



Association of Accounting Technicians of Sri Lanka

Level II Examination – July 2023

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 (2)

1.2 (3)

1.3 (4)

1.4 (3)

1.5 (1)

1.6 (4)

1.7 (True)

1.8 (False)

1.9 (True)



(02 marks each, 12 marks)

(01 marks each, 03 marks)

1.10 Any two (2) of the following

- 1 Get priority to receive value for bill
- 2 Can sue all previous parties to recover the rights on the bill
- 3 Can transfer a good title by negotiation

1.11 Any two (2) of the followings

- 1 Specifications to identify goods
- 2 Quantity, size and weight of goods
- 3 Quality of goods

1.12 Any two (2) of the followings

- Money Order
- Postal Order
- Fixed deposit certificates
- Share Certificate
- Letter of Credit
- Bill of Lading
- Deposit Certificate

1.13 Any two (2) of the followings

- 1 Price fixed by contract
- 2 Price calculated as specified in the Agreement contract
- 3 Price determined by course of dealing between the parties
- 4 Reasonable price.

1.14 Any two (2) of the followings

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

(02 marks each, 10 marks)

(Total 25 marks)

End of Section A

Suggested Answers to Question Two:

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 **Walimuni** did not disclose actual facts regarding her medical situation to the Insurance company at the time of obtaining Insurance policy. In the medical examination related to life insurance, **Walimuni** has clearly asked whether he has consulted a specialist doctor in the last five years. Even while using the inhaler on medical advice, **Walimuni** informed the insurance company that he did not seek medical advice. The misrepresentation of facts amounts to a breach of the principle of uberrimae fidei by **Walimuni**. Therefore liability could be repudiated by insurers on ground of mis-statement and it can be justified according to the insurance law. Accordingly, **Walimuni's wife** has no legal right to claim compensation under the life insurance cover.

Case Law: Looker V Law Union Insurance Company

(06 marks)

(b)

1 First party

The person who presents an insurance proposal or the person who obtains insurance coverage, Also known as the 'Insured'.

2 Second party

The party who accepts the insurance proposal or the insurance company, Also known as the 'Insurer'

3 Third party

The third party is the relationship about external party apart from the first & second party, that comes into the activation of the agreement

(04 marks)

(Total 10 Marks)

Suggested Answers to Question Three:

Chapter 07 – Labour Law

(a)

Every employee who is not expressly excluded by Payment of Gratuity Act, Act No 12 of 1983 are entitled for gratuity upon his or her cessation of employment. An employee should complete five(5) year of service with same employer to be entitled for gratuity payment. The Value arrival by multiplying half of the last month salary drawn by the employee from the number of completed years of service with the employer could be received as gratuity.

Gratuity = $\frac{\text{Last month salary} \times \text{Completed number of years}}{2}$

$$= \frac{200,000 \times 5}{2}$$

$$= 500,000$$

Accordingly, **Rosi** can claim a gratuity of Rs 500,000/-

(04 marks)

(b)

An employee can withdraw his Employees' Provident Fund only in cases prescribed by the Employees' Provident Fund Act. Moving to another country for permanent residence is seen as an opportunity for an employee to get back the Employee Provident Fund and thus **Rosi** has a legal right to back her Employee Provident Fund.

(03 marks)

(C)

- 1 Collection of relevant contributions from the employers.
- 2 Maintenance of member accounts of every member
- 3 Payment of funds claimed by the members
- 4 Administration of this welfare fund scheme of the members
- 5 Identifying the defects, taking legal steps and penalizing
- 6 Investing the funds on different negotiable instruments.
- 7 Payment of dividends to every member at the end of every year

(04 Marks)
(Total 10 Marks)

Suggested Answers to Question Four:

Chapter 10 – Offences related to the business environment

(a)

According to Section 6 of the Intellectual Property Act, the author of a certain book has copyright in respect of that book. The economic and moral rights given to Classical, Artistic, and scientific works of creators are known as copyrights.

Owner of the copyright will enjoy the economic rights of reproduction of the work, sale or lease of work, distribution, commutating to public, translation of the work while he or she also enjoy the moral rights of protection against any distortion, mutilation, or other modifications of or other derogatory action in relation to his work, which would be prejudicial to his honor or reputation. The general rule is that from the day the work is presented to the public, it is protected during the entire lifetime of the author and for a further period of seventy years after the death of the author.

By publishing **Suresh's** "Hoda Yahaluwo" book under a different name, **Nimal** has violated moral rights related to intellectual property. In that, the respect and reputation that Suresh would have had regarding that book is lost. Also, **Suresh's** heirs lose the right to make a profit by selling the "Hoda Yahaluwo" book. Since Suresh's intellectual property rights have apparently been infringed by Nimal's action, **Suresh's** heiress wife can sue Nimal for violation of the Intellectual Property Act. She also has economic and moral rights over the book for 70 years.

