



Association of Accounting Technicians of Sri Lanka

July 2016 Examination - AA2 Level

**Questions and Suggested Answers
Subject No : 25**

**BUSINESS LAW AND ETHICS
(BLE)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

AA2 Examination - July 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	(1)
1.2	(3)
1.3	(2)
1.4	(3)
1.5	(2)
1.6	(4)
1.7	(2)
1.8	Institute of Chartered Accountants of Sri Lanka Registrar of Companies. Board of Investment Colombo Stock Exchange Securities and Exchange Commission Sri Lanka Accounting and Auditing Standards Monitoring Board
1.9	Minors Insane persons Intoxicated persons
1.10	By a new agreement By breach of a contract By performance By frustration

(Total 20 marks)

End of Section A

Five (05) compulsory questions.
(Total 25 marks)

Suggested Answers to Question Two:

An agency may be created between two persons by estoppel. Estoppel means a person, “A” by his conduct (conduct may be an act or silence of that person) creates a belief on another person, “B” and “B” acted on that belief. After “B” acted on that belief “A” is prevented from denying that the belief is incorrect.

Therefore here an agency was created between “ABC Limited” and “Anil” by estoppel.

Because where “ABC Limited” by its words or silence, holds out “Kamal” as to “Anil” is its agent and “Anil” has authority to enter into the contract on behalf of the company.

After “Kamal” made a contract with “Anil”, “the company” is prevented from denying that “Anil” has no authority to enter into such a contract on its behalf. “ABC Limited” is bound by the contract.

Therefore Kamal is entitled to claim the payment from the company.

(Total 05 marks)

Suggested Answers to Question Three:

The differences between FOB contracts and CIF contracts.

FOB (Free On Board)

In this type of contract, the cost of loading the goods on board the ship has to be borne by the seller.

Buyer books the container and carrier ship.

The delivery of goods is completed When the goods on board the ship.

The property in the goods passes to the buyer when the goods are on board the ship.

The buyer has to bear the cost of insurance and freight.

CIF (Cost, Insurance and Freight)

In this type of contract the cost of loading the goods on board, insurance and freight has to borne by the seller.

Seller books the container and carrier ship.

This type of contract is performed by the seller by delivery of the shipping documents to the buyer and not by delivery of goods physically.

Under the CIF contract the property in goods pass to the buyer, when the documents are delivered to the buyer.

Buyer has to pay the cost of unloading, import duties and wharf charges.

(Total 05 marks)

Suggested Answers to Question Four:

Crossing is a direction given to a drawee/paying bank how the bank should pay the value of the cheque.

There are two types of crossing.

1. Ordinary Crossing
2. Special Crossing

Ordinary (General) Crossing

The ordinary crossing means two parallel lines are drawn across the face of a cheque with or without the following words,

1. And company
2. Not negotiable
3. Account payee / Account payee only

The Legal Effect of an Ordinary Crossing

The drawee bank of a generally crossed cheque should pay the value of such a cheque only to an account with any banker. In other words the payment of value of such a cheque by the drawee bank over the counter is a payment which is contrary to the general crossing, then the drawee bank is liable when there is a loss to the true owner.

Special Crossing

If the name of a banker is written on the face of a cheque with or without two parallel lines and the wordings such as “& company, Not negotiable or Account payee / only, it is called special crossing”.

The Legal Effect of a Special Crossing

The drawee bank of a specially crossed cheque should pay the value of such a cheque only to an account with the banker named as a special crossing. In other words the value of such a cheque cannot be paid over the counter or even to an account to a banker other than the banker named as a special crossing. If the drawee bank pays the value of the cheque contrary to the special crossing, then the drawee bank is liable when there is a loss to the true owner.

(Total 05 marks)

Suggested Answers to Question Five:

- a) According to the Termination of Employment of Workmen (Special Provisions) Act, an employer is not entitled to terminate the employment of a workman **on non disciplinary** ground without;
1. The consent in writing of the workman or
 2. The written approval of the Commissioner of Labour.
- However in order to terminate the service of a workman on disciplinary ground, the employer need not get consent of the employee or the approval of the commissioner of Labour.

If a workman is guilty to a serious “**misconduct**” an employer on his own authority can dismiss the workman from employment, but there is no misconduct on the part of Amal.

Therefore the Termination of Employment of Amal is not in terms of the Termination of Employment of Workmen (Special Provision) Act.

- b) This Act not applicable for the following categories of employees.
- o If there are less than 15 workmen in the business
 - o Workman who is performed work for less than 180 days
 - o Employees in Local authorities, Public sector, Co-operative Sector and Public Cooperation
 - o In Co-operative Societies
 - o In Government Co-operations
 - o Who are employed in illegal business
 - o Who have voluntarily resigned from employment

(Total 05 marks)

Suggested Answers to Question Six:

- The need to earn better living
- Pressure from management
- Reporting discovered violations
- Omission of financial records
- Lack of ethical sensitivity

(Total 05 marks)

End of Section B

Three (03) compulsory questions.

