



Association of Accounting Technicians of Sri Lanka

July 2017 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 - July 2017
(AA25) 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	(4)
1.3	(1)
1.4	(4)
1.5	(4)
1.6	(2)
1.7	(1)
1.8	- Final and conclusive Civil and Criminal appellate jurisdiction (From court of appeal, Provincial High Courts, High Court of Civil Appeal or any Court of first instance.) - Jurisdiction of fundamental rights. (E.g. Right of expression, right against discrimination, right against arbitrary detention and imprisonment.) - Jurisdiction in respect of breach of parliamentary privileges. - Consultative jurisdiction on matters referred by His Excellency the President - Constitutional Jurisdiction
1.9	- These personal laws apply to determine the family matters (such as marriage, divorce, legitimacy, inheritance and succession, rights of husband and wife) of the particular groups of persons. Eg.- Muslim Law - Territorial laws apply to all the persons who inhabitant in a particular geographical territory. Eg.- Thesawalamai Law
1.10	- Negotiate project proposals with investors. - Provide specialized consultancy support. - Grant tax and other concessions.

(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 parties by estoppel. Estoppel means a person or group of persons, “Amal and Bimal” by his/their conduct (here the conduct is introducing Hemal as a director of the A&B Ltd) creates a belief on another person, “OM Land Developers Ltd” and “OM Land Developers Ltd” acted on that belief and entered into a contract. After “OM Land Developers Ltd” acted on that belief “Amal and Bimal” are prevented from denying that the belief is incorrect.

Therefore here an agency was created between “A&B Ltd” and “Hemal” by estoppel.

Therefore A&B Ltd is bound by the contract made with OM Land Developers Ltd. Therefore A&B Ltd is liable to pay for the land purchased by Hemal.

(Total 05 marks)

Suggested Answers to Question Three:

According to the given instance there are two issues to be considered.

1. **The cheque is crossed as not negotiable.**

This is not a direction to the paying bank. By this crossing it deprives the holder from becoming holder in due course. Therefore the bank has no any responsibility with regard to this crossing.

2. **The signature is not clear and the amount in numbers and in words is different.**

Due to these reasons the cheque becomes irregular on the face of it. Therefore the banker must dishonor the cheque. In case of payment by mistake the banker is responsible to the drawer. It means the banker has to bear the loss himself.

3. Insufficient funds in the account.

(Total 05 marks)

Suggested Answers to Question Four:

- a) - Bills of exchange
- Collection agreement
- Letter of Credit
- Payment on open accounts
- Payment in advance
- Electronic Commerce

b) **Bills of Exchange**

It is a draft to be drawn in order to receive the payments. The seller would draw a bill on the buyer ordering the buyer to pay the price at a specified period of time after the date of the bill.

Then the seller will present the bill to the buyer making him the acceptor. Once accepted he is liable to pay for the bill. Then the seller would sell the bill to the bank and then the bank becomes holder in due course. The bank would present the bill to the buyer within the time for the value on the face of the bill.

Collection Agreements

Collection arrangements are done when the selling price is arranged at the buyer's place. The seller hands over the shipping documents to his bank (remitting bank) and this bank passes the documents to a bank at the buyer's place. (Collecting bank)

The collecting bank then presents the bill of lading to the buyer and requests him to accept the bill of lading. Once the buyer accepts, the collecting bank releases the shipping documents to the buyer which enables him to receive the original bill of lading and allow him to obtain the goods from the carrier upon the arrival of the ship.

These are governed by the "uniform rules for the collection of commercial papers" of the International Chamber of Commerce.

Letters of Credit

Trade volume in International trade is really huge. As the importer does not want to take any risk he would not transfer money immediately. What importers want is to receive the goods first in good condition. On the other hand this is unfair to the exporter mainly because the exporter has to bear lot of expenses when sending goods abroad.

Payment on Open Accounts

Open account occurs when a seller ships the goods and all the necessary shipping and commercial documents directly to a buyer who agrees to pay a seller's invoice at a future date. Open accounts is typically used in established and trusted traders.

Payment in Advance

There are occasions that the importer pays for goods to the exporter prior to dispatch of the goods at some agreed stage. The exporter can obtain full payment or part payment.

Electronic Commerce

The traditional use of paper based system is becoming outmoded and inefficient. What is popular among international traders today is electronic commerce – the paperless trading. Today most international businesses are conducted online via internet. There are websites for international traders which enable to order online. Reduced cost and quicker supplies are two main advantages of these modern technologies. But there are some unsolved areas in this field. First the level of security is highly questionable. Secondly, sending payment detail over the internet presents a considerable risk.

