



**Association of Accounting Technicians of Sri Lanka**

**Level II Examination - January 2021**

**Suggested Answers**

**(203) BUSINESS LAW (BLA)**

**Association of Accounting Technicians of Sri Lanka**

No.540, Ven. Muruththettuve Ananda Nahimi Mawatha,

Narahenpita, Colombo 05.

Tel : 011-2-559 669

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level II Examination - January 2021

(203) BUSINESS LAW

SUGGESTED ANSWERS

(Total 25 Marks)

SECTION - A

*Suggested Answers to Question One:*

1.1 (4)

1.2 (2)

1.3 (4)

1.4 (3)

1.5 (2)

1.6 (2)

1.7 True

1.8 False

1.9 False



*(02 marks each, 12 marks)*

*(01 mark each, 03 marks)*

1.10 Remedies available for seller

**Against Goods:**

- (1) Right on lien
- (2) Right on re-sale
- (3) Right on stoppage in transit

**Against the buyer:**

- (1) Action for non-acceptance
- (2) Recovery of purchase price

### **1.11 Fundamental elements of a contract for sale of goods**

- (1) The subject matter of the contract must be goods.
- (2) The seller must transfer the ownership in the goods to the buyer or agree to do so.
- (3) The agreement must be underlined by Monetary Consideration known as the price.

### **1.12 Methods by which an offer gets rejected**

- (1) By express rejection
- (2) By a counter offer from the offeree

### **1.13 Rights which can be enjoyed by an owner of a registered Trademark**

- (1) Exclusive use of the mark.
- (2) To assign or transmit the mark.
- (3) To conclude license contracts.

### **1.14 Main dispute resolution methods used to resolve an international trade dispute**

- (1) Judicial dispute resolution
- (2) Alternative dispute resolution

*(02 marks each, 10 marks)*  
*(Total 25 marks)*

***End of Section A***

*Suggested Answers to Question Two:***Chapter 03 - The Law of Sale of Goods**

(a) According to the Sale of Goods Ordinance, where there is a sale of goods by sample as well as by description, the goods must correspond not only with the description but also with the sample (implied condition).

In the given scenario, **Sanjaya** sold 500 bags of Turmeric to **Banda**, having shown a sample of the product which he described as "Sri Lankan grown Turmeric". However, **Banda** discovered that only 200 bags of Turmeric were similar to the sample shown and the remaining 300 bags were imported from India and not "Sri Lankan grown Turmeric". In this manner, **Sanjaya** violated the Sale of Goods Ordinance. Therefore, **Banda** could take legal action against **Sanjaya** and **Banda** can reject the stock of Turmeric.

(06 marks)

(b) According to the Sale of Goods Ordinance, where there is a sale of goods by description, the sold goods must correspond with the description (implied condition).

In the given scenario, **Amaris** contracted **Sanjaya** via telephone and requested, 1000 bags of Turmeric from him. In their telephone conversation **Sanjaya** described that he sells Turmeric as "Sri Lankan grown Turmeric". **Amaris** was never shown a sample of the Turmeric, and therefore this is only a sale of goods by description, and not by sample and description. Finally, **Amaris** realized that all the bags of Turmeric contained an Indian product which shows that it did not correspond with the description. In this manner, **Sanjaya** violated Section 14 of Sale of Goods Ordinance. Hence, **Amaris** could take legal action against **Sanjaya**. In this situation also, **Amaris** can reject the stock of turmeric for breach of conditions.

(04 marks)

(Total 10 marks)

*Suggested Answers to Question Three:***Chapter 04 - Law of Agency**

Agency by necessity is one of the ways which an Agency relationship can be created. In this mode, an agent enters into a contract on behalf of his Principal in an emergency situation where the instruction of the Principal cannot be sought. In such a case, Agency is created through necessity and the Principal is bound by the actions of the Agent.

In the given scenario, **Siripala** who lives in Polonnaruwa, handed over 10,000 curd pots to the **Railway Department** at Polonnaruwa Station, in order to be transported to Colombo.

Therefore, at the beginning the **Railway Department** is the transporter and not the Agent. However, subsequently, the driver of the train, acted as the Agent of **Siripala** based on the emergency situation he faced.

In this manner, **Siripala** as the Principal, is bound by the actions of the train driver/ Railway Department (Agent) if the following pre-requisites have been fulfilled.

**1) There was such an emergency that the instructions of the Principle could not be obtained.**

In the scenario, the train driver realized that it would take 4 to 6 days to repair the rail road and he made all possible efforts to contact Siripala but ultimately failed. Then, the train driver sold all 10,000 curd pots locally below their actual value because the curd began to spoil due to the delay in transporting it.

