



Association of Accounting Technicians of Sri Lanka

Level II Examination – January 2026

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

Level II Examination – January 2026

(203) BUSINESS LAW

SUGGESTED ANSWERS

(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (4)

1.2 (3)

1.3 (4)

1.4 (1)

1.5 (2)

1.6 (2)

1.7 False

1.8 True

1.9 True



(02 marks each, 12 marks)

(01 mark each, 03 marks)

1.10 *(Any two of the following)*

- Advising the government on the development of the securities market
- Regulating the listing and issue of securities in a licensed stock exchange
- Inspecting the licensed stock market in order to reject a respective application made for listing.
- Inquiring and conducting investigations into any activity of licensed stock brokers or stock dealers, a licensed managing company or a trustee of a unit trust, a registered market intermediary or any listed public company.

- Implementing the policies and programmes of the government with respect to the market in securities.

1.11

- Judicial Disputes Resolution
- Alternative Dispute Resolution
 - Arbitration
 - Mediation
 - Chambers of Commerce

1.12 (Any two of the following)

- Due Payment for cheques on the command of the customer
- Facilitate the payment quickly
- Giving notice of dishonor of cheques to the customer
- Obeying Stop payment/ countermand orders

1.13 (Any two of the following)

- Right of lien
- Right of re-sale
- Right to stoppage in transit

1.14 (Any two of the following)

- Strengthening Anti Money Laundering and Countering the Financing of Terrorism (AML / CFT) activities in Sri Lanka.
- Collecting, receiving, analyzing information to prevent money laundering and financing of terrorists and advising related authorities.
- Upgrading compliance status of Sri Lanka to the internationally accepted level.
- Strengthen the co-operation with international organizations and implementation of international recommendations/ best practices on Anti Money Laundering and Countering the Financing of Terrorism.
- Improving public awareness about money laundering and terrorist financing activities.

(02 marks each, 10 marks)

(Total 25 marks)

End of Section A

*Suggested Answers to Question Two:**Chapter 08- Law of Insurance*

(a)

A valid contract of insurance must be supported by **Insurable Interest**. A person seeking insurance must benefit from the preservation of the subject matter or must suffer a loss from its destruction. In other words, the insured must have an ownership interest, liability, or legally recognized financial interest in the subject matter. If **Insurable Interest** does not exist at the time of the loss, the contract cannot be enforced.

The leading case of **Macura v. Northern Assurance Co. Ltd.** clearly illustrates this principle. In that case, **Macura** sold his timber business to a limited company in which he was the major shareholder. Although he controlled the company, the timber legally belonged to the company, which is a separate legal entity. However, **Macura** insured the timber in his own name. When the timber was destroyed by fire, he claimed under the policy. The House of Lords held that he had no **Insurable Interest** because he did not personally own the timber. Being a shareholder did not give him ownership over the company's property. Therefore, he was not entitled to recover.

Applying this principle to the present case, **Fernando** insured the car in January 2024. However, the car was formally transferred to **Dilshan** on 01st April 2024, and the accident occurred on 08th April 2024. At the time of the accident, ownership had already passed to **Dilshan**. Therefore, **Fernando** no longer had any ownership or financial interest in the vehicle. Since **Insurable Interest** must exist at the time of the loss, **Fernando** was not entitled to claim under the policy.

Further, insurance contracts are contracts of **Uberrimae Fidei (Utmost Good Faith)**, which require full disclosure of material facts. The transfer of ownership was a material fact that should have been disclosed to the insurer. Failure to disclose such a fact further weakens **Fernando's** entitlement under the policy.

Accordingly, **XYZ Insurance Ltd.** can claim the return of the payment because **Fernando** had no **Insurable Interest** at the time of the accident and the essential requirement of the insurance contract was not satisfied

(06 marks)

(b)

The **Principle of Indemnity** means that the insured is entitled to be compensated only for the actual loss suffered and no more. The purpose of this principle is to restore the insured to the same financial position as he or she was before the loss occurred. Insurance is therefore not intended to provide a profit, but only to compensate for actual damage suffered.