(06 marks)

- 1 Provide for the law relating to intellectual property
- 2 Provide for an efficient procedure for registration control and administration
- 3 Appointment of the Director General of Intellectual property of Sri Lanka
- 4 Amend the Customs Ordinance and the High Court of the Provinces Special Provisions Act

(04 marks)

(Total 10 Marks)

Suggested Answers to Question Five:

Chapter 05 – Company & Partnership Law

(a)

Existence of a business

Section 45 of the Partnership Ordinance of 1840, states that a partnership can be formed for every trade, occupation, or profession. According to this definition, it is clear that the Ordinance has not restricted partnerships to engage in any commercial activity

However, according to the financial market regulations, a banking business, Insurance business or a financial institution cannot be operated as a partnership. Partnership Ordinance further states that in order to identify as a partnership, a business should have a continuous existence. . As an example, an agreement between two people to buy and repair a motor cycle with the intention of resale of the same to divide the profit out of it would amount to a partnership business, as it does not have a continuous existence

Association of two or more persons

There must be at least two persons to operate a partnership business and the maximum number of partners are not restricted under the Partnership Ordinance. But it is restricted to twenty partners under Section 519 of the Companies Act no 07 of 2007.

Profit motive

The intention of a partnership should be profit. Partnerships differ from clubs and associations because such does not have any profit motive

Contract for Partnership

Partners of a partnership should have a common agreement to do their business together and to share profits and losses among them. It is essential to understand that a person is not considered as a partner of a partnership based on the mere fact that he or she receives a part of profits earned.

(06 marks)

(b)

Any partner will have an implied authority to engage in following acts in a partnership,

- 1 to sell good of the partnership
- 2 to sell materials of the partnership
- 3 to recover debts of the partnership and issue receipts for them
- 4 to recruit employees for the partnership

(04 marks)

(Total 10 Marks)

Suggested Answers to Question Six:

Chapter 04 – Law of Agency

(a)

As per the given scenario, the nature of the Agency relationship between **Sarath** and **Kapila** is “Agency by Expression”. This mode contemplates direct appointment of an Agent. Here **Sarath** expressly appoint **Kapila** as his manager of the poultry business.

(03 marks)

(b)

This situation is explicable with reference to the rules pertains to the “Implied Agency”. Where a principal has designated a person for a particular position or office, even if the powers to execute a certain part of that position or office have not been expressly conferred with the agent, on account of the nature of the position or office or customs and institutions associated therewith, the authority to act on behalf his Principal is deemed to have implied.

Kapila is appointed as the manager of the poultry farm. As the manager of such business, **Kapila** has the implied authority to engage in such activities that are necessary to fulfill the responsibilities of that position. Accordingly, although there is no express authority given by the agreement, **Kapila** has an implied authority to purchase chicken feed for the farm.

In the matter of *Hely-Huchinson V Brayhead* Ltd court held that Managing Director of a company had not expressly been authorized to provide an indemnity, as regards the position he had held in the Company, he has the implied authority enter into a such agreement.

Since **Kapila** has used the implied power of his position to buy the chicken feed, his principle **Sarath** is obliged to pay the price of the chicken feed to **Mohammed**.

(04 marks)

(C)

One of the main duties of an agent is that the agent must follow the principal's instructions and the agent must not exceed the authority vested him. In this scenario, Kapila (the agent) was instructed 'not to sell eggs below the price of Rs.55/- each in any circumstances and it is a given instruction. However, Kapila sold 1,000 eggs to Raja at the price of Rs.52/-and Raja subsequently realized that most eggs were not of good quality. Since, Kapila failed to follow the given instructions, Raja will not be able to claim compensation from Sarath. It should be paid by Kapila.

(04 marks)

(Total 10 Marks)

End of Section B

Suggested Answers to Question Seven:

Chapter 02 - Contract Law

(A)

(a)

Offer in simple terms can be defined as a manifestation of a willingness of one party with intention of forming a contract with the other party. In legal terms it can be defined as a definite promise to be bound on specific terms made by the offeror to the offeree. Offeror can make the offer in writing, verbally or impliedly.

Followings are the main elements of a valid offer.

- The offer should be definite and firm.
- The offer should be made with an intention to be bound by it
- The offer becomes effective only after it is communicated to the offeree before he accepts it

On 08th January, **Apsarie** called a Turmeric supplier, Kahathuduwa who lives in Horana, and offered him to supply 500kg of Sri Lankan Turmeric at Rs.5,000/- per kilogram.

It appears that this oral communication clearly fulfills all the requirements of a valid offer. It is clear and specific while also containing an intention to bind. Therefore **Apsarie's** telephone call made a valid offer to **Kahathuduwa**

(03 marks)

(b)

Postal rule applies in this matter.

The general rule is that the acceptance becomes effective only after it is officially communicated to the offeror. The agreement is completed only after the acceptance is communicated to the offeror.

However postal contracts are exception to the general rule.

