



Association of Accounting Technicians of Sri Lanka

AA2 Examination - January 2019

**Questions and Suggested Answers
Subject No : AA25**

**BUSINESS LAW AND ETHICS
(BLE)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA
EDUCATION AND TRAINING DIVISION

**AA2 Examination - January 2019
(AA25) Business Law and Ethics**

SUGGESTED ANSWERS

SECTION – A

Objective Test Questions (OTQs)

Ten (10) compulsory questions

(Total 20 marks)

Suggested Answers to Question 01:

<i>Question</i>	<i>Answer</i>	<i>Reference</i>
1.1	(4)	<i>Chapter 01 - Introduction to the Laws and Regulatory Framework of Sri Lanka</i>
1.2	(3)	<i>Chapter 02 - Contract Law</i>
1.3	(3)	<i>Chapter 02 - Contract Law</i>
1.4	(4)	<i>Chapter 08 - Law of Insurance, Hire Purchase & Leasing</i>
1.5	(3)	<i>Chapter 04 - Negotiable Instruments</i>
1.6	(4)	<i>Chapter 02 - Contract Law</i>
1.7	(2)	<i>Chapter 09 - International Trade</i>
1.8		<i>Chapter 05 - Law of Agency</i> <i>Any two (02) of the following:</i> (a) By Expression (b) By Implication (c) By Estoppel (d) By Ratification (e) By Necessity
1.9		<i>Chapter 04 - Negotiable Instruments</i> <i>Any two (02) of the following:</i> (a) Institute of Chartered Accountants of Sri Lanka (b) Sri Lanka Accounting and Auditing Standards Monitoring Board (c) Securities and Exchange Commission (d) Colombo Stock Exchange (e) Board of Investment

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- (f) Registrar of Companies
 - (g) Department of Customs
 - (h) Central Bank of Sri Lanka
 - (i) Insurance Board of Sri Lanka

1.10 ***Chapter 08 - Law of Insurance, Hire Purchase & Leasing***

Confidentiality is where a professional is required not to divulge information acquired as a result of professional and business relationships to third parties without proper authority.

Nevertheless, he could do so only if there is a legal or a professional duty to disclose such confidential information.

Moreover, he must not utilize the confidential information acquired as a consequence of professional and business relationships for personal gains and benefits.

(Total 20 marks)



End of Section A

Five (05) compulsory questions.
(Total 25 marks)

Suggested Answers to Question 02:

Chapter 05 - Law of Agency

If a person authorises another the power to act on his behalf or to enter into contracts on his behalf creation of agency arises. The person who authorises is called the principal and the person who receives authority is called the agent. Once such a relationship is created the principal is liable for the transactions of the agent.

If the agent has acted without prior approval of the principal and has done so by necessity in an emergency the principal is liable for the agent's action.

(Case Law) : Great Northern Railway Company V. Swafeeld

The following matters should be satisfied for creation of agency by necessity:

- The emergency should have been such that the agent could not obtain approval of the principal.
- There was an actual commercial necessity to act so.
- The agent should have acted in good faith with the benefit of the principal in mind.

Re.: the case in this question, the agent Dayabaran had not been able to maintain communications with the principal - Daya Trading Company due to very heavy rain. Since steel is a commodity not perishable by rain the agent could have awaited till the rain ceased to contact the principal. Also, there is no indication that any economic damage would have been caused to the principal by not selling the steel in a hurry. Accordingly, there was no emergency need or actual commercial necessity that existed for Dayabaran to sell the steel to another party before the rainy weather condition cleared for him to contact the principal and get instructions.

Therefore, creation of agency by necessity for Dayabaran to sell the steel to another party does not arise in this case and Dayabaran is personally responsible for this transaction. Accordingly, Daya Trading Company, the principal can receive the loss from Dayabaran, the agent.

(Case Law): Prequer V Battspid Stamp and Heacock Ltd.

(05 marks)

Suggested Answers to Question 03:

(a)

Chapter 10 - Offences Related to the Business Environment and New Regulations

Any three (03) of the following:

- Refusal to sell goods in the possession of a seller.
- A trader stating that any goods acquired by him for sale are not in his possession.
- Denial of possession on 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.
- The increase in prices of goods and services declared as essential to life, by a manufacturer or trader, without the prior approval of the authority.

