tried to walk away. The shop keeper said *"you cannot return it now. You have made a contract when you picked up the toy."*

Discuss the legal rights of **Amali** regarding:

- (i) **Amal**. (07 marks)
- (ii) Shop Keeper. (06 marks)

(b) **Perera** sold a car to **Silva**. He described the car as “barely used, almost in the original condition and it is the latest model of BMW”. **Silva** paid outright and took the car. After driving it for a few days the car broke down. **Silva** took the car to a garage. The repairman told him “this is a very badly used car. They have completely ruined the engine you will have to replace it. But this is such an old model I don’t think they even make these engines anymore.” **Silva** said “but the seller told me it was in great condition” to which the repairman laughed and said “sellers will tell anything! If you bothered to check the car before you bought it, you would have easily seen the issues. You just had to check!”.

Later that day, an unknown person called **Silva** and said “I saw my car in the garage and I got your number from them. They said that you told them you are the owner of the car. You wait will you I am taking you to the police! You thief!”. Surprised by this **Silva** decided to talk to the caller and realized that **Perera** had not the title to the car which he sold. The real owner was the caller who was the brother-in-law of **Perera**.

Discuss the rights and remedies available to **Silva** as a buyer.

(12 marks)

(Total 25 marks)

End of Section D

ACTION VERB CHECK LIST

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

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

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