



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2019

(AA25) BUSINESS LAW AND ETHICS

20-07-2019  
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** Of the following, which court has the original jurisdiction in Criminal Law?

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

**1.2** Consider the following statements relating to the Constitution of 1978 of Sri Lanka:

- (a) It deals with the issues relating to the official national language.  
(b) It stipulates the punishments for murders.  
(c) It deals with powers and duties of constitutional council.

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

- (1) (a) only. (2) (b) only.  
(3) (a) and (b) only. (4) (a) and (c) only.

**1.3** All lands situated in the northern province are governed by:

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

**1.4** Consider the following statements relating to different branches of law:

- (a) The personal / family law relates to matters such as births, marriages, divorces, adoption, etc.
- (b) The bankruptcy or insolvency law deals with persons or businesses that are judicially declared as unable to pay debts.
- (c) The property law deals with registration of title to land and movables, mortgages, leases, etc.

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

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

**1.5** Which one of the following is the correct remedy for a breach of a warranty in a contract?

- |                             |                                       |
|-----------------------------|---------------------------------------|
| (1) Claim of damages.       | (2) An order of specific performance. |
| (3) An order of injunction. | (4) Termination of the contract.      |

**1.6** According to the Sale of Goods Ordinance, a contract of sale can be made:

- (a) In writing.
- (b) By words of mouth.
- (c) Partly in writing and partly by words of mouth.
- (d) Conduct of the parties.

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

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

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

- |                            |                         |
|----------------------------|-------------------------|
| (1) Bills of Exchange.     | (2) Cheques.            |
| (3) Collection agreements. | (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) benefits of insurance.

**1.9** State two(02) offences under Computer Crimes Act No. 24 of 2007.

**1.10** Briefly explain what is meant by objectivity as a fundamental principle of professional ethics.

(02 marks each, Total 20 marks)

————— *End of Section A* —————

## **SECTION B**

Five (05) compulsory questions

(Total 25 marks)

### **Question 02**

**Maya's** new novel won the award for the best Sinhala novel in Sri Lanka for the year 2018. Several renowned book publishers have expressed their interest in undertaking the publication of this novel. She is willing to negotiate with them. However, as she is new to the industry, she wants to know about the rights that she has in respect of the novel.

**You are required to:**

**Explain** the economic right and moral right as per Intellectual Property Act No. 36 of 2003 that **Maya** has. (05 marks)

### **Question 03**

**Amara** wanted to get an insurance cover for his car from **ABC Insurance Ltd.** When filling the insurance application, **Amara** mistakenly mentioned that he parks the car inside a garage, whereas he actually parks his car in the street adjoining his house. One day, the car was damaged, while parked in the street. **Amara** wishes to claim damages from **ABC Insurance Ltd.**

**You are required to:**

**Explain** whether **Amara** could recover the damages from **ABC Insurance Ltd.** (05 marks)

### **Question 04**

**Shantha** is a young businessman who recently started a shoe manufacturing company. He has managed to secure a business deal to export shoes to "**Chin Chin**", a Thailand based business venture. They have agreed to perform the transaction through a CIF (Cost, Insurance and Freight) contract. As this is the first international transaction, **Shantha** wants to know the duties of a CIF seller under a CIF contract.

**You are required to:**

**Explain** his main duties as a CIF seller. (05 marks)

### Question 05

**Raja** and **Kamani** started a partnership business to produce baby clothing. They both worked hand in hand to develop their business. However, **Kamani** found that though **Raja** has purchased clothing materials at a discounted price from a whole seller, he has sold it to the partnership business at the market price. **Raja** earned a secret profit out of this transaction and he did not share it with **Kamani**.

**You are required to:**

**Explain Kamani's legal rights and Raja's duties in this regard.** (05 marks)

### Question 06

**Piumi** and **Namal** are children of late **Perera** who was a well-known business personality of the country. Currently **Namal** is performing as a Director of **Perera (Pvt) Ltd.**, a private limited company owned by **Perera** and he wants to appoint **Piumi** and **Sri Lal** as Directors of **Perera (Pvt) Ltd.** **Piumi** is 16 years old. However, **Thilak**, an existing Director objects to **Namal's** decision stating that **Sri Lal** has been convicted of an offence of cheque fraud and insider dealing about 3 years ago.

