



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JULY 2023

(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.

19-08-2023

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 court has the initial jurisdiction on admiralty issues?

(1) Supreme Court.

(2) High Court.

(3) District Court.

(4) Magistrate's Court.

1.2 Which one of the following is **not** correct with reference to the legal system in Sri Lanka?

(1) The supreme source of law in Sri Lanka is the constitution.

(2) The kandyan law is a personal law with a territorial foundation.

(3) The residuary law of Sri Lanka is the English law.

(4) The common law in Sri Lanka is Roman Dutch law.

1.3 Which one of the following is **not** a power of the Supreme Court?

- (1) The jurisdiction on fundamental rights.
- (2) Final and conclusive civil & criminal appellate jurisdiction.
- (3) The jurisdiction regarding breach of parliamentary privileges.
- (4) Recovering due amounts in Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF).

1.4 You are provided the following statements with reference to the international trade:

- (a) The insurance certificate is a document to be submitted by the buyer to the seller in a CIF agreement.
- (b) Letter of credit is a method used for payments in international trade.
- (c) Mediation is a method of non-judicial dispute resolutions.

Of the above, select the correct statements with reference to the international trade:

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

1.5 You are provided the following example for an endorsement of a bill of exchange:

A. Saman Kumara

The above endorsement of the bill is:

- (1) Blank endorsement.
- (2) Special endorsement.
- (3) Restrictive endorsement.
- (4) Conditional endorsement.

1.6 Which one of the following is an instance that the bank has the power / authority to dishonor / refuse to pay a cheque commanded by a customer?

- (1) Notice of death of the customer.
- (2) When the cheque is postdated.
- (3) When the cheque has been expired.
- (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 An unpaid seller is permitted to re-sale the goods when the goods are of perishable in nature.
- 1.8 In a Free on Board (FOB) Agreement, the seller is responsible to enter into a transportation agreement to deliver the goods of the destination agreed by the agreement.
- 1.9 An objective of the Financial Transaction Reporting Act No. 06 of 2006 is to prevent money laundering and terrorist financing and to disclose such activities.
(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) rights of a holder in due course of the bill, as per the Bill of Exchange Ordinance.
- 1.11 State two(02) matters to be included in a Bill of Lading.
- 1.12 State two(02) examples for “non-negotiable instruments”.
- 1.13 State two(02) methods that consideration (price) can be determined in a sale of contract.
- 1.14 State two(02) remedies against the “goods” under the Sale of Goods Ordinance
(02 marks each, 10 marks)
(Total 25 marks)
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- End of Section A

SECTION B

(Total 50 marks)

Question 02

Walimuni is the union leader at his workplace. **Walimuni** applied for a life insurance policy at **XYZ Insurance Ltd.** At the medical test, he was asked whether he had consulted a doctor in asthma specialization during the past five years. **Walimuni** answered “no”. However, he had gone through with a doctor for asthma and had prescribed two inhalers for regular use. After obtaining the policy, at a huge protest organized by **Walimuni’s** trade union, **Walimuni** was badly affected by the resorted tear gas charge and thereby he died due to the severe damage caused to his lungs by the tear gas effect and asthma. From the post-mortem, it was identified that the very course of his death was asthma on weak lungs.

You are required to:

- (a) **Explain** whether **Walimuni’s** wife can claim compensation under the life insurance cover obtained from **XYZ Insurance Ltd.** (06 marks)
- (b) **Explain** two(02) parties of an Insurance Agreement. (04 marks)
(Total 10 marks)

Question 03

Rosi joined a private limited company on 01st April 2018 for a salary of Rs.60,000/-. She is entitled to Employees' Trust Fund (ETF) and Employees' Provident Fund (EPF) as an employee of the company. She has submitted her letter of resignation with effect from 30th April 2023 to migrate for permanent residency of another country. Her last month salary was Rs.200,000/-.

You are required to:

- (a) **Calculate, Rosi's** gratuity entitlement at the time of resignation. (04 marks)
 - (b) **Explain, Rosi** on her right to withdrawal of EPF. (03 marks)
 - (c) **State** three(03) main functions of the ETF Act No. 46 of 1980. (03 marks)
- (Total 10 marks)

Question 04

Suresh wrote a book titled "Hoda Yaluwo" in 2019 and obtained the copyright for the book. He had given the authorization to **Nimal** to translate this book. However, **Suresh** passed away in 2020. After finishing the translation, **Nimal** published this book as his book in different title. **Suresh's** wife is planning to take legal action against **Nimal**.

You are required to:

- (a) **Explain** the legal rights of **Suresh's wife** under the copyright law in Sri Lanka. (06 marks)
 - (b) **State** two(02) objectives of the Intellectual Property Act No. 36 of 2003. (04 marks)
- (Total 10 marks)

Question 05

"Partnership formation is likely the most frequently litigated question in all of the business law, but it has received little modern theoretical attention. As a result, the routine analysis of partnership-formation problems is ruled by relatively unexamined conceptualistic assumptions."

