



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JULY 2022

(203) BUSINESS LAW

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

(1) **Time Allowed:** Reading : 15 minutes.

Writing : 03 hours.

(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.

20-08-2022

Afternoon

[01.45 – 05.00]

No. of Pages : 06

No. of Questions : 07

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**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** Which one of the following employee category is excluded from the Employees' Trust Fund (ETF) Act No. 46 of 1980?

(1) Employees of universities.

(2) Employees of statutory bodies.

(3) Domestic servants.

(4) Employees of private sector.

**1.2** Which one of the following is **not** a power of the District Court?

(1) Divorce cases.

(2) Recovering EPF and ETF dues.

(3) Land cases.

(4) Cases on breach of contract.

**1.3** Which one of the following is **not** an occasion where Muslim Law is specifically applied?

- (1) Custody. (2) Inheritance.  
(3) Marriage and matrimonial rights. (4) Utti mortgages.

**1.4** The methods that can be adopted to determine the consideration can be identified as follows:

- (a) The manner in which the price to be determined may be specified on the contract.  
(b) Price may be determined by course of dealing between the parties.  
(c) If the price is not determined, the buyer must pay a reasonable price.

Of the above, the correct statements according to the Sale of Goods Ordinance are:

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

**1.5** Which one of the following is **not** a document to be submitted by the seller to the buyer in a CIF Agreement in the International Trade?

- (1) Insurance Certificate. (2) Invoice.  
(3) Letter of Credit. (4) Bill of Lading.

**1.6** According to the Industrial Disputes Act No. 53 of 1950, which one of the following is **not** an alternative method to resolve any industrial dispute?

- (1) By a collective agreement. (2) By arbitration.  
(3) District Court. (4) Labour Tribunal.

(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** According to the sale of goods ordinance, a contract of sale can be made in writing only.

**1.8** Bill of Lading acts as a receipt for shipped goods.

**1.9** Gratuity Act No.12 of 1983 is applicable to workmen who have a period of service not less than three completed years under one employer.

(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) ways of creation of agency.

1.11 State two(02) responsibilities held with the seller in a CIF Agreement.

1.12 State two(02) judicial tests that can be applied to identify the distinction between an independent contractor and an employee.

1.13 State two(02) types of leaves that can be identified under the Shop and Office Employees Act No 19 of 1954.

1.14 Explain briefly what is meant by insider dealing / trading in the stock market.

(02 marks each, 10 marks)

(Total 25 marks)

End of Section A

## **SECTION B**

(Total 50 marks)

### **Question 02**

Larry bought a lorry from James, a garage owner. Larry used it for several months for his transportation business. However, this lorry was booked to James's garage for a heavy repair work by Peter. Larry was on his normal route to Kandy by the lorry and Peter identified that this is the same lorry which he kept at James's garage for repair, which was vanished few months ago. The lorry was taken into his custody by Peter. Thereafter, Larry realized that James had no title to this lorry and Larry was bound to return it back to the true owner, Peter. Larry sued James to recover back the amount of money that he had paid.

**You are required to:**

(a) **Explain** the legal rights of Larry in this regard. (06 marks)

(b) **Explain** two(02) types of Goods under the Sale of Goods Ordinance. (04 marks)

(Total 10 marks)

### **Question 03**

Directors are the key persons who control and manage a company. Thus, it is important to select directors carefully while paying attention to their qualifications and stipulating their duties to the company. The Companies Act No.07 of 2007 of Sri Lanka states the provisions relating to the above stated areas.

**You are required to:**

(a) **State** four(04) qualifications required to be fulfilled to become a director under the Companies Act No. 07 of 2007. (04 marks)

(b) **List** four(04) main duties of a director under the Companies Act. (04 marks)

(c) **State** the minimum number of directors required for a private limited company. (02 marks)

(Total 10 marks)

#### Question 04

**Suraj** is a government employee who earns approximately Rs.100,000/- per month. He usually buys his monthly groceries from **Vimal Stores**. **Vimal Stores** has two large-scale warehouses where they stock their consumable goods. **Suraj** went to buy his monthly grocery requirement in the month of May and he found that **Vimal** has increased the price of a packet of milk from Rs.780/- to Rs.1,020/- using a sticker pasted on the originally marked price. **Suraj** realized that **Vimal** has changed the price tag of his old stock with a new price tag to gain undue profit. When **Suraj** confronted **Vimal** regarding the price change, he refused to sell any grocery item to **Suraj** and asked him to leave the store immediately. **Suraj** then lodged a complaint with the Consumer Affairs Authority.

