



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2018

(AA25) BUSINESS LAW AND ETHICS

20-01-2018  
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 is correct in relation to Criminal Law?

- (1) It is a dispute between private individuals.
- (2) Actions are filed mostly in District Courts.
- (3) Actions are filed in Magistrates Court or High Courts.
- (4) It applies only to specific persons in a particular territory.

**1.2** The highest court in Sri Lanka is:

- (1) Supreme Court. (2) Court of Appeal.
- (3) Provincial High Court. (4) District Court.

**1.3** Which one of the following is **not** an instance where the bank could refuse to honour a cheque?

- (1) The signature of the drawer is suspicious.
- (2) Sufficient funds in the account are available.
- (3) The amount in figures and in words are different.
- (4) The cheque is damaged.

**1.4** Which one of the following is **not** a duty of the bank with regard to bank and customer relationship?

- (1) The bank must obey the instructions of the customer.
- (2) The bank should honour cheques duly drawn up to the amount available.
- (3) The bank should take reasonable care in the exercise of the bank's duties.
- (4) The bank should not implement standing orders of the customers.

**1.5** An advantage of incorporation of a company is:

- (1) Asset protection.
- (2) Tax savings.
- (3) Easier to raise capital.
- (4) All of the above.

**1.6** Which one of the following is **not** an ethical issue faced by an accountant?

- (1) Pressure from management.
- (2) Reporting discovered violations.
- (3) Technical competence.
- (4) Lack of ethical sensitivity.

**1.7** Which one of the following is **not** a fundamental principle of Professional Ethics?

- (1) Objectivity.
- (2) Independence.
- (3) Protection.
- (4) Integrity.

*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) special laws applicable in Sri Lanka.

**1.9** State two(02) functions of the Securities and Exchange Commission.

**1.10** State an objective of the Consumer Affairs Authority.

(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**

**Siripala** advertised a car for sale describing as a “Mazda 1200 model”. **Duminda** examined that car at **Siripala**’s place and saw the board “Mazda 1200 model” fixed at the back of the car. He bought the car and later found that the front part of the car was from another model of motorcars and the front part and the back part had been welded together. **Duminda** wants to recover his money from **Siripala** by returning the vehicle to **Siripala**.

**Explain** whether **Duminda** is entitled to recover the money from **Siripala** for the vehicle purchased.

(05 marks)

### **Question 03**

**Perera** gave **Sunil** a crossed cheque for Rs.500,000/- in a full settlement of a debt. The cheque was dated as 01<sup>st</sup> April 2017. On his way to the bank **Sunil** met with an accident and was in a hospital for eight months due to the accident. Later he left the hospital and went to the bank on 15<sup>th</sup> December 2017 with the cheque received from **Perera**. **Sunil** wanted to encash the cheque.

**Explain** whether **Sunil** is entitled to encash the cheque received from **Perera**.

(05 marks)

### **Question 04**

**Alice** wanted to obtain a life insurance policy for her sister’s life and applications were made by **Alice** to some insurance companies but none of them was successful. Finally **Safe Line Insurance Ltd.** inquired about the application made by **Alice**.

**Explain** whether **Safe Line Insurance Ltd.** can accept the application made by **Alice** for insuring the life of **Alice**’s sister.

(05 marks)

### **Question 05**

Bill of lading is the most important document in international trade. One of the main characteristics of a bill of lading is that it enables the related owner of the goods to dispose them even though the goods are in the hands of a carrier.

**Explain** the functions of a bill of lading.

(05 marks)

### **Question 06**

Intellectual property which is crucial to the economic, social and technological development of any country, comprises of all that come out with the exercise of human brain.

