



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2015

(AA14) BUSINESS LAW AND ETHICS

26-07-2015
Afternoon
[1.00 – 3.00]

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time:** 02 hours.
- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Action Verb Check List with definitions is attached. Each question begins with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (5) 100 Marks.

No. of Pages : 07
No. of Questions : 07

SECTION A

Objective Test Questions (OTQs)

Eighteen (18) compulsory questions

(Total 40 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.11. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Which of the following courts has the jurisdiction to interpret the constitution?

- | | | |
|----------------------------|----------------------------|------------|
| (1) Court of Appeal. | (2) Supreme Court. | |
| (3) Commercial High Court. | (4) Provincial High Court. | (02 marks) |

1.2 Of the following, **incorrect** statement is:

- (1) Violation of ethics does not punish anyone.
- (2) Crimes are offences against the state.
- (3) Law and moral standards are always the same.
- (4) The Supreme Court is the highest and final appellate court. (02 marks)

1.3 When **Kamal** walks along Main Street he sees a hybrid car with a price label of Rs.200,000/- placed on it. **Kamal** comes back to the place with Rs.200,000/- and says that he is willing to buy the car for the price mentioned in the price label. The seller tells him that it is a mistake and it should be read as Rs.2,000,000/-. How would you describe the price mentioned on the price label in terms of Contract Law?

- (1) An offer. (2) A tender.
(3) An invitation to offer. (4) An acceptance. (03 marks)

1.4 Which of the following type of resolution is required to alter a Company's Articles of Association?

- (1) Special resolution. (2) Ordinary resolution.
(3) Ordinary resolution with special notice. (4) Directors' resolution. (02 marks)

1.5 Agency by necessity arises when:

- (1) There is an emergency situation.
(2) Principal has appointed his agent expressly.
(3) Principal and agent are not known to each other.
(4) Principal ratifies the transaction subsequently. (02 marks)

1.6 Which of the following is **not** governed by the Sale of Goods Ordinance of 1986?

- (1) Cow. (2) Foreign currency.
(3) Oxygen cylinder. (4) All of the above. (02 marks)

1.7

- (a) All agreements are legally binding contracts.
(b) Commercial contracts are presumed to have "intention to create legal relations, among parties".
(c) Parties to contract cannot exclude their legal matters relating to such contracts being heard and tried in a competent court.

Out of the above, the correct statement/s is/are:

- (1) (b) Only. (2) (b) and (c) Only.
(3) (a) and (b) Only. (4) None of the above. (03 marks)

1.8

- (a) Control test.
- (b) Integral test.

Which of the above tests help the court to determine whether a person is an employee or an independent contractor?

- (1) (a) Only.
- (2) (b) Only.
- (3) Both (a) and (b).
- (4) None of the above. (02 marks)

1.9 Of the following, the **incorrect** statement is:

- (1) A cheque is not a Bill of Exchange.
- (2) Drawee of a cheque is always a bank.
- (3) Crossed cheque can be encashed over the counter.
- (4) Not negotiable cheque can still be transferred. (02 marks)

1.10

- (a) When resolving an ethical conflict, a professional accountant must consider the relevant facts, ethical issues involved and fundamental principles.
- (b) It is always prudent for the professional accountant to record the substance of the issue and the details of discussions taken place.
- (c) When there is an issue, a professional accountant should immediately file an action before the district court.

Which of the above statement/s is/are correct?

- (1) (a) and (b) Only.
- (2) (a) and (c) Only.
- (3) (b) and (c) Only.
- (4) All of the above. (03 marks)

1.11 Which one of the following is considered as the Common Law of Sri Lanka?

- (1) English Law.
- (2) Roman Dutch Law.
- (3) Civil Law.
- (4) Thesawalamai Law. (02 marks)

State whether each of the following statements from question No. 1.12 to 1.14 is **TRUE** or **FALSE**. Write the selected answer (True/False) in your answer booklet with the number assigned to the question.

1.12 Amila was born in Galle to low country parents. She purchased a house and permanently resides in Kandy. She argues that the law applicable to her is the Kandyan law as she resides within the Kandyan province. (02 marks)

1.13 The minimum number of shareholders of a Private Limited Company is one. (02 marks)

1.14 A cheque crossed "Not Negotiable", cannot be given to another party by the payee. (02 marks)

Write short answers to the question No.1.15 to 1.18 in your answer booklet with the number assigned to the question.