**You are required to:**

- (a) **Explain** the duties of the Consumer Affairs Authority in the above context. (06 marks)
  - (b) **Explain** the liability of **Vimal** in the above context. (04 marks)
- (Total 10 marks)

#### Question 05

**Ann** wrote a cheque of Rs.52,000/- in favour of **Silva** and it was crossed with the words “*not negotiable*”. Once **Silva** presented it over the counter to encash, cashier noted that amount in words is stated as twenty five thousand only in the cheque. Further, **Ann’s** bank balance was Rs.10,000/-.

**You are required to:**

- (a) **Explain** the responsibility of the bank with regards to the above. (06 marks)
  - (b) **Explain** the difference between “a General Crossing” and “a Special Crossing”. (04 marks)
- (Total 10 marks)

#### Question 06

**Apeksha** applied for a life insurance from **Araksha Insurance Ltd.** She was asked whether she had consulted a doctor during the past five years. **Apeksha** answered “none” when in fact she had consulted a doctor for influenza and had received some tonic but she had not kept away from work because of that illness. However, after obtaining the life insurance policy, **Apeksha** was diagnosed with a severe variant of influenza and got critically ill. Later, she died due to the severe damages caused to her lungs by influenza.

**You are required to:**

- (a) **Explain** whether **Apeksha’s** dependent can claim compensation under the life insurance cover obtained from **Araksha Insurance Ltd.** (07 marks)
  - (b) **State** three(03) main elements of a contract of an insurance. (03 marks)
- (Total 10 marks)

End of Section B

## SECTION C

(Total 25 marks)

### Question 07

(A) **Rani** applied the position of Assistant Accountant of **ABC Ltd.** and participated the interview of the company. The management of the company decided to appoint her for that position but it was not informed her. The fact that the company is willing to hire her to the position was unofficially communicated her by one of the directors of **ABC Ltd.** On that news she resigned her current job but **ABC Ltd.** decided to appoint someone else for that position.

**Raja, Rani's** husband offered to sell their house to **Amal** for Rs.15 million. In response, **Amal** made his consent to buy it for Rs.14 million, which was refused by **Raja**. However, later, **Amal** made his consent to buy it for Rs.15 million. Then, **Raja** has changed his mind and refused to sell it even for Rs.15 million.

**You are required to:**

- (a) **Explain** two(02) ways of termination of the offer. (04 marks)
- (b) **Discuss** the legal rights of **Rani** against **ABC Ltd.** (06 marks)
- (c) **Explain** whether there is a valid contract between **Raja** and **Amal.** (05 marks)

(B) **Veena** was employed in **Kathy's Business** as a manager. She had accessed to all the official records of the business's transactions. **Veena** was handling many key accounts of the clients of the Business. However, **Kathy** noted that **Veena** has started a competitive business that is similar to **Kathy's** business. **Veena** has utilized the information that she has gathered during her period of employment in **Kathy's Business** to make a secret profit.

Meanwhile, **Kathy's** friend **Tony** helped her to run the business and **Kathy** requested him to find a suitable buyer to sell one of her properties in Galle. **Tony**, found a buyer to buy the property and informed that to **Kathy**. After a week, **Tony** met another buyer who is willing to buy at a higher price than the previous price. However, **Tony** did not inform this to **Kathy**. **Kathy** has instructed him specifically to inform her of any buyer who is willing to buy the property. **Kathy** sold the property to the previous buyer and later she got know that she has lost around Rs. 5 million, due to the negligence of **Tony**.

**You are required to:**

- (a) **Explain** the duties of **Veena** regarding **Kathy** under the Law of Agency. (05 marks)
- (b) **Discuss** the rights and duties between **Kathy** and **Tony** under the Law of Agency. (05 marks)

(Total 25 marks)

End of Section C

## **ACTION VERBS CHECK LIST**

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

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

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

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