



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JULY 2020

(203) BUSINESS LAW

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

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

03-10-2020
Afternoon
[01.45 – 05.00]

No. of Pages : 08
No. of Questions : 07

(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 will begin 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)

(Total 25 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.6. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 The most supreme source of law in Sri Lanka is:

- (1) Civil Law. (2) Criminal Law.
(3) The Constitution. (4) Case Law.

1.2 Which one of the following is **not** an element of a contract of sale of goods?

- (1) Price. (2) Transfer of ownership.
(3) Goods. (4) Location.

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

- (1) Letters of credit. (2) Cheques.
(3) Bills of Exchange. (4) Payments in advance.

1.4 The employees who are **not** covered under the Employees' Provident Fund (EPF) Act No. 15 of 1958 are:

- | | |
|---------------------------|--------------------------|
| (1) Casual employees. | (2) Temporary employees. |
| (3) Government employees. | (4) Permanent employees. |

1.5 Amal joined ABC (Pvt) Ltd. on 01st April 2010 as an Executive at a monthly salary of Rs.40,000/- and he was promoted as a Manager on 01st April 2019. He resigned from ABC (Pvt) Ltd. on 10th April 2020 and his last month salary was Rs.150,000/-.

The amount to be paid as the gratuity entitlement is:

- | | |
|---------------------|-------------------|
| (1) Rs.200,000/-. | (2) Rs.750,000/-. |
| (3) Rs.1,500,000/-. | (4) Rs.150,000/-. |

1.6 Which one of the following is a method of dispute resolution as per the Industrial Disputes Act No. 53 of 1950?

- | | |
|--------------------------------|---------------------------|
| (1) By a collective agreement. | (2) By industrial courts. |
| (3) By a conciliation. | (4) All of the above. |

(02 marks each, 12 marks)

State whether each of the following statements in question No.1.7 to 1.9 is TRUE or FALSE. Write the answer (True/False) in your answer booklet with the number assigned to the question.

1.7 The common law in Sri Lanka is Roman Dutch Law.

1.8 A contract could be discharged by frustration due to death of offeree.

1.9 When the seller negligibly refuses to deliver the goods to the buyer, the buyer does not have a legal right to claim loss on undelivered goods.

(01 mark each, 03 marks)

Write short answers for question Nos. 1.10 to 1.14 in your answer booklet with the number assigned to the question.

1.10 State two(02) functions of the Board of Investment.

1.11 State two(02) remedies available for a buyer under the Sale of Goods Ordinance.

1.12 List two(02) instances where an employee is entitled to withdraw the balance of the Employees' Trust Fund.

1.13 List two(02) important points to be included in a Bill of Lading.

1.14 State two(02) objectives of the Consumer Affairs Authority. (02 marks each, 10 marks)

(Total 25marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

- (a) **Raja, Nimal** and **Sumana** are partners of **Helarasa Partnership**, a business of buying spices from small vendors across the country and then packing and selling those spices under the trade mark "Helarasa". They follow the provisions of Partnership Ordinance 1890 to conduct the partnership. **Sumana** started a similar business with her husband using the contacts from partnership business. However, it was not informed to other partners by **Sumana**.

You are required to:

Explain whether **Sumana** has breached her duties as a partner. (06 marks)

- (b) While continuing **Helarasa Partnership**, **Nimal** bought a bulk of cinnamon and pepper from **Piyal** a regular supplier, for a sum of Rs.500,000/- on credit and sold them to another third-party buyer for a sum of Rs.600,000/-. Amount received was deposited to his wife's personal account by mistake. Subsequently, bank has recovered two installments of her personal loan from that money and now she does not have that amount in her account.

Piyal requested the amount due from **Helarasa Partnership** and **Raja & Sumana** denied to pay **Piyal**.

You are required to:

Explain whether **Piyal** has a legal right to recover his money from **Helarasa Partnership**.

(04 marks)

(Total 10 marks)

Question 03

Kumudu is the owner of **Timber Stores** and she has authorized **Malaka** to manage and operate her business at a profit. As a part of their contract, **Malaka** was clearly instructed not to sell Ebony Timber (*Kaluwara*) in any circumstances. Further, nothing was mentioned on the contract regarding maintenance and repairs of the business premises. There was a sudden damage on the water pipe line at the business premises. **Malaka** hired **Podi-Bass**, a plumber to repair the pipe line on credit. Later, **Podi-Bass** claimed his charges from **Malaka**. **Kumudu** said that the amount due to **Podi-Bass** should not be paid because he had not given such authority to **Malaka**.

Meantime, **Malaka** sold a log of Ebony Timber (*Kaluwara*) to **Renuka**. **Renuka** realized subsequently that it is not real Ebony and claimed compensation from **Kumudu**.

You are required to:

- (a) **Explain** the nature of agency relationship between **Kumudu** and **Malaka**. (04 marks)
- (b) **Discuss** the liability of **Kumudu** under each of the following contracts made by **Malaka** as the agent of **Kumudu**:
- (i) with **Podi-Bass**.
- (ii) with **Renuka**. (06 marks)
- (Total 10 marks)

Question 04

- (a) **Anne** has obtained two insurance policies from **XYZ Insurance Ltd.** and **ABC Insurance Ltd.** to cover her house from fire. The value of insurance covers obtained from **XYZ Insurance Ltd.** and **ABC Insurance Ltd.** are Rs.3 million and Rs. 4 million respectively. The house was damaged due to a fire caused by electricity leakage and the loss on fire was Rs.500,000/-. **Anne** claimed for damages of Rs.500,000/- each from both insurance companies.