(03 marks)

(b)

Chapter 10 - Offences Related to the Business Environment and New Regulations

Offences under any of the following acts are construct as unlawful activities as per the Money Laundering Act.

- Poisonous items, Opium and Dangerous Drugs Ordinance.
- Any prevailing law or order for prevention of terrorism.
- Bribery Act.
- Firearms, Explosives or Dangerous Weapons Act.
- Exchange Control Violations.
- Any prevailing law or order regarding international organized crime.
- Any prevailing law or order regarding cyber crimes.
- Any prevailing law or order regarding offences against children and human trafficking.
- Any law imposing death penalty or a term of imprisonment over seven years.
- Pyramid scams
- Offences against children

(02 marks)

(Total 05 marks)

Suggested Answers to Question 04:

Chapter 03 - Sale of Goods

- (a) According to Section 2 (1) of the Sale of Goods Ordinance No. 11 of 1896;
“A contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in the goods to the buyer for a money consideration called a price.”
- (b) “Price” can be identified as a primary feature in a sale of goods contract. Expression of value of a good in money is price and in order to create a sale of goods contract, the consideration of the good has to be determined in terms of money. At the minimum, a nominal value in money has to be determined. Because the value of gifts and free promotional offers are not determined by a price such contracts are not identified as contract of sales.

(05 marks)

Suggested Answers to Question 05:

Chapter 06 - Basic Corporate Law and Basic Partnership Law

A customer has the right to stop payment of a cheque issued by him before the bank makes payment on such cheque.

A countermand (stop payment) order of a cheque is an advice issued by a customer to a bank and the bank has to act on such advice.

The bank would become liable for losses incurred as a result of not acting on a countermand of a customer due to negligence by the bank.

(Case Law): Barnett V. Wesminister Bank

However, in order to act on a countermand order, such order should be communicated by the customer to the intended officer of the bank and a simple communication would not be sufficient.

(Case Law): Curtiece V. London City and Midland Bank Ltd.

Although Sam had issued a countermand order stopping payment to Paul had not reached the proper person in the Bank until payment for the cheque was made. Therefore, the bank had not received a valid order stopping payment of the cheque. Further, Sam had not followed up with the Bank to ensure whether the countermand order had been received. Therefore, the bank is not responsible for any loss incurred by the customer. Accordingly Sam has no right to claim the amount of the cheque from the bank.

(05 marks)

Suggested Answers to Question 06:

Chapter 09 - International Trade

Letters of Credit can be identified as conditions agreeing to pay upon submission of documents specified by a bank.

In this case, the buyer advises his bank (the issuing bank) to open a loan a/c in the seller's name in the seller's bank (the informing bank).

If the seller requires to receive relevant financing facilities the buyer specifically states the documents that should be submitted to the bank. In the advice of the buyer, the dates of expiry of credit facilities would be stated.

Therefore, if the specified documents (Eg: Bill of Lading, Insurance Certificate, Invoice) are submitted to the bank before the date of expiry of credit facilities, the bank pays money to the seller as previously arranged.

The law relevant to letters of credit has been prescribed by Uniform Customs and Practice (UCP) applicable to letters of credit loans of the International Commerce Board.

(05 marks)

End of Section B

Three (03) compulsory questions.
(Total 30 marks)

Suggested Answers to Question 07:

(a)

Chapter 07 - Labour Law

Temporary employees are covered under the Employee's Provident Fund (EPF) Act No. 15 of 1958. Accordingly, Nayani is entitled for the EPF during her one year period of working.

However, she got the appointment in Sethsewa Foundation, which is a charitable organization. So, in determining whether the provisions of EPF Act is applicable to Nayani, we'll have to identify the number of employees at the organization.

If the number of employees is less than 10, then the organization is not covered under the EPF Act and if the number of employees is more than 10, then the provisions of EPF will be applicable.

(b)

Chapter 07 - Labour Law

The value arrived at by multiplying half of the last monthly salary drawn by the employee by the number of completed years of service with the employer could be received as gratuity.

Gratuity = (last monthly salary / 2) x completed number of years of service

1,950,000 = (300,000 / 2) x 13

Accordingly, Berty can claim a gratuity of **Rs. 1,950,000/-**.

