



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2018

(AA25) BUSINESS LAW AND ETHICS

21-07-2018
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 The residuary / common law in Sri Lanka is:

- (1) English Law. (2) Roman Dutch Law.
(3) Thesawalamai Law. (4) Kandyan Law.

1.2 The law which deals with civil wrong and concerns, breach of duties (other than those arising out of a contract) is known as:

- (1) Family Law. (2) Trusts Law. (3) Torts Law. (4) Contract Law.

1.3 Of the following, the final appellate court in Sri Lanka is:

- (1) Magistrate's court. (2) High court.
(3) District court. (4) Supreme court.

1.4 Which one of the following is **not** considered as a document for creation of agency by expression in writing?

- (1) Proxy by a shareholder. (2) Power of attorney.
(3) Letter of authority. (4) Deed of gift.

1.5 Consider the following statements in determining whether a person is an employee or an independent contractor:

- (a) Only employees are entitled to certain benefits and security such as Employees Provident Fund (EPF), Employees Trust Fund (ETF), Gratuity, etc.
(b) The employer is liable to pay PAYE under income tax law for employees' employment.
(c) If the employer is bankrupt, the employees do not have priority claim over arrears of salary, compensation for termination of employment.

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

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

1.6 Which one of the following is **not** a characteristic of a Bill of Exchange?

- (1) It is a conditional order in writing.
(2) It is signed by the person giving and requiring the person to whom it is addressed to pay.
(3) There is a sum certain in money for payment.
(4) It should be written to pay on demand at a specified time or at a determinable future time.

1.7 Which one of the following is **not** considered as an intellectual property as per the Intellectual Property Act No. 36 of 2003?

- (1) Patent. (2) Growing Crop.
(3) Industrial Design. (4) Copyright.

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) civil issues handled by the District Court.

1.9 Identify two(02) features of a cheque.

1.10 Identify the number of days entitled as annual leave for the year 2018 by an employee who joined an organization on 30th July 2017 (*Assume that the organization is covered 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

Sunil authorized **Piyal** to buy 1,000 kg of sugar at Rs.80/- per kilogram. **Piyal** went to wholesale market and got to know that the sugar price has gone up. However, **Piyal** bought 1,000 kg of sugar from **Nimal** at Rs.100/- per kilogram. **Piyal** bought the bulk of sugar in his own name without mentioning that he is buying sugar on behalf of **Sunil**. However, later **Sunil** ratified this transaction. Subsequently, **Piyal** refused to pay **Nimal** and claimed that he did not buy sugar for himself.

You are required to:

Explain the legal rights of **Nimal** to recover his money. (05 marks)

Question 03

Accountants are required to accept the responsibility to act in the interest of public. Hence it is the responsibility of an accountant not only to satisfy the needs of an individual client or employer, but also to satisfy the needs of the public. In order to act in the interest of the public, there are six fundamental principles of professional ethics.

You are required to:

Explain two(02) fundamental principles of professional ethics. (05 marks)

Question 04

A obtained a loan from **B** and gave an order cheque written in favour of **B** as a security. **B** crossed it with a general crossing. Later, **C** has stolen this crossed cheque and presented it over the counter of the bank. The bank overlooking the crossing on it, paid the value of the cheque to **C**. **A** intends to file an action against the bank.

You are required to:

Explain whether **A** is entitled to recover the amount from the bank. (05 marks)

Question 05

The main law applicable for companies in Sri Lanka is Companies Act No. 07 of 2007. A company has different features and legal personality is one of those features.

You are required to:

Explain the concept of legal personality with reference to a company. (05 marks)

Question 06

Amal and **Ramal** were in a partnership business of buying and selling cars named **AutoZone**. There was no partnership agreement between them. **Amal** bought a car at a discount of Rs.50,000/- on behalf of the partnership. However, he did not reveal regarding the discount to **Ramal** and earned a secret profit of Rs.50,000/- out of that transaction. Later, **Ramal** discovered about this secret profit.

You are required to:

Explain the legal rights of **Ramal**. (05 marks)

End of Section B

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

- (a) **Raja** agreed to sell a pack of beauty cream to **Rani** which was described as “*Sea Minerals Mixed Cream*” and guaranteed that it was equal to the sample. **Raja** delivered the beauty cream pack to **Rani** which was equal to the sample but sea minerals were not mixed to the content of the cream.

