



**ASSOCIATION OF ACCOUNTING TECHNICIANS
OF SRI LANKA**

CURRICULUM 2020

PILOT PAPER

Level II

203 - BUSINESS LAW (BLA)

A publication of the Education and Training Division

Association of Accounting Technicians of Sri Lanka
203 - Business Law (BLA)
Pilot Paper

Instructions to Candidates (Please Read Carefully)

Time Allowed:

Reading : 15 Minutes
Writing : 03 Hours

Structure of Question Paper:

- This paper consists of three Sections; Section A, Section B and Section C.
- All the questions of Section A, Section B and Section C should be answered.

Marks:

- Allocation of marks for each section:

Section	Marks
Section A	25
Section B	50
Section C	25
Total	100

- Marks for each question are shown with the question.
- The pass mark for this paper is 50%.

Answers:

- All answers should be written in the booklet provided, answers written on the question paper will not be considered for marking.
- Begin your answer of each question on a new page.
- All workings should be clearly shown.
- Do not write on the Margins.

Answer Booklets:

- Instructions are shown on the front cover of each answer booklet.

Calculators:

- Candidates may use any calculator except those with the facility for symbolic algebra and differentiation. No programmable calculators are allowed.

Attached:

- Action verb checklist – Each question will begin with an action verb (excluding OTQ's). Students should answer the questions based on the definition of the verb given in the checklist.

(Total 25 marks)

Question 01

Select the most correct answer to question Nos.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 jurisdiction to impose punishment for contempt of Court?

- (1) Supreme Court. (2) Court of Appeal.
(3) District Court. (4) Provincial High Court.

1.2 Which one of the following is **not** covered in the 1978 Constitution of Sri Lanka?

- (1) Presidential powers and functions.
(2) Public Security.
(3) Issues relating to official language and the language of legislation and the Court.
(4) Punishment for committing a crime.

1.3 Which one of the following is **not** an example for private law?

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

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

- (1) Consideration. (2) Capacity to contract.
(3) Legality of the Contract. (4) Location to enter into the Contract.

1.5 According to the Sale of Goods Ordinance, a contract of sale can be made;

- (a)** In writing.
- (b)** By word of mouth.
- (c)** Partly in writing and partly by words of mouth.
- (d)** Conduct of the parties.

Of the above, the correct statements are:

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

1.6 Contractual remedies for breach of contract would be:

- (a)** Compensation for damages
- (b)** Specific performance
- (c)** Injunction
- (d)** Rescission

Of the above, the correct answers are:

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

(02 marks each, 12 marks)

State whether each of the following statements in questions 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 Agency by necessity arises when there is an emergency situation.

1.8 The document required by an importer (a buyer) to claim goods on arrival is letter of credit.

1.9 Goods displayed in a shop with price marked by the seller is an example for invitation to treat.

(1 mark each, 03 marks)

Write short answers for questions No.1.10 to 1.14 in your answer booklet with the number assigned to the question:

1.10 State two (02) payment methods used in international trade.

1.11 State two (02) offences under the Consumer Affairs Authority Act.

1.12 List two (02) duties of a CIF seller.

1.13 State two (02) rights of a hirer.

1.14 State two (02) instances where an employee can withdraw Employees Provident Fund (EPF) contributions.

(02 mark each, 10 marks)

(Total 25 marks)

End of Section A

Five (05) compulsory questions

SECTION B

(Total 50 marks)

Question 02

Sara published a paper advertisement to sell her brand-new house situated in Nugegoda. **Raja** saw the advertisement and phoned up **Sara** to get an appointment to visit the premises for inspection. When **Raja** went to the property, there was another buyer named **Chandi**, who came for the same purpose. After the inspection of the property, **Raja** inquired the prices of the property from **Sara**. She said that she will sell it for Rs.45 million. **Raja** told **Sara** that he would buy the property if she sells it for Rs.43million. **Chandi** requested **Sara** to sell it for Rs.40 million. However, after a week **Raja** got to know that **Sara** has sold the property for Rs. 35 million to **Chandi**. **Raja** claims that there was a contract for sale between **Sara & Raja** and **Sara** has violated the contract.

