



Association of Accounting Technicians of Sri Lanka

AA2 Examination - July 2019

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

BUSINESS LAW AND ETHICS (BLE)

Association of Accounting Technicians of Sri Lanka

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 Examination-July 2019

(AA25) Business Law and Ethics

SUGGESTED ANSWERS

Objective Test Questions (OTQs)
Ten(10) Compulsory Questions
(Total 20 marks)

SECTION - A

Suggested Answers to Question 01:

<i>Question</i>	<i>Answer</i>
1.1	4
1.2	4
1.3	3
1.4	4
1.5	1
1.6	4
1.7	2

1.8

Any two (2) of the followings

- Insurance provides security into business by undertakings against large and uncertain losses that may occur in any business.
- Enhances business efficiency by cutting off relevant man power and financial provision in order to safeguard the business properties.
- It could be used to pay the claims of those who have suffered losses or damages.
- Easy to get loans. It serves as a basis for credit. For instance, if a businessman wishes to borrow money from a bank on security of his factory, the bank will insist that the factory be insured against fire or other damage.
- Insurance provides a method of compulsory savings especially with regards to life insurance.
- Insurance is a way of protection against risk and provides a precautionary mechanism.

1.9

Any two (2) of the followings

- Securing unauthorized access to a computer and doing any act to secure such access.
- Causing a computer to perform a function without lawful authority and or with intention to commit a further offence.
- Illegally intercepting data, using illegal devices and unauthorized disclosure of information
- Specific acts of computer misuse for instance, destroying, deleting, corrupting, altering information.
- Attempts to commit offences, abetment and conspiring to commit offences are also punishable.

1.10

The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.

(02 marks each, Total 20 marks)

End of Section A

Suggested Answers to Question 02:

Chapter 10 – Offences Related to the Business Environment and New Regulations

Economic Rights under Section 9 of the Act includes the below factors.

- Reproduction
- Translation
- Adaptation
- Arrangement
- Public Distribution
- Rental
- Importation
- Public Performance
- Public Display

Accordingly, Maya is entitled to receive her royalty fee for any of above which is undertaken by the publisher.

Moral Rights under section 10 recognize the creator has continuing interest to ensure that his or her work is treated with respect even after transferring copyright to another (Publisher). Moral rights are sometimes referred to as “paternity rights”. Accordingly, Maya is entitled to have her name printed on the cover of the book.

Suggested Answers to Question 03:

Chapter 08 - Law of insurance, Hire Purchase and Leasing

Contracts of Insurance are contracts of utmost good faith (*Uberrimae fidei*). Accordingly, All parties are obliged to reveal others all information that might influence the others' decision to enter into the insurance contract or enter in to the contract at what premium. This doctrine provides general assurance that the parties involved in an insurance transaction are truthful. The failure to disclose a material fact is caused the insurance contract voidable.

Misrepresentation on material fact leads the contract to breach of good faith. Whether the misrepresentation in question is innocent or fraudulent, it can result in a denial of benefits by the insurer.

As per the given facts, **Amara** mistakenly filled the insurance proposal as she parks the car inside the garage whereas she parks actually. Even though it is an innocent mistake, the misrepresentation of facts amounts to a breach of the principle of uberrimae fidei by **Amara**. Therefore liability could be repudiated by insurers on ground of mis-statement and it can be justified according to the insurance law. Accordingly, Amara cannot recover damage from ABC Insurance Ltd.

Case Law – O’Conner V BDB Kirby & Company

(05 marks)

Suggested Answers to Question 04:

Chapter 08 – International Trade

C.I.F is the most comprehensive and widely used international export trade contract. **C.I.F.**, or "cost, insurance and freight", is a term of the contract of sale of goods being shipped where the seller pays the cost of the insurance and transport of the goods to the destination.

Duties of **C.I.F** Seller can be listed as follows.

