



Association of Accounting Technicians of Sri Lanka

Level II Examination – July 2021

Suggested Answers

(203) BUSINESS LAW (BLA)

Association of Accounting Technicians of Sri Lanka

No.540, Ven. Muruththettuve Ananda Nahimi Mawatha,

Narahenpita, Colombo 05.

Tel : 011-2-559 669

A publication of the Education and Training Division

Level II Examination - July 2021

(203) BUSINESS LAW

SUGGESTED ANSWERS

(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (4) Supreme Court

1.2 (3) Functions of the Board of Investment

1.3 (4) Buyer shall have the quite possession of the goods without any interference

1.4 (2) (a) and (b) only

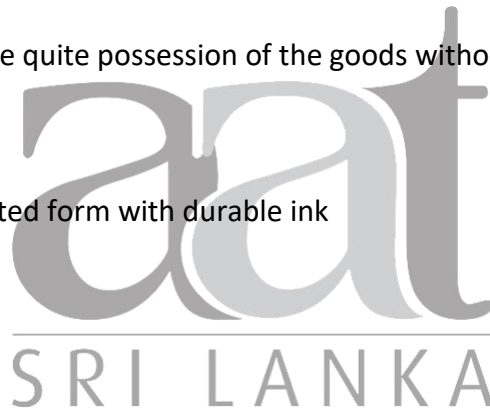
1.5 (3) It should be in printed form with durable ink

1.6 (4) All of the above

1.7 False

1.8 False

1.9 True



(02 marks each, 12 marks)

(01 mark each, 03 marks)

1.10 Regulatory Institutions in Sri Lanka

- 1) Association of the Chartered Certified Accountants
- 2) Sri Lanka Accounting and Auditing Standards Monitoring Board
- 3) Securities and Exchange Commission
- 4) Colombo Stock Exchange
- 5) Board of Investment
- 6) The Department of the Registrar of Companies
- 7) Customs Department
- 8) Central Bank of Sri Lanka

1.11 Elements of a contract of sale of goods

- 1) The subject matter of the contract must be goods.
- 2) The seller must transfer the ownership in the good to the buyer or agree to do so.
- 3) The agreement must be underlined by Monetary Consideration known as the price.
- 4) Two different parties.
- 5) Lawful object.

1.12 Objectives of Financial Intelligence Unit

- 1) Strengthening Anti Money Laundering and Countering the Financing of Terrorism (AML / CFT) activities in Sri Lanka.
- 2) Collecting, receiving, analyzing information to prevent money laundering and financing of terrorists and advising related authorities.
- 3) Upgrading compliance status of Sri Lanka to the internationally accepted level.
- 4) Strengthen the co-operation with international organizations and implementation of international recommendations/ best practices on Anti Money Laundering and Countering the Financing of Terrorism.
- 5) Improving public awareness about money laundering and terrorist financing activities.

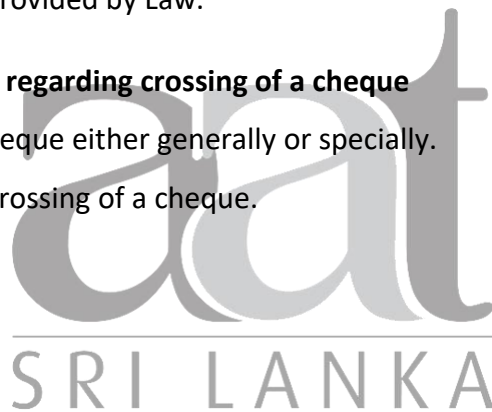
1.13

- 1) The information related to personal information
- 2) Information that would undermine the defense of the State or its territorial integrity or national security.
- 3) Where the disclosure of such information would cause serious prejudice to the economy of Sri Lanka.
- 4) Information that is likely to be seriously prejudicial to Sri Lanka's relations with any State, or in relation to international agreements or obligations under international law.
- 5) Information, including commercial confidence, trade secrets or intellectual property, protected under the Intellectual Property Act, No. 36 of 2003, the disclosure of which would harm the competitive position of a third party, unless the public authority is satisfied that larger public interest warrants the disclosure of such information.

