



**Association of Accounting Technicians of Sri Lanka**

**January 2016 Examination - AA2 Level**

**Questions and Suggested Answers  
Subject No : AA25**

**BUSINESS LAW AND ETHICS  
(BLE)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA  
EDUCATION AND TRAINING DIVISION

**AA2 Examination - January 2016**  
**(25) Business Law and Ethics**

**SUGGESTED ANSWERS**

**SECTION – A**

Objective Test Questions (OTQs)

Ten (10) compulsory questions

(Total 20 Marks)

*Suggested Answers to Question One:*

<i>Question</i>	<i>Answer</i>
1.1	(3)
1.2	(2)
1.3	(4)
1.4	(2)
1.5	(2)
1.6	(4)
1.7	(1)
1.8	Thesawalamai Law Kandyan Law Muslim Law Roman Dutch Law
1.9	Statutes Equity Judicial Precedents Customs Opinions of the jurists Religion Legislation
1.10	Mandatory approach (Rule based) Voluntary approach (Framework)

*End of Section A*

All five (05) questions are to be answered.  
(25 Marks)

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

There is no valid contract between the parties. Because the Parties had entered into the contract subject to a **mutual mistake with regard to the identity of the subject matter** of the contract.

It means both parties made different mistakes as to the identity of the subject matter of the contract.

If there is a mutual mistake with regard to the identity of the subject matter of the contract, such a contract to be treated as a void contract.

e.i. *Raffles Vs Wichelhaus*

Here, Silva offers two bedroom house. Dias accepts it thinking that Silva refers to the three bedroomed house. Therefore, this contract is void because there is no consensus as idem, an agreement to contract. This is called a Mutual Contract.

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

**Differences between a cheque and a bill of exchange.**

<b>Cheque</b>	<b>Bill of exchange</b>
1. Drawee is always a bank	1. Drawee can be a bank or an individual.
2. It is payable only on demand	2. Payable on demand or at a fixed or Determinable future time.
3. The rules relating to crossing Applies	3. These rules are not applicable.
4. Only a current account holder can draw	4. Any person can draw it.
5. Cheques are not presented for Acceptance.	5. Presented for acceptance.
6. Mostly used to locally	6. Popular in international trade.

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

Agent and principal relationship can be created in following methods.

1. By express agreement.
2. By implied agreement.
3. Agency by ratification.
4. Agency by necessity.
5. By estoppel
6. By marriage and cohabitation

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

- a)
  - i. Bill Of Lading. (BOL)
  - ii. Marin Insurance Policy.
  - iii. Invoice.

b) **BOL**

This is used to signify a contract of carriage by sea.

**Marin Insurance Policy**

This is a contract where the insurer undertakes to indemnify the assured, in the manner and to the extent thereby agreed, against marine losses.

This is used to signify a contract of insurance.

**Invoice**

This is the proof of the contract of sale.

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

1. 'Trade Mark' can be anything including Letter, Number, Name, Colour, Shape, Signature, etc..
2. But all of them are not Registable trade marks. Some limitations are provided by section 103 and 104.
3. Accordingly name can be registered as a trade mark in an uncommon manner. Because then it can be distinguished from others.
4. Also name must include first name and the last name or surname.
5. Surnames are generally will not allow to register.

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***End of Section B***

All three (03) questions are to be answered.

(30 Marks)

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

- a)
- i. EPF @ 8%
  - ii. PAYE
  - iii. Stamp Duty
  - iv. Any advances of money made to **Sewwandi** by her employer.
  - v. Other advances made to a third party at the request of **Sewwandi**.
  - vi. Food expense
  - vii. Security deposits
  - viii. Rent
  - ix. Compensation
- b)
- i. Casual 7 days
  - ii. Annual 14 days
  - iii. 84 days taken before and after the delivery.