(04 marks)
(Total 10 marks)

Suggested Answers to Question Three:

Chapter 10 - Offences related to the business environment
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(a)

(i)

- To protect consumers against the marketing of goods or the provision of services that are hazardous to the life and property of consumers.
- To protect consumers against unfair trade practices and guarantee that the interest of consumers shall be given due consideration.
- To ensure that wherever possible, consumers have adequate access to goods and services at competitive prices.
- To seek damages against unfair trade practices, restrictive trade practices, or any other form of manipulation of consumers by traders.

(04 Marks)

(ii) (Any two of the following)

- To control and eliminate restrictive trade agreements among enterprise
- To investigate or inquire into anti-competitive practices and abuse of dominant position.
- To maintain and promote, effective competition between persons supplying goods and services.
- 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
- To keep consumers informed about the quality, quantity, potency, purity, standards and price of goods and services made available for purchase.
- To carry out investigations and inquiries in relation to any matter specified in this Act..

(02 marks)

(b)(Any two of the following)

- Provide for the law relating to intellectual property
- Provide for an efficient procedure for the registration, control and administration.
- Appointment of the Director General of Intellectual property of Sri Lanka.

- To amend the Customs Ordinance and Provisions Act. court of the Provinces (special)
- To provide for matters connected therewith or incidental thereto.

(04 marks)
(Total 10 marks)

Suggested Answers to Question Four:

Chapter 04 - Law of Agency

(a)

Nimal's authority to negotiate discounted sales can be examined under the principle of **implied authority**, which arises when a principal appoints an agent to a specific position and the agent is authorized to perform acts customarily associated with that role, even if not expressly stated. According to the theory, an agent's implied authority is judged by the nature of the position, business customs, and past practices.

Richard, as managing director of **Brayhead Ltd**, entered into an indemnity agreement with **Hely-Hutchinson** without express authorization. The indemnity was given to facilitate a loan advance. The Court held that, given Richard's position and responsibilities, he had **implied authority** to enter into the indemnity, binding the company even though no express consent existed.

Similarly, in the textile business, negotiating bulk orders at discounted rates is customary. **Nimal**, being entrusted with daily operations, knew that discounts were standard practice for regular customers. Therefore, even though **Kumara** did not expressly authorize **Nimal** to grant a 15% discount, his actions fall within the scope of **implied authority**, as they were necessary to carry out ordinary business transactions. The 15% discount, if within industry standards would likely be considered within implied authority. The theory of **implied authority** emphasizes that third parties acting in good faith may rely on customary powers of the agent, and the principal remains bound unless restrictions were communicated to outsiders, which was not the case here. Consequently, **Kumara** is legally obliged to honor these transactions, and the customers can demand delivery.

(05 marks)

(b)

Nimal's decision to engage **ABC Ltd.** must be examined under the doctrine of **agency by necessity**. This doctrine operates as a narrow and exceptional extension of an agent's authority, permitting the agent to bind the principal without prior authorization only where circumstances compel immediate action to protect the principal's interests. Courts recognize this principle cautiously and require clear proof that the situation genuinely justified such intervention.

First, there must be a real emergency. The air-conditioning system broke down, and the repair was carried out to prevent damage to the textile inventory. In a textile business, excessive heat and humidity can cause deterioration, or discoloration of fabrics. Therefore, the breakdown created a commercial risk capable of amounting to a genuine emergency. His actions also fulfill the duty of care and skill, as any reasonable agent would recognize the urgency of protecting valuable textile from the heat damage when air conditioning system failed.