- 6) The information could lead to the disclosure of any medical records relating to any person
- 7) The information consists of any communication, between a professional and a public authority to which such professional provides services, which is not permitted to be disclosed under any written law.
- 8) The information is required to be kept confidential by reason of the existence of a fiduciary relationship.
- 9) The information that can cause grave prejudice to the prevention or detection of any crime or the apprehension or prosecution of offenders.
- 10) Where such information exposes the identity of a confidential source of information in relation to law enforcement or national security, to be ascertained.
- 11) Where the disclosure of such information would infringe the privileges of Parliament or of a Provincial Council as provided by Law.

1.14 Powers of the “Drawer” regarding crossing of a cheque

- 1) Drawer can cross the cheque either generally or specially.
- 2) Drawer can cancel the crossing of a cheque.



(02 marks each, 10 marks)

(Total 25 marks)

End of Section A

Suggested Answers to Question Two:***Chapter 04 – Law of Agency******Chapter 10 – Offences Related To The Business Environment*****(a)**

Agency can be identified as a fiduciary relationship between two parties where one party authorizes another party to act on his behalf and the party who was conferred with such authority has agreed to act on behalf of the person conferring such authority.

The agent has fiduciary duties towards the Principal within the agency relationship. An agent is under a duty not to make secret profit while acting for the Principal. Following remedies accrues to the Principal as regards secret profit as against both the Agent;

- Principal can withhold payment of commission due to the Agent.
- Principal can recover secret profits earned by the Agent.
- Agency can be terminated.

Aforesaid legal duty of an agent is also explained in the decided case;

Salford Corporation V Lever

In this case tender was called for coals by S. L tendered a bid and simultaneously made an underhand dealing with the Manager who acted as the head of the tender board whereby one shilling per a ton of coals was to be commissioned to the head, if the contract was awarded in favor of L. When this illicit dealing came to light, the Principal instituted an action to recover secret profit earned from both L and the head of tender board. The Court held that, where secret profit has been earned, course of action accrues to the Principal against both the Agent being L and 3rd party being S who contributed to it.

In the given scenario also **Sarath** made 5 Million undisclosed extra profits in the capacity of agent from an underhand transaction with a store manager. Therefore, obvious remedy for **White Salt (Pvt) Ltd** is take legal actions against **Sarath** for recovering secret profits earned by him and as well as take disciplinary actions towards a dismissal from the employment.

Legal rights against Sarath;

- Company can withhold any commission which is due to be paid to **Sarath**.
- Company can recover any secret profits earned by **Sarath** as a result of the underhand deal.
- Company can terminate the agency of **Sarath**.

Furthermore, if there are any dues from **White Salt (Pvt) Ltd** to his agent **Sarath**, They can withhold the sums until the courts case come to an end.

(06 marks)

(b)

The given scenario should be analyzed together with consumer protection law and relevant theories applicable in the law of agency.

According to the section 11 of the Consumer Affairs Authority act, No 09 Of 2003, Selling or offering to sell any good above the marked price is a punishable offence and so selling White Salt at the rate of Rs. 100/- constitute a criminal offence under the aforesaid act.

It is very important to discuss agent's and principal's liability towards a criminal or penal act done by an agent to identify whoever is responsible for the offence of selling White Salt at a higher price.

As a general proposition is that principal cannot be held criminally liable for the act of his agent committed without his knowledge or consent. Principal is so liable in greater or less degree, where he is present and corporates with the agent or encourages, aids or abets the agent.

According to the given facts it appears that **White Salt (Pvt) Ltd** has no knowledge over his Agent's under hand transactions and wrong doings. Therefore, **White Salt (Pvt) Ltd** cannot be held liable for selling salt at a higher price. **Sarath** may be convicted for contravention of the provisions of section 11 of the Consumer Affairs Authority Act.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 08 – Law of Insurance, Hire Purchase & Leasing

(a)

The proximate cause in insurance is referred to as the nearest cause for the damage of an insured property or a life. Insurer is only obliged to pay compensation only where proximate reason is covered under the insurance policy. Proximate reason is measured not in terms of time and the most affected cause of damage is considered as the proximate reason. In that case, insurer is only obliged to pay compensation when the proximate cause is covered under the insurance policy.