**Explain** two(02) types of intellectual property recognized under the Intellectual Property Act No. 36 of 2003.

(05 marks)

*End of Section B*

## SECTION C

Three (03) compulsory questions

(Total 30 marks)

### Question 07

**Ashen** a tourist guide in Sri Lanka, planned his next tour with some foreigners. He wanted a comfortable car for touring and ordered one from **Automobile Lanka (Pvt) Ltd.**, a car rental company. When he was making the reservation he specifically mentioned that he needed a car suitable for touring with a seating capacity of 05 passengers. However, on the day of the tour, he received a sports car with a seating capacity of 02 passengers.

**You are required to:**

**Discuss** the legal rights of **Ashen** in this regard. (10 marks)

### Question 08

**Sunimal** worked as a cook at **Samro (Pvt) Ltd.**, a restaurant in Maradana. He had flexible working hours in the morning and night and he was paid an hourly rate. He brought his own equipment required to the kitchen and took them back with him. He had been working this way with **Samro (Pvt) Ltd.** for the last 5 years. One day when he came to work, the owner came up to him and said not to come thereafter. He was not given any notice or compensation. Since he has been working on a flexible basis he did not have a written contract.

**You are required to:**

**Discuss** whether **Sunimal** is an employee or an independent contractor. (10 marks)

### Question 09

**Kamal** and **Bimal** started a partnership business for a catering service and commenced the business activities last year. There was no partnership agreement between them and they followed the partnership ordinance 1890 to solve the matters to conduct the partnership. They took main decisions about the business together. They successfully catered for twenty events and earned a net profit of Rs.10 million during the last year.

**Kamal** obtained Rs.5,000,000/- as his profits share of the partnership and started a **similar** business with his wife using the contacts from his business with **Bimal**.

**You are required to:**

(a) **Discuss** the duties breached by **Kamal** as a partner. (06 marks)

(b) **State** four(04) rights and duties of partners included in the Partnership Ordinance 1890. (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) **Kumar's** grandfather promised **Kumar** that he would buy a BMW car for him if he obtained a first class for his degree. **Kumar** studied hard and obtained the first class. When **Kumar** asked about the BMW car from the grandfather, he laughed and said 'It was only to encourage you. Did you really think I would buy a BMW car for you?'. Feeling betrayed and angry **Kumar** said that he had a legal right to receive a BMW car.

**Ravi** who was a friend of **Kumar** had some financial difficulties. **Ravi** at the age of thirteen years entered into an agreement with a rich aunt, that he would pay the salary of his job for the first year to her, if she paid his school fees. As per the agreement she paid his school fees. **Ravi** grew up to be an engineer and had forgotten all about the promise to the aunt. His aunt claimed that he has to pay her one-year salary, or be sued.

**You are required to:**

**Discuss:**

- (i) whether **Kumar** is entitled to receive a BMW car from his grandfather. (07 marks)
- (ii) whether **Ravi** should pay his first year salary to the aunt. (07 marks)
- (b) **Siri** wrote a letter to **Pala** informing him that **Siri** would be going away from the country for one year. During that period he expected **Pala** to look after his estates, collect the monies due and maintain the estate. He mentioned that **Pala** should write to him regularly and inform him the issues and the status of the estate. Later **Pala** met **Siri** and obtained the keys and the relevant documents. Further **Siri** expressly prohibited **Pala** to purchase any items on credit. Despite the prohibition **Pala** purchased some items on credit from **Perera** for running the estate.

**Pala** had looked after the estate very well and he had started a small farm on one side of the estate, and he had earned about Rs.100,000/- per month from the farm. However, he had never mentioned it to **Siri**. Later **Siri** got to know that **Pala** had started a small farm and he questioned **Pala** about it. **Siri** also said that the amount due to **Perera** should not be paid because he had not given such authority to buy items on credit.

**You are required to:**

- (i) **Discuss** whether **Pala** has breached any duties owed by him to **Siri** as his agent. (05 marks)
- (ii) **Discuss** the legal rights of **Perera** to recover his money. (06 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 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).	

Knowledge Process	Verb List	Verb Definitions
<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.

Knowledge Process	Verb List	Verb Definitions
<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.