Second, it must be impossible or impracticable to obtain instructions from the principal. Although Kumara was abroad for two months, modern communication methods such as telephone and email make it relatively easy to obtain instructions even when a principal is overseas. The question does not suggest that Kumara was unreachable. In **Surrey Breakdown Ltd v Knight**, a garage recovered and stored a vehicle without the owner's authority, but the court rejected **agency by necessity** because the owner could have been contacted; mere inconvenience or delay was insufficient. Similarly, unless **Nimal** can demonstrate that communication with **Kumara** was genuinely impracticable, this requirement may not be satisfied.

Third, the act must be reasonably necessary to protect the principal's property. In this case, the immediate repair costing Rs.150,000 appears commercially reasonable to prevent potentially significant loss to valuable textile stock. On the given facts, reasonable necessity is likely satisfied.

Since **Nimal** acted in **good faith** and there were no contrary instructions, those elements are fulfilled. The decisive issue therefore remains whether it was truly impracticable to obtain **Kumara's** instructions.

Therefore, unless **Nimal** can prove that communication was genuinely impracticable, **Kumara** may not be legally bound to pay **ABC Ltd.**, and **Nimal** could be personally liable for the repair cost.

(05 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 05 – Company Law

(a) Articles of Association may provide for

- The objects of the company
- The rights and obligations of shareholders of the company
- The management and administration of the company
- Any other information not contrary to the Act

(03 marks)

(b)

- Must be a **natural person** (not a company or body corporate).
- Must be **18 years of age or older**.
- Must **not be an undischarged insolvent**.
- Must **not be adjudged to be of unsound mind**.
- Must **comply with any qualifications or restrictions in the Articles of Association**.
- Must **not be prohibited under Sections 213 or 214** of the Companies Act No. 07 of 2007.
- Must give **written consent to act as a director** under Section 201

(04 marks)

(c) The office of a director of company will be vacated due to following reason,

- If the director resigns
- If the director vacates
- Becomes disqualified in terms of provisions of section 202
- death of a director
- According to Section 210(1), a director of a public company or a private company that is a subsidiary of a public company must vacate office upon attaining the age of seventy (70) years
- Director vacating, removing from office in accordance with the provision of the articles of the company.

(03 marks)

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 07 – Labour Law

(a)

Priyanka is an Employee

Under labour law, courts apply the **Multiple (Composite) Tests** and consider the real nature of the relationship rather than the label “independent contractor.”

Under the **Control Test**, Priyanka works fixed hours (Monday to Friday, 9.00 a.m. – 5.00 p.m.), performs tasks assigned by her supervisor, and requires approval for code changes. This shows significant employer control.

Under the **Equipment Test**, she works at the company’s premises using equipment and software provided by TechSoft (Pvt) Ltd, which supports employee status.

Under the **Integration Test**, software development is the core function of the company, and her work is integral to the business.

Under the **Economic Reality Test**, she receives a fixed monthly salary of Rs.150,000 with EPF and ETF contributions, showing economic dependence on the company.

Although she undertakes small freelance projects on weekends, this does not automatically make her an independent contractor. Many employees engage in secondary employment. Since her primary work is controlled, structured, and economically dependent on TechSoft, the freelance work does not change her main status.

Therefore, Priyanka would be classified as an **employee**.

(04 marks)

(b) *(Any three of the following)*

- **Retirement from employment**
- **On any instance of termination** of employment, that is, on change of employment, dismissal, resignation, removal from office.
- **Permanent and total incapacity for work**
- **In the event of death of the employee**

(03 marks)

(c) *(Any three of the following)*

- Employees working in establishments where the number of employees are less than 15
- Employees who have worked less than 180 days of time within a continuous service period of 12 months.
- Employees of government, local authorities, government corporations or co-op societies.
- Employees who have retired according to the age of retirement decided according to the contract of employment or collective agreement.

(03 marks)

(Total 10 marks)

End of Section B

*Suggested Answers to Question Seven:***Chapter 02 – Contract Law****(A)****(a)**

On Tuesday, no valid contract was formed between **Ruwan** and **Mahesh** because the essential requirement of communication of offer was not satisfied. In contract law, an offer must be communicated to the offeree before it can be accepted. A mere intention to make an offer, or even reducing it into writing, does not create legal rights unless it is brought to the knowledge of the offeree.