You are required to;

- (a) **Explain** whether there is a valid contract between **Raja & Sara** and **Chandi & Sara**. (06 marks)
- (b) **Explain** the validity of the Contract between **Sara** and **Chandi**, if **Sara** has sold the property to **Chandi** due to threats made by **Chandi** to kidnap Sara's Daughter. (04 marks)

(Total 10 marks)

Question 03

Indu ordered a new electric vacuum cleaner from an online site, to clean her newly built office premises. The office premises had two floors and the floor was covered with expensive carpets which she imported from the Middle East. She paid about Rs.15, 000/= for the vacuum cleaner. On line advertisement described this machine as a durable, reliable and safe vacuum cleaner. She specially ordered a Blue and Silver color machine to match it with the theme of the office interior. However, when she received the vacuum cleaner, she found that it was a pink and gold color machine which was not the elegant look which she looked for. When one of her staff members attempted to use the machine, it damaged the floor carpet and made a huge noise. They could not use it for cleaning purposes.

You are required to;

Explain whether there are any breach of conditions in the above scenario considering the implied conditions under Sale of Goods Ordinance.

(10 marks)

Question 04

Alvis and **Perera** are the only directors of **XYZ Ltd. Silva** who is a friend of **Alvis** and **Perera** was introduced to **ABC Ltd** as a director of **XYZ Ltd** by **Alvis** and **Perera** and he was not appointed as a director of the **XYZ Ltd. Silva** purchased a motor vehicle for Rs.2.5 million from **ABC Ltd** on credit basis, as a director of **XZY Ltd**. However this payment was refused to settled by **XZY Ltd** and it was informed to **ABC Ltd** that they have not appointed **Silva** as a director and did not ask to buy a vehicle.

You are required to:

- (a) **Explain** whether **XYZ Ltd** is liable to pay for the motor vehicle purchased by **Silva**. (07 marks)
- (b) **State** three (03) requirements to create agency by ratification. (03 marks)
- (Total 10 marks)**

Question 05

Section 73 of the Bills of Exchange Ordinance defines a cheque as a bill of exchange drawn on a banker, payable on demand. Thus, the special requirements for a cheque are that it must be drawn on a banker and it must be payable on demand.

You are required to:

- (a) **Explain** four (04) features and functions of a cheque. (06 marks)
- (b) **Identify** four (04) instances where the bill can be treated as dishonored by non-acceptance. (04 marks)
- (Total 10 marks)**

Question 06

The prevention of Money Laundering Act and Financial Transactions Reporting Act were introduced with development and emerging challenges in the business. Financial Intelligence Unit was established in terms of the provisions of Financial Reporting Act No 06 of 2006.

You are required to:

- (a) **Explain** what is meant by Money Laundering. (03 marks)
- (b) **State** a purpose of the Financial Transactions Reporting Act. (03 marks)
- (c) **State** two (02) functions of Financial Intelligence Unit. (04 marks)
- (Total 10 marks)**

End of Section B

One (01) compulsory question

SECTION C

Question 07

(A) Seetha Fashion Apparels is a garment factory which has employed more than 1000 employees. The employees recently formed a trade union for the benefit and welfare of workers who are working in the factory. **Rajeew** is the trade union leader. He has complained to the management about several issues relating to health and sanitation of the employees of the factory. But, the management did not give proper consideration to the complaints made by the union leader. Thus, they decided to go on a token strike and on the day of the token strike management declared that they are ready to negotiate with the union. **Rajeew** seeks your advice as to the best solution that they can adopt to get maximum benefit out of the agreements between the union and the management.

Meanwhile, **Rajeew's** siblings **Kamal, Geetha** and **Rajeew** wanted to do a business together as a partnership and they got into an agreement in order to carry out an advertising agency. **Geetha** is very active in the business and she attends all the business meetings with clients. **Kamal**, though he contributed equally to the capital of the business he wants to keep away from day to day activities of the advertising agency. But, he wants to bring his wife as a partner to which **Geetha** objects. Further, **Geetha** claims that she should get an extra share from the profit made by the business and **Rajeew** explains that it is not stipulated in the agreement among them. However, **Rajeew** and **Kamal** want to change the nature of the business and **Geetha** strongly object to that. **Rajeew** claims that he should get paid for his contribution towards the management of the business.

