



Association of Accounting Technicians of Sri Lanka

Level II Examination – July 2022

Suggested Answers

(203) BUSINESS LAW (BLA)

Association of Accounting Technicians of Sri Lanka

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

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(203) BUSINESS LAW

SUGGESTED ANSWERS

(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (3)

1.2 (2)

1.3 (4)

1.4 (4)

1.5 (3)

1.6 (3)

1.7 False

1.8 True

1.9 False



(02 marks each, 12 marks)

(01 mark each, 03 marks)

1.10

- 1) By Expression
- 2) By Implied Agreement
- 3) By Ratification
- 4) By necessity
- 5) By Estoppel

1.11

- 1) Loading the goods to the ship in the standard described in the agreement
- 2) Enter into a transportation agreement to deliver the goods on the destination agreed by the agreement
- 3) Preparation of an insurance contract that will be beneficial to the buyer
- 4) Preparation of an invoice for goods
- 5) Sending documents to the buyer within a reasonable time from loading to the ship

1.12

- 1) The Control Test
- 2) The Equipment Test
- 3) The Integration Test
- 4) The Economic Reality Test

1.13

- 1) Weekly holidays
- 2) Poya Holidays
- 3) Casual
- 4) leave
- 5) Public
- 6) Holidays
- 7) Annual Holidays
- 8) Maternity Leave



1.14

Insider Trading is the trading of a company's (A Listed Company in this case) stock or other securities by individuals with potential access to non-public information about the company. In other words, Insider Trading means buying or selling stocks, bonds or other securities based on significant information that is not available to the general public.

(02 marks each, 10 marks)

(Total 25 marks)

End of Section A

Suggested Answers to Question Two:***Chapter 03 – The Law of Sale of Goods*****(a)**

This is based on the implied conditions of the **Law of Sale of Goods / Sale of Goods Ordinance**.

In terms of **Section 13 of the Sale of Goods Ordinance**, the seller that in the case of a sale 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 pass. If, seller is unable to comply with this implied term imposed by the statutory, it leads to a breach of the sales contract by the seller.

Case Law: ***Rowland V Divali***,

In the given case, it seems that **James** had breached an implied conditions of the sale of goods ordinance since he has no right over the lorry at the time of sale as it was kept for repair by **Peter** since James sold the lorry without right to sell and is liable to pay for the loss suffered by a Bonafede purchaser. Therefore Larry has the right to claim money from James. Therefore **Larry** can sue against **James** and **James** is obliged to pay back all the sum paid by **Larry**.

(06 marks)

(b) Explain any two (2) of the followings

Existing Goods

Existing goods refer to ones which are in the ownership or possession of the seller at the time of entering into the contract. This includes goods pledged or rented or in the possession of an agent.

Eg: **Shehan** is an Automobile Seller. He agrees to sell a Honda Civic vehicle imported from Japan to Prasad. As the vehicle is in the possession of **Shehan** at the time of making of the contract, that vehicle is an existing good. Existing goods can either be specific or unascertained. The nature of the good assumes significance in the case of transfer of ownership, and enforcing remedies available to the parties.

Specific Goods/ ascertained goods

Ascertained or specific goods are the goods agreed and identified by the parties as being the subject matter, at the time of entering into the contract.

Eg: If Sheshan owns a five Honda Civic vehicles and he agrees to sell the one blue colored and bearing engine number 12345432, the subject matter of the contract is a specific good.

Unascertained goods

If the goods, which the parties agreed although not yet properly identified, such goods are unascertained goods.

Eg: In above example, if Prasad agrees to buy a vehicle out of 05 vehicles in the possession of **Shehan**, yet not identified which, the subject matter of the contract is uncertain or an unspecified good.

Future Goods

Future goods denote things to be acquired or produced by the seller, subsequent to entering into the contract.

Eg: If **Shehan** contracts with Prasad to sale a Honda Civic Vehicle, to be imported from Japan, such vehicle is a future good.



(04 marks)
(Total 10 marks)

Suggested Answers to Question Three:

<i>Chapter 05 - Company Law</i>

(a)

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 those disqualifications are as follows:

- 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 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
 - o 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 within the said 5 years period is disqualified to be a Director.
 - Is adjudged to be of unsound mind.