(Total 10 marks)

Suggested Answers to Question 08:

Chapter 06 - Basic Corporate Law and Basic Partnership Law

In the partnership business carried out by Kamal, Geetha and Raja there was no written partnership agreement and they had agreed to follow the Partnership Ordinance of 1890. In this situation, **Geetha** and **Raja** are general partners who are actively engaged in the partnership.

Accordingly, any disagreements among them had to be solved as per Section 24 of the Partnership Ordinance. **Kamal** is a sleeping partner who is not so actively involved in the business.

- The requirement of Kamal not to be involved in the day to day work of the advertising agency.

According to Section 24 of the Partnership Ordinance of 1890 every partner of the partnership should participate in the management activities of the partnership. Accordingly, Kamal is duly bound to take part in the day to day activities of the partnership and no partner could control his participation as such or object to it.

- The requirement of Kamal to introduce his wife as a new partner.

According to Section 24 of the Partnership Ordinance of 1890, introduction of a new partner to the business has to be done with the consent of all partners. Because Geetha, who is an existing partner of the business is not willing to introduce Kamal's wife as a new partner, Kamal has no right to introduce his wife as a new partner.

- The need for Geetha to get an extra share of the profit. According to Section 24 of the Partnership Ordinance of 1890, the profits and losses of the partnership should be divided equally among the partners, and in the event of dissolution of the partnership, the capital should also be divided equally among them. Accordingly Geetha has no right to get an extra share of the profits.
- The requirement for Raja to get a salary for managing the business.

According to Section 24 of the Partnership Ordinance of 1890, a partner should not receive a salary for his services to the partnership. Accordingly, Raja has no right to receive a salary for managing the partnership.

- Changing of the nature of business.

According to Section 24 of the Partnership Ordinance of 1890, general business decisions of the partnership could be implemented on majority decisions and a decision relevant to change of the nature of business should be taken with the consent of all the partners. Other partners cannot change the nature of the business without the consent of Geetha.

(10 marks)

Suggested Answers to Question 09:

(a)

Chapter 08 - Law of Insurance, Hire Purchase and Leasing

An insurance agreement should be confirmed by the right to insurance. The right to insurance is the legal right of the insurer to insure some subject matter.

If it is with regard to insurance of a property for some person in order to have a right to insurance that person should have financial benefit by the existence of that property and incur financial loss by the destruction of that property.

Accordingly, for a person having a right, agreemental right or responsibility about the property a right to insurance is created.

Madura, who had the right of the property of the sole proprietorship had transferred that to XYZ (Pvt) Ltd in which he is a shareholder. According to the concept of legal personality he is no longer the owner of the property. Accordingly, after the transfer of the property to the company,

Madura does not have a right to insurance of that property.

In property insurance, at the time of entering into the insurance contract as well as at the time of claiming insurance, the insurer should possess the right to insurance.

At the time Madura claimed insurance in respect of the property destroyed by fire, Madura did not have the right to insurance.

Accordingly, the insurance company has a legal right to reject Madura's claim.

(Case Law): Macaura V Nothern Assurance

(b)

Chapter 08 - Law of Insurance, Hire Purchase and Leasing

The principle of “**indemnity**” is applicable to all insurance other than personal damages and fire insurance.

This 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 make a profit out of the insurance. In insurance contracts the insurer indemnifies the insured to pay the amount of the insured's actual loss up to the amount covered by the insurance policy.

(Case Law): Castellain V Pretson

(Total 10 marks)

End of Section C

A compulsory question.

(Total 25 marks)

Suggested Answers to Question 10:

(a)

Chapter - Contract Law

- (i) For creation of a valid contract the offer of the offeror should be accepted by the offeree. It can be by words expressed, by action or by the conduct of the offeree. However, silence or inactivity cannot be treated as implied acceptance.

(Case Law): Felt house V Buidly

Although Romesh intended to accept the offer made to him by Priya requesting the motor car for two million rupees, he had not done any action intending such acceptance. Romesh remaining silent without rejecting the offer cannot be considered as acceptance.

Accordingly, there has been no valid acceptance relating to Priya's offer. Therefore, no valid contract can be seen between Priya and Ramesh. As there is no valid contract between Romesh and Priya, Priya does not have a right to take any legal action against Romesh.