You are required to:

- (a) Explain** what would be the best solution that **Rajeew** can negotiate to get maximum benefit for the employees of the Factory. **(07 marks)**
- (b) Discuss** the rights and duties of the following partners in relation to their advertising firm:
- (i) Kamal.
 - (ii) Geetha.
 - (iii) Rajeew. **(10 marks)**

(B) **Arun** wanted to get an insurance cover for his business firm. However, **Arun** does not have a clear idea about basic concepts relating to Law of Insurance. As he understands, Law of insurance could be defined as 'a contract where the insurer agrees with the insured that on the occurrence of a specified uncertain event, the insurer will pay a sum of money to the insured and in return the insured will pay the insurer a premium. In this context, the concepts of 'indemnity' and 'Subrogation' are serving two different purposes. He seeks your assistance to understand two basic concepts relating to insurance before he applies for cover.

You are required to;

Explain the concepts of 'Indemnity' and 'Subrogation'.

(Your answer should be supported with suitable examples.)

(08 marks)

(Total 25 marks)

End of Section C

Action Verbs Check List

Analysis (4)	Draws Connections Among Ideas and Solve Problems	Analyze	Examine in details to find the solution or outcome
		Differentiate	Constitute a difference that distinguishes something
		Discuss	Examine in detail by arguments
		Compare	Examine to discover similarities
		Contrast	Examine to show differences
		Outline	Make a summary of significant features
		Communicate	Share or exchange information
Application (3)	Uses and Adapts Knowledge in New Situations	Apply	Put to practical use
		Calculate	Ascertain or reckon with mathematical computation
		Demonstrate	Prove or exhibit with examples
		Prepare	Make or get ready for particular purpose
		Solve	Find solutions through calculations and/or explanation
		Assess	Determine the value, nature, ability or quality
		Graph	Represent by graphs
Comprehension (2)	Explains Ideas and Information	Reconcile	Make consistent/compatible with another
		Define	Give the exact nature, scope or meaning
		Explain	Make a clear description in detail using relevant facts
		Describe	Write and communicate the key features
		Interpret	Translate in to understandable or familiar terms
Knowledge (1)	Recalls Facts and Basic Concepts	Recognize	Show validity or otherwise using knowledge or contextual experience
		List	Write the connected items
		Identify	Recognize, establish or select after consideration
		State	Express details definitely or clearly
		Relate	Establish logical or causal connections
Draw	Produce a picture or diagram		
Level of competency	Description	Action Verbs	Verb Definitions



**ASSOCIATION OF ACCOUNTING TECHNICIANS
OF SRI LANKA**

CURRICULUM 2020

SUGGESTED ANSWERS

Level II

203 - BUSINESS LAW (BLA)

A publication of the Education and Training Division

Objective Test Questions (OTQs)
Compulsory questions

SECTION A

(Total 25 marks)

Suggested Answers to Question 01

1.1 2 1.4 4

1.2 4 1.5 4

1.3 3 1.6 4

(02 marks each, 12 marks)

1.7 True

1.8 False

1.9 True

(01 mark each, 03 marks)

1.10 - Bills of exchange.

- Collection agreements.

- Letters of credit.

- Payment in advance.

- Electronic commerce.

(Any 2 methods)

1.11

- Selling or offering to sell goods above the price marked on the goods.
- Refusal to sell goods by a trader when such goods have been obtained by him for the purpose of selling in Sri Lanka and which are in his custody and control.
- Denial of possession by a trader of any goods which have been acquired by him for the purpose of trade.
- Sale of goods subject to any condition when such goods are in the possession of a trader for the purpose of trade.
- Hoarding of goods by a trader or any other person (Hoarding means the act of stocking goods in quantities in excess of the normal trading requirement and hiding them).
- The increase in prices of goods and services declared as essential to life, by a manufacturer or a trader, without the prior approval of the Authority.