(04 marks)

(b) Any four (4) of the followings

- 1) Duty of directors to act in good faith and in the interests of company (Section 187)
- 2) Duty of directors to comply with Act and Articles of Association of the company. (Section 188)
- 3) Duty to exercise the degree of skill and care that may reasonably be expected of a person of his knowledge and experience and shall not act in a manner which is reckless or grossly negligent. (Section 189)
- 4) Director of a company may rely use correct information on reports, statements, and financial data and other sources. (Section 190)
- 5) Duty to disclose the interests (Section 192)
- 6) Duty not to disclose company information (Section 197)
- 7) Duty to disclosure of share dealing by directors (Section 200)
- 8) Approval of remunerations and other benefits of directors only in compliance with section 216 of the Act.
- 9) Not providing loans, entering into any guarantee or provide any security to directors if not approved under section 217 of the Act.
- 10) Directors should act in compliance of section 219 in an event of insolvency.
- 11) Duty to call an extra ordinary general meeting in case of serious loss of capital.

(04 marks)

- (c) Minimum number of Directors required for a private limited company is one (01).**

(02 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 10 - Offences Related to the Business Environment

(a)

- 1) To control and eliminate restrictive trade agreements among enterprises, to regulate the arrangements amongst enterprises with regard to prices, to control the prices, to eradicate unfair competition adversely affecting local or international trade.
- 2) To investigate or inquire into anti-competitive practices and abuse of dominant position.
- 3) To maintain and promote, effective competition between persons supplying goods and services.
- 4) To promote and protect the rights and interests of consumers, purchasers and other users of goods and services, relating to the price, availability and quality of such goods and services and variety supplied.
- 5) To keep consumers informed about the quality, quantity, potency, purity, standards and price of goods and services made available for purchase.
- 6) To carry out investigations and inquiries in relation to any matter specified in this Act.

(06 marks)

(b)

Being a Trader, **Vimal** cannot refuse to sell goods to **Suraj**. Under Consumer Affairs Act, the following are regarded as main offences by a Trader;

1. A trader who is in possession of any goods for the purpose of trade
 - Refusing to sell the good;
 - Denial of the possession of goods;
 - Sale of such goods subject to any condition rather than the price of good;
 - Hoarding of an excess amount of goods,are considered as offences that can be punished by courts.
2. As per the law, consumers' rights in absence of a valid proof is not protected. Therefore, the consumers have a right to request a receipt for the purchases. A receipt consisting following information should be issued to the customer.
 - Date of sale
 - Quantity of the goods sold
 - Price paid
 - Whether it is a retail or wholesale
3. It is compulsory of every trader to exhibit a price list of goods available for sale in his place of business.

4. There should be a notice board at a prominent place in his place of business for displaying notices, warnings etc issued by Authority. The traders who have removed such notices or alter them are considered as wrong doers by the Act.
5. Traders should not mislead or deceive any customer or trader in the course of his business.
6. The Authority may enter into written contracts with any trader relating to maximum price of goods, quality of any good produced etc.
7. In the label goods names by the authority should contain the retail price, production code number and expiry date.
8. Sale or display of goods, exceeding the maximum price of the good.

In the given scenario, the following irregularities have emerged through Vimal's actions

- **Selling or offering to sell any good above the marked price**
 - 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 offering milk packet sticker pasted with higher price of Rs. 1020 constitute a criminal offence under the aforesaid act.
- **Refusing to sell the goods**
 - A trader who is in possession of any goods for the purpose of trade, refusing such to sell is considered as an offence by consumer affairs authority act. Refusing to sell grocery item to **Suraj** by **Vimal** constitute a criminal offence.

Hence Vimal is liable for a imprisonment or fine imposed by the authority or magistrate court.

(04 marks)
(Total 10 marks)

Suggested Answers to Question Five:

<i>Chapter 06 - Negotiable Instruments</i>

(a)

Bank is liable to pay for cheques, which have not crossed, presented for payments at the counter of the bank. Following can be noted in the given scenario;

- **Crossed Cheque**

The Cheque presented to the bank carries a crossing includes "Not Negotiable". If a Cheque is crossed, it cannot be encashed over the counter of a bank and hence it has to be deposited in to a bank account for a realization.

- **Discrepancy in the Cheque Amount**

Further, in this case on the Cheque it was stated twenty five thousand only in words and fifty two thousand in numbers.

- **Insufficient fund in the account**

There are also insufficient funds in the account to pay the check.