If the parties have agreed expressly or impliedly to communicate the acceptance by post, then the rule is that acceptance is complete when the letter of acceptance is posted even though the letter is delayed or lost in the post

Aforesaid theory is also known as Adams V Lindsay rule

In this case **Apsarie** offered to purchase 500kg of Sri Lankan Turmeric at Rs.5,000/- per kilogram from **Kahathuduwa** and also have agreed expressly to communicate the acceptance by post . On the morning of 10th January, **Kahathuduwa** posted his acceptance letter to **Apsarie** stating that he is ready to supply the said quantity for the stated price. The letter reached to **Apsarie's** office on 13th January. **Apsarie** received the letter on the thirteenth though by applying the postal rule it seems valid agreement has been reached between the two parties on the 10th. Accordingly, Apsarie breached the agreement by refusing to buy turmeric on any ground

Kahathuduwa has the right to sue **Apsarie** for breach of contract

Optional Case Laws

Ceylon University V Fernando

Household Fire Carriage and Accident Insurance Company V Grant

(06 marks)

(c)

The notion of unilateral Contracts applies in this matter.

The general rule is that acceptance becomes effective only after it is officially communicated to the offeror. However Unilateral contracts are exception to the general rule.

If the offeror gives the authority to the offeree to directly act upon on something, in such situation, the acceptance comes effective as soon as the offeree acts according to the directions given by the offeror, disregarding communication of acceptance.

Sir C.J Weeramanthy explained, this notion quoting LJ Bowen in his book by questioning that whether a person who saw a notice of a lost dog should inform the owner that he is going to find his dog? Very clearly in such a situation it is not necessary to inform that he is going to find the dog. In such a situation, the acceptance will take place mere by engaging in action of finding the dog. Such contracts are known as unilateral contracts.

Aforesaid theory is also discussed in **Carlill v Carbolic Smoke Ball Co.**

Carbolic Smoke Ball Co. offered to pay a reward of £100 to anyone who contracted influenza after using their smoke ball as prescribed. Ms. Carlill contracted influenza, even after using the smoke ball as prescribed. She claimed the reward of £100, which the company refused to pay. It was held that this was an offer made to the world at large. The fact that Ms. Carlill acted on the offer by using the smoke ball as prescribed, amounts to her accepting this offer. Therefore, the company was bound to pay the £100 reward to her.

In this scenario the newspaper advertisement of **Apsarie** with the inscription, “Rs.100,000/- reward will be paid to any person who makes claims on the usage of “Kaha-AAlepa” amounts to an offer made to the world at large. Such offers are made to any specific person anywhere. Therefore these offers can be accepted by anyone. Acceptance of this offer is made by merely acting on the offer, and there is no need to specifically communicate the acceptance to the offeror. Therefore in the given scenario, since a valid offer had been made by the **Apsarie** to **Sittara-Gurunnanse**, and as **Sittara-Gurunnanse** had accepted this offer by using “Kaha-AAlepa” for fresco works at the temple according to the prescribed manner. Therefore valid contract was formed between Apsarie and **Sittara-Gurunnanse**. Accordingly, **Sittara-Gurunnanse** has rights as stated in the agreement to seek compensation for any loss caused due to the use of the “Kaha-AAlepa”.

(06 marks)

(B)

Chapter 3 – The Law of the Sale of Goods

(a)

The incident in question may be interpreted in light of the provisions relating to implied Conditions in the Sale of Goods Ordinance.

According to the Sale of Goods Ordinance, where there is a sale of goods by sample as well as by description, the goods must correspond not only with the description but also with the sample In the given scenario.

K-Super entered into a contract with **Uttara-Bittara Ltd. (UB)** to purchase 10,000 eggs and before entering into contract **K-Super** inspected the sample. **Uttara-Bittara Ltd** described that the eggs were imported from India. the store-keeper of the **K-Super** discovered that only 6,000 eggs were

similar to the samples shown, and the rest of the bulk eggs were not imported from India.

In this manner, **Uttara-Bittara Ltd** violated Section 14 of Sale of Goods Ordinance. Hence, **K-Super** could take legal action against **Uttara-Bittara Ltd**.

(06 marks)

(b)

1st Rule

Where there is an unconditional contract for the sale of specific goods, in a deliverable state, the property in the goods passes to the buyer when the contract is made, and it is immaterial whether the time of payment or the time of delivery, or both, be postponed.

2nd Rule

Where there is a contract for the sale of specific goods, not in a deliverable state, and the seller is bound to do something to the goods for the purpose of putting them into a deliverable state, the property does not pass until such thing be done and the buyer has notice thereof.

3rd Rule

Where there is a contract for the sale of specific goods in a deliverable state, but the seller is bound to weigh, measure, test, or do some other act or thing with reference to the goods for the purpose of ascertaining the price, the property does not pass until such act of thing be done and the buyer has notice thereof.

4th Rule

When goods are delivered to the buyer on approval, or “on sale or return”, or other similar terms, the property therein passes to the buyer when he signifies his approval or acceptance to the seller, or does any other act adopting the transaction (sale of that good to another person or mortgage of that good

(05 marks)

(Total 25 marks)

End of Section C

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