(Total 05 marks)

Suggested Answers to Question Five:

Contracts of insurance are contracts of utmost good faith or contracts of *uberrimae fidei*.

Accordingly, it is a duty of both parties to the contract of insurance to make full and fair disclosure of all *material facts* relating to the subject matter of the proposed insurance.

“The material facts” means facts which are affected the judgment of a prudent insurer as to whether he will enter into the contract or enter into the contract at what premium.

For example, *in life insurance suffering from diabetes is a material fact whereas having occasionally headache is an immaterial fact.*

The failure to disclose a material fact is caused the insurance contract voidable on the option of the aggrieved party.

Looker Vs. Law Union Insurance Company

The applicant did not disclose the fact that he was badly ill from pneumonia.

Court held that, the duty of utmost good faith was breached.

Therefore the insurance company can reject Bindu’s claim.

(Total 05 marks)

Suggested Answers to Question Six:

- a) - Effective and publicized complaints system incorporated in the working place.
- An explicitly stated duty to report breaches of ethical behavior.
- Policies and procedures to monitor.
- Management of the firm that stresses the importance of compliance with the fundamental principles.
- b) 1. Corporate governance regulations.
2. Professional standards.
3. Educational and training requirements for enrollment to the profession.
4. Continuing professional development requirements.
5. Professional or regulatory monitoring and disciplinary procedures.
6. External review by a legally empowered third party of the reports, returns communications or information produced by a professional accountant.

(Total 05 marks)

End of Section B

Three (03) compulsory questions.
(Total 30 marks)

Suggested Answers to Question Seven:

In a partnership all the partners are jointly liable to the person in an action of tort.

As per the section 10 of the PARTnership Act, when a tort is committed during the ordinary course of the partnership business, the partners are jointly liable for the person who has suffered the loss. The injured party can sue all the partners together or separately.

Hamlyn V. Houston and Co., case one of the partners bribed the rival business to obtain information about the firm. The business filed an action against the partnership and it was held that the partners were liable for wrongful act and they committed during the course of the business and within the usual scope of his authority.

Partner of ABS bribed a director of **XYZ**. This has been done in the ordinary course of the partnership business and within the usual scope of authority. Therefore the **XYZ Ltd.** can sue all the partners of **ABS Partnership**.

In addition as the partnership is not a separate legal entity, when a partner enters in to a contract in the ordinary course of business, he is acting as the agent of all the partners. Hence, all the partners will be jointly liable.

Therefore, **XYZ Ltd.** can sue all the partners of **ABS Partnership**.

(Total 10 marks)

Suggested Answers to Question Eight:

a) “Works” mean any literary, artistic or scientific work recognized by the Intellectual property Act.

Examples for such works are:

- i. Books, computer programs and other writings.
- ii. Speeches, lectures, addresses.
- iii. dramatic and dramatic-musical works
- iv. stage production of works
- v. musical works
- vi. audiovisual works
- vii. works of architecture

b) According to the Intellectual Property Act, the economic and moral rights of copyright shall be protected

- 1) During the life time of the author and
- 2) For a further period of seventy (70) years from the date of his death.

Therefore Nanda’s heirs can sue Ranga under the copyright law.

Ranga is bound to pay the damages to the heirs of Nanda.

(Total 10 marks)

Suggested Answers to Question Nine:

- (a) **Nimal**, cannot withdraw his EPF balance until attaining his age of 55 years.
- (b) **Malani**, can obtain, since under the Act, a female employee who resigns from work in view of marriage is entitled to get the EPF benefit.
- (c) **Asha**, is not entitled to obtain. Usually it has to be shown that she is migrating with no intention of returning to Sri Lanka. A reasonable conclusion has to be arrived that she has no intention to return to Sri Lanka for her to withdraw the EPF balance.

It is likely that if and upon the termination of her contract she would return to Sri Lanka. If so, she is not entitled to withdraw EPF balance at the time of resigning from Rio Lanka PLC.

(Total 10 marks)



End of Section C

A compulsory question.

