



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JANUARY 2022

(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.

19-03-2022

Afternoon

[01.45 – 05.00]

No. of Pages : 07

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 laws is applicable only to Tamil inhabitants from the Jaffna peninsula in northern Sri Lanka?

(1) Roman-Dutch Law.

(2) English Law.

(3) Thesawalamai Law.

(4) Muslim Law.

1.2 Which one of the following is **not** a remedy available to a seller in a sale of goods contract?

(1) Right of resale.

(2) Right of lien.

(3) Right of stoppage in transit.

(4) Obtaining a specific performance.

1.3 Consider the following statements:

- (a)** Supreme Court has the jurisdiction regarding breach of parliamentary privileges.
- (b)** District Court is considered as a court of first instance.
- (c)** Cases related to divorce and custody of children are heard by Magistrate's Court.

Of the above, the correct statements related to current judicial system in Sri Lanka are:

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

1.4 A category of employees who are covered under the Employees' Trust Fund Act No.46 of 1980 is:

- (1) Apprentices under the National Apprentice Board.
- (2) Employees of Corporations.
- (3) Retired government servants.
- (4) Domestic servants.

1.5 A legal document issued by a carrier to a shipper that details the type, quantity and destination of the goods being carried is:

- (1) Letter of Credit.
- (2) Bill of Lading.
- (3) Invoice.
- (4) Bill of Exchange.

1.6 Consider the following employee categories:

- (a)** Employees working in a Co-op society.
- (b)** Domestic servants like housemaids, personal chauffeur.
- (c)** Employees working in the private sector.
- (d)** Employees working in Government, Provincial Council or Local Authorities.

Of the above, the exempted employees under the Payment of Gratuity Act No. 12 of 1983 are:

- (1) **(a), (b)** and **(d)** only.
- (2) **(a), (c)** and **(d)** only.
- (3) **(b), (c)** and **(d)** 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 The Shop and Office Employees Act prohibits the employment of any person who is less than 18 years of age in a shop or an office.
- 1.8 An element of a contract of sale of goods is location.
- 1.9 Under the CIF agreement, the seller is responsible for entering into an insurance contract that will be beneficial to the buyer. (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) human rights to which employees are entitled to in a work place.
- 1.11 State two(02) non-judicial disputes resolutions that can be used to resolve an international trade dispute.
- 1.12 State two(02) implied conditions under the Sale of Goods Ordinance.
- 1.13 State two(02) main functions of the Registrar of Companies in Sri Lanka.
- 1.14 State two(02) tests which can be used to identify the difference between an employee and an independent contractor.

(02 marks each, 10 marks)
(Total 25marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

Tom and **Jerry** started a partnership business to produce cartoon films for children. They worked together to develop their business based on animations made out of computer software. However, **Tom** found that though **Jerry** has purchased computer software at a discounted price from **ABC Computers Ltd.**, he has sold it to the partnership business at the current market price, which was double the price he bought it. **Jerry** earned a secret profit from this transaction, and he did not share it with **Tom**.

Further, **Tom** found that, **Jerry** has started a similar business and has used the computer software being used at the partnership for his business.

You are required to:

- (a) **Discuss** whether **Jerry** has breached his duties as a partner. (07 marks)
- (b) **Explain** the legal rights of **Tom** in this regard. (03 marks)
- (Total 10 marks)

Question 03

In the dynamic business environment, new trends that influence business and stakeholders emerge day by day. Therefore, the development of legal framework is vital to regulate these new trends and elements that are auxiliary to them. Several new laws and regulations have been introduced in Sri Lanka to regulate the activities and protect people.

You are required to:

- (a) **State** two(02) objectives of Financial Transactions Reporting Act No. 06 of 2006. (04 marks)
 - (b) **Explain** three(03) types of intellectual property covered under the Intellectual Property Act. No. 36 of 2003. (06 marks)
- (Total 10 marks)

Question 04

Sarath and **Malan** are good friends who work in a multinational company. Both of them wanted to obtain insurance covers for their family members. **Sarath** applied life insurance covers for himself and his wife **Rosy**. **Malan** is a bachelor. Thus he applied for a general insurance cover for his car and a life insurance cover for his elder sister **Priya**. The insurance company rejected **Malan's** application for his sister's cover, but accepted **Sarath's** application for the cover of **Rosy**.

