



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JANUARY 2024

(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.**

10-02-2024

Afternoon

[01.45 – 05.00]

No. of Pages : 07

No. of Questions : 07

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 is considered as a Common Law?

(1) Muslim Law.

(2) Kandyan Law.

(3) Thesawalamai Law.

(4) English Law.

1.2 Which one of the following courts administrates the jurisdiction on issue of search warrants and warrants to arrest suspects?

(1) The Supreme Court.

(2) Family Court.

(3) Magistrate's Court.

(4) The Court of Appeal.

1.3 You are provided the following statements with reference to the Law of Contract:

- (a) Only the written contracts are enforceable by law.
- (b) A contract can be made by the implied conduct of the parties.
- (c) Some contracts should be made in writing according to the formalities and requirements imposed by certain statutes.

Of the above, select the correct statement/s with reference to the Law of Contract:

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

1.4 Which one of the following is **not** correct with reference to the Articles of Associations of a company?

- (1) The rights and obligations of shareholders of the company are included in the Articles of Association.
- (2) The Articles of Association cannot be altered by the company.
- (3) Both the company and its shareholders are bound to the Articles of Association.
- (4) The objectives of the company are in the Articles of Association.

1.5 Consider the following responsibilities relating to a CIF Agreement:

- (a) Loading the goods to the ship in the standard described in the agreement.
- (b) Preparation of an insurance contract.
- (c) Preparation of an invoice for goods.
- (d) Settlement of payments for invoices after receipt of relevant documents.

Of the above, the responsibilities of the seller are:

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

1.6 Which one of the following is **not** a negotiable instrument as identified by the Bills of Exchange Ordinance No. 25 of 1927?

- (1) Cheques.
- (2) Money orders.
- (3) Promissory Notes.
- (4) Bills of Exchange.

(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 A “partnership” can be formed when two or more individuals come together in a business with a view of sharing profits.
- 1.8 Uniform Practices On International Trade Agreements (INCOTERMS) are a set of standardized rules that define the responsibilities of buyers and sellers in international trade contracts.
- 1.9 A bill of exchange can be crossed. (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) remedies available to an innocent party in case of breach of a condition in Contract Law.
- 1.11 State two(02) differences between the “Civil Law” and the “Criminal Law”.
- 1.12 State an objective of the Prevention of Money Laundering Act No. 5 of 2006.
- 1.13 State two(02) instances where the court can order dissolution of a partnership.
- 1.14 State two(02) non-judicial disputes resolution methods used in resolving international trade disputes. (02 marks each, 10 marks)
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- (Total 25 marks)
- End of Section A

SECTION B

(Total 50 marks)

Question 02

Ginige insured his house in January 2023 with **ABC Insurance Ltd.** In March 2023, he decided to sell the house in order to migrate to Australia in July. **Salwatura** agreed to buy the house. On 05th April 2023, **Salwatura** bought the house after paying full price for the house and planned to live in new house at the end of April 2023. But the house was damaged by a fire on 10th April 2023. **ABC Insurance Ltd.** paid the damages to **Ginige**. Later **ABC Insurance Ltd.** noticed that the house was sold to another party. Therefore, they decided to claim the return of their payment under the policy.

You are required to:

- (a) **Explain** whether **ABC Insurance Ltd.** can claim the return of their payment under the policy. (06 marks)
- (b) **Explain** the “principle of contribution” in Insurance. (04 marks)
- (Total 10 marks)

Question 03

Bhakthi owned a Bathik shop selling Traditional Bathik garments. As she had to attend an International Bathik Conference held in Dubai, she assigned her best friend **Awanka** to run the shop. **Bhakthi** instructed **Awanka**, that she cannot sell any of the garments displayed in the shop less than 75% of the price displayed on the item. Furthermore, **Awanka** was warned that she cannot purchase any stock for the shop under any circumstances.

While **Bhakthi** was away from Sri Lanka, **Awanka** sold a pack of 50 sarees to **Salu-Sala Ltd.** at 70% of the price displayed. **Awanka** also purchased 100 bathik sarongs from a local supplier as the stock of sarongs were finished sooner than expected. **Bhakthi** is in the view that she had to incur a loss from these transactions.