(Total 25 marks)

Suggested Answers to Question Ten:

a)

i. The legal rights of Amali regarding Amal:

An essential element of a contract is that the parties should have intended to create legal relationship between parties at the time of the contract. If the objective of the contract is to achieve a non-commercial objective such as performing marriage duties between husband and wife or performing natural duties as parents, etc., such a contract is called a domestic contract. The rebuttable presumption in respect of a domestic contract is that parties did not have an intention to create legal relationship. Eg.- *Balfour Vs. Balfour*.

However, depending on the circumstances, even in domestic contracts intention to create legal relations can be established, *Merritt Vs. Merritt*.

In addition in here Amal claims that love and affection is not a consideration for a contract.

However, under Roman Dutch Law the requirement is to have a *justa causa*. Which means reasonable cause. If parties have seriously or deliberately entered into the contract it is the consideration. The seriousness of intention or deliberateness of intention may or not be measurable by money. But is still considered as *justa causa*. Therefore it does not have to be something that is worth any money. Even though love and affection cannot be given a money value, it can be considered as a *justa causa*.

Therefore, the contract can be enforced against Amal.

ii. The legal rights of Amali regarding Shopkeeper.

Display of goods in shops is not an offer, it is an invitation to offer.

Eg.- *Fisher Vs. Bell, Bootcash Chemist Vs. GBPS* or any other relevant case.

The display of goods with price tags in a shop window is an invitation to offer which is a mere request to start negotiations with a view of entering into a contract in the future.

When Amali picked up the toy and she was making an offer - It is not an acceptance of the offer.

To have a legally binding agreement, the offer made by Amali has to be accepted by the shopkeeper.

Since Amali revokes the offer before the shopkeeper accepts, she has no agreement with the shopkeeper.

Therefore she can revoke the offer at any time before the acceptance.

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- b. 1. This is a contract for sale of goods.
2. According to the Sale of Goods Ordinance (SOGO), in a sale of goods contract there are rights and duties to the buyer.
3. In this scenario the seller has breached the following conditions;
- The implied condition regarding title that the seller has a right to sell - Sec. 13(a) of the SOGO (*Rowland Vs. Diwall* - A case regarding buying a car from a thief.)
 - Perera** has breached the implied condition regarding description - In a contract for the sale of goods by description, goods shall correspond the description (*Beale Vs. Taylor*).
 - Perera** has breached the condition of merchantable quality - It is not fit for the purpose for which it is commonly used. The car cannot be driven therefore breach of merchantable quality. It is not safe and durable because it has broke down.
- But in this situation as the repairman says **Silva** has not checked the car before he bought it. If he had the opportunity to check he should have done so. Since he took the car with him immediately after buying, it is evident that he had the opportunity to check and notice the defects in the car. Therefore the breach of this implied condition does not apply to **Perera**.
4. Additional points can be given for identifying that there is also a breach of an implied warranty of buyer having and enjoying quiet possession of goods sec. 13(b)

The following remedies are available to Silva as a buyer due to breaching of implied conditions by seller;

- Specific performance : Where the contract is to deliver, specific goods the court may if it thinks fit direct that the contract shall be performed specifically. Without giving the seller the option of retaining the goods on payment of damages.
- For recovery of the price : If the buyer has paid the price and the goods are not delivered or the buyer has paid for goods not belonged to him he can recover the amount paid.
- For breach of condition : On breach of a condition the buyer is entitled to reject the goods. But Silva has already accepted the goods.

Here the breach of condition can only be treated as a breach of warranty and the buyer can only claim damages but cannot reject the goods.

- For breach of warranty

The buyer can either;

- Set up against the seller for the breach of warranty so as to reduce the price, **OR**
- Maintain an action against the seller for breach of warranty in which case he can claim damages which will be the estimated loss directly and naturally resulting in the ordinary course of events from the breach of warranty.

(Total 25 marks)

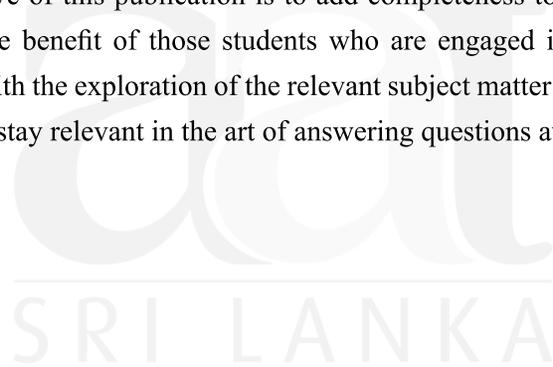
End of Section D

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These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.



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