



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2019

(AA25) BUSINESS LAW AND ETHICS

26-01-2019  
Afternoon  
[1.45 – 5.00]

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time Allowed:** Reading : 15 minutes  
Writing : 03 hours.

No. of Pages : 07  
No. of Questions : 10

- (2) **All questions should be answered.**  
(3) **Answers should be in one language, in the medium applied for, in the booklets provided.**  
(4) **State clearly assumptions made by you, if any.**  
(5) **Action Verb Check List with definitions is attached. Each question begins with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**  
(6) **100 Marks.**

**SECTION A**

**Objective Test Questions (OTQs)**

Ten (10) compulsory questions

(Total 20 marks)

**Question 01**

Select the most correct answer for question No. 1.1 to 1.7. Write the number of the selected answer in your answer booklet with the number assigned to the question.

**1.1** Consider the following statements regarding the Constitution of 1978 of Sri Lanka:

- (a) It deals with the presidential powers and functions.  
(b) It deals with the issues in relation to separation of powers between the Legislation, Executive and the Judiciary.  
(c) It deals with establishment, power and duties of the police commission.

Of the above, the correct statement/s is/are:

- (1) (a) only. (2) (b) only.  
(3) (a) and (c) only. (4) All of the above.

**1.2** Which one of the following is **not** a special law in Sri Lanka?

- (1) Kandyan law. (2) Muslim law.  
(3) English law. (4) Thesawalamai law.

**1.3** Which one of the following is **not** an example for a Private Law?

- |                         |                   |
|-------------------------|-------------------|
| (1) Family Law.         | (2) Contract Law. |
| (3) Administrative Law. | (4) Property Law. |

**1.4** Which one of the following is a main ethical issue faced by an Accountant?

- |                                    |                                  |
|------------------------------------|----------------------------------|
| (1) Pressure from management.      | (2) Lack of ethical sensitivity. |
| (3) Omission of financial records. | (4) All of the above.            |

**1.5** Which one of the following is a negotiable instrument?

- |                       |                       |
|-----------------------|-----------------------|
| (1) Bill of lading.   | (2) Letter of credit. |
| (3) Bill of exchange. | (4) Money order.      |

**1.6** Which one of the following is **not** a main requirement for the formation of a valid contract?

- |                                |  |
|--------------------------------|--|
| (1) Consideration.             | (2) Capacity to contract.                |
| (3) Agreement between parties. | (4) Location to enter into the contract. |

**1.7** Consider the following terms relating to a CIF contract:

- (a) The seller is responsible to ship the goods of the description contained in the contract.
- (b) The seller should arrange an insurance policy that is available for the benefit of the buyer.
- (c) The seller should pay all the import duties and wharfage charges if any.

Of the above, the correct statement/s is/are:

- |               |                       |
|---------------|-----------------------|
| (1) (a) only. | (2) (a) and (b) only. |
| (3) (b) only. | (4) (a) and (c) only. |

*Write short answers for question Nos. 1.8 to 1.10 in your answer booklet with the number assigned to the question.*

**1.8** State two(02) methods for creation of the principal agent relationship under the Law of Agency.

**1.9** State two(02) regulatory institutions in Sri Lanka.

**1.10** Briefly explain what is meant by “confidentiality” as a fundamental principle of professional ethics. (02 marks each, Total 20 marks)

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*End of Section A*

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## SECTION B

Five (05) compulsory questions

(Total 25 marks)

### Question 02

**Dayabaran**, as an agent for **Daya Trading Company** in Polonnaruwa bought a large stock of steel from a store in Colombo to be dispatched to **Daya Trading Company** in Polonnaruwa. Due to heavy rains and floods in Polonnaruwa, it was impossible for **Dayabaran** to send the stocks to Polonnaruwa. Communication had also been failed due to floods. **Dayabaran** sold all the steel stock to a buyer in Colombo being unaware of the fact that the price of steel had been increased due to the new tax introduced by the government. Later **Dayabaran** sent money received from sale of steel to **Daya Trading Company**.

**You are required to:**

**Explain** whether **Daya Trading Company** is entitled to claim losses from **Dayabaran**. (05 marks)

### Question 03

There are laws and regulations for community to ensure rights as citizens. The Consumer Affairs Authority Act No. 09 of 2003 and the Money Laundering Act No. 05 of 2006 are important acts operating in Sri Lanka.