In the present case, although **Ruwan** prepared a written offer on Monday to sell 500 kg of premium Ceylon tea at Rs. 1,500 per kilogram and stated that it would remain open until Friday, he failed to post or otherwise communicate it. The letter remained in his drawer. Therefore, as at Tuesday, no offer had been legally communicated to **Mahesh**. Without communication, there is no offer in the eyes of the law.

Mahesh's knowledge came from his friend **Silva**, who informed him that **Ruwan** was planning to sell tea at that price. However, information received from a third party does not amount to legal communication of an offer. This principle is illustrated in **Bloom v American Swiss Watch Co**. In that case, the defendant company internally decided to offer a reward for information leading to the recovery of stolen watches. Before the reward offer was properly communicated to the public, the plaintiff provided information that helped recover the property. The plaintiff later claimed the reward. The court held that no contract had arisen because the offer had not been effectively communicated to the plaintiff at the time he acted. Since he was unaware of the offer when providing the information, there could be no acceptance and therefore no binding agreement.

Applying that principle here, on Tuesday **Ruwan** had not communicated any offer to **Mahesh**. The information **Mahesh** received from **Silva** was merely rumour or unofficial knowledge and did not amount to communication by the offeror. When **Mahesh** stated that he accepted the offer, legally there was nothing in existence to accept. Therefore, one of the essential elements of contract formation, a communicated offer, was missing.

Accordingly, no valid contract was formed between **Ruwan** and **Mahesh** on Tuesday.

(06 marks)

(b) The issue here is whether a binding contract was formed when **Mahesh** posted his acceptance letter on Thursday, and whether **Ruwan's** subsequent revocation on Friday morning was legally effective. This requires application of the **postal rule of acceptance**.

Under the general rule of contract law, acceptance must be communicated to the offeror. However, the postal rule is an exception. According to the rule established in **Adams v Lindsell**, where it is reasonable to use the post as a means of communication, acceptance becomes complete at the moment the letter of acceptance is properly posted, not when it is received. In that case, the defendants' offer was delayed in the post, and the plaintiffs posted their acceptance immediately upon receipt. The court held that the contract was formed at the time of posting the acceptance letter, even though the defendants had not yet received it.

Applying these principles to the present facts, **Ruwan's** offer letter reached **Mahesh** on Thursday morning. After careful consideration, **Mahesh** posted his acceptance letter on Thursday from the Colombo post office. At that moment, according to the postal rule, the acceptance became complete and a binding contract was formed, provided that post was a reasonable method of communication, which it clearly was since **Ruwan** himself used the postal service to send the offer.

On Friday at 10.00 a.m., **Ruwan** posted a revocation letter after receiving a better offer from another buyer. However, revocation of an offer must be communicated to the offeree before acceptance is complete. Since **Mahesh's** acceptance became effective at the moment of posting on Thursday, **Ruwan's** revocation on Friday morning was too late. The contract had already been formed.

Therefore, a valid and binding contract was concluded on Thursday at the time **Mahesh** posted his acceptance letter. **Ruwan's** later revocation was ineffective. Accordingly, **Mahesh** can take legal action against **Ruwan** for breach of contract, particularly for non-delivery of the agreed 500 kg of tea at Rs. 1,500 per kilogram

Additional Information

Day & Time	Event	Legal Concept
Monday	Ruwan prepares a written offer to sell 500 kg of premium Ceylon tea at Rs. 1,500/kg, valid until Friday. Letter remains in his drawer.	Offer must be communicated – Unsent offer is not legally effective. (Lalman Shukla v Gauri Dutt / Bloom v American Swiss Watch Co)
Tuesday	Mahesh visits Ruwan and mentions he heard from Silva about the offer and	No valid acceptance – Cannot accept an offer not communicated by offeror.