**2) There was an actual commercial necessity to act in such a way**

In the scenario, the curd started to spoil due to the delay in transporting them.

**3) The agent must have acted in good faith on behalf of the principal**

In the scenario, the train driver/ Railway Department made all possible efforts to contact Siripala but ultimately failed.

**4) The Agent's actions must be reasonable and prudent**

In the scenario, the train driver realized that it would take 4 to 6 days to repair the rail road and he made all possible efforts to contact Siripala but ultimately failed. Then, the train driver sold all 10,000 curd pots locally, below their actual value, because the curd started to spoil due to the delay in the transporting it.

**5) The Principal must not have given prior express instructions to the contrary**

In the given scenario, Siripala who lives in Polonnaruwa, handed over 10,000 curd pots to Railway Department at Polonnaruwa Station in order to be transported to Colombo. Therefore, at the beginning, the Railway Department is the transporter, not the Agent, and the Principal has not given instructions to not to sell the curd pots or even sell them below the actual price.

Therefore, *the train driver is not liable to pay for losses incurred by Siripala.*

Cases: ***G.N Railway Vs Swarfield***

***Springer Vs Great Western Railway***

***Prager Vs Blackspiel***

***Stamp and Heacock Ltd***

***(10 marks)***

*Suggested Answers to Question Four:*

**Chapter 05 – Company Law**

According to the Partnership Ordinance, every partner is an agent of the firm and his other partners within the scope of the Partnership. A partner who acts within the scope of his actual authority (express or implied) will bind the partnership, and a partner has implied authority to bind the partnership when he does anything which would be usual in the course of carrying on partnership business.

If one partner entered into a contract with a third party using his or her actual authority or implied authority, even without the consent of other partners, all the partners will be bound by the same contract.

In the scenario, **A & B** have obtained the loan to buy the reception hall, which is within the scope of the partnership. Therefore, “C” liability cannot be ignored, saying that “C” has refused to give his consent to obtain the loan and has not signed in the loan agreement.

Therefore, **PQ Finance Ltd**’s action in filing a case to recover the debt from all three partners is valid and accordingly, “C” is also liable to pay the loan obtained by **A & B**.

Cases:

***Mercantile Credit Co. Ltd. Vs Garrod (1962)***

***Samuel Gnanam and Others Vs Ismail Lebbe***

**(07 marks)**

**(b)**

- 1) A partner is found to be lunatic.
- 2) A partner breaches the partnership agreement.
- 3) A partnership can only be carried on at a loss.
- 4) The court thinks it is just and equitable to dissolve.
- 5) A partner is permanently incapable of performing his part of the partnership contract.
- 6) A partner is guilty of conduct which is prejudicial to the partnership contract.

**(03 marks)**

**(Total 10 marks)**

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

**Chapter 06 – Laws relating to Negotiable Instruments**

**(a)**

**Drawer** – In this Bill of Exchange, Ranjan Sivaganesh is the drawer, who commands Seetha to pay Rs.80,000/-

**Drawee** – Seetha Ranawaka Perera is the drawee of this Bill of Exchange and she is liable to pay the amount mentioned in the bill to Rajiv Silva.

**The Payee** – Rajiv Silva is the payee of this bill and he is eligible to receive Rs.80,000/-

**(03 marks)**

**(b) Features of a valid Bill of Exchange**

- 1) It should be in writing
- 2) It should bear unconditional orders.
- 3) It should be signed by the person who is issuing it.
- 4) Drawee should be mentioned specifically.
- 5) There should be a defined amount to be paid mentioned in the bill.
- 6) Clear indication of payee.
- 7) Clear indication of date of payment.

**(04 marks)**

**(c) Differences between a Bill of Exchange and a cheque**

<b>Bill of Exchange</b>	<b>Cheque</b>
It is written to pay on demand at a specified time or at a determined future time.	It is written to pay only on demand.
The drawee does not always have to be a banker.	The drawee of a cheque is always a bank.
Bill of Exchange cannot be crossed.	Cheques can be crossed.
Bills of Exchange are accepted.	Acceptance is not relevant with regard to cheques.

