



**Association of Accounting Technicians of Sri Lanka**

**July 2015 Examination - AA1 Level**

**Questions and Suggested Answers  
Subject No : 14**

**BUSINESS LAW AND ETHICS  
(BLE)**

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**THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

EDUCATION AND TRAINING DIVISION

**AA1 Examination - July 2015  
(14) Business Law And Ethics**

**SUGGESTED ANSWERS**

**SECTION – A**

ALL questions are to be answered.

*Suggested Answers to Question One:*

<i>Question</i>	<i>Answer</i>
1.1	(2)
1.2	(3)
1.3	(3)
1.4	(1)
1.5	(1)
1.6	(2)
1.7	(1)
1.8	(3)
1.9	(1) and (3)
1.10	(1)
1.11	(2)
1.12	False
1.13	True
1.14	False
1.15	(1) Easy negotiability (2) Holder can sue in his own name
1.16	Any two (02) of the following; (1) Integrity (2) due reasonable care and skill (3) independence (4) confidentiality (5) honesty (6) technical competence
1.17	Last monthly salary X $\frac{1}{2}$ X no. of completed years of service = Gratuity Payable
1.18	By Conciliation, Arbitration, Labour Tribunals, Industrial Courts, Collective Agreements.

*End of Section A*

Four questions and each carries 8 marks = 32 marks

**ALL questions are to be answered.**

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***Suggested Answers to Question Two:***

***Any four (04) of the following;***

1. The principal must be in existence with contractual capacity at the date on which the contract was made by the agent
2. The agent must tell the third party, that he is contracting as an agent and the name of his principal.
3. The principal must be informed of all the material things regarding the contract.
4. The whole contract must be ratified and not merely part of it.
5. Ratification must be made within a reasonable time.
6. A void contract cannot be ratified.

***Suggested Answers to Question Three:***

***Any three (03) of the following;***

**(a) 1. Limited liability**

The term “limited” should have to be understood from the point of view of the share holders. It means the share holders have a liability to contribute to the assets of the company if any unpaid amount by the company arises to the extent of value of the shares purchased by them. But in a sole trade proprietorship or a partnership, the owner/ partners has/have an unlimited liability to the liabilities of the organization.

**2. Issue of shares to the public**

If it is a public company, it can issue shares to the public. Therefore the company can collect a large amount of money as its capital.

**3. Legal personality**

After incorporation of a company it is treated as a separate person from those who created it, owned it and managed it. Therefore it can enter into contracts, own properties, sue and be sued in its own name.

**4. Perpetual succession**

This means change or death of the members and directors does not affect the existence of a company.

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- (b) The contents of articles of association: *Any two (02) of the following;*
1. The objects of the company,
  2. The rights and privileges of the share holders,
  3. Rules with regard to management and administration of the company.

### ***Suggested Answers to Question Four:***

To be a holder in due course following requirements should be present: *Any four (04) of the following;*

1. The bill should be complete and *regular on the face of it.*
2. The holder must have taken the bill *before it was overdue.*
3. If it had been previously dishonored, the holder must have *no notice of such previous dishonors.*
4. The holder must have taken the bill *in good faith.*
5. Holder himself must have given value for the bill. *Therefore the value cannot be given by any other person on behalf of the holder.*
6. At the time the bill was negotiated with him the holder must have *no notice of any defect of the title* of the person who negotiated it with him.

### ***Suggested Answers to Question Five:***

- (a) If X is a female worker she can withdraw the EPF when she retires at the age of 50 years. But if she continues to be in the employment even after the age of 50 years she cannot withdraw the EPF until her employment is terminated. But if X is a male worker he cannot withdraw the EPF on reaching the age of 50.
- (b) X cannot withdraw the EPF. The EPF can be withdrawn by a male or a female worker, only if he/she leaves the country permanently.
- (c) X He/She can withdraw the EPF on receiving of a pensionable appointment in the public sector.
- (d) EPF can be withdrawn by a female worker when she resigns from work in view of the marriage. However, if X is a male worker he cannot withdraw the EPF, in view of the marriage.

***End of Section B***

Two questions and each carries 14 marks

**ALL questions are to be answered.**

(Total = 28 marks)

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***Suggested Answers to Question Six:***

- (a)
1. Offer  
An offer is a definite proposal by one person to another with a view to entering into a contract.
  2. Acceptance  
If the offer is accepted subject to a condition or offeree makes a fresh offer to the offeror's offer it is treated as a counter offer. Therefore acceptance means an unconditional approval of the offer.
  3. Justa causa  
In order to form a valid contract there should be a valuable consideration or a moral obligation.
  4. Intention to create legal relations.  
At the time parties entered into the contract they should have an intention to create legal relations in case the other party defaults to perform his/her duties under the contract.
  5. Form of contract  
As a general rule parties can enter into any contract in any form. But this rule is affected by statutory provisions. It means if there is a statutory provision with regard to form of contract, then parties should enter into that contract according to the form which is mentioned in the statute.
- (b) A minor is a person who is below 18 years of age. Therefore Chamara is a minor. The minor is protected by law because due to lack of minor's experience when a minor enters into a contract with others, there is a high tendency of prejudice to the minor.  
Therefore if a party to a contract is a minor, that contract is treated as a voidable contract. It means the minor can repudiate the contract on his option, without any liability at any time after it is made.  
However there are some exceptions to the above rule. Under these exceptions the minor is bound by the contract as an adult.  
One of the exceptions is contracts for the minor's education, training, services or apprenticeship.  
Eg: AG VS Costha  
Here Chamara entered into a contract to undergo training at a training college. Therefore Chamara is bound by that contract. If Chamara repudiates the contract the government (other party) can bring an action to claim damages from Chamara.

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***Suggested Answers to Question Seven:***

(a)

1. If the seller is a mercantile agent.
2. If seller sells goods under an authority from a statute. (sale by person with voidable title.)
3. Estoppel. Here the owner is precluded from denying that the seller has an authority.
4. Sale by seller in possession of goods or documents to title.
5. Sale by buyer in possession of goods or documents to title.
6. Seller sells the goods under an authority from a court order.
7. Sale in market overt.

(b) Here Shehan entered into a contract of sale of goods. According to the Sale of Goods Ordinance the following terms are to be treated as implied terms contained in a contract of sale of goods.

1. Fitness for the purpose

Where the buyer expressly or impliedly makes known to the seller, the particular purpose for which the goods are required, there is an implied condition that the goods shall be reasonably fit for such purpose.

Therefore when Shehan demanded for a shirt, he impliedly made it known to the seller the purpose of the shirt, that is for wearing. Therefore if the shirt contained chemical which cause skin infection, the shirt is not fit for the purpose.

2. Merchantable quality.

Where the goods are bought from the seller (whether he is the manufacturer or not) the goods shall be reasonably fit for the purpose for which, goods of that kind are commonly used and the goods must be free from any defect which is not apparent on the reasonable examination of the goods.

Therefore if the shirt contained chemical which caused skin infection it is a defect which is not apparent on the reasonable examination of the shirt. Therefore the shirt is not of merchantable quality.

Because the above two implied conditions are breached, Shehan is entitled to claim damages from the seller.

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***End of Section C***