Day & Time	Event	Legal Concept
	says he accepts.	Knowledge via third party is insufficient.
Wednesday	Ruwan posts the offer letter to Mahesh's office in Colombo.	Offer now communicated – Offer legally exists once received (or reasonably accessible) by the offeree.
Thursday morning	Offer letter reaches Mahesh.	Offer is now effective – Mahesh can legally accept the offer.
Thursday	Mahesh posts his acceptance letter.	Postal Rule applies – Acceptance is effective when posted , not when received. (Adams v Lindsell, Household Fire Insurance v Grant)
Friday 9:00 a.m.	Ruwan receives a better offer and decides to sell at Rs. 1,800/kg.	Intention to revoke – Revocation must reach offeree before acceptance to be effective.
Friday 10:00 a.m.	Ruwan posts revocation letter to Mahesh.	Late revocation – Acceptance already effective under postal rule; revocation ineffective.
Friday 5:00 p.m.	Ruwan receives Mahesh's acceptance letter.	Confirms binding contract formed at time of posting (Thursday).
Saturday morning	Mahesh receives Ruwan's revocation letter.	Legally irrelevant – contract already formed; Mahesh can sue for breach.

(05 marks)

(c) (Any two of the following)

- **Offer** – A clear proposal by one party to another to enter into a contract.
- **Acceptance** – Unconditional agreement to the exact terms of the offer.
- **Consideration** – Something of value exchanged between parties (money, goods, or services).
- **Genuineness of Consent** – The agreement must be made voluntarily, without coercion, fraud, misrepresentation, or undue influence.
- **Capacity** – Parties must be legally capable of contracting (adults of sound mind).
- **Legality of Object** – The purpose of the contract must be lawful and not against public policy

(04 marks)

(B)

(a) In a contract of sale, unless the circumstances of the contract clearly indicate a different intention, there is **an implied condition** on the part of the seller.

Under "**Section 13(a)**" of the Sale of Goods Act and protects the buyer by ensuring that the seller can transfer **good title** to the goods.

“ In the case of a sale he has a right to sell the goods, and that, in the case of an agreement to sell, he will have a right to sell the goods at the time when the property is to pass”

If the seller does not have the right to sell, the buyer can repudiate the contract and recover any money paid, since the breach goes to the root of the contract.

This principle was clearly illustrated in **Rowland v Divall** .In that case, the plaintiff purchased a motor car from the defendant and paid the full price. Some months later, it was discovered that the car had been stolen and legally belonged to the true owner. The police seized the car, and the plaintiff never obtained legal ownership. The Court held that the defendant had breached the **implied condition of title** because he could not transfer valid ownership. Even though the plaintiff had used the car for several months, he was entitled to recover the full purchase price, as the breach occurred at the moment of sale. This case establishes that when a seller cannot transfer good title, the buyer has the right to recover the full amount paid, regardless of any benefit derived from using the goods.

Applying this principle to the present facts, **Nimal** purchased a second-hand laptop from **Sunil**, who assured him that he had full ownership. However, the laptop had been reported stolen from the University’s computer laboratory, and the police subsequently seized it. Since **Sunil** did not have the right to sell the laptop, he breached the implied condition of title under "**Section 13(a)**" of the Sale of Goods Act. Following the reasoning in **Rowland v Divall**, **Nimal** can repudiate the contract and is entitled to recover the full purchase price he paid, even if he had already used the laptop. Therefore, **Nimal** can take successful legal action against **Sunil** for selling goods without good title.

(06 marks)

(b)

(i)

Unascertained goods

If the goods, which the parties agreed although not yet properly identified, such goods are unascertained goods.

(ii)

Future Goods

Future goods denote things to be acquired or produced by the seller, subsequent to entering into the contract.

(04 marks)

(Total 25 marks)



End of Section C

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