



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2016

(AA25) BUSINESS LAW AND ETHICS

30-01-2016
Afternoon
[1.45 – 5.00]

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

- (1) **Time Allowed:** Reading : 15 minutes
Writing : 03 hours.

No. of Pages : 06
No. of Questions : 10

- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **State clearly assumptions made by you, if any.**
- (5) **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.**
- (6) **100 Marks.**

SECTION A

Objective Test Questions (OTQs)

Ten (10) compulsory questions

(Total 20 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.7. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Which of the following is **not** a component of the Constitution of 1978?

- (1) International treaties and agreements.
- (2) Presidential powers and functions.
- (3) Business dispute resolution.
- (4) Public security. (02 marks)

1.2 Which one of the following is **not** an area of power of the Supreme Court of Sri Lanka?

- (1) Consultative Jurisdiction. (2) Parliamentary Elections
- (3) Jurisdiction on Fundamental Rights. (4) Constitutional Jurisdiction. (02 marks)

1.3 Of the following, who is **not** an example for an agent?

- (1) Attorney-at-law (in a civil case).
- (2) Proxy holder to attend company meeting.
- (3) Holder of special power of attorney.
- (4) An employee. (02 marks)

1.4 Which one of the following is **not** an example for a Negotiable Instrument?

- (1) a cheque. (2) a fixed deposit certificate.
- (3) a bank draft. (4) a bill of exchange. (02 marks)

1.5 Which of the following is considered as a fundamental principle in professional ethics in order to act in the interest of the public?

- (1) Honesty. (2) Integrity. (3) Fairness. (4) Kindness. (02 marks)

1.6 Which of the following statement is true regarding the contractual capacity to a contract?

- (1) Contracts of beneficial services are binding on minors.
- (2) Contracts in which one party is a mentally disordered are said to be null and void.
- (3) Intoxication may make a contract incapacitated.
- (4) All of the above. (02 marks)

1.7 Which of the following is **not** a requirement for a holder of a bill to become a holder-in-due course as defined in the Bills of Exchange Ordinance?

- (1) The bill must have been taken from a legal owner.
- (2) The bill should be complete and regular on the face of it.
- (3) Holder must have taken the bill for a valuable consideration.
- (4) The holder must have taken the bill before it was overdue. (02 marks)

Write short answers for the question No.1.8 to 1.10 in your answer booklet with the number assigned to the question.

1.8 State two(02) laws coming under the legal system of Sri Lanka. (02 marks)

1.9 State two(02) sources of law in Sri Lanka. (02 marks)

1.10 State two(02) main approaches to ethics. (02 marks)

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

Silva owns two houses. One house is 2 bedroomed and the other house is 3 bedroomed. **Silva** offers his 2 bedroomed house to sell **Dias** who is aware of both houses of **Silva**. **Dias** understands that he is offered the 3 bedroomed house and accepts it.

Explain whether there is a valid contract between **Silva** and **Dias**. (05 marks)

Question 03

The Bills of Exchange Ordinance defines a cheque as “a bill of exchange drawn on a banker payable on demand”. However, there are fundamental differences between a cheque and a bill of exchange.

State five(05) differences between a cheque and a bill of exchange. (05 marks)

Question 04

“Agency means the relationship between principal and agent. The principal agent relationship comes into existence in many ways.”

State five(05) methods of creating principal agent relationship. (05 marks)

Question 05

One of the most popular type of contract that is used in international trade is CIF contracts. In this type of contracts, the contract is performed by the seller by delivering the shipping documents to the buyer and not by delivering the goods to the buyer.

- (a) **State** three(03) of those shipping documents.
- (b) **Explain** the importance of any of the above named shipping documents. (05 marks)

Question 06

Matilda De Silva has been working as a professional hair dresser for the last five (05) years. Now her business is popular in Colombo and she is thinking of having few branches in other parts of the country.