After 3 months, **Malan's** car was damaged due to uproot of a tree, under which it was parked. When he claimed damages, the insurance company rejected his claim stating that **Malan** has suppressed some facts in his application, in which he has mentioned that he parks his car in the garage. But, the insurance company found that he generally parks his car under a tree near the paddy field.

You are required to:

- (a) **Discuss** the reasons for rejecting **Malan's** application for his sister's life insurance while accepting **Sarath's** application for his wife's life. (06 marks)
 - (b) **Explain** the basis for rejection of **Malan's** claim by the insurance company regarding the damaged car. (04 marks)
- (Total 10 marks)

Question 05

A negotiable instrument is a written order or an unconditional promise to pay a fixed sum of money on demand or at a certain time. It can be transferred from one person to another, and once transferred, the holder obtains full legal title to the instrument.

You are required to:

- (a) **State** three(03) differences between a cheque and a bill of exchange. (03 marks)
 - (b) **State** four(04) characteristics to be fulfilled to become a holder in due course of a bill of exchange. (04 marks)
 - (c) **List** three(03) liabilities of the drawer of a bill of exchange. (03 marks)
- (Total 10 marks)

Question 06

Sasreeka runs a business of importing chemical fertilizer to Sri Lanka. He purchased Rs. 100 million worth of chemical fertilizer from China and the shipment was transported to Sri Lanka by a ship named **Mermaid**. Due to the current political climate which is ban the chemical fertilizer in Sri Lanka, the ship was stranded on the deep sea close to India for nearly one month. The captain of the ship, **Mr. Cool** noticed that the fertilizer containers are showing chemical reactions due to long spending on deep sea, so he took steps to store them at Chennai Harbour in India at his own cost. He attempted to contact **Sasreeka** to inform him what was happened, but there was no reply. After 2 weeks, **Mr. Cool** decided to sell the fertilizer stock because he no longer had money to store them. He sold the fertilizer for Rs. 75 million and arranged to send money to **Sasreeka**.

You are required to:

- (a) **Discuss** whether there is an agency relationship between **Mr. Cool** and **Sasreeka** with reference to selling fertilizer. (07 marks)
- (b) **Explain** whether **Mr. Cool** can recover the costs of storage from **Sasreeka**. (03 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

- (A) **Saman** and his wife **Piyumi** booked a luxury room at “**Hotel Victoria**”, Nuwara Eliya. After arriving to the hotel premises, they searched for a place to park their car. One of the security guards at hotel showed the directions to the car park, but he said, “*Sir, we provide parking spaces but not the security as we are running with a limited number of staff due to COVID-19 health guidelines*”.

After paying room charges for 3 days, they entered their room. **Saman** noticed an inscription on the room door which stated that “*the hotel management will not be held responsible under any circumstances for articles that are lost or stolen*”.

At the hotel lobby area, there was a jewellery stall run by **Manika**. She displayed an expensive gem-garland price marked as \$ 4,000 inside the shop window. The garland was further described as an antique that initially belonged to Queen Victoria. As an antique lover and jewellery collector, **Piyumi** wanted to buy this garland, but **Manika** refused to sell it saying it is only for displaying and not for sale.

At the time of departure, **Piyumi** noticed that her necklace which was inside their room was missing. Later they found that the spare wheel of their car was also missing.

You are required to:

- (a) **Explain** whether there is a valid contract between **Piyumi** and **Manika**. (05 marks)
- (b) **Discuss** the legal rights of **Saman** and **Piyumi** against “**Hotel Victoria**” for the lost objects. (07 marks)
- (c) **Explain** the legal rights of “**Hotel Victoria**” regarding the lost objects of it’s client. (03 marks)

(B) **Amal** is a businessman in Monaragala who sells organic fertilizer to farmers in the area. **Amal** signed a contract to buy 10,000kg of organic fertilizer from **Raj’s** warehouse in Colombo. **Raj** is an importer of organic fertilizer to Sri Lanka. Before the contract was entered into, **Amal** checked the quality of a sample of organic fertilizer presented by **Raj**. **Amal** received 10,000kg of organic fertilizer in sacks of 50kg each and sold them to local farmers. After two days, farmers complained about the poor quality of the fertilizer, and they returned the sacks that they purchased from **Amal**. Later, **Amal** realized that the quality of the organic fertilizer does not match with the quality of the sample he checked personally, prior to enter into the contract. Further, he realized that this bulk of fertilizer is not suitable for organic vegetable farming due to its poor quality and the chemical content.

You are required to:

Discuss the legal rights of **Amal** against **Raj** under the Sale of Goods Ordinance. (10 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. |