- To ship the goods of the description contained in the contract.
- To procure a contract of carrying by sea, under which the goods will be delivered at the destination contemplated by the contract.
- To arrange for an insurance policy that is available for the benefit of the buyer.
- To prepare an invoice for the goods.
- To tender within a reasonable time after shipment, the bill of lading, the certificate of the insurance and the invoice to the buyer, so that the buyer may obtain delivery of the goods if they arrive, or recover for their loss if they are lost.

(05 marks)

Suggested Answers to Question 05:

Chapter 06 – Basic Corporate Law and Basic Partnership Law

This question is based on the duties of the partners.

In this given scenario, Raja has purchased clothing materials at a discounted price from a wholesaler and sold it to the business at market price and he has earned secret profits. **Raja** had breached following obligations imposed by law to comply with the following duties towards,

- Render true accounts and full information on all things affecting the partnership, in this instance details of the discounted price of the material purchased.
- To disclose full information with regard to all benefits derived by him from all transactions concerning the partnership.

Principle laid down in the following cases, applies to the given scenario.

Bentley v Craven (1853)

In this matter Bentley (B) and Craven (C) were partners. C was employed to buy sugar for the firm. C bought sugar at a discount and sold to the firm at the market price, and made a profit. B was not informed of this. Court held that C must account to the firm the profit made from this transaction.

Pathirana v Pathirana (1967)

In this matter Pathirana (P1) and Pathirana (P2) were partners in a service station. The service station belonged to a company. The company appointed the partnership as the agent of the company. P2 gave 3 months' notice to P1 of the termination of the partnership. P2 also without knowledge of P1 negotiated a new agreement with the company to obtain the agency in P2's name only. Subsequently P2 continued to trade in the same way at the same premises of the now dissolved partnership. Court held that P2 must share the profit he had made from this agency with P1 as the agency was a partnership asset.

In applying the above principles to the given scenario, it seems clear that **Raja** has breached all of the above principles. As mentioned in the case law above, the **Kamani** is entitled to recover part of her profit from **Raja**

(05 marks)

Suggested Answers to Question 06:

Chapter 06 – Basic Corporate Law and Basic Partnership Law

This question is based on qualifications to be Directors under the Company Law.

The main people who control and manage the company are directors.

A person will be disqualified if that person comes under one of the following.

- A person who is under eighteen years of age.
- A person who is an un-discharged insolvent.
- A person who is adjudged insolvent under the insolvency laws.
- A person that is not a natural person.
- A person has been convicted of any offence under the Companies Act which is punishable by imprisonment
- A person has been convicted of an offence involving dishonest or fraudulent acts.
- A court of law could too disqualify a Director under section 213.
- In this scenario, Piumi is disqualified to be a Director since Piumi is 16 years old.

Further, Srilal is disqualified since he has been convicted of an offence involving dishonest or fraudulent acts.

(05 marks)

End of Section B

Suggested Answers to Question 07:

Chapter 05 – Law of Agency

This scenario is related to creation of agency by implication.

If a person authorises another the power to act on his behalf or to enter in to contracts on his behalf relationship of agency arises. This authorisation can be either express or implied.

This is based on the creation of agency by implication.

Agency is created by implication when, from the nature of the principal's business and the position of the agent within that business, the agent is deemed to have permission from the principal to undertake certain acts.

Where, the principal places his agent in position such as manager, managing director, broker, auctioneer etc. In practice, only a part of authority is given by expression. Then, the agent receives the balance authority by implication.

In such case that the principal is liable for the all of the acts of the agent with are within the authority usually confided to an agent of that character, notwithstanding the limitations, as between the principal and agent. Therefore any restriction to this implied authority by the principal should be communicated to third parties.

Case Law - Watteau V Fenwick

Based on the given facts it seems that, Restrictions on Rajitha not to make any credit purchases by the principal was not communicated to the third parties. Therefore agency by implication exists and Lion Ltd could recover the price of beverages form the principal, Alina (Pvt) Ltd.

