

EXAMINER'S REPORT
AA2 EXAMINATION - JULY 2018
(AA25) BUSINESS LAW AND ETHICS

Part A

Question No. 01

This question consisted of 10 OTQs. for 20 marks.

This question has been attempted by majority of the candidates. Most of the candidates have scored more than half marks of the total marks allocated to this question.

Some candidates have given incorrect answers for question No. **1.4**, **1.6** and **1.7** because they have not noticed the word "Not" in the question. For question No. **1.4** candidates should understand that "Deed of gift" is not considered as a document for creation of agency by expression in writing.

It was noted that a considerable number of candidates have failed to answer correctly for the question no. **1.8** and **1.10**.

Majority of the candidates have given incorrect answers for question No. **1.8** since they don't have knowledge about matters handled by the District Courts. Only about half of the candidates have given correct answers for the question no. **1.10**. Candidates should have a good understanding of the number of days entitled as annual leave by an employee according to the date of joining under the shop and office Act No. 19 of 1954 to answer a question such as **1.10**. Candidates should have a sound knowledge about entire syllabus to obtain high marks for the section A because it contributes massively to reach the pass mark.

On the whole performance of the candidates on this question was satisfactory.

Part B

Question No. 02

This question is based on law of agency. Most of the candidates have failed to understand this question. A considerable number of candidates have failed to identify that the question is based on creation of agency by ratification and the mere ratification by the principal is not sufficient to create the agency by ratification (it is governed by certain rules). Most candidates have failed to provide the correct explanation, which is **Piyal** has entered into contract without mentioning **Sunil** as the principal. Candidates should note that a reasonable conclusion has to be arrived based on the given facts.

As a whole, the performance for this question was not satisfactory.

Question No. 03

Although this was a simple and straightforward question, performance for this question was average. Some candidates have mentioned two fundamental principles of professional ethics but they have not explained them. Some of the candidates don't have a sufficient knowledge about fundamental principles of professional ethics of an accountant. Candidates should understand that Integrity, Objectivity, Technical competence, Due care, Confidentiality and independence are the six fundamental principles of professional ethics.

As a whole, the performance for this question was fairly satisfactory.

Question No. 04

Knowledge about negotiable instruments was tested in this question through a practical scenario. Most of the candidates have attempted this question and provided satisfactory answers. Candidates should understand that in terms of section 80, where a banker pays a crossed cheque in good faith without negligence in accordance with the crossing, the bank is protected from true owner of the cheque, even though the money has been obtained by an unauthorized person.

On the whole, the performance for this question was not satisfactory.

Question No. 05

This question was based on the company law. Most candidates have answered for this question. Candidates should understand that a company is a legal person though an artificial one. When a company incorporated becomes an artificial legal person distinct from its Shareholders, Directors and other officers. Many candidates have correctly stated that a company, can sue and be sued in its own name under the concept of legal personality.

On the whole, the performance for this question was satisfactory.

Question No. 06

This was a fairly simple question related to the partnership law. It was required to discuss about the duties and rights of partners. Candidates should understand that rights and duties of partners are decided by the partnership agreement. If there is no agreement as such, then the partnership act will apply. In terms, of act, one of the duties of partners is to submit true accounts and full information regarding his dealings to other partners. On the other hand every partner must disclose full information with regard to all benefits derived by him from all transactions concerning the partnership. Many candidates have correctly stated the fact that **Amal** had earned a secret profit and that is a breach of a duty of partners.

On the whole, the performance for this question was satisfactory.

Part C

Question No. 07

- (a) This was a fairly simple question related to sale of goods ordinance and required to discuss about implied conditions. Conditions about selling goods according to descriptions and sample was applicable for this question. Some candidates have mentioned condition about sample but they have not mentioned about the condition on description. Candidates should understand that when there is a sale of goods by sample as well as description, the goods must correspond not only with the description, but also with the sample.

On the whole, the performance of this question was satisfactory.

- (b) This part was given to test the candidates' knowledge about international trade. Most of the candidates have correctly mentioned about letters of credits. Candidates should understand that bills of exchange, collection agreement, payment in open accounts, payment in advance and electronic commerce can be used as suitable payment which could be used in the international trade.

On the whole, the performance of this question was satisfactory.

Question No. 08

This question was given to test the candidates' knowledge about law of insurance. Most of the candidates have explained about insurable interest and successfully answered for this question. Many candidates have correctly mentioned that **Amali** can insure the life of her husband but **Sunali** can't insure the life of her brother and parents. Candidates should understand that a contract of insurance should be supported by an insurable interest, or else the contract of insurance will be invalid.