Covid 19 can be identified as the proximate cause of **Raja's** death. Covid 19 implications have been recognized as a pandemic by World Health Organization. Hence, **Seetha** can claim for damages only where, the life insurance policy covers pandemics. If, life insurance policy does not cover pandemics, **Seetha** cannot claim for damages even though life insurance policy is in active and good standing.

(06 marks)

(b)

An insurance agreement should be confirmed by an Insurable interest. Insurable interest is the legal right of the insurer to insure the subject matter. Where, the insurance contract is not supported by the insurable interest, no valid insurance agreement exists. In order to have an insurable interest that person should have financial benefit by the existence of the subject matter and incur financial loss by the destruction of the subject matter.

Accordingly following persons have insurable interest on following persons;

- A creditor has an insurable interest in the life of a debtor.
- A guarantor of a debt has an insurable interest in the life of the principle debtor.
- A person has an insurable interest in his own life and one spouse has an insurable interest in the life of the other spouse.

In this case, **Seetha**, wife to Mr. **Raja** obtained an insurance policy covering **Rajas's** Life. Accordingly, **Seetha** is the insuree and **Rajas's** life would be the subject matter of the Insurance agreement. Therefore it is important to seek, whether **Seetha** has the insurable interest over **Raja's** life according to the relationship between them.

In **Griffiths V Fleming** Court held that, a person has an insurable interest in his own life and one spouse has an insurable interest in the life of the other spouse.

Accordingly, **Seetha** is able to obtain an insurance coverage over the life of her husband, **Raja** and claim damages for his death.

Also, if the **Raja's** demise is caused by a car accident it is normally covered under a life insurance policy and hence **Seetha** is able to obtain compensation for that.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 05 – Company Law

(a)

The document consisting of objectives of the company and rights and obligations of the members is known as the Articles of Association. According to section 2 of the Companies Act, a company should undertake any business or activity, do any act or enter into any transaction based on Articles of Association of the company.

According to section 13 of the Companies Act No 07 of 2007, if company has included objectives in the Articles of Association then it should work accordingly. However, no act of the company, no contract or other obligation entered into by the company and no transfer of property by or to the company, shall be invalid by reason only of the fact that it was done in contravention of company's objectives. Any director who permits any other obligation entered into by the company and transfer of property by or to the company that contravenes the objectives will be considered as a breach of directors duty.

In this case, as per the articles of 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.

However, **Rajamohan's** suggestion of leasing 3 fully kitted ambulances and rent out those to a private hospital can be considered as beyond its objects clause. Even though, it is not an illegal or void business activity, by passing such a resolution directors are breaching their duties prescribed in the company act and will be made personally liable for any losses occurred.

Therefore shareholders can dispute the suggestion of **Raj Mohan** on the basis that directors are violating their duties prescribed in the Section 188 of the Companies Act no 07 of 2007. Relevant provisions can be found in the section 17 (3) of the Companies Act No 07 of 2007.

Furthermore, the articles of association become a contract between the company and its shareholders; it is a statutory contract of a special nature. Thus, the Articles bind the company to its members, the members to the company and the members to each other.

The effect of the Articles of Association was explained in the matter of ***Hickman V Romney Mash Sheep Breeder.***

In this case, Articles of association contained a clause, which stated that any dispute between members of the company and company should be solved by arbitration. But the dispute went to the courts. Court held that since the Articles of Association acts as a contract between

members and the company, parties are bound by it. Therefore, the dispute should be directed to arbitration.

Accordingly, **Zakeer** a key shareholder of ABC PLC cannot go to court to resolve the dispute that had with **Rajamohan**, instead he should solve it by arbitration, as per the clause stated in the Articles of Association of ABC PLC.

As per the given facts it is almost similar to the aforesaid case, we can instruct the parties to solve the dispute by arbitration.

(07 marks)

(b)

Following persons are not qualified to be appointed as directors. Therefore, any person who is not expressly named by the Act as disqualified can be appointed as directors.

- 1) A person who is under 18 years of age.
- 2) A person who is an undischarged insolvent.
- 3) A person who is adjudged to be of unsound mind.
- 4) A person who is not a natural person.
- 5) Any person who does not comply with any qualifications for directors contained in articles of association of the company.
- 6) A person who is prohibited from being a director under Companies Act No. 17 of 1982.
- 7) A person who is prohibited from being a director under section 213 or 214 of Companies Act No. 07 of 2007.
- 8) According to the section 213 of the Act, any person during the five years after the conviction or adjudication of the following actions shall be prohibited from managing the company.

