



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JULY 2021

(203) BUSINESS LAW

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

(1) **Time Allowed:** Reading : 15 minutes.

Writing : 03 hours.

(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 will begin 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.

23-10-2021

Afternoon

[01.45 – 05.00]

No. of Pages : 08

No. of Questions : 07

SECTION A

Objective Test Questions (OTQs)

(Total 25 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.6. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Which one of the following court has the jurisdiction to interpret the constitution?

(1) Court of Appeal.

(2) Magistrate's Court.

(3) High Court.

(4) Supreme Court.

1.2 Which one of the following is **not** a component of the Constitution 1978?

(1) Provision on citizenship.

(2) Judicial Services Commission.

(3) Functions of the Board of Investment.

(4) Fundamental rights.

1.3 Which one of the following is **not** an implied condition under the sale of goods contract?

- (1) When the goods are sold by a description, such goods shall correspond with the description.
- (2) The goods supplied must fit for the purpose.
- (3) Goods must be of merchantable quality.
- (4) Buyer shall have the quite possession of the goods without any interference.

1.4 Consider the following offences:

- (a) Refusing to sell the goods.
- (b) Denial of the possession of goods.
- (c) Investing illegal money in legal financial instruments.

Of the above, the main offences under the Consumer Affairs Authority Act No.09 of 2003 are:

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

1.5 Which one of the following is **not** a feature of a valid Bill of Exchange?

- (1) It should bear unconditional orders.
- (2) It should be in writing.
- (3) It should be in printed form with durable ink.
- (4) It should be signed by the person who issue it.

1.6 Consider the following statements regarding a holder in due course under the law relating to negotiable instruments:

- (a) Get priority to receive the value for the bill.
- (b) Cannot sue all previous parties to recover the rights on the bill.
- (c) Can transfer his title by negotiation.

Of the above, the correct statements are:

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

(02 marks each, 12 marks)

State whether each of the following statements in question No.1.7 to 1.9 is **TRUE** or **FALSE**. Write the answer (True/False) in your answer booklet with the number assigned to the question.

- 1.7 If an agency is created as of necessity, the principal is not bound by the actions of the agent.
- 1.8 In a CIF agreement, the seller's obligation with regard to the contract ends, once the cargo is loaded to the deck.
- 1.9 At an auction, once the sale is completed, the buyer acquires a better title even though the auctioneer is not the owner of the good. (01 mark each, 03 marks)

Write short answers for question Nos. 1.10 to 1.14 in your answer booklet with the number assigned to the question.

- 1.10 State two(02) regulatory institutions in Sri Lanka.
- 1.11 State two(02) elements of a contract of sale of goods.
- 1.12 State two(02) objectives of Financial Intelligence Unit.
- 1.13 State two(02) instances where "access to information can be denied" under the Section 05 of the Right to Information Act No.12 of 2016.
- 1.14 State two(02) powers of the 'Drawer' regarding crossing of a cheque. (02 marks each, 10 marks)
- (Total 25marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

Following the environmental hazard created by the Xpress Pearl ship, there was an unprecedented increase in the demand for "White Salt" in households of Sri Lanka. **Sarath** is an agent of **White Salt (Pvt) Ltd.** since 2018. Maximum retail price of a packet of "White Salt" is Rs.50/-. **Sarath** has the control over four warehouses which are full of "White Salt". **Sarath** wanted to meet the demand of the market for "White Salt" and he made an underhand dealing with a Store Manager to get more salt for him than the usual supply required for the market. Later, **White Salt (Pvt) Ltd.** realized that **Sarath** has sold their salt at the rate of Rs.100/- per packet and he has earned an extra profit of Rs. 5 million from that transaction. Meanwhile, the Consumer Affairs Authority of Sri Lanka has initiated an inquiry against **White Salt (Pvt) Ltd.** due to **Sarath's** acts of selling "White Salt" at a higher price.

You are required to:

- (a) **Discuss** the legal rights of **White Salt (Pvt) Ltd.** against **Sarath.** (06 marks)
- (b) **Explain** whether **White Salt (Pvt) Ltd.** would be liable for selling packets of salt more than the marked retailed price. (04 marks)
- (Total 10 marks)

Question 03

Raja has obtained a life insurance from **Star Insurance Co.** for himself in 2010 and he has nominated his wife **Seetha** and his two children **Tina** and **Mina** as his beneficiaries. He has paid the premium on his life insurance policy regularly without any fail. In May 2021, **Raja** died due to Covid-19. After his sudden demise, **Seetha** and the two children had to face so many financial difficulties. **Seetha** contacted **Star Insurance Co.** to claim compensation from the life insurance policy of her husband. **Star Insurance Co.** rejected the claim form made by **Seetha** and stated that death due to COVID-19 was not covered under the life insurance policy obtained by **Raja**.