1.15 State two(02) characteristics of a negotiable instrument. (02 marks)

1.16 State two(02) fundamental principles in professional ethics. (02 marks)

1.17 What is the formula used to compute the gratuity for a monthly paid employee? (02 marks)

1.18 List three(03) methods of solving an industrial dispute. (03 marks)

End of Section A

SECTION B

Four (04) compulsory questions

(Total 32 marks)

Question 02

"As a general rule, when an agent acts without the express authority previously given by the principal, the principal agent relationship will not come into existence. However, if the principal ratifies subsequently, the agency by ratification arises."

Explain four(04) requirements to create agency by ratification. (08 marks)

Question 03

- (a) “Limited Liability Company has become the most popular business form today.”

Explain three(03) advantages of a Limited Liability Company. (06 marks)

- (b) “Articles of Association is an important document that has to be filed with the Registrar of Companies.

State two(02) main contents of Articles of Association of a company. (02 marks)

(Total 08 marks)

Question 04

“Holder in due course will get a good title to a bill”.

Explain four(04) requirements to be fulfilled to become a holder in due course. (08 marks)

Question 05

Discuss in each of the following situations, whether **X** is entitled to withdraw Employees’ Provident Fund (EPF):

- (a) **X** reaches the age of 50 years. (02 marks)

- (b) **X** leaves Sri Lanka to work in Australia on a contract basis. (02 marks)

- (c) **X** takes up a pensionable appointment in the public service in Sri Lanka. (02 marks)

- (d) **X** resigns from the work in view of the marriage. (02 marks)

(Total 08 marks)

End of Section B

SECTION C

Two (02) compulsory questions

(Total 28 marks)

Question 06

(a) **Explain** four(04) requirements of a valid contract. (08 marks)

(b) **Chamara** is a 17 year old boy. His only relative is his mother who has little earnings. **Chamara** entered into a contract to undergo training at a Teacher Training College and to serve the government for 2 years after completing the training period. However, on completion of the training period, **Chamara** got a good job opportunity in Singapore. Now **Chamara** wants to leave the country to go there.

Discuss whether there is a valid contract.

(06 marks)

(Total 14 marks)

Question 07

(a) As a general rule, buyer acquires no better title to the goods than the seller had (*nemo dat quod non habet*).

Explain four(04) exemptions to this rule.

(08 marks)

(b) **Shehan** bought a shirt from a famous Readymade Garments Store in the Town. This shirt contained a chemical which caused him to suffer from a skin infection (dermatitis).

Discuss whether **Shehan** is entitled to claim damages against the Readymade Garments Store.

(06 marks)

(Total 14 marks)

End of Section C

ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
Level 01 Comprehension Recall & explain important information	Define	Describe exactly the nature, scope, or meaning.
	Draw	Produce (a picture or diagram).
	Identify	Recognize, establish or select after consideration.
	List	Write the connected items one below the other.
	Relate	To establish logical or causal connections.
	State	Express something definitely or clearly.
	Calculate/Compute	Make a mathematical computation
	Discuss	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	Explain	Make a clear description in detail revealing relevant facts.
	Interpret	Present in an understandable terms.
	Recognize	To show validity or otherwise, using knowledge or contextual experience.
	Record	Enter relevant entries in detail.
Summarize	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
Level 02 Application Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	Apply	Put to practical use.
	Assess	Determine the value, nature, ability, or quality.
	Demonstrate	Prove, especially with examples.
	Graph	Represent by means of a graph.
	Prepare	Make ready for a particular purpose.
	Prioritize	Arrange or do in order of importance.
	Reconcile	Make consistent with another.
	Solve	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
Level 03 Analysis Draw relations among ideas and compare and contrast / Solve open-ended problems.	Analyze	Examine in detail in order to determine the solution or outcome.
	Compare	Examine for the purpose of discovering similarities.
	Contrast	Examine in order to show unlikeness or differences.
	Differentiate	Constitute a difference that distinguishes something.
	Outline	Make a summary of significant features.