(06 marks)

- (ii) This is relating to termination of contracts. The basic objective of the contract between Priya and Mal Mal Florists is using of natural flowers for all decorations according to the theme of Priya's wedding. The florist had failed to do all decorations using natural flowers as contracted. The reason for that was the severe flood condition resulting from heavy rain the previous day. It has to be considered whether the difficulty in the supply of roses under the rainy-flood conditions causes frustration of the contract, because if frustration of the contract is established Mal Mal Florists could claim the contract to be frustrated and be freed from the responsibility.

(Case Law): Taylor V. Caldwell, Avery V. Bowder

Frustration of a contract arises when the contract cannot be performed due to reasons reasonably beyond the control of the parties involved in the contract after creation of the contract.

It would appear that the rainy conditions prevailed on the day prior to the wedding day and that fresh flowers could have been previously purchased and stored in the cool rooms and used.

Accordingly, non-availability of flowers due to rain is not a reason beyond the control of Mal Mal Florists. It is not a reason to frustrate the contract between Mal Mal Florists and Priya.

Also, Mal Mal Florists had failed to communicate the emergency situation to Priya and come to an agreement.

Accordingly, since the basic objective of the contract is breached by the conduct of Mal Mal Florists. This contract has been breached.

(Case Law): Paussard V. Spiers

When one party has breached the contract, considering the contract as repudiated, the innocent party has the right to refuse any further action on it. Priya has the right to refuse future payments considering the losses incurred by her on that deal.

(09 marks)

b) (i)

Chapter 03 - Sale of Goods

This is based on the implied conditions of the sale of goods ordinance.

In terms of Section 15 (2) of the Sale of Goods Ordinance, the goods sold by a seller in the normal course of business must be of merchantable quality.

That is, the goods sold by the seller should be fit for general use for the purpose intended.

The face cream purchased by Tina is not fit for general use for the purpose it was intended due to an insecure substance being included in it.

As such, skin and hair care saloon had breached an implied condition of the Sale of Goods Ordinance.

(Case Law): *Wren V. Holt*

Further, the implied condition stipulated in Section 15 (1) that the buyer relies on the seller's skill that the goods are reasonably fit for the purpose for which she purchased it too has been breached.

When requesting for a face cream Tina had communicated her requirement in an implied manner.

(Case Law): *Grant V. Australian Knitting Mills*

Frost V. Aylerbourey Dairy Company Ltd.

Skin and hair care had breached two implied conditions of the Sale of Goods Ordinance. Therefore, Tina can activate remedies available for a buyer against a seller.

However, in this instance, the remedy available to Tina is recovery of damages by filing action in courts against the seller.

(05 marks)

(ii)

Chapter 03 - Sale of Goods

This is also based on implied conditions of the Sale of Goods Ordinance.

The implied condition imposed by Section 15 (1) of the Sale of Goods Ordinance that the goods sold by a seller in the normal course of business should be fit for the requirements of the buyer submitted by expression or in an implied manner has been breached in this case.

Suraj had informed that the dining table required by him had to be in teak timber. Also, Suraj had specifically informed of the design of the table. The seller had breached the condition that the goods should be suitable for the requirement by sending goods which were not in accordance with the buyer's requirement.

(Case Law): *Baldoy V. Marshall*

The goods ordered by Suraj are specific and ascertained.

Therefore, Suraj is entitled to get his contract specifically performed as recovering of damages are not an adequate remedy.

(05 marks)

(Total 25 marks)

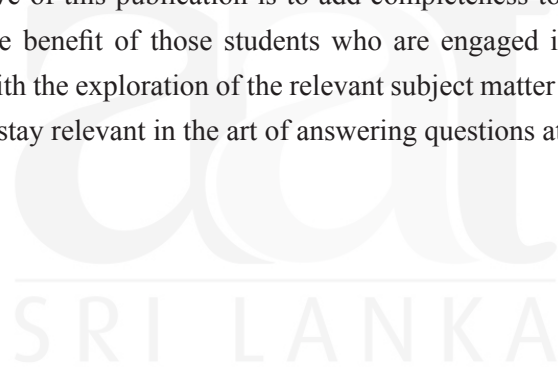
End of Section D

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