Bayern, S. (2015). Three Problems (and Two Solutions) in the Law of Partnership Formation. U. Mich. JL Reform, 49, 605. at p605.

You are required to:

- (a) **Explain** three(03) elements that can be identified in a Partnership as per the Partnership Ordinance 1890. (06 marks)
 - (b) **State** four(04) implied authorities vested with a partner in a partnership. (04 marks)
- (Total 10 marks)

Question 06

Sarath is an owner of a poultry farm and egg wholesale business. He has authorized **Kapila** to manage and operate his business at a profit. As a part of their contract document, **Kapila** was instructed not to sell eggs below the price of Rs.55/- each under any circumstances. Nothing was mentioned regarding emergency chicken feed supplies in the contract document. However, there was a sudden shortage of chicken feed stocks and **Kapila** bought chicken feed from **Mohamed** on credit. Meantime, **Kapila** sold 1,000 eggs to **Raja** at the price of Rs.52/- each and **Raja** subsequently realized that most of the eggs were not in good quality.

You are required to:

- (a) **Explain** the nature of the agency relationship between **Sarath** and **Kapila**. (03 marks)
- (b) **Explain** whether **Sarath** is liable to pay **Mohamed** for the chicken feed bought by **Kapila** on credit. (04 marks)
- (c) **Explain** whether **Raja** could claim compensation from **Sarath**. (03 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

(A) **Apsarie** runs a business named **AAA Ltd.** in her hometown, Badulla. Her company is producing a traditional beauty cream, named "Turmerica" using a native Sri Lankan Turmeric which can be used as a foundation body application. On 08th January, **Apsarie** called a Turmeric supplier, **Kahathuduwa** who lives in Horana, and offered him to supply 500kg of Sri Lankan Turmeric at Rs.5,000/- per kilogram and wanted him to accept or reject the offer by a postal letter addressed to **Apsarie's** office in Badulla. On the morning of 10th January, **Kahathuduwa** posted a letter to **Apsarie** stating that he is ready to supply the said quantity for the stated price. This letter reached **Apsarie's** office on 13th January. In the meantime **Ali**, another Turmeric supplier, heard about **Apsarie's** offer and decided that he would accept the offer. In the late evening of 10th January, **Ali** met **Apsarie** where she offered the contract to **Ali** to supply 500kg of Turmeric for the price of Rs.4,500/- per kilogram which **Ali** accepted, and he unloaded the requested quantity of Turmeric at **Apsarie's** office. **Apsarie** revealed the contract she entered with **Ali** and rejected **Kahathuduwa's** Turmeric. **Kahathuduwa** now plans to take legal action against **Apsarie**.

Recently, **Apsarie** discovered that the extracts of her product “Turmerica”, can be used as a painting colour and she named this by-product as “**Kaha-AAlepa**”. **Apsarie** advertised this by-product in newspapers with the inscription,

*“Rs.100,000/- reward will be paid by **Apsarie** to any person who makes claims on the usage of “**Kaha-AAlepa**”. Please follow the given instructions”*

Sittara-Gurunnanse is a fresco conservation painter who recently won a bid for the conservation of ancient fresco paintings at a temple in Kandy. He bought *Kaha-AAlepa* from **AAA Ltd.** and used it for fresco works at the temple according to the prescribed manner given by **AAA Ltd.** After the colour was applied, within one-week time ancient frescos were completely destroyed.

You are required to:

- (a) **Explain** whether **Apsarie’s** telephone call made a valid offer to **Kahathuduwa**. (03 marks)
- (b) **Discuss** whether **Kahathuduwa** could take legal action against **Apsarie**. (06 marks)
- (c) **Discuss** whether **Sittara-Gurunnanse** could take a legal action against **Apsarie**. (06 marks)
- (B) The government decided to import eggs as a solution to the unusual egg price hike prevailing in Sri Lanka. **Uttara-Bittara Ltd. (UB)**, is a well-known eggs wholesale company in Sri Lanka. **UB** has received an order from **K-Super**, a super market to supply imported eggs. Before placing the order, the Manager of **K-Super** visited **UB’s** warehouse and inspected a sample of the imported eggs. Then **UB** supplied a bulk of 10,000 eggs from their own stocks to **K-Super**, described as “imported from India”. After delivering the agreed lot of 10,000 eggs, the store-keeper of the **K-Super** discovered that only 6,000 eggs were similar to the samples shown, and the rest of the bulk eggs were not imported from India.

K-Super is now planning to take legal action for damages against **UB**.

You are required to:

- (a) **Explain** whether **K-Super** could claim damages from **UB**. (06 marks)
- (b) **Explain** two(02) rules regarding the transfer of property’s ownership in ascertainable goods between a seller and a buyer. (04 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.