On the whole, the performance for this question was satisfactory.

Question No. 09

- (a) Most of the candidates have stated two main functions of the Consumer Affairs Authority for **part (i)**.

Certain candidates have failed to state two obligations of the traders as imposed by the Consumer Affairs Authority for **part (ii)**. Candidates should understand that following can be considered as obligations of the traders as imposed by the Consumer Affairs Authority:

- (1) To exhibit the maximum retail or wholesale price of goods available in the place of business.
- (2) To issue a receipt for any goods sold by him, if requested by the purchaser.
- (3) To register himself with the authority.
- (4) To keep a notice board at a prominent place in his business in order to display the notices issued by the authority.
- (5) Not to mislead or deceive any consumer or trader in the course of his business.
- (6) Not to make any false representation relating to the goods sold by him.

On the whole, the performance for this question was fairly satisfactory.

- (b) This part was based on labour law and it was required to state 4 instances where a person is entitled to claim his / her EPF. Many candidates have scored full marks for this part of the question.

On the whole, the performance of this question was satisfactory.

Part D

Question No. 10

This question was comprised of 2 parts. Part (a) of this question was based on Law of Contracts.

Part (a)

This part of the question was to discuss whether there is a valid contract between **Mala** and **Kumari** based on the given facts:

- (i) Most candidates have mentioned about offer, counter offer etc. Many candidates have correctly mentioned that there was no valid contract between **Mala** and **Kumari**. Candidates should understand that offer may be rejected by making a counter offer and a counter offer can be made in either by making a fresh offer or by accepting the offer by laying down conditions.

On the whole, the performance for this part of the question was satisfactory.

- (ii) This part of the question was based on termination of contracts by frustration. It was required to to discuss the legal rights of **Piyal** regarding the hotel room reservation payment he made. Some candidates have not mentioned that a contract can be terminated by frustration. Candidates should understand that if a party has been subsequently unable to perform the contract because something has occurred beyond the control of parties after the contract has been entered into, the contract is said to be terminated by frustration.

On the whole, the performance for this part of the question was fairly satisfactory.

Part (b)

This part of the question was based on sale of goods ordinance:

- (i) It was required to explain whether there is a contract of sale of goods between **Kusal** and **Maya**. Some candidates have mentioned that there was a sale of goods contract between **Kusal** and **Maya** but have not explained this contract was based on future goods. Candidates should explain the reasons for arriving at a conclusion in explaining answers for a question. Candidates should understand that future goods are the goods to be manufactured or produced or an acquired by the seller after making the contract of sale of goods.

On the whole, the performance for this part of the question was satisfactory.

- (ii) It was required to explain whether there is a contract of sale of goods between **Kusal** and **Ravindu**. Some candidates have mentioned that there was a sales of goods contract between **Ravindu** and **Kusal** but they have not explained this contract was based on existing goods. Candidates should understand that existing goods are the goods owned and possessed by the seller at the time of making the contract of sale.

On the whole, the performance for this part of the question was satisfactory.

- (iii) Most of the candidates have mentioned about remedies available to **Dayal**. **Dayal** can get legal actions against **Kusal** for non delivery, can recover prices of the goods and can get specific performance.

On the whole, the performance for this part of the question was satisfactory.

On the whole, candidates' performance for this question was satisfactory. Most of the candidates have scored more than 60% marks from the total marks allocated for this question.

When answering for this question, some candidates have given irrelevant facts and some other cases they have reproduced the facts given in the question itself as the answer.

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Common facts to consider in order to improve the competency level of the exam candidates:

- (1) Study of the syllabus completely and thoroughly and paying high concentration on new subject matters.
- (2) Should not write unnecessary explanations/details when it is expected to write certain and direct answers after reading the question several times.
- (3) Action verb Check List with definitions is attached to the question paper itself and each question will begin with an action verb excluding Objective Test Questions (OTQs). Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.
- (4) Refer specially the Self-Study Text, books, manuals, letters, magazines and any other material related to this subject.
- (5) Build competencies that are necessary to correctly identify and compare fundamental theoretical concepts, when answering.
- (6) Should ensure that hand writing is legible and question numbers are placed accurately and accordingly.
- (7) Adhere to the instructions given in the paper.
- (8) Improve your knowledge by referring past papers and answers.
- (9) Proper time management.
- (10) Properly check whether question numbers are placed accordingly before handing over of the answer scripts.
- (11) Sit for the exam with prior a preparation and an utmost expectation of getting through.

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