



**Association of Accounting Technicians of Sri Lanka**

**Level II Examination – January 2025**

**Suggested Answers**

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

**Association of Accounting Technicians of Sri Lanka**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

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**(203) BUSINESS LAW**

**SUGGESTED ANSWERS**

(Total 25 Marks)

**SECTION - A**

*Suggested Answers to Question One:*

1.1 (1)

1.2 (4)

1.3 (4)

1.4 (4)

1.5 (3)

1.6 (4)



*(02 marks each, 12 marks)*

1.7 True

1.8 False

1.9 False

*(01 mark each, 03 marks)*

1.10

- Unauthorized access and securing unauthorized access to a computer
- Unauthorized access to a computer to commit a crime and securing the unauthorized access of the computer to commit a crime.
- Destroying, deleting or corrupting, or adding, moving or altering any information held in any computer.

- Obtaining data from sources which are unauthorized to access by using hacking systems
- Aiding and abetting and conspiracy to engage in crimes committed by computers

**1.11** The payee writing his or her name as it is mentioned on the face of the bill/cheque is called the blank endorsement. Since it becomes a bill payable to the bearer after such blank endorsement, that bill/cheque can be transacted into cash by any person.

**1.12** Any two of followings

- Price may be fixed by the contract.
- The manner in which the price to be determined may be specified on the contract.
- Price may be determined by course of dealing between the parties.
- If parties do not determine the price by any of methods specified above, the buyer must pay a reasonable price.

**1.13**

- Payment in due course
- By waiver
- By Merger
- By Cancellation of bill
- By material alteration

**1.14**

- Letter of Credit
- Bills of Exchange
- Advance Payment
- Payment through Open Accounts
- Documentary Collection Agreements

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

***(Total 25 marks)***

***End of Section A***

***Suggested Answers to Question Two:******Chapter 08 – Insurance Law***

(a) The doctrine of **insurable interest** is a fundamental principle in insurance law, requiring the policyholder to have a legitimate financial stake in the insured's life. In the context of life insurance, a creditor has an insurable interest in the life of a debtor, as the debtor's death could result in financial loss due to non-repayment of the debt. This principle was firmly established in **Dalby v. India & London Life Assurance Co.** where the court upheld that a creditor's financial dependency on the debtor's survival justifies the existence of an insurable interest. Similar reasoning has been applied in subsequent cases, affirming that creditors may lawfully insure their debtor's life, provided the coverage does not exceed the outstanding debt.

Applying this principle to the given scenario, **Silva**, as a creditor, has an insurable interest in the life of **Ravini**, who owes him **Rs. 2 million** for goods purchased on credit. Given that Ravini's financial difficulties have delayed repayment, Silva faces a potential pecuniary loss if she were to die before settling the debt. Based on **Dalby v. India & London Life Assurance Co.**,

**Silva can lawfully obtain a life insurance policy on Ravini's life, limited to the amount of Rs. 2 million, as it directly corresponds to the financial risk he bears.**

**(04 marks)**

**(b) (i)**

The principle of **utmost good faith** (*uberrimae fidei*) requires both the **insured** and the **insurer** to fully disclose all material facts that could influence the other party's decision to enter into or continue the insurance contract. This mutual obligation ensures fairness and transparency in the insurance relationship.

The **insured** must disclose all material facts—information they know or ought to know—that could impact the insurer's decision to accept the risk or determine policy terms. Failure to disclose such facts can make the policy voidable.

The **insurer** must also act in good faith, providing clear and accurate information about the terms and coverage of the policy. The insurer should not withhold critical information that could affect the insured's decision to purchase or maintain the policy.

This principle emphasizes the importance of full disclosure and transparency, ensuring that both parties act in good faith throughout the insurance process.

#### Case Laws

- **Looker v. Law Union Insurance Company**
- **London Assurance v. Mansel**
- **Bultjens v. Ceylon Insurance Co. Ltd.**

**Marks are given for the explanation, regardless of whether case names are included.**

**(03 marks)**

**(ii)**

**Proximate cause** refers to the primary cause of a loss or damage, which directly leads to the event covered under an insurance policy. In cases where multiple factors contribute to the damage, the proximate cause is the most significant or predominant reason for the loss, not necessarily the one that occurred first in time.

Insurers are only obligated to pay compensation if the proximate cause of the damage is covered under the policy. If the proximate cause falls outside the scope of the policy's coverage, no compensation is payable.

**(03 marks)**

**(Total 10 marks)**

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

<b><i>Chapter 10 - Offences related to the business environment</i></b>
-------------------------------------------------------------------------

**(a)**

- Exclusive use of the mark.
- To assign or transmit the registration of the mark.
- To conclude license contracts.
- The right to statutory remedy for any infringement.
- The right to register correction.