(Any 2 offences)

1.12

- To ship the goods of the description contained in the contract.
- To produce a contract of carriage by sea, under which the goods will be delivered at the destination contemplated by the contract.
- To arrange for an insurance policy that is available for the benefit of the buyer.
- To prepare an invoice for the goods.

(Any 2 duties)

1.13

- The hirer has the right at any time during the course of the hire purchase for the goods without having to wait for the expiry of the hire purchase agreement.
- The hirer has the right to terminate the agreement at any time.
- The hirer has the right to appropriate the payment regarding the hire purchase agreement where the hirer has more than one hire purchase agreements with the same owner. Generally, this refers to the right of the hirer to apply the payments to such account as he thinks fit.
- The hirer has the right to assign his interests in the agreement.

(Any 2 points)

1.14

- On reaching the retirement age (male worker – 55 years and a female worker – 50 years).
- If leaving Sri Lanka with no intention of returning (migrating).
- Become totally or permanently disabled (it has to be certified by a registered medical practitioner who is registered under the Medical Ordinance).
- Female employee resigning from work in view of marriage (she has to get married within three months of resignation or she has to resign within five years of the marriage).
- Taken up a pensionable appointment in the public service or in the Local Government Service.
- In the event of death of a member of the fund, his nominee/s can claim the benefits.
- Employees of public corporations or government owned business undertakings can withdraw EPF entitlements, when they leave the services.

(Any 2 points)

(Total 25 marks)

End of Section A

Suggested Answers to Question 02**Unit 2 - Law of Contracts**

Learning outcomes - Explain the requisites of a valid contract

- Explain mistakes, misrepresentation, duress and undue influence

- (a)** According to the given scenario, **Sara** has published a paper advertisement to sell her brand-new house situated in Nugegoda. This can be considered as an invitation to treat under the law of contract.

When **Raja** visited the place, **Sara** has made the offer to sell the house for Rs.45 million. This is the first instance where Sara made the offer for contract. But, **Raja** has not accepted the offer made by **Sara**. Instead, he has made a counter offer requesting Sara to sell the house for Rs. 43 million. Hence, there was no valid contract between **Sara** and **Raja**.

Same scenario and arguments are applicable to the matter between Sara and **Chandi**, because, when Sara made an offer **Chandi** also did not accept it directly. He also has made a counter offer of Rs. 40 million. At that point there was no valid contract between **Sara** and **Chandi**. However, if Sara has sold the property to **Chandi** for Rs. 35 million, there is a valid contract of sale between Sara and **Chandi**. **(06 marks)**

- (b)** There are a few requirements which are needed to form a valid contract between parties. Those requirements are as follows:

- Agreement between parties.
- Consideration.
- Intention to create legal relationship.
- Legality of the contract.
- Reality of Consent.

(It is not essential to mention all the above factors, if candidates have identified 'reality of consent', that would be enough for the scope of the answer)

Under reality of Consent, it is essential to have an agreement based on free consent between parties. However, free consent will be affected by element of duress if it was present at the time of formation of contract.

According to given scenario, **Chandi** has threatened Sara to kidnap her daughter. Thus, this would affect the validity of the contract and the contract becomes voidable. (04 marks)

Barton v. Armstrong

(Total 10 marks)

Suggested Answers to Question 03

Unit 3 - Law of sale of goods

Learning outcomes - Explain the implied conditions and warranties

According to the given scenario, **Indu** has ordered a new electric vacuum cleaner from an online site, to clean her newly built office premises. She has paid about Rs.15,000/- for the vacuum cleaner. Online advertisement described this machine as a durable, reliable and safe vacuum cleaner. Based on the given facts it can be considered as a sale of goods contract **based on description**. When there is a sale of goods, there are **applicable implied conditions**.

She has specially ordered a Blue and Silver color machine to match it with the theme of the office interior. But she has received a pink and gold color machine which was not in the elegant look which she looked for. In this situation, it is clear that product had not corresponded the description. Given that **Indu** did not have the opportunity of inspecting the product before she bought it, she had to purely rely on the description of the advertisement.