***Suggested Answers to Question Eight:***

- a)
- This is a hire purchase contract. Contracts of hire or leasing contracts are not subject to the sale of goods ordinance, because it is not a sale of goods contract.
- There is no seller and a buyer. Partners involved are owner and the hirer.
- Specially there is no transfer of property or at least there is no agreement to transfer the property of goods (ownership) in future. There is only an option to buy at the end of the 3rd year.
- Therefore this transaction is not governed by the sale of Goods Ordinance.  
Consumer Credit Act No. 29 of 1982
- b)
- Mihiran's wife is not entitled to claim compensation from AR Insurance Co.
- There are few concepts of insurance. Those are insurable interest, utmost good faith, indemnity, contribution, subrogation and proximate clause.
- Hence in this scenario, at the time of entering to the contract, **Mihiran** has violated the concept of

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utmost good faith which should have been existed at the time of entering into the contract.

Utmost good faith means that each party is under a duty to reveal all vital information to the other party, whether or not that other party asks for it.

In this case, **Mihiran** has hide the fact that his application for life insurance from other insurance companies have been rejected and of his bad health condition.

Due to this reason, the contract that existed between **Mihiran** and AR Insurance Co. is not a binding contract.

Therefore, Mihiran's wife is not entitled to claim compensation from AR Insurance Co.

### ***Suggested Answers to Question Nine:***

#### **Advantages**

1. Easy to establish
2. Less formality
3. Less legal requirements
4. Less financial reporting requirements compared to a company
5. Startup capital is less the requirement of a company

#### **Disadvantages**

1. Unlimited liability of partners
2. Unavailability of perpetual succession
3. Unavailability of separateness
4. Unavailability of legal personality

***End of Section C***

**Question of this section to be answered.**

**(25 Marks)**

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***Suggested Answers to Question Ten:***

a) Here there is a sale of goods contract between **Amal** and **Pothsappuwa**.

According to the Sale of Goods Ordinance, there are implied conditions as follows;

- Seller should have right to sell
- Goods comply with the sample
- Goods comply with the description
- Fitness for the buyer's purpose

Accordingly in this case, **Amal** has informed his purpose of buying goods (calculators) to the officer of **Pothsappuwa**.

To imply this condition, there are some requirements to be fulfilled;

- Purpose must be informed
- Buyer must buy the goods as a consumer
- Sale must be within the normal business of the seller
- Buyer must rely on seller's skills and judgment

Here **Amal** has expressly informed his purpose to the officer of **Pothsappuwa**.

But the calculator was not according to **Amal's** requirements.

Therefore, there is a breach of implied condition.

Accordingly, **Amal** is entitled to cancel the contract and to get the refund.

b) Here, there is a contract between **A** and **Rideethira** cinema.

In a contract there are different types of terms.

One such term is an exclusion / exemption / excluded term.

In this case, a notice about the "Management is not liable...." is an exemption clause.

Now the question is whether the management will be covered by the said clause.

Generally, the court does not appreciate these clauses.

But if the partners are well aware it is considered as a valid term.

To be recognized as a valid clause partners must be well aware of the exemption clause and it must be communicated between them at the time they enter in to the contract or between doing so.

In this case, **A** was aware of the exemption clause only after the entered in to the film hall. i.e. after the contract was made.

Therefore, there is no effect of this exemption clause.

**A** can claim the damages.

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***End of Section D***

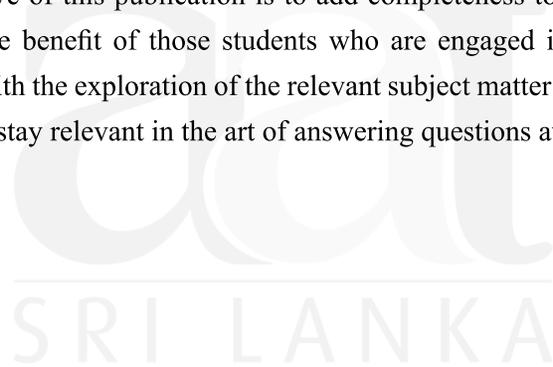
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