**(03 marks)**

**(b)**

- Discoveries, scientific theories, and mathematical methods.
- Plants, animals, and other microorganism other than transgenic microorganism and an essentially biological process for the production of plants and animals other than non-biological and microbiological processes.
- Schemes, rules, or methods for doing business, performing purely mental acts or playing games.
- Methods for the treatment of the human or animal body by surgery or therapy, and diagnostic methods practiced on the human or animal body.
- An invention which is useful in the utilization of special nuclear material or atomic energy in an atomic weapon.
- Any invention, the prevention within Sri Lanka of the commercial exploitation of which is necessary to protect the public order, morality including the protection of human, animal or plant life or health or the avoidance of serious prejudice to the environment.

**(03 marks)**

**(c)**

1. The Poisons, Opium, and Dangerous Drugs Ordinance
2. Any law or regulation for the time being in force relating to the prevention and suppression of terrorism
3. The Bribery Act (Chapter 26)
4. The Firearms Ordinance, the Explosives Ordinance, or the Offensive Weapons Act
5. Any law for the time being in force relating to transnational organized crime
6. Any law for the time being in force relating to cybercrimes
7. Any law for the time being in force relating to offences against children
8. An offence under any other law for the time being in force which is punishable by death or with imprisonment for a term of seven years or more
9. Exchange Control Act.

**(04 marks)**

**(Total 10 marks)**

## *Suggested Answers to Question Four:*

### **Chapter 03 - The Law of Sale of Goods**

(a)

In this scenario, **Manisha** specifically requested a pair of shoes in **size 8**, and **Naveen** confirmed that the shoes were indeed **size 8**. However, after purchasing them, Manisha discovered that the shoes were actually **size 9**. This discrepancy raises an issue under **Section 14 of the Sale of Goods Ordinance**, which states that when goods are **sold by description**, they must **correspond with that description**.

Under **Section 14 of the Sale of Goods Ordinance**, there is an **implied condition** that goods sold by description must conform to the description given by the seller. If the goods fail to meet this requirement, the buyer has a right to reject them or seek remedies. The **size of the shoes** was an essential part of the contract because Manisha specifically asked for size 8 shoes. Since the shoes were actually **size 9**, they did not match the description provided by Naveen. This constitutes a **breach of the implied condition** under Section 14, making Manisha eligible for legal remedies such as rescission of the contract or damages.

The case of **Varley v Whipp** The seller, **Varley**, agreed to sell a **second-hand reaping machine**, which he described as being "**almost new**" and **barely used**." The buyer, **Whipp**, had never seen the machine before purchasing it and relied entirely on the seller's description. Upon delivery, Whipp found that the machine was **old and heavily used**, not matching the description provided. The court ruled in favor of **Whipp**, holding that the machine **did not conform to its description**. Since it was a sale by description, the seller's failure to provide goods that matched the stated characteristics constituted a **breach of the implied condition**, allowing the buyer to **reject the goods and terminate the contract**.

Since the shoes **did not correspond to the description provided by Naveen**, this amounts to a **breach of the implied condition** under **Section 14 of the Sale of Goods Ordinance**. Based on the ruling in **Varley v Whipp**, Manisha has the legal right to either **reject the shoes and demand a refund** or **claim damages** for the misrepresentation.

Marks are given for the explanation, regardless of whether case names are included.

(06 marks)

(b)

- Seller must have a right to sell
- Where the goods are sold by description, such goods shall correspond with the description.
- The goods supplied must fit for the purpose.
- Goods must be of Merchantable Quality.
- Where the goods are sold by Sample, the goods shall be corresponded with the sample.
- Implied warranties
- Where breach of an implied condition is deemed breach of a warranty.

(04 marks)

(Total 10 marks)

### *Suggested Answers to Question Five:*

#### **Chapter 07 - Labour**

(a)

#### **Rukaa is an Employee**

If we analyze the working relationship under **labor law principles**, Rukaa should be classified as an **employee** due to the level of control and integration in his work with Nuwan's advertising agency.

#### **Control Test**

Initially, Rukaa had some level of freedom in his work. However, in the extended engagement, he was required to:

- Work **exclusively** for Nuwan for six months.
- Follow **guidelines** set by Nuwan.
- **Report progress weekly** to Nuwan.

This increasing control over Rukaa's work schedule and method strongly suggests an **employment relationship** rather than independent contracting.



### Equipment Test

- Initially Rukaa used his own equipment.
- In the later arrangement, Nuwan **provided the studio equipment** for Rukaa's work.
- Employers typically provide necessary resources for employees, indicating that Rukaa was functioning as an **employee** rather than an independent contractor.

### Integration Test

This means the service provided by that person to the owner should not be an accessory but should be a main function of the business. At the initial stage **Rukaa** made only one song. But later, **Nuwan** is planning to get his service for making more songs. It is a main function of the business.