Where a person:

- Has been convicted of any offence under this act which is punishable by imprisonment.
- Has been convicted of an offence involving dishonest or fraudulent acts.
- Is adjudged insolvent under the insolvency ordinance.
- Is adjudged to be of unsound mind.

(03 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 07 – Labour Law

(a)

The given both short scenarios are based on “Economic Reality Test” under “Identification of distinctions between an Employee and Independent Contractor” of the Labour Law lesson.

“Economic Reality Test” the attention draws to the final benefit of the contractual obligations. In the event, a person serves for himself, he is an independent contractor. Here, **Dr. Jeewaka** charges 2,000/- for examination of one patient and 50% of the charges are paid to **Dr. Jeewaka** by the **Hospital** where he therefore works as an independent contractor and he is not an employee of the **Hospital**.

Under the “Economic Reality Test”, if the final consequence is attained by the Company to which the service is provided, the worker is an employee working for that Company (in this scenario, the **Hospital**). As, **Dr. Jeewaka** is given a monthly salary of Rs. 200,000/- by the **Hospital**, he is an employee of the **Hospital**.

(06 marks)

(b)

Following employees are not covered under Employee Provident Fund Act

- 1 Government Employees
- 2 Family Members (contributions should be made for persons living separately from the family)
- 3 Non performing Directors
- 4 Partners of a Partnership
- 5 Contributors to an approved Provident fund(Ex: University Provident Fund)
- 6 Persons below 14 years of age
- 7 Persons employed in Social Services and Welfare Institutions having less than 10 employees
- 8 Trained employees in Organizations providing services to Blind, Dumb, Deaf Orphanages

(04 marks)

(Total 10 marks)

Suggested Answers to Question Six:

(a)

Chapter 10 – International Trade Law

The method of Letter of Credit is popular as a method from which the interference of the banker is expected in order to strengthen the trust in an international transaction, whilst mitigating the risks on the part of the importer on prior payment of money and on the part of the exporter on prior shipment of the goods.

1. Letter of Credit (Documentary Credit) can be identified as an undertaking of payment after the documents determined by the bank have been submitted to the bank by the exporter.

2. The buyer instructs his bank to open a credit facility in the seller's bank (notifying bank) in the name of the seller. If the seller wants to obtain the relevant financial facilities, the buyer also specifically mentions the documents which he should submit to the bank. The buyer's instructions also specify the expiration date of the credit facility.

3. Therefore, if the seller submits the specified documents (eg, the bill of lading, the insurance certificate, the invoice) to the bank before the credit facility expires, the notifying bank makes the payment to the seller as notified before and that amount is transmitted to the seller's bank by the buyer's bank.

The Uniform Customs and Practice (UCP) for the documentary credit of the International Chamber of Commerce stipulate the law relating to letters of credit.

(05 marks)

(b)

Chapter 10 – Offences Related to the Business Environment

The Intellectual Property Act No.36 of 2003 covers the following intellectual properties,

- Copyright
- Industrial Designs
- Patent
- Trademark and trade name
- Layout designs and integrated circuits
- Geographical indications

(05 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Seven:

(A)

(a)

Chapter 2 – Contract Law

(i)

In this case, Tina has entered into a contract with **Healthy Life Hospital Ltd.** In March 2020, to supply fresh vegetables for a period of 4 years commencing from 01st April 2020. Also, the upfront payment of 50% of the contract value has been paid to **Tina** as an advance payment. Accordingly, it is very clear that the hospital and **Tina** have entered into a valid contract and it is legally enforceable on both parties.

Since, all the elements required to complete a valid contract have been completed, it can be said there is a legally binding agreement between the **Tina** and **Healthy life Hospital Ltd.**

(02 marks)

(ii)

In March 2020, Hospital has entered into another contract with **Tony** to purchase essential cleaning liquid for 4 years commencing from 01st April 2020. However, no advance payment has been paid. In deciding whether there is valid contract between **Tony** and Hospital, advance payment cannot be considered as element of a valid contract.