You are required to:

Discuss the legal rights of **Rani** in this regard. (05 marks)

- (b) **Hassan** wants to import five motor cars from Japan. You are the banker of **Hassan**. **Hassan** seeks your advice in selecting a method of payment to be used in international trade.

You are required to:

Explain a suitable payment method which could be used by **Hassan**. (05 marks)

(Total 10 marks)

Question 08

Amali and **Sunali** are best friends. They attended a seminar held by **Rich Life Insurance Co. Ltd.** As a result, **Amali** wanted to obtain life insurance policies for insuring the lives of herself and her husband **Sumith**. **Sunali** also wanted to obtain life insurance policies for insuring the lives of her elder brother **Saman** and her parents.

Both **Amali** and **Sunali** applied for the above purposes and insurance company rejected the applications made by **Sunali**. **Amali’s** applications are still pending at the insurance office.

You are required to:

- (a) **Discuss** whether applications made by **Amali** would be successful. (05 marks)

- (b) **Explain** the reasons for rejecting the applications made by **Sunali**. (05 marks)

(Total 10 marks)

Question 09

- (a) The Consumer Affairs Authority Act No. 09 of 2003 created the establishment of the Consumer Affairs Authority. The Consumer Affairs Authority imposes certain obligations to the traders to protect consumers.

You are required to:

- (i) **State** two(02) main functions of the Consumer Affairs Authority. (04 marks)

- (ii) **State** two(02) obligations of the traders as imposed by the Consumer Affairs Authority. (02 marks)

- (b) The objective of the Act of Employees’ Provident Fund (EPF) is to ensure retiring benefits to employees through a contributory provident fund.

You are required to:

State four(04) instances where a person is entitled to claim his / her EPF. (04 marks)

(Total 10 marks)

End of Section C

SECTION D

A compulsory question

(Total 25 marks)

Question 10

- (a) **Mala** offered to sell her house to **Kumari** at Rs.2 million. **Kumari** said she will buy the house at Rs.2 million but payment will be made in 4 installments of Rs.0.5 million each. **Mala** refused to receive payments in installments. Then, **Kumari** agreed to pay the full consideration of Rs.2 million at once. But, **Mala** refused to sell her house to **Kumari**.

Mala's brother **Piyal** is doing a research on cultural heritage of Sri Lanka. He made a room reservation in the **Paradise Hotel** in Galle to view the main annual procession (perahara) in Galle. The procession is cancelled due to a security issue. **Piyal** requested the hotel to repay the money paid on room reservation. The hotel refused and asked him to stay at the hotel on the booked date. **Piyal** is disappointed about the decision of the hotel.

You are required to:

Discuss the following:

- (i) Whether there is a valid contract between **Mala** and **Kumari**. (08 marks)
 - (ii) The legal rights of **Piyal** regarding the hotel room reservation payment he made. (06 marks)
- (b) **Kusal** is a dealer in computer accessories and electrical equipments such as scanners, key boards and printers. Three customers namely **Maya**, **Ravindu** and **Dayal** visited **Kusal's** shop on 30th March 2018 and the following transactions have taken place:
- **Kusal** agreed to sell a scanner to **Maya**. He did not have the exact model of the scanner which she was looking for at the time of order, in his stocks. He promised her that he will import the exact model of the scanner after a month.
 - On the same day **Ravindu** ordered a key board from **Kusal** and he delivered the said key board on the same day to **Ravindu**.
 - On the same day, **Kusal** agreed to sell a printer to **Dayal** and promised to deliver it in 3 days before the New Year festival day. Although **Dayal** paid the full amount, **Kusal** has neglected to deliver the printer as agreed.

You are required to:

- (i) **Explain** whether there is a contract of sale of goods between **Kusal** and **Maya**. (03 marks)
- (ii) **Explain** whether there is a contract of sale of goods between **Kusal** and **Ravindu**. (03 marks)
- (iii) **Discuss** the legal rights and remedies available to **Dayal** as a buyer. (05 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.