**(03 marks)**

**(Total 10 marks)**

*Suggested Answers to Question Six:*

**Chapter 10 – Offences related to the business environment**

**(a) Objectives of Electronic Transactions Act in Sri Lanka**

- 1) To identify electronic contracts and facilitate them.
- 2) To facilitate creating, transacting and communicating messages and documents in electronic form.
- 3) To establish regulatory body.
- 4) To recognize the electronic service providers. **(03 marks)**

**(b)**

- 1) Last will and testamentary disposition.
- 2) A license for a telecommunication system issued.
- 3) Power of attorney.
- 4) Trust
- 5) A Bill of Exchange
- 6) A contract for sale or conveyance of immovable property. **(02 marks)**

**(c) Duties of Consumer Affairs Authority Act No. 09 of 2003**

- 1) To control and eliminate restrictive trade agreements among enterprises. To regulate the arrangements amongst enterprises with regard to prices. To control the prices, to eradicate unfair competition adversely affecting local or international trade.
- 2) To investigate or inquire into anti-competitive practices and abuse of dominant position. Anti-competitive practice refers to a wide range of business practices in which a firm or group of firms may engage in order to restrict inter-firm competition to maintain or increase their relative market position and profits without necessarily providing goods and services at a lower cost or higher quality.
- 3) To maintain and promote, effective competition between persons supplying goods and services.
- 4) To promote and protect the rights and interests of consumers, purchasers and other users of goods and services, relating to the price, availability and quality of such goods and services and variety supplied.
- 5) To keep consumers informed about the quality, quantity, potency, purity, standards and price of goods and services made available for purchase.
- 6) To carry out investigations and inquires in relation to any matter specified in this Act.

**(05 marks)**

**(Total 10 marks)**

**End of Section B**



*Suggested Answers to Question Seven:***Chapter 08 - Law of Insurance, Hire Purchase & Leasing****(A)****(a)**

In this case, though **Dinu** and Ram planned to have their wedding on 15<sup>th</sup> October 2020 and though they booked a hotel after paying part of the amount, they could not have the wedding reception as planned as the government imposed a ban on conducting any private functions since 13<sup>th</sup> October 2020 until further notice due to the second wave of Covid-19 pandemic.

The agreement between **Dinu & Ram** and the manager of the hotel is amount to a verbal contract and receipt of the payment can be used as written evidence.

This contract has been affected by the frustration to terminate the contract between both parties.

They cannot perform the contract due to the ban imposed by the government and it is frustrated by the intervention of government.

**Cases:*****Avery Vs. Bowden***

Thus, **Dinu and Ram** can terminate the contract by frustration and hotel has to pay the amount paid by them.

**(07 marks)**

**(b)** In this case, when filling the application, for the question asked, “have you or any other person who will drive been ever convicted for any offence in connection with the driving of a motor car? **Ram** answered “No”, though he was convicted for 5 years for a technical offence. On that ground, **Janahitha Insurance Co.** has rejected his application.

Under the Principal of utmost good faith in insurance, the person applying for the insurance cover needs to exercise good faith in making full disclosure without being asked of “all material circumstances” because the insurer knows nothing and the insured knows everything.

Therefore, it is the duty of the insured to disclose not only all what he knows’ but also everything he ought to know for the insurer to properly evaluate the risk he will be undertaking.

However, in a similar case “*Buultjens Vs. Ceylon Insurance Co. Ltd. (1960)*” the Supreme Court held that there was no material non-disclosure as the question was ambiguous and was like a trap and the Insurance Company is liable.

Therefore, Janahitha Insurance Co. cannot reject the application made by Ram.

**(05 marks)**

(c)

In this case, **Ram** has obtained a full motor insurance cover for his car. But his car was damaged due to a protest of people. However, **Ram** cannot claim damages from **Sahana Insurance Co.** if policy doesn't cover riots and terrorist activities.

This is because, when several reasons caused for the damage of an insured property or a life, the compensation is made only if the proximate reason is covered by the policy, and it is known a principle of proximate cause in Insurance.

Insurer is only obliged to pay compensation only where proximate reason is covered under the insurance policy.

*(05 marks)*

**Chapter 07 – Labour Law**

(B)

**Foodmart** is a medium scale supermarket with 10 employees. So, this cannot be considered as a situation, which covered under the Termination of Employment of employees (special provisions) Act No. 19 of 1954, as the said Act is applicable, when there are more than 15 employees.

Further, **Hameed** joined **Foodmart** on 15<sup>th</sup> November 2020 and worked until 01<sup>st</sup> March 2021, which means he has worked therefore only 3 ½ months, which is less than 180 days of time. Employees who have worked less than 180 days within a continues service period of 12 months are also not covered under the Termination of Employment of Employees (special provisions) Act No. 19 of 1954.

However, in an instance of an employee in the private sector being terminated form the employment based on a disciplinary ground, it is required to conduct a proper internal disciplinary inquiry.

In this situation, the manager of **Foodmart** has terminated his employment without conducting a proper internal disciplinary inquiry; Therefore, Hameed can request an internal inquiry, though he is not covered under the Termination of Employment of Employees (special provisions) Act No. 19 of 1954.

*(08 marks)*

*(Total 25 marks)*

**End of Section C**

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