Explain with reasons whether **Matilda De Silva** can register her name “**Matilda De Silva**” as a trade mark under the Intellectual Property Act No.36 of 2003. (05 marks)

End of Section B

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

Sewwandi a 26 year old unmarried girl, working as the Accountant of a leading finance company in Sri Lanka. She has joined that company in the year 2014.

- (a) **State** four(04) authorized deductions from the remuneration of **Sewwandi** according to the Shop and Office Employees' Act. (04 marks)
- (b) **Explain** leave entitlements applicable to **Sewwandi** under each of the following instances:
- (i) **Sewwandi** falls sick and stays at home for 2 days.
 - (ii) **Sewwandi** getting married and requires 10 days as leave for her wedding.
 - (iii) **Sewwandi** becomes pregnant and ready for her first child delivery. (06 marks)
- (Total 10 marks)

Question 08

- (a) **Anil** hires, a motor vehicle, for three (03) years from **ABC Finance Company**, the financier with an option to repurchase the motor vehicle at the end of third year. **Anil** believes that he is the owner of the motor vehicle and this is a sale of goods contract.
- Explain** whether this transaction is governed by the Sale of Goods Ordinance. (04 marks)
- (b) **Mihiran** applied a life insurance policy from **AR Insurance Co.**, a leading insurance company. He was asked by **AR Insurance Co.** whether he is having any other life insurance policies with other insurance companies. Though, he applied life insurance policies from other insurance companies, he did not reveal the fact that his application for life insurance had been rejected by several other insurance companies. Also he did not reveal about his bad health condition to **AR Insurance Co.** On relying **Mihiran's** facts, **AR Insurance Co.**, issued a life insurance policy to **Mihiran** and after one year he died. Now **Mihiran's** wife wants to have the compensation.
- Explain** whether **Mihiran's** wife is entitled to claim the compensation from **AR Insurance Co.**
- (06 marks)
(Total 10 marks)

Question 09

Ann, her daughter **Roshini** and her son-in-law **Gihan** are partners of **ARG Fashions**, a successful garment business. They have been doing this business for ten years. **Ann** is now 65 years old and **Roshini** is expecting her first baby. Though they want to expand their business, none of them needs to get any risk or more liabilities. They are in the process of considering converting their partnership into a company and seek your advice on the advantages and disadvantages of converting a partnership into a private limited liability company.

Explain the advantages and disadvantages of a partnership compared to a private limited liability company. (10 marks)

————— *End of Section C* —————

SECTION D

A compulsory question

(Total 25 marks)

Question 10

- (a) **Amal** after passing his Advanced Level Examination has registered at a Professional Accounting Institute and followed classes in a private institution, to become an Accountant. His lecturers instructed all the students to buy non-programmable scientific calculators with specific functions. **Amal** went to buy such calculator from “**Poth Sappuwa**”, a reputed book shop. **Amal** explained his requirements to sales officer of “**Poth Sappuwa**” and relied on such officer’s judgment to buy the calculator. When he has taken the calculator to the class, his lecturer stated that it is not sufficient for the studies as required functions are not available in the calculator. **Amal** wanted to return the calculator to “**Poth Sappuwa**” and get the refund.

Discuss whether **Amal** is entitled to get the refund. (13 marks)

- (b) **A** went to a film hall “**Rideethira Cinema**” to watch a newly released action film. Before the film was started, when showing notices and advertisements, a notice was shown stating that “the film hall is under repair and refurbishment of furniture and fittings is in progress, therefore the film hall management is not liable for any injury that may cause to any viewer in the audience”. **A**, a great fan of action films, disregarded this notice shown in the screen and nervously waited to watch the film. When the film started, he attempted to imitate adventurous activities while being seated. Due to his movements on the chair, it was broken and **A** suffered severe injuries to his back. He was admitted to the nearest private hospital.

A claimed that his medical bills should be settled by the management of “**Rideethira Cinema**”.

Discuss whether **A** is legally entitled to claim such medical expenses from the management of “**Rideethira Cinema**”. (12 marks)

(Total 25 marks)

————— *End of Section D* —————

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.