When one of her staff members attempted to use the machine, it damaged the floor carpet and made a huge noise. They could not use it for cleaning purposes. There is another implied condition relating to sale of goods under **Section 15(1)** of the Ordinance. According to that Section, the product should be fit for the purpose. But, in this scenario, they could not use it for cleaning purpose.

Beale Vs Taylor

In addition, there is a breach of an implied condition under **section 15(2)**, which stipulates the merchantable quality of the product. According to this requirement, the following qualities should be there in the product.

- Fitness for all purposes for which goods of the kind in question are commonly supplied.
- Satisfactory appearance and finish
- Freedom from minor defects
- Safety
- Durability

In the given scenario, none of the above qualities are met by the online merchant. Hence, **Indu** has the following remedies,

Rejection of goods for breach of condition and she is entitled to recover the money paid and damage.

(Total 10 marks)

Suggested Answers to Question 04

Unit 4 - Law of Agency

Learning outcomes - Explain the circumstances under which a relationship of Principal Agent would be recognized

- (a) According to the given scenario, **Alwis** and **Perera** introduced Silva to ABC Ltd as a director of **XYZ Ltd.** But **Silva** was not appointed as a director of **XYZ Ltd.** However as a director of **XYZ Ltd,** **Silva** has purchased a car from ABC Ltd on exist and subsequently **XYZ Ltd.** refused to pay the amount due to **ABC Ltd.**

This is an agency by estoppel and authority of an agent. The rule of estoppel means that once they have represented expressly or implied something then they cannot subsequently deny it. Therefore **XYZ Ltd.** is liable for the action of Silva. Since there is an agent principal relationship crated by the reasons of agency by estoppel. **Forman Vs Buckhurst Park Properties** (06 marks)

(b)

- Agent should have expressly contracted as an agent on behalf of the principal.
- The principal should have had contractual capacity at the time of entering into the contract by an agent.
- The principal is retrospectively liable by the ratification.
- The agent should disclose all material facts of the contract entered before the principal ratifies it.
- Illegal or void contracts cannot be ratified.
- The principal should ratify the contract within a reasonable time. (Any 4 points - 4marks)

(Total 10 marks)

Suggested Answers to Question 05

Unit 6 - Law applicable to Negotiable Instruments

Learning outcomes - Explain functions of cheques, bills of exchange & promissory notes in the business context.

- Explain the applicable principles, laws and the commercial significance of cheques, and bills of exchange.

(a)

- Cheque is an instrument in writing. It can be written in any type of pen, typed or printed. Oral orders are not considered as a cheque.
- There is an unconditional order in the cheque. This contains the request for payment. This unconditional order is issued by the customer to the bank.
- Cheques are drawn by a customer on his bank. Strangers cannot draw cheques. Cheque book facility is made available to a customer who maintains a minimum balance in their accounts.
- Cheques must be signed by the customer. Unsigned orders or cheques which have been signed by non-account holders are not recognized.
- Cheques are payable only on demand. Cheques when presented for payment must be paid on demand.
- The cheque must mention exact amount to be paid. The cheque must be for money only and the amount to be paid must be certain.
- The person to whom the payment is made must be certain. This could be either a real person or an artificial person.
- Cheque must be duly dated by the customer of the bank. It is required by the customer of the bank to duly date the cheque.
- There are three parties to a cheque, namely, drawer, drawee and payee. **(6 points - 6 marks)**

(b)

- If the drawee is bankrupt.
 - If the drawee is a fictitious person.
 - If the drawee is a person not having the capacity to contract.
 - After the exercise of reasonable diligence, such presentment cannot be effected.
 - Although the presentment has been irregular, acceptance has been refused on some other ground.
- (Any 4 points - 4marks)**

(Total 10 marks)

Suggested Answers to Question 06

Unit 10 - Offences Relating to the Business Environment and New Regulations

Learning Outcomes - Define fraud, theft, money laundering ,bribery, negligence and explain the main offences

- State briefly on Financial Intelligence Unit (FIU) and reporting requirements to FIU

(a) Money laundering is the illegal process of concealing the origins of money obtained illegally by passing it through a complex sequence of banking transfers or commercial transactions.