You are required to:

Explain whether **Anne** is entitled to claim Rs.500,000/- each from both insurance companies. (06 marks)

- (b) Hire purchase agreements are agreements between two parties namely hirer and the owner of goods. In this kind of a contract, the hirer takes on hire, a particular item from the owner of goods with the option to purchase the item at the conclusion of the rental payments agreed between parties.

You are required to:

State three(03) obligations of the hirer and one(01) obligation of the owner of goods in terms of a hire purchase agreement. (04 marks)

(Total 10 marks)

Question 05

- (a) **Tina** hired **Priya** for performing interior designing of her new house situated in Colombo 05. At the completion of the project, **Priya** received a cheque of Rs.300,000/- crossed "*Not Negotiable*" from **Tina** as the agreed payment for the services she rendered to **Tina**. **Priya** went bank to encash the cheque over the counter.

You are required to:

- (i) **Explain** whether **Priya** is entitled to encash the cheque over the counter. (04 marks)
- (ii) **State** three(03) instances where a bank has the power to refuse payment for a cheque commanded by a customer. (03 marks)

- (b) **Lalitha** joined a famous textile shop named **Araliya Textiles** two years ago. Last week, she delivered her second baby in a government hospital. When she sent the maternity leave request, the owner of **Araliya Textiles** refused to grant her paid maternity leave and terminated her job with immediate effect.

You are required to:

Explain whether **Lalitha** is entitled to get paid maternity leave under the Shop and Office Act No.19 of 1954. (03 marks)

(Total 10 marks)

Question 06

- (a) As per the Financial Transactions Reporting Act No. 06 of 2006, financial institutions shall not open, operate or maintain an account, where the holder of such account cannot be identified and accordingly, when customers are opening new accounts certain information has to be obtained from them by those institutes.

You are required to:

State three(03) types of documents to be obtained from an individual when a new account is opened by a financial institution. (03 marks)

- (b) Prevention of Money Laundering Act No. 05 of 2006 and Computer Crimes Act No. 24 of 2007 are important Acts with the dynamic business environment.

You are required to:

(i) **State** four(04) unlawful activities as per the Prevention of Money Laundering Act. (04 marks)

(ii) **State** three(03) offences covered under the Computer Crimes Act. (03 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

- (A) **Dr. Perera** is an Ayurvedic doctor who uses a native Sri Lankan cinnamon variety named “*Daul Kurundu*” as an ingredient for his traditional medical treatments. On 17th February, he made a telephone call to a cinnamon supplier, **Banda** who lives in Galle and offered him a price of Rs.1,000/- per kilogram to supply 50kg of “*Daul Kurundu*” and **Banda** agreed to send the acceptance or rejection by a letter via post. On 18th February, **Banda** posted a letter to **Dr. Perera** stating his acceptance to supply the said quantity of “*Daul Kurundu*” for the stated price. The letter was reached **Dr. Perera’s** home on 21st February. In the meantime on 19th February **Dr. Perera** had offered **Shiva**, another cinnamon supplier to supply the said quantity at Rs.900/- per kilogram and it was accepted by **Shiva**. On 22nd February morning, **Banda** came to **Dr. Perera’s** home with the requested 50kg of cinnamon, but **Dr. Perera** rejected **Banda’s** cinnamon.

In the meantime, **Dr. Perera** discovered that the extracts of “*Daul Kurundu*” can be used as a hair lengthening application and developed a product named “**Black & Long**”. He placed an advertisement on newspapers with the inscription of,

*“Rs.100,000/- reward will be paid by **Dr. Perera** to any person who loses hair or any damage after having used **Black & Long** for 3 times daily for 6 days, according to the printed directions supplied with the product.”*

Vishaka who is planning to participate the “*Aurudu-Kumari Pageant*” in National Television channel in near future, bought one bottle of “**Black & Long**” and applied the same in the prescribed manner. After it was applied, on the seventh day, when **Vishaka** was having a bath, she lost nearly one third of her own long hair.

You are required to:

- (a) **Explain** the following:

- (i) Whether there is a valid contract between **Dr. Perera** and **Banda**. (04 marks)
- (ii) Whether there is a valid contract between **Dr. Perera** and **Vishaka**. (04 marks)

- (b) **Discuss** the rights and remedies available to **Banda** and **Vishaka** regarding **Dr. Perera**. (07 marks)

(B) **Mohan** bought 100 kg of dhal from **Ravi**, a wholesale supplier on Monday. When **Ravi** prepared to deliver them, **Mohan** requested **Ravi** to keep the stock of dhal in **Ravi's** warehouse until **Mohan** comes on Wednesday and takes them to his warehouse. As requested, **Ravi** placed the said stock of dhal separately in his warehouse. On Tuesday night, there was a heavy rain in the area and **Ravi's** warehouse got flooded. **Mohan** requested money back and refused to take the dhal stock.

Subsequently **Ravi** sold 100 kg of dhal which were contaminated by the flood to **John** who is running a catering business. **Ravi** did not inform to **John** about the condition of dhal. However, later **John** found that dhal is not in the required quality for serving human being.

You are required to:

Discuss following as per the Sale of Goods Ordinance:

(a) Legal rights of **Mohan**. (05 marks)

(b) Legal rights of **John**. (05 marks)

(Total 25 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.