As per the above tests, under the initial arrangement **Rukaa** was an independent contractor but as per the new arrangement, he is an employee.

**(07 marks)**

**(b)**

- Collection of relevant contributions from the employers.
- Maintenance of member accounts of every member
- Payment of funds claimed by the members
- Administration of this welfare fund scheme of the members
- Identifying the defects, taking legal steps and penalizing
- Investing the funds on different negotiable instruments.
- Payment of dividends to every member at the end of every year

**(03 marks)**

**(Total 10 marks)**

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

<b><i>Chapter 05 – Company Law</i></b>
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**(a)**

In the case of Island Machinery Ltd., the Articles of Association state that the company's primary objective is to engage manufacturing and selling industrial machinery, including production, marketing, and distribution activities.

Anil's proposal to purchase four advanced commercial coffee machines and lease them to coffee shops and cafes may be viewed as beyond the company's objectiveness clause. Although this activity is not illegal or void, the directors' decision to pursue such an action could be seen as a breach of their duties under the Companies Act. They could be held personally liable for any resulting losses.

Consequently, Chandra, a major shareholder of Island Machinery Ltd., has valid grounds to dispute the decision to purchase four coffee machines. Based on the argument, the directors are violating their duties as prescribed by Section 188 of the Companies Act No. 07 of 2007.

Furthermore, the Articles of Association function as a contract between the company and its shareholders; it is a statutory contract of a special nature that binds the company to its members, the members to the company, and the members to each other.

The Articles of Association act as a contract between members and there is a clause for arbitration. Therefore, company disputes should be resolved as per the arbitration clause.

***(07 marks)***

**(b)**

1. Duty of directors to act in good faith and in the interests of company.
2. Duty of directors to comply with Act and Articles of Association of the company.
3. Duty to exercise the degree of skill and care that may reasonably be expected of a person of his knowledge and experience and shall not act in a manner which is reckless or grossly negligent.

4. Director of a company may rely use correct information on reports, statements and financial data and other sources.
5. Duty to disclose the interests.
6. Duty not to disclose company information.
7. Duty to disclosure of share dealing by directors.
8. Approval of remunerations and other benefits of directors only in compliance with section 216 of the Act.
9. Not providing loans, entering into any guarantee of provider any security to directors if not approved under section 217 of the Act.
10. Directors should act in compliance of section 219 in an event of insolvency.
11. Duty to call an extra ordinary general meeting in case of serious loss of capital.

***(03 marks)***

***(Total 10 marks)***



***End of Section B***

*Suggested Answers to Question Seven:***Chapter 02 – Contract Law**

(A)

(a)

**Sanjaya's** telephone call to **Priyantha** constituted a valid offer, as it satisfied all essential elements of contract formation. The offer was communicated verbally, a legally recognized mode of making an offer, as established in **Entores Ltd v. Miles Far East Corporation**, where the court held that verbal communication constitutes a valid offer provided it is clearly conveyed to the offeree. **Sanjaya's** proposal was **definite and unambiguous**, specifying both the quantity and price of bamboo, and he expressly instructed **Priyantha** to accept or reject the offer via postal letter, thereby demonstrating a **clear intention to create legal relations**. Moreover, his communication was a **direct and unequivocal offer**, rather than a mere invitation to treat,. Given these considerations, **Sanjaya's** verbal communication via telephone constituted a legally enforceable offer under contract law.

Marks are given for the explanation, regardless of whether case names are included.

(03 marks)

(b)

To determine whether **Priyantha** has legal grounds to take action against **Sanjaya**, it is essential to analyze the contract formation process, focusing on offer, acceptance, revocation, and the postal rule.

**Sanjaya** made a **valid offer** to **Priyantha** over the phone on **8th January**, specifying that acceptance should be communicated via **postal letter**. **Priyantha** **accepted the offer** by posting a letter on the **morning of 10th January**, which was delivered to **Sanjaya's** office on **13th January**. However, before receiving this letter, **Sanjaya** contracted with **Ramesh** on the **evening of 10th January** to purchase bamboo at a lower price and subsequently rejected **Priyantha's** offer.

Under the **postal rule**, acceptance is considered effective at the time of posting, not upon receipt, as established in Adams v. Lindsay. Since **Priyantha** posted his acceptance on **10th January**, a **legally binding contract** was formed at that moment, before **Sanjaya's** agreement with **Ramesh**. Consequently, **Sanjaya** could not revoke the offer after **Priyantha** had already accepted it, even though he had not yet received the acceptance letter. Given that a **valid contract existed**, **Sanjaya's refusal to fulfill the agreement constitutes a breach of contract**, allowing **Priyantha** to take legal action.

He may seek **damages** for any financial loss caused by **Sanjaya's** non-performance or request **specific performance**, although courts generally prefer awarding damages in commercial contracts. Therefore, **Priyantha** has strong legal grounds to file a claim against **Sanjaya** for breach of contract.