(02 marks)

(b) ACT provides for the collection of data relating to suspicious Financial Transactions to facilitate the prevention, detection, investigation and prosecution of the offences of money laundering and the financing of terrorism respectively **(03 marks)**

(c)

- Receiving Cash Transactions Reports (CTR), Electronic Fund Transfers (EFT) and Suspicious Transaction Reports (STR) from all reporting institutions.
- Analyzing the data collected to identify financial trails to support prosecution. The analysis of data is mainly in three forms; tactical, operational and strategic.
- Dissemination of information locally and internationally since money laundering and terrorist financing are often cross-border activities.
- Issuing rules to the financial and other reporting sectors on customer identification and record keeping.
- Conducting examinations to ensure compliance of the financial and other reporting sectors on Anti Money Laundering (AML)/Combating the Financing of Terrorism (CFT) rules issued by the FIU.
- Conducting programmes to enhance awareness among all stakeholders regarding AML/CFT measures.
- Conducting research/link analysis on the trends of money laundering and terrorist financing and strategies for the development of efficient preventive measures.

(Any two points - 4 marks)

(Total 10 marks)

End of Section B

One (01) compulsory question

SECTION C

(Total 25 marks)

Suggested Answers to Question 07

Unit 7	- Labour law and alternative dispute resolutions
Unit 5	- Corporate and Partnership Law
Learning outcomes	- Explain employees covered, benefits and authorized deduction - Explain arbitration process and role of Arbitral Tribunal - Identify and explain terms and concepts relating to partnership law

(A)

(a) Rajeew can get into a Collective agreement with the management on behalf of the employees of the Factory.

A collective agreement means an agreement between an employer/s and workmen/trade unions consisting of workmen relating to:

- The terms and conditions of employment.
- Privileges, rights or duties of any employer/s, workmen, trade union/s or
- The manner of settlement of any industrial dispute.

Rajeew should be advised as to the nature of the collective agreement. This type of agreements needs to be **reduced in to writing, signed by both the parties to the agreement and transmitted to the commissioner who will publish in the Gazette**. If the collective agreement is less favourable to the workmen, the commissioner can opt to not to publish it in the Gazette. On the publication in the Gazette, it becomes an implied terms of the contract of employment between the parties.

In order to terminate the agreement, the parties bound by the said agreement must send a notice to all other parties and to the commissioner of labour.

(07 marks)

(b) There are different types of partners in a partnership namely:

- General partners.

- Sleeping Partners.
- Salaried Partners.

In the given scenario, **Geetha** is the general partner who involves in the business actively. **Kamal** can be considered as a sleeping partner who does not actively involve in the day to day affairs of the advertising firm. **Rajeew** is also a general partner in nature. However, according to partnership law **Rajeew** is not entitled to claim a salary for his involvement in the business. It is his duty to help other partners to carry out business smoothly.

Kamal cannot bring his wife as a new partner to the business. Because, **Geetha** objects to that. If Kamal wants to bring his wife into the business as a new partner, he should obtain consent of both partners. Due to **Geetha's** objection he cannot bring his wife.

Geetha cannot claim for extra share of profit unless it is stipulated in the agreement. Thus, they should share the of profit equally among the three of them. (10 marks)

(B)

Unit 8 - Law of insurance, leasing, hire purchase and loans

Learning outcomes - Explain the insurance principles

Indemnity is the notion that the insured is entitled to be compensated for his or her loss but no more than this. In other words this is to make good or compensate for loss or damage suffered and must not take a profit out of insurance. **Castallain v. Preston**

Example:- If a motor vehicle worth of Rs 5 million has been insured for the same amount and a damage of Rs 2 million took place, only Rs 2 million will be received as compensation.

Subrogation could be defined as substitution of one person to another. Here, the insurer is entitled to enforce any remedy which the insured himself may enforce against any third party. This concept arises as a consequence of the principle of indemnity. This concept does not apply to life insurance.

Example:- If X obtained a fire insurance policy on goods thereafter goods destroyed by fire due to a negligence of Y. When X is paid by insurance company the right to sue Y passes to the insurance company from X under the principle of subrogation.

(08 marks)

(Total 25 marks)

End of Section C