**You are required to:**

(a) **State** three(03) offences under the Consumer Affairs Authority Act. (03 marks)

(b) **State** two(02) unlawful activities as per the Money Laundering Act. (02 marks)

(Total 05 marks)

### Question 04

The law governing sale of goods is contained in the Sale of Goods Ordinance No. 11 of 1896. It is important to distinguish between sale of goods contracts and other supply contracts such as gifts and free promotional offers, hire purchase agreements, contract for work and material, etc.

**You are required to:**

(a) **Define** “a contract of sale of goods”. (02 marks)

(b) **Explain** why gifts and free promotional offers cannot be considered as contracts of sale of goods. (03 marks)

(Total 05 marks)

### Question 05

**Sam** issued a cheque to **Paul** in the morning for a service rendered by **Paul** to **Sam**. But, in the afternoon, **Sam** got to know that the task performed by **Paul** was not up to the acceptable quality. Therefore, in the afternoon, **Sam** issued a countermand (a stop payment) order to the bank to stop the payment to **Paul**. However, the letter containing the stop payment order had not been reached the manager of the bank until 2 days had lapsed, and by that time the cheque had been encashed by **Paul**. **Sam** filed a case action against the bank to recover the amount of the cheque.

**You are required to:**

**Explain** whether **Sam** is entitled to recover the amount from the bank. (05 marks)

### Question 06

International trade is a trade between two countries or between residents of two countries. The buyer and seller reside in two different countries and the goods are delivered from one country to another. There are number of modes of payment used in international trading transactions such as letters of credit, bills of exchange, collection agreements, payments in open accounts, payments in advance, etc.

**You are required to:**

**Explain** how a Letter of Credit is operated. (05 marks)

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*End of Section B*

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## **SECTION C**

Three (03) compulsory questions

(Total 30 marks)

### Question 07

- (a) **Nayani** received a temporary appointment in **Sethsewa Foundation**, a charitable organization as the Accounts Clerk for a period of one year. Employees' Provident Fund (EPF) entitlement was not mentioned in the appointment letter. **Nayani** needs to know whether she is entitled for the Employees' Provident Fund during her one year period of working.

**You are required to:**

**Discuss** the applicability of the provisions of Employees' Provident Fund Act in the above case. (05 marks)

- (b) **Berty** is working for **ABC (Pvt) Ltd.** for a long period. He joined the company as a Management Trainee on 01<sup>st</sup> December 2005 for a monthly salary of Rs.10,000/-. Now he is serving as the Chief Executive Officer (CEO) of the company with a monthly salary of Rs.300,000/-. He has decided to resign from the company effective from 31<sup>st</sup> January 2019.

**You are required to:**

**Calculate, Berty's** gratuity entitlement according to the provisions of the Payment of Gratuity Act. (05 marks)  
(Total 10 marks)

### Question 08

**Kamal, Geetha** and **Raja** started a partnership business to carry out an advertising agency contributing to the capital equally. There was no partnership agreement and they agreed to follow the Partnership Ordinance 1890. **Geetha** is very active in the business and she attends all the business meetings with clients. Though **Kamal** equally contributed to the capital of the business, he wants to keep away from day to day activities of the advertising agency. Further, he wants to introduce his wife as a partner to this business. However, **Geetha** objected to that decision and she informed that she should get an extra share from the profit of the partnership. Further, **Raja** is also in the view that he should get paid a salary for his contribution towards the management of the business. Moreover, **Raja** and **Kamal** wanted to change the nature of the business and **Geetha** strongly objected to that also.

**You are required to:**

**Discuss** the rights and duties of **Kamal, Geetha** and **Raja** respectively. (10 marks)

### Question 09

**Madura**, a sole proprietor sold his sole proprietorship to **XYZ (Pvt) Ltd.**, in which he is a shareholder. At the time of the sale of the business, all the properties of the sole proprietorship, which were insured in **Madura's** name, have also been transferred to **XYZ (Pvt) Ltd.** After transferring those properties, one of the properties was destroyed by fire and **Madura** claimed damages for this from the insurance company as insurance policy had been originally obtained in his name. However, insurance company refused to compensate **Madura**.