(10 marks)

Suggested Answers to Question 08:

Chapter 07 – Labour Law

- a) University academic staff members are covered under the Employees Trust Fund (ETF) Act No 46 of 1980. Therefore members of the fund can claim their fund balance as prescribed by the aforesaid act.

Upon cessation of employment, employee can claim the fund balance when employee ceases the employment for the first time which includes instances such as change of employment, retirement at the appropriate age, dismissal, resignation, vacation of post and closure of the establishment. Generally second claim can be made after the expiration of five years from the first claim.

Therefore Thara can withdraw her balance upon her resignation. Furthermore she need to establish her permanent residency in foreign country to be entitled for her ETF balance.

(05 marks)

- b) Every employee who is not expressly excluded by Payment of Gratuity Act, Act No 12 of 1983 are entitled for gratuity upon his or her cessation of employment. Furthermore an employee should complete five (5) year of service with same employer to be entitled for gratuity payment.

The Value arrival by multiplying half of the last month salary drawn by the employee from the number of completed years of service with the employer could be received as gratuity.

$$\begin{aligned}\text{Gratuity} &= \frac{\text{Last month salary} * \text{Completed number of years}}{2} \\ &= \frac{200,000 * 11}{2} \\ &= \underline{\underline{\text{Rs. 1,100,000}}}\end{aligned}$$

(05 marks)

(Total 10 marks)

Suggested Answers to Question 09:

Chapter 04 – Negotiable instruments

- a) A crossed cheque is a cheque that cannot be directly paid to its bearer. It provides an instruction to the paying bank to pay the amount only through a bank account. An **account payee only** cheque is also paid only into the account of the person whose name is written on the check and thus, no counter payment is done. Accordingly, **Devika** has no right to claim the proceeds over the counter and proceeds should be credited to an account of Devika. Thus, the statement of the cashier was confirmed as true.

(04 marks)

- b) A Customer has the right to stop payment of a cheque issued by him before the bank makes payment on such cheque. One objective of crossing cheques is also giving more time to countermand payment. A countermand order of cheque is an advice issued by a customer to the bank and bank duty is to adhere with such advice. Therefore bank duty is here to dishonor the cheque drawn by the **Kumara**. According to the principle led down in *Barnett V Wesminister bank* where bank is unable to comply with this duty is liable upon losses incurred by the customer. Where bank dishonor any cheque, cheque return notice (CRN) to the holder must be issued. Banks have a legal duty to protect the confidentiality of existing and former customers except when required to do so by law or by the customer himself. Therefore the bank should not disclose any information to **Devika** regarding the **Kumara's** account.

Case Law - *Tournier v National Provincial Bank*

Statutory Provision – Sec 77 of Act No 33 of 1988

(06 marks)

End of Section C

Compulsory question
(25 Marks)

SECTION - D

Suggested Answers to Question 10:

Chapter 04 – Contract Law

a) This is based on the law of contract. A contract could be defined as an agreement between parties with an intention to create a legal relationship. Offer is a basic element of a contract and there is no valid contract where there is no valid offer.

Offer must be distinguished from an ‘invitation to treat’ because acceptance of the invitation to treat doesn’t create any valid contract.

An expression of willingness to negotiate is known as invitation to treat.

Series of decided cases held that followings are instances of invitation to treat

- An advertisement (Harris V Nikerson , Partridge v Crittenden)
- Auction sales (Payne v Cave)
- Tenders (Spencer v Harding)
- Goods display in a shop to sell (Fisher V Bell , Crawly v Rex)
- Prospectus
- Displaying notice

Accordingly the advertisement of **Saman’s** for sale of the furniture and other equipment through an auction was not offering to sell them. Therefore, a binding contract has not been created between **Saman** and **Gajan** and the **Gajan** cannot claim damages form the **Saman**.

(07 marks)

b) Contract is an agreement between parties with an intention to create legal relationship.