Due to not paying advance payment to **Tony**, we cannot conclude that **Tony's** contract with hospital is invalid. Since, all the elements required to complete a valid contract have been completed, it can be said there is a legally binding agreement between the **Tony** and **Healthy life Hospital Ltd.**

(02 marks)

(b)

Legal Rights of Healthy life Hospital regarding Tina

The Doctrine of Frustration, in law of contracts applies to the dispute between **Tina** and the **Healthy life hospital**. A frustrated contract is a contract that, subsequent to its formation, and without fault of either party, is incapable of being performed. The court has held in number of questionable cases that there may be number of circumstances in which an agreement may be frustrated.

- In **Avery V. Bowden** court held that contract may be frustrated Due to subsequent illegality or subsequent government intervention.

The common law will find a frustrated contract to be discharged. The basic objective of the contract between **Tina** and the **Healthy life hospital** is to supply fresh vegetables to hospital by fortnights. However, Tina failed to do so. The reason for that was the That one of **Tina's** drivers infected with COVID-19 and as a result, all other employees had to place themselves in self-quarantine and quarantine curfew was imposed and operated across the island,

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 Covid 19 impacts and quarantine curfew law are the facts beyond the control of **Tina**. Hence, contract might be considered as frustrated and Tina must be discharged from all the liabilities.

Legal Rights of Healthy life Hospital regarding Tony

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. The courts have tended to rule that an increased expense for one party can never frustrate a contract.

Accordingly, the omission of not providing cleaning liquids by **Tony** amounts to a breach of contract. As the innocent party **Healthy life Hospital** entitled for following remedies.

- To bring an action for damages
- To sue for Specific performance
- To refuse further performance of contract

- Repudiation of the contract
- To sue for an injunction
- To seek relief under the principle of unjust enrichment

(07 marks)

Chapter 2 – Contract Law

(c)

The main defense available for Tina is that, the contract is frustrated it becomes a void contract from the day of frustration. Parties should perform the contractual obligations until the contract is terminated by frustration. After the frustration of contract parties are discharged from performing the future contractual obligations.

Hence, the contract have been frustrated due to the intervention of government and some other facts which beyond the control of **Tina**. Therefore **Tina** has a right to continue the contract after the Covid 19 situation as there is no any breach in the contract and she has no obligation to pay the advance back to the hospital.

Cases: **Avery Vs Bowden and Taylor Vs Codwell**

(04 marks)

(B)

Chapter 3 – The Law of Sale of Goods

(a)

The given scenario is based on “Seller must have a right to sell” under “Implied Conditions and Warranties pertains to Sale of Goods” of Law of Sale of Goods. This is based on the implied conditions of the sale of goods ordinance.

In terms of Section 13(1) of the sale of goods ordinance, the seller that in the case of a sale he has a right to sell goods, and that in the case of an agreement to sell he will have a right to sell goods at the time when the property is to so pass. If, seller is enabled to comply with this implied term imposed by the statutory, it leads to a breach of the sales contract by the seller and liable to pay for the loss suffered by a bona-fide purchaser.

In **Rowland Vs Divall**, Divall bought a motor car in good faith from a thief. He sold it to Rowland, a car dealer. Rowland then put it in his showroom, and duly sold it to a third party. A couple of months later, the police seized the car and returned it to the true owner. Rowland paid the third party and sued Divall for the price he had paid. It was held by the court that as the seller did not have the right to sell the car; Rowland was entitled to recover the money from Divall.

As per the given facts it is almost similar to the aforesaid case, it seems that **Ride Ltd** had breached an implied conditions of the sale of goods ordinance since he has no proper right over the stolen car at the time of sale. Therefore **Ride Ltd** is obliged to pay back the entire sum paid by **Kamal** without any deduction for usage.

Furthermore, **Ride Ltd** was aware of the fact that car was a stolen one. Therefore, **Right Ltd** must be guilty and be convicted for aiding and abetting for theft.

(07 marks)

(b)

- Right of lien
- Right to stoppage in transit
- Right of re - sale

(03 marks)

(Total 25 marks)



End of Section C

Notice:

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”. The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.



© 2021 by the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka). All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)