You are required to:

- (a) **Discuss** the applicability of the principle of “Proximate Cause in Insurance” in the above scenario. (06 marks)
- (b) **Explain** the applicability of the principle of insurable interest, if the life insurance policy for **Raja** had been obtained by **Seetha** and **Raja’s** demise is caused by a car accident. (04 marks)
- (Total 10 marks)

Question 04

ABC PLC is a company incorporated under the Companies Act No. 07 of 2007 in the year 2015. As per the Articles of the Association of **ABC PLC**, the main objective of **ABC PLC** is to engage in agricultural business operations such as cultivating, planting, harvesting crops, storing etc. Further, the Articles of the Association of **ABC PLC** contained a clause, which stated that any disputes between members of the company, **ABC PLC** should be solved by arbitration.

However, due to the COVID-19 pandemic, **Rajamohan**, a director of **ABC PLC** has suggested to buy three fully kitted ambulances at a cost of US \$ 150,000 each under a leasing facility. He suggested to rent out these vehicles to a private hospital and to earn rent income from it. **Zakeer**, a key shareholder of **ABC PLC** had a dispute with the company regarding this suggestion, and went to the court.

You are required to:

- (a) **Discuss** the validity of the Articles of the Association of **ABC PLC** for the above scenario. (07 marks)
- (b) **State** three(03) persons who are **not** qualified to be appointed as a director of a company. (03 marks)
- (Total 10 marks)

Question 05

Dr. Jeewaka is a well-known medical practitioner in the town. He examines patients at **Sada Suwa Hospital** in the evenings.

The following two options for his employment at **Sada Suwa Hospital** are given:

1st Option:

Rs.2,000/- is charged for examination of one patient and of that, 50% is charged as **Dr. Jeewaka's** fee and the balance is charged as a hospital fee.

2nd Option:

Dr. Jeewaka is paid a fixed monthly salary of Rs.200,000/- by **Sada Suwa Hospital**.

You are required to:

- (a) **Discuss** whether **Dr. Jeewaka** is an employee of **Sada-Suwa Hospital** under each of the above two options. (06 marks)
- (b) **State** Four(04) types of employees who are **not** covered under the Employees Provident Fund (EPF) Act No. 15 of 1958. (04 marks)
- (Total 10 marks)

Question 06

- (a) In international trade, a variety of methods are used to settle the payment of goods. The expectations of importer and exporter are contradictory with regard to payments in international trade. The buyer is willing to pay as late as possible in the transaction process and the seller will expect a quick and secure process.

You are required to:

Explain the role of a Letter of Credit as a payment method in international trade. (05 marks)

- (b) An intellectual property is an intangible creation of the human intellect. It greatly contributes for the economic, social and technological development of any country.

You are required to:

List five(05) intellectual properties covered under the Intellectual Property Act No. 36 of 2003. (05 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

- (A) **Tina** and **Tony** are suppliers of **Healthy Life Hospital Ltd.** situated in Western province of Sri Lanka. In March 2020, the hospital entered into a contract with **Tina** to purchase fresh vegetables for a period of four years commencing from 01st April 2020.

In terms of the agreement with **Tina**, the hospital paid an upfront payment of 50% of the contract value to **Tina** as an advance payment.

On the same day, the hospital entered into another contract with **Tony** to purchase essential cleaning liquid for four years commencing from 01st April 2020. However, no advance payment has been paid to **Tony**.

Both **Tina** and **Tony** agreed to supply these goods fortnight and goods should reach to the hospital by midnight of Sundays.

During the first week of May, one of **Tina's** drivers infected with COVID-19 and as a result, all other employees had to place themselves in self-quarantine. Further, since quarantine curfew was imposed and operated across the island, **Tina** could not be able to supply vegetables to **Healthy Life Hospital Ltd.** till June 2020.

Meanwhile, **Tony** informed the **Healthy Life Hospital Ltd.** that he is not be able to supply the cleaning liquid as agreed since there was a huge price increase in the product due to the higher demand.

Due to the aforesaid circumstances, the hospital was compelled to reduce its number of admissions by a considerable number. Now, the hospital plans to take legal actions against **Tina** and **Tony**.

You are required to:

- (a) **Explain** the following:

(i) Whether there is a valid contract between **Tina** and **Healthy Life Hospital Ltd.**
(02 marks)

(ii) Whether there is a valid contract between **Tony** and **Healthy Life Hospital Ltd.**
(02 marks)

(b) **Discuss** the legal rights of **Healthy Life Hospital Ltd.** regarding **Tina** and **Tony**.
(07 marks)

(c) **Discuss** the legal rights and remedies available to **Tina**.
(04 marks)

(B) **Ride Ltd.**, a car dealer, bought a car from **Mohan** for the price of Rs.2 million. **Ride Ltd.** painted the car and put it in their showroom and sold it to **Kamal** for Rs.2.5 million. Four months later, the car was seized by the police as it had been stolen and was then returned it to the original owner. **Ride Ltd.** was aware that the car had been stolen. **Kamal** claimed the full amount paid to **Ride Ltd.** under the Sale of Goods Ordinance, but **Ride Ltd.** refused to pay the full amount of Rs.2.5 million as the car had been used by **Kamal** for a period of four months.

You are required to:

- (a) **Discuss** whether **Kamal** is able to claim the full amount he paid for the car. (07 marks)
- (b) **State** three(03) remedies available to an unpaid seller “against the goods” under the Sale of Goods Ordinance. (03 marks)

(Total 25 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.