**Marks are given for the explanation, regardless of whether case names are included.**

**(06 marks)**

(c)

**Kumara** may have a legal claim against **Sanjaya** based on the principle of **unilateral contracts**. A unilateral contract occurs when an offer is made to the public, and acceptance is completed by performing the specified act. In Carlill v. Carbolic Smoke Ball Co., the court held that an advertisement promising a reward constitutes a legally binding offer if a person fulfills the stated conditions.

In this case, **Sanjaya's** advertisement clearly offered Rs. 100,000 to “any person who claims damages for the usage of EcoWrap,” provided they followed the instructions properly. **Kumara** used EcoWrap as instructed, yet the packaging disintegrated, causing damage.

By fulfilling the conditions stated in the advertisement, **Kumara** effectively accepted the unilateral contract, thereby creating a binding legal obligation on **Sanjaya** to pay the reward. Therefore, **Kumara** has grounds to take legal action against **Sanjaya** for failing to provide the promised reward or for any damages resulting from the defective product.

**Marks are given for the explanations, regardless of whether case names are included.**

**(06 marks)**

(B)

(a)

**Saman** was appointed as an agent by **Rajeev** to manage his estate during his absence. As an agent, **Saman** owed several fiduciary and contractual duties to **Rajeev**. Rajeev established the agency by explicitly communicating his expectations and instructions. Based on the provided scenario and established case law, it is evident that **Saman** breached multiple duties.

- **Duty to Comply with the Principal's Instructions**

An agent is obligated to follow the principal's lawful and reasonable instructions. In ***Turpin v Bilton***, the agent was held liable for failing to insure the principal's vessel as instructed, resulting in financial loss. Similarly, **Rajeev** explicitly instructed **Saman** not to make any purchases on credit. However, **Saman** violated this instruction by purchasing supplies on credit from **Nimal**, breaching his duty to comply.

- **Duty Not to Delegate Authority**

An agent must personally fulfill their duties and cannot delegate authority without consent. In ***John McCann & Co v Paw***, the court ruled that a real estate agent was not entitled to commission for sales made by unauthorized sub-agents. Similarly, **Saman** delegated responsibilities to **Kamal** without **Rajeev's** consent. **Kamal** then made additional unauthorized purchases on credit, further violating **Rajeev's** instructions.

- **Duty to Disclose Material Information & not to make secret profit**

An agent has a fundamental obligation to disclose all material facts to the principal. This duty ensures that the principal has complete and accurate information to make informed decisions regarding their affairs. Failure to disclose relevant details, even if unintentional, can result in financial losses or missed opportunities for the principal.

**Saman** developed a vegetable garden on **Rajeev's** estate, generating Rs.120,000/- per month. However, he failed to inform **Rajeev** about this new source of income. This is directly comparable to ***Fullwood v Hurley***, as **Saman's** non-disclosure deprived **Rajeev** of financial benefits that

rightfully belonged to him. Had **Rajeev** been informed, he could have made better financial and operational decisions regarding the estate.

**Marks are given for the explanations, regardless of whether case names are included.**

**(06 marks)**

**(b)**

Nimal, as a creditor, has legal rights to recover the amounts owed for the supplies he provided on credit. His rights depend on whether he can hold Rajeev, as the principal, liable for the debts incurred by Saman and Kamal. The key legal principles that apply here include **apparent authority, implied authority, and personal liability of the agent.**

Even though **Rajeev** explicitly prohibited Saman from making purchases on credit, **Nimal** may argue that **Saman** had **implied authority** to do so. Implied authority arises when an agent has to perform certain acts that are reasonably necessary to fulfill their assigned duties, even if not expressly authorized. Since **Rajeev** appointed **Saman** to manage the estate, it is reasonable to assume that maintaining the estate would require purchasing necessary supplies. If purchasing supplies on credit is a common and expected practice for estate managers, **Nimal** could argue that Saman's actions fell within the usual scope of his authority. In Watteau v. Fenwick, the court ruled that a principal could be held liable for an agent's actions if they were customary for someone in the agent's position, even if the principal had restricted such actions. Applying this principle, Rajeev could still be liable for the credit purchases made by **Saman** if managing the estate typically involves such transactions, and **Nimal** had no knowledge of any restrictions.

Since **Kamal** was not directly authorized by **Rajeev**, **Nimal** cannot hold Rajeev liable for the purchases **Kamal** made on credit. **Kamal** was acting as a sub-agent, but his appointment was unauthorized, making only **Saman or Kamal** personally liable for the debt. Under the sub-agent rule, a principal is not bound by the actions of a sub-agent unless they have given explicit approval or later ratified the acts

**(04 marks)**

**(Total 25 marks)**

**End of Section C**

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