You are required to:

- (a) **State** two(02) ways in which a Principal-Agent relationship can be created. (02 marks)
 - (b) **Explain** the duties of **Awanka** as the agent of **Bhakthi**. (04 marks)
 - (c) **Explain** whether **Bhakthi** can recover the costs of damage from **Awanka**. (04 marks)
- (Total 10 marks)

Question 04

In March 2023, the government of Sri Lanka imposed a price control on essential commodities, including rice, to ensure that rice remained affordable for citizens. **Mayura** is a regular customer of **Sadun's Store**, where **Sadun** sells essential grocery items. However, when **Mayura** entered **Sadun's Store** to buy rice, he noted that almost all the rice shelves were empty. When **Mayura** inquired politely, **Sadun** answered that there had been some supply chain issues and the rice deliveries had been delayed. As **Mayura** left the stores, he noticed a few individuals muttering about the scarcity of rice at **Sadun's Store** and how it did not seem to be a problem at other shops. **Mayura** went back to **Sadun's Store** and confronted **Sadun** on the availability of rice at other shops. **Sadun** asked him to leave the store immediately.

You are required to:

- (a) **Explain** two(02) objectives of the Consumer Affairs Authority. (04 marks)
 - (b) **Explain** the legal rights of **Mayura** in the above context. (06 marks)
- (Total 10 marks)

Question 05

- (a) “Separate legal personality refers to the distinct legal identity of a corporation or a company, which is separate from its owners or shareholders, in the eyes of the law”.

You are required to:

State four(04) instances where the corporate veil is lifted. (04 marks)

- (b) **Nadun** signed a blank cheque and crossed it with the words “*Not Negotiable*”. He handed over the cheque to his assistant **Sumudu** and asked her to fill in the amount and pay the water bill of his business. However, **Sumudu** filled in the details and gave it to **Maneesha** to settle a loan obtained by **Sumudu** from **Maneesha**. **Maneesha** presented it to the bank.

You are required to:

Explain the responsibility of the bank regarding the above cheque. (06 marks)

(Total 10 marks)

Question 06

Madusha was a graphic designer and she was hired by **Content.lk** to complete a project that they have undertaken. Since **Madusha** was a known relative of the owner, she did not sign any contract. She was asked to handle the social media marketing for the project. However, she was not informed of the duration of the project. **Madusha** did not go to the office daily. She worked from home and used her own laptop and graphic designing software she purchased from her own money. She worked whenever she could to meet the deadlines.

After several months, **Content.lk** wanted to develop a new logo for their business. When the company informed **Madusha**, **Madusha** said that she needed to purchase a new software to develop the logo. Therefore, she sent an invoice to the owner quoting her professional fee and the price needed for the software. The owner realized that **Madusha’s** professional rates are higher than the market rates. Therefore, he asked **Madusha** to reduce her fee.

You are required to:

- (a) **Explain** whether **Madusha** is an employee at **Content.lk**. (06 marks)

- (b) **State** four(04) instances where an employee can claim benefits of the Employees’ Provident Fund (EPF). (04 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

- (A) **Mr. Deal**, a well-known racing car driver advertised his second-hand luxury racing car for sale as, “1976 Model C, Black Colour- for sale”. **Mr. Keells**, a race car driver and an avid fan of cars purchased it for the price stated by **Mr. Deal** without requesting any discounts or reduction in price.

Mr. Keells participated “World Race Car Competition” which was held in France in October, 2022. He drove the car he bought from **Mr. Deal**. While the competition was in progress, the car stopped half way. Subsequently, **Mr. Keells** found out that the car he bought from **Mr. Deal** was a 1967 model vehicle. **Mr. Keells** now expects to claim his money back from **Mr. Deal**.

You are required to:

- (a) **State** three(03) implied conditions under the Sale of Goods Ordinance. (03 marks)
- (b) **Explain** the difference between “a contract of sale” and “an agreement to sell”. (05 marks)
- (c) **Explain** whether **Mr. Keells** could claim his money back from **Mr. Deal**. (07 marks)
- (B) **Nayani** was a 17-year-old, exceptionally talented pianist. A local music academy **Shanthi Academy** recognizes her talent and offers her a scholarship to receive advanced piano lessons for the upcoming year. In return, **Nayani** was required to perform at several school events. However, after a few months of lessons, **Nayani** decided to discontinue her involvement with the academy. She stopped attending lessons and performances. The music academy says that the agreement was beneficial to **Nayani** and demands payment for the lessons already provided. **Nayani’s** parents argue that **Nayani** should not be bound by the contract.

You are required to:

- (a) **Explain** whether **Nayani** is bound by the above contract. (06 marks)
- (b) **Explain** two(02) situations in which the exemption clauses are believed to be invalid. (04 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.