In order to enter into an agreement one of the parties should make an offer and the other party should accept it.

Nimal came from Kurunegala to purchase office equipment from the auction and he bid 100,000/- for the machine. But another broker Sithum bid Rs.110,000/- for the machine and he was able to purchase the machine from the auction.Sithum was able to purchase the photocopy machine from the auction. Then Nimal made the offer for Rs.115,000. But

Sithum has made the counter offer of Rs.120,000/-

In the given scenario it was not mentioned that Sithum's offer was not accepted by offeree. Therefore there is no valid contract between Sithum and Nimal, because essential elements of contracts were not fulfilled.

However,if Nimal agreed to pay Rs.120,000/- there is a valid contract between Nimal and Sithum.

Case Law- *Neale Vs Merett*
Hyde Vs Wrench

(08 marks)

B)

a)

Chapter 03 – Sale of Goods

This is based on the implied conditions of the sale of goods ordinance.

In terms of Section 14 of the sale of goods ordinance, Where there is a sale of goods by description the goods sold must correspond with the description.

Case Law - *Beale V Taylor*

Moore V Landaure

in *Acros Ltd V Ronaason Sons* court held that

If the contract specifies conditions of weight, measurement and the like, those conditions must be complied with. A ton does not mean about a ton, or a yard about a yard. Still less when you descend to minute measurements does 1/2 inch mean about 1/2 inch. If the seller wants a margin he must and in my experience does stipulate for it. Therefore where the contract contains a detailed description of the goods, minor discrepancies between the delivered goods and their description may entitle the purchaser to reject the goods.

The bicycle sold by the **Sameera** is not corresponded with his description as it is not suitable for cycling in a mountain area and seat is not adjustable to the required height.

As such, **Sameera** had breached an implied conditions of the sale of goods ordinance. There for **Nuwan** can activate remedies available for a buyer against the seller.

The following remedies are available to buyer under sales of goods ordinance.

- Damage non recovery
- Action specific performance
- Rejection of goods

- Claim damages for non-delivery.

As **Nuwan** accepted the bicycle already, the only remedy available to **Nuwan** is recovery of damages by filing action in courts against the **Sameera**.

(06 marks)

b)

i) **Existing Goods**

Goods owned and possessed by the seller at the time of making the contract of sales are called existing goods.

The existing goods owned by the seller include the goods which have been pledged or let on hire, or are in the possession of the agent or servant etc.

The existing goods may be of the following types.

- Specific/ Ascertained Goods
- Unascertained goods.

ii) **Future Goods**

These are goods to be manufactured or produced or acquired by seller after making the contract of sales.

These goods are not in existence at the time of contract of sale.

In other words, they are neither in existence nor in the possession of the seller at the time of contract of sale.

(04 marks)

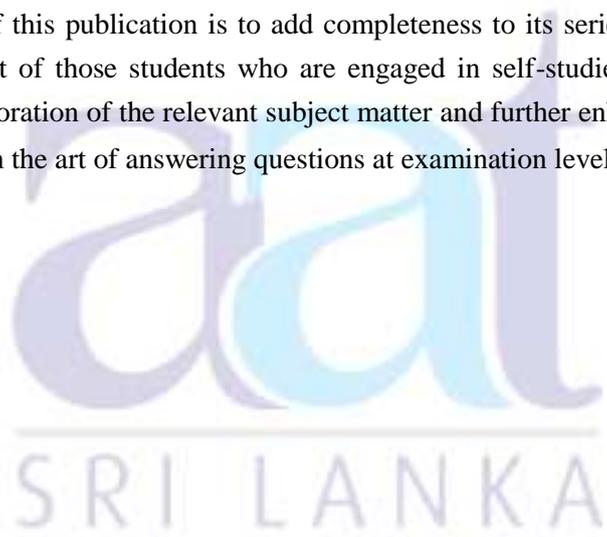
(Total 10 marks)

End of Section D

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