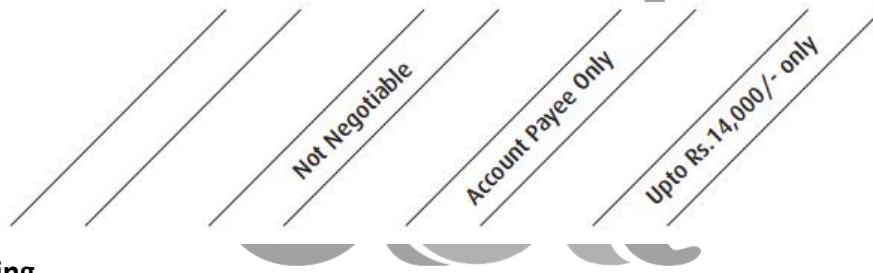
Hence, **The Cheque must be dishonored** by the banker considering all the above matters.

(06 marks)

(b)

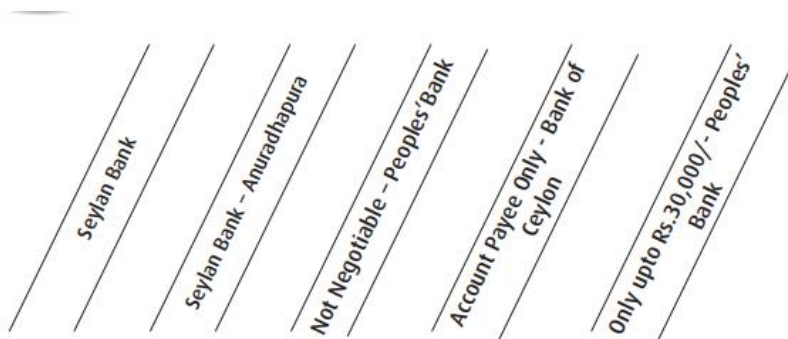
General Crossing

General crossing is where a Cheque bears across its face two parallel transverse lines. One can put any accepted statement except for a name of a commercial bank. Payment for crossed Cheques will be made only to a banker and that bank will credit that money to the depositor's account after receiving payments from paying bank. The bearer can deposit the Cheque in any bank. Examples for General Crossing can be illustrated as follows;



Special Crossing

Where a Cheque bears across its face an addition of the name of a banker, either with or without the customary versus, the Cheque is crossed specially and to that banker. If required, one can add the accepted statements like "not negotiable", "Account Payee Only" in addition to the name of a bank. When a special crossing had been done, the value of that Cheque should be credited to an account of the bank mentioned in that crossing. Examples for Special Crossing can be illustrated as follows;



(04 marks)

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 08 - Law of Insurance, Hire Purchase and leasing

(a) Contracts of Insurance are contracts based on the principle of **utmost good faith** (Uberrimae fidei). Accordingly, all parties are obliged to reveal others all information that might influence the others' decision to enter into the insurance contract or enter in to the contract at what premium. This principle provides general assurance that the parties involved in an insurance transaction are truthful. The failure to disclose a material fact is caused the insurance contract voidable. Misrepresentation on material fact leads the contact to breach of good faith. It can result in a denial of benefits by the insurer.

As per the given facts, It Seems that **Apeksha** did not disclose any fact regarding her medical situation to the Insurance company at the time of obtaining Insurance policy. The misrepresentation of facts amounts to a breach of the principle of uberrimae fidei by **Apeksha**. Therefore liability could be repudiated by insurers on ground of mis-statement and it can be justified according to the insurance law. Accordingly, **Apeksha's** dependents have no legal right to claim compensation under the life insurance cover.

Case Law: *Looker V Law Union Insurance Company*

(07 marks)

(b)

- 1) Intention to create a legal obligation
- 2) Insurance offer or proposal
- 3) Acceptance
- 4) Legal validity
- 5) Competent parties
- 6) Consideration

(03 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Seven:

Chapter 02 - Contract Law

(A)

(a)

1) Revocation of the offer

The offeror can revoke the offer at any time before the acceptance. Even if the offeror has promised to keep the offer open for a specified time period, he is at liberty to revoke it at any time before the acceptance.

Case Law: Routledge V. Grant

2) Rejection of offer

This can take place by two means,

- By express rejection
- By a counter offer from the offeree

A counteroffer can happen in two ways either by making a fresh offer, which counters the initial offer or by accepting the offer by laying down conditions. When a counteroffer is made it rejects the initial offer and also terminates the initial offer.

Case Law: Neale Vs Merrett and Hyde Vs Wrench

3) Lapse of time

When the offer is not accepted within the specified period or a reasonable period the offer will be terminated. It can happen in two ways, as specified time given and specified time not given.