**You are required to:**

(a) **Discuss** whether insurance company can reject **Madura's** claim. (06 marks)

(b) **Explain** the concept of insurance, "indemnity". (04 marks)

(Total 10 marks)

End of Section C

## SECTION D

A compulsory question

(Total 25 marks)

### Question 10

- (a) **Priya** came to know that her friend **Romesh** was trying to sell his car. **Priya** made an offer by e-mail to buy the car and stated *“If I do not hear from you, I consider the car is mine for Rs.2 million.”* Though **Romesh** intended to accept the offer, he did not communicate his acceptance to **Priya**. Subsequently, **Romesh** sold the car to **Ann** for Rs.2.5 million.

**Priya** has planned her wedding with **Paul** and she went to **Mal Mal Florist** to place an order for her wedding. Florist agreed to arrange all the floral decorations with natural red and white roses according to the theme that they have selected. **Priya** paid 75% of the amount in advance and agreed to pay the balance on the wedding day. The day before the wedding date, there was a heavy rain all around the island and roads were blocked due to heavy flooding. **Mal Mal Florist** could not supply adequate natural red and white roses and instead they had to use some artificial white roses with the natural roses that they had in their cool store rooms, in the flower arrangements at the wedding of **Priya** and **Paul**. **Priya** got to know the mistake made by the florist and she refused to pay the balance amount.

**Priya** wants to claim damages from **Romesh** and **Mal Mal Florist**.

**You are required to:**

**Discuss** the following:

- (i) Whether there is a valid contract between **Priya** and **Romesh**. (06 marks)
  - (ii) Legal rights of **Priya** regarding **Romesh** and **Mal Mal Florists**. (09 marks)
- (b) **Tina** bought a *“face cream”* from *“Skin and Hair Care”* saloon. A few minutes after she applied the cream on her face, she suffered from a skin rash. She was taken to hospital and the doctor diagnosed that the skin rash was caused due to a substance which was in the face cream. **Tina** had to stay in the hospital for 5 days and she was unable to report to work due to this.

**Tina’s** brother **Suraj** ordered a teak dining table from **Beautiful Homes (Pvt) Ltd**. They promised **Suraj** that they will deliver it within 2 weeks. **Suraj**, specifically instructed about the particulars of the design to the manager. **Beautiful Homes (Pvt) Ltd**. delivered the dining table within the time agreed, but it was not made of teak and it was not in accordance with the specific design he asked for.

**You are required to:**

**Discuss** the following under the Sale of Goods Ordinance:

- (i) Legal rights and remedies available to **Tina**. (05 marks)
- (ii) Legal rights and remedies available to **Suraj**. (05 marks)

(Total 25 marks)

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*End of Section D*

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## ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
<b>Level 01 Comprehension</b>  Recall & explain important information	<b>Define</b>	Describe exactly the nature, scope, or meaning.
	<b>Draw</b>	Produce (a picture or diagram).
	<b>Identify</b>	Recognize, establish or select after consideration.
	<b>List</b>	Write the connected items one below the other.
	<b>Relate</b>	To establish logical or causal connections.
	<b>State</b>	Express something definitely or clearly.
	<b>Calculate/Compute</b>	Make a mathematical computation
	<b>Discuss</b>	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	<b>Explain</b>	Make a clear description in detail revealing relevant facts.
	<b>Interpret</b>	Present in an understandable terms.
	<b>Recognize</b>	To show validity or otherwise, using knowledge or contextual experience.
	<b>Record</b>	Enter relevant entries in detail.
<b>Summarize</b>	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
<b>Level 02 Application</b>  Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	<b>Apply</b>	Put to practical use.
	<b>Assess</b>	Determine the value, nature, ability, or quality.
	<b>Demonstrate</b>	Prove, especially with examples.
	<b>Graph</b>	Represent by means of a graph.
	<b>Prepare</b>	Make ready for a particular purpose.
	<b>Prioritize</b>	Arrange or do in order of importance.
	<b>Reconcile</b>	Make consistent with another.
	<b>Solve</b>	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
<b>Level 03 Analysis</b>  Draw relations among ideas and compare and contrast / Solve open-ended problems.	<b>Analyze</b>	Examine in detail in order to determine the solution or outcome.
	<b>Compare</b>	Examine for the purpose of discovering similarities.
	<b>Contrast</b>	Examine in order to show unlikeness or differences.
	<b>Differentiate</b>	Constitute a difference that distinguishes something.
	<b>Outline</b>	Make a summary of significant features.