(Total 30 marks)

Suggested Answers to Question Seven:

- a) The rights and duties of partners are decided by the partnership agreement. If the partnership agreement does not provide for any particular right or duty of the partners or if there is no such a partnership agreement, then section 24 of the Partnership ordinance will be applicable to decide the rights and duties of the partners.
- According to the Partnership ordinance,
- o Profit and losses should be shared equally among the partners.
 - o Every partner should submit true accounts and full information regarding his dealings to other partners and
 - o Every partner should disclose full information regarding every benefit which is received by him,
 - a) from any transaction concerning the firm,
 - b) from any use of partnership property by him,
 - c) From the name and business connections.
- Therefore Nissanka is liable to share the profit earned from the above transaction with Kapila.
- b) The partnership can be dissolved by the court on following grounds.
- (1) A partner is incapable of carrying on the business.
 - (2) A partner has been guilty of an offence which will prejudicially affect the carrying on the business of the partnership.
 - (3) A partner willfully and continuously breaches the partnership agreement.
 - (4) The business of the partnership can only be carried on at a loss.
 - (5) If the court is of the opinion the dissolution is just and equitable.

(Total 10 marks)

Suggested Answers to Question Eight:

- a) Indemnity insurance and contingency insurance.
- 1) **Indemnity Insurance**
Indemnity means compensate the loss. Here the insurer makes a payment of actual amount of loss not exceeding the policy amount for specified perils.
All the contracts of insurance are contracts of indemnity except life insurance and personal accidents insurance.
 - 2) **Contingency Insurance**
Contingency Insurance is where the insurer undertakes to pay on the happening of an event irrespective of the loss.
(Eg: Life insurance, personal accident insurance)
Therefore we can identify following main differences in between the Indemnity insurance and contingency insurance.

Subject matter:

In indemnify insurance the subject matter is goods or property. But in contingency insurance the subject matter is a human life.

Certainty of event:

In indemnity insurance the event insured against, may or may not happen at all. In contingency insurance the event insured, that is the death of a person is definitely happened, the only uncertainty being the actual time of its occurrences.

- b) According to the following Fundamental principles of contracts of insurance Sunil is not entitled to claim Rs.300,000/- each from both the insurance companies.

Indemnity

All the contracts of insurance are contracts of indemnity except life insurance and personal accident insurance. Because by payment of money cannot indemnify for loss of life or injury.

In a contract of insurance insurer undertakes to indemnify the insured for loss or damage resulting from specified perils.

In the case of loss the insured can recover the actual amount of loss (but not exceeding the amount of policy) from the insurer.

The object of the indemnity is to place the insured in the position that he occupied immediately before the event.

Therefore insured is not allowed to benefit more than the actual loss.

Doctrine of contribution

That is in the case of double insurance all insurers must share the burden of payment in proportion to the amount assured by each insurance company.

(Total 10 marks)

Suggested Answers to Question Nine:

- a) Money laundering is turning stained or dirty money into respectable assets as to disguise the origin of such money and to give appearance of having being obtained formal legal source.
- b) Unlawful activities include;
- o Offences in relation to drugs
 - o Trafficking of persons
 - o Bribery
 - o Exchange control violations
 - o Terrorism
 - o Transnational organized crimes
 - o Pyramid Scams

(Total 10 marks)

End of Section C

A compulsory question.

(Total 25 marks)

Suggested Answers to Question Ten:

a)

Offer becomes valid, only if it has been communicated to the offeree and offeree should receive that information.

If offeree accepts the offer before it is communicated, no valid contract is formed between the parties.

Because at the time of acceptance there was no valid offer before the offeree.

According to the given situation “Rasith” advertised that anyone, who would return the certificates folder would be rewarded.

This advertisement to be treated as an offer, because advertisements with regard to payment of rewards are considered as offers.

(Carlill Vs carbolic smoke balls Co.Ltd)

However this offer was unknown to “Nishadi” who returned the folder to Rasith.

The returning of the folder to Rasith is treated as an acceptance. Thereafter “Nishadi” came to know about the advertisement.

Here “Nishadi” is not entitled to the reward.

Because there was no valid offer before “Nishadi” at the time of her acceptance was taken place.

b)

According to the sale of goods ordinance, there is an implied condition as to where there is a sale, the seller shall **have a right to sell** the goods and where there is an agreement to sell, the seller **will have a right** to sell the goods, at the time the property in goods is passed to the buyer.

Therefore later, it was recovered that the computer had been stolen by Leslie. Leslie has no good title to the computer. Therefore Saman is also will not receive good title to the computer. If the computer was returned to the original owner, Jayalal is entitled to recover the damages from Saman.

Here Saman returned money to Jayalal and sued against Leslie for money which he had paid to Leslie.

Because of the seller, Leslie **has no right to sell** the computer the above implied condition is breached.

Therefore the buyer, Saman is entitled to recover the damaged from Leslie.

(Total 25 marks)

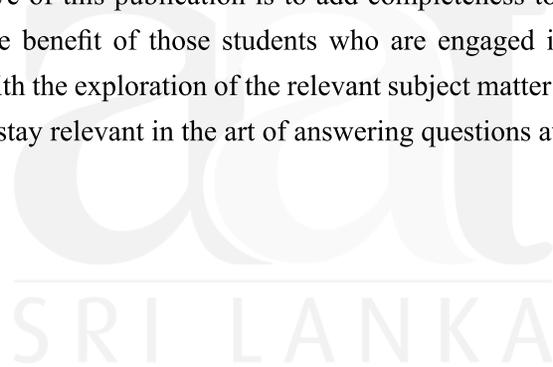
End of Section D

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