Case Law: Ramsgate Victoria Hotel V. Montifiore

4) Frustration

If the offer cannot be subsequently performed because something has happened beyond the control of the offeror or offeree, the offer is terminated by frustration. For example, the offer cannot be subsequently performed because of the destruction of subject matter of the contract, insanity of offeror or offeree, death of offeror or offeree.

(04 marks)

(b)

The incident which has arisen between **Rani** and **ABC Ltd** relates to the legal doctrines applicable to the acceptance of the law of contracts. The acceptance should be formally communicated.

Acceptance is an unconditional assent made by offeree to the offeror. There is no valid contract where there is no valid acceptance. The acceptance becomes effective only after it is officially communicated to the offeror. Therefore, unofficial or unauthorized communication is not a valid form of communicating the acceptance.

Case Law: Powel V. Lee

In the given scenario, the matter between **Rani** and **ABC Ltd**. **ABC Ltd** was the decision of the company was never officially communicated. Hence ABC Ltd's acceptance of Rani to the position of Assistant Accountant was a mere unofficial communication. Accordingly, as there is no valid acceptance or agreement between **Rani** and the company, **Rani** does not have any reasonable legal remedy against the **ABC Ltd**

(06 marks)

(c)

This is based on the law of contract. A contract could be defined as an agreement between parties with an intention to create a legal relationship. Two basic elements which creates an agreement is "the offer" and "the acceptance". An offer could be defined as a definite promise to be bound on specific terms made by the offeror to the offeree. The offer could be made in writing, by word of mouth or even by implication. Such offer must be accepted before its termination to create a valid contract.

In this case **Raja** has made an offer to sell his house to **Amal** at Rs. 15 million.

Offer may be terminated by rejection. When offeree rejects the offer, it comes to an end. Offer may be rejected by making a counter offer. A counter offer can be made in either by making a fresh offer by accepting the offer by laying down conditions.

In this case Amal has made a counter offer expressing his consent to buy the house at Rs. 14 million, The original offer of selling the house for Rs. 15 million was rejected by the counter offer. **Therefore, there is no valid contract between Raja and Amal** for Rs. 14 million or for Rs. 15 million.

Further **Amal** made his consent to buy house for 15 million. However, as previous offers have been terminated, it must be treated as a new offer. **Amal** is the Offeror and **Raja** is the Offeree. As the recipient of offer, Raja is free to accept or reject an offer received by him. **Hence, there is no valid offer, Acceptance or contract between Amal and Raja.**

Case Law: Neale Vs Merett

Hyde Vs Wrench

(05 marks)

Chapter 10 - The Law of Agency

(B)

(a)

This is based on the duties of an agent under the law of agency.

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 person granting the authority or power is called 'Principal' while the person receiving the same is termed as 'Agent'.

Here, **Veena** employed in the **Kathy's** Business as a manager. Accordingly, **Veena** conducts business activities on **Kathy's** behalf. Therefore, **Veena** can be considered as the agent of **Kathy** and the law of agency applies to the relationship between them.

Agency is a relationship of trust. Accordingly, the agent must fulfill fiduciary duties to the principal. No agent can divulge confidential information acquired with regard to the Principal as a result of the relationship of agency, to other persons and not to use it for his own usage. The duty of confidentiality extends beyond the termination of relationship.

Case Law: AG V Blake

Here, **Veena** used Kathy's business information for the purposes of her competing business. She violated the fiduciary duty upon her Principal. As well as by doing a competitive business **Veena** has also created a conflict between her interests and Principals Interest.

Accordingly Kathy as the Principal has a right to terminate the agency relationship with **Veena** and sue against **Veena** to recover undisclosed profits earned by Veena using by utilizing the information and relationships of the Kathy's business.

(05 marks)

(b)

Tony acts as an agent for **Kathy** to find buyers to sell her property.

Every Agent is expected to exercise due care when acting on behalf of the Principal. If a loss is caused to the Principal due to the negligence of an agent, the agent should make good that loss to the Principal.

In the given case, Tony failed to disclose to Kathy regarding the buyer who is willing to buy at higher price because of his negligence. Hence it can be stated that Tony has violated the duty of care as an agent. Tony is liable to compensate Kathy for the loss caused by his negligence as agent.

Case Law: Keppel V Wheeler

Further Tony has not complied with the instruction given by Kathy and thus breach the confidence of the agency between both of them.

Case law: Turpin V Bilton

Tony is liable to compensate Kathy for the loss caused due to above mentioned reasons. Kathy has the option of suing Tony for damages.

(05 marks)
(Total 25 marks)



End of Section C

Notice:

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