**You are required to:**

**Discuss the suitability of Piumi and Sri Lal as Directors of Perera (Pvt) Ltd.** (05 marks)

---

*End of Section B*

---

## **SECTION C**

Three (03) compulsory questions

(Total 30 marks)

### Question 07

**Rajitha** carried on a business of a food restaurant in Nugegoda. It was acquired by **Alina (Pvt) Ltd.** and **Rajitha** was appointed as General Manager of **Alina (Pvt) Ltd.** **Rajitha** was given instructions not to make any credit purchases. However, **Rajitha** continued to buy a range of beverages from **Lion Ltd.** on credit terms, as he did earlier prior to change in ownership of the business. **Alina (Pvt) Ltd.** refuses to pay for the credit purchases made by **Rajitha**.

**You are required to:**

**Discuss whether Alina (Pvt) Ltd. can refuse to do the payment to Lion Ltd.** (10 marks)

### Question 08

**Thara** was an academic staff member attached to a State university in Sri Lanka. Her appointment letter stated that she is entitled to Employee's Trust Fund (ETF) as an employee of the university. However, at the end of 5 years of service, she decided to resign from the university to leave the country for her higher education. She needs to withdraw her ETF before she leaves the country.

**Thara's** husband **Shiva** works for a footwear company for more than 10 years. He joined the company on 01<sup>st</sup> March 2008 for a salary of Rs.35,000/- per month. Now he draws a salary of Rs.200,000/- per month. He also has submitted the letter of resignation with effect from 01<sup>st</sup> July 2019 to migrate with **Thara**.

**You are required to:**

- (a) **Explain Thara**, on her rights to withdraw ETF. (05 marks)
- (b) **Calculate Shiva's** gratuity entitlement at the time of resignation. (05 marks)
- (Total 10 marks)

### Question 09

**Kumara** issued a cheque to **Devika** which stated "A/C payee only". **Devika** produced this at the bank and asked to cash it at the counter. Cashier refused to cash it and advised **Devika** to deposit it to her account. **Devika** was unhappy with cashier's statement, but she deposited the cheque to her bank account. Meanwhile, **Kumara** issued a stop payment order to the bank for any cheque issued under his account. Next day, when **Devika** got to know that her cheque was not realized, she went to the Bank Manager and inquired about **Kumara's** account balance and other details.

**You are required to:**

- (a) **Explain** the validity of the cashier's statement with reference to negotiable instruments. (04 marks)
- (b) **Explain** the duties of a banker referring to the above scenario. (06 marks)
- (Total 10 marks)

---

*End of Section C*

---

## SECTION D

A compulsory question

(Total 25 marks)

### Question 10

(A) **Saman**, an auctioneer based in Colombo advertised for the sale of furniture and other office equipment through an auction. **Gajan** a broker, came from Jaffna to purchase the furniture from the auction. However, later **Saman** changed his mind and withdrew furniture from the auction without prior notice. **Gajan** wants to sue **Saman** on the breach of contract. **Nimal**, another broker came from Kurunegala to purchase office equipments from the auction. He bid Rs.100,000/- for a photocopy machine and another broker, **Sithum** bid Rs.110,000/- for the same machine. **Sithum** was able to purchase the photo copy machine at the auction and announced that he will sell it for a higher price. Thus, **Nimal** requested **Sithum** to resell the machine to him for Rs.115,000/- but **Sithum** asked **Nimal** to pay Rs.120,000/- if he wants to buy the photo copy machine.

**You are required to:**

**Discuss** the following:

- (a) Whether there is a valid contract between **Saman** and **Gajan**. (07 marks)
- (b) Whether there is a valid contract between **Nimal** and **Sithum**. (08 marks)

(B) **Sameera** is a local manufacturer of bicycles in Kurunegala. His speciality is to manufacture sports bicycles. It carries the description 'made with iron and original gold plated rim which is suitable for any weather condition. Seat is adjustable to any height and handle with oval shape which enhance the speed control quality.' **Nuwan** lives in Nuwaraeliya and ordered a bicycle based on the description for his upcoming bicycle race in Nuwaraeliya. After two days from the order, **Nuwan** received his bicycle. **Nuwan** found that the handle is not suitable for cycling in a mountain area and seat is not adjustable to the required height.

**You are required to:**

- (a) **Explain** the rights and remedies available for **Nuwan**. (06 marks)
- (b) **Explain** the following terms in relation to law of sale of goods:
  - (i) Existing goods.
  - (ii) Future goods. (04 marks)

(Total 25 marks)

---

*End of Section D*

---

## 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.