



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2020

(AA25) BUSINESS LAW AND ETHICS

18-01-2020  
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** The court which has the exclusive jurisdiction regarding the Fundamental Rights cases in Sri Lanka is:

- (1) Court of Appeal. (2) Supreme Court.  
(3) District Court. (4) Magistrate's Court.

**1.2** Of the following, select the correct statement:

- (1) Thesawalamai law is a special law in Sri Lanka.  
(2) The common law in Sri Lanka is Roman Dutch law.  
(3) Magistrate's court exercises original jurisdiction in criminal cases.  
(4) All of the above.

**1.3** Goods which are produced or acquired by the seller after making the contract of sales are:

- |                     |                          |
|---------------------|--------------------------|
| (1) Future goods.   | (2) Existing goods.      |
| (3) Specific goods. | (4) Unascertained goods. |

**1.4** Which one of the following is **not** included in the Articles of Association?

- (1) The objectives of the company.
- (2) Rights and obligations of shareholders of the company.
- (3) The management and administration of the company.
- (4) Consent of Directors.

**1.5** The following advertisement had appeared in a newspaper:

**“Car for sale. Not much used, very good condition, price Rs.3,600,000/-”**

According to the law of contract, this is:

- |                             |                             |
|-----------------------------|-----------------------------|
| (1) An offer to sell.       | (2) An invitation to treat. |
| (3) A termination of offer. | (4) An acceptance.          |

**1.6** Which one of the following is **not** a negotiable instrument?

- |                        |                       |
|------------------------|-----------------------|
| (1) Money order.       | (2) Promissory notes. |
| (3) Bills of exchange. | (4) Cheques.          |

**1.7** Which one of the following is **not** a duty of an agent?

- (1) Agent must follow the principal’s instructions.
- (2) Agent must perform the contract with diligence.
- (3) Agent must make a secret profit.
- (4) Agent must exercise due skill and care.

*Write short answers for question Nos. 1.8 to 1.10 in your answer booklet with the number assigned to the question.*

**1.8** State two(02) implied conditions according to the Sale of Goods Ordinance.

**1.9** State two(02) functions of the Securities and Exchange Commission of Sri Lanka.

**1.10** State two(02) payment methods used in international trade.

(02 marks each, Total 20 marks)

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*End of Section A*

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## **SECTION B**

Five (05) compulsory questions

(Total 25 marks)

### **Question 02**

**Perera** and **Soysa** are in a partnership business of buying and selling stationery items. There is no partnership agreement between them and they follow the Partnership Ordinance 1890 to conduct the partnership business. **Soysa** has bought some stationary items at a 50% discount on market price. Those items were sold to the partnership at the market price and a profit was earned from that transaction by **Soysa**.

**You are required to:**

**Explain** whether the partnership is entitled to recover the profit earned by **Soysa** from the above transaction. (05 marks)

### **Question 03**

An accountant regardless of the sector he works, must remain impartial and loyal to ethical guidelines of the profession. If he fails to do so, he would have to face consequences relating to ethical violations.

**You are required to:**

**State** five(05) ethical issues faced by an accountant in an organization. (05 marks)

### **Question 04**

International trade is a trade between two countries or residents of two countries. Bill of lading is the most important document in international trade.

**You are required to:**

**Explain** two(02) functions of a bill of lading. (05 marks)

### **Question 05**

**Pharma Ltd.** is engaged in importing and selling motor cars in the western province. The company is planning to expand its business in other provinces also. CEO of **Pharma Ltd.** discussed with **Ravi** to appoint as an agent of **Pharma Ltd.**

**You are required to:**

**Explain** three(03) ways by which principal and agent relationship can be created. (05 marks)

### **Question 06**

A holder in due course of a bill is the holder of the bill in good faith without knowing the defect of it by giving valuable consideration to a person who does not have any title to it or who has a defective title.

**You are required to:**

**Explain** three(03) requirements to be fulfilled to become a holder in due course of a bill. (05 marks)

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*End of Section B*

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## SECTION C

Three (03) compulsory questions

(Total 30 marks)

### Question 07

**Kasun** owes Rs. 1 million to **Maya** on a business transaction between **Kasun** and **Maya**. However due to the drop of **Kasun's** business turnover, he has requested **Maya** to grant one year period for settling this debt. **Maya** is considering the request of extension, provided that she can obtain a life insurance policy on the life of **Kasun**.

Further **Maya's** husband **Sena** obtained a life insurance policy and he had recently suffered from a serious heart attack and underwent a surgery. When obtaining the insurance policy that fact was not disclosed to the insurance company. After obtaining the insurance policy, **Sena** died due to a heart attack. **Maya** requested the claim from the insurance company. At that time insurance company came to know that **Sena** was a heart patient and claim was rejected by the insurance company.

**You are required to:**

- (a) **Explain** whether **Maya** can obtain the insurance policy on the life of **Kasun**. (05 marks)
  - (b) **Explain** whether the insurance company can reject insurance claim requested by **Maya**. (05 marks)
- (Total 10 marks)

### Question 08

- (a) The employer and employee relationship arises in the case of contract of service. On the other hand the employer and an independent contractor relationship arises in the case of contract for services.

**You are required to:**

**Explain** three(03) tests available to distinguish between an employee and an independent contractor. (06 marks)

- (b) **Chanmugam** has joined a company on 01<sup>st</sup> January 2002 and his first monthly salary was Rs.50,000/-. Now **Chanmugam** is the CEO of the company and his monthly salary is Rs.500,000/-. However **Chanmugam** submitted his resignation with effective from 01<sup>st</sup> February 2020.

**You are required to:**

**Calculate, Chanmugam's** gratuity entitlement at the time of resignation. (04 marks)

(Total 10 marks)

### Question 09

- (a) Money laundering which is the fraudulent system in which money earned from illegal activities is introduced into the formal financial system to conceal its illegal origin. Sri Lanka introduced prevention of Money Laundering Act No.05 of 2006 to cover this area.

**You are required to:**

**State** five(05) offences (unlawful activities) covered under the Prevention of Money Laundering Act in Sri Lanka. (05 marks)

- (b) There are many types of intellectual property recognized under the Intellectual Property Act No. 36 of 2003.

**You are required to:**

**Explain** the following types recognized in Intellectual Property Act:

- (i) Marks. (05 marks)  
(ii) Trade Names. (05 marks)

(Total 10 marks)

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*End of Section C*

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## **SECTION D**

A compulsory question

(Total 25 marks)

### **Question 10**

- (A) **Dasun**, a keen collector of antique pots has seen an advertisement for an auction of antique pots in a weekend newspaper. The auction was to be held in Colombo in mid-June. **Dasun** had planned a trip to Europe with his best friend **Sara** during those days, but he decided to cancel the trip due to his keen interest on the auction. He travelled to Colombo from Galle to attend the auction in order to bid for a precious antique pot mentioned in the list of items to be auctioned. However, when **Dasun** arrived at the auction with a lot of hopes, he found a notice outside stating that the auction has been cancelled due to an unavoidable reason. **Dasun** felt hopeless and wanted to take legal action against the auctioneer.

Meanwhile, **Sara**, decided to continue her plan to go to Europe on her own. She booked her air ticket and the accommodation through a well-known travel company situated in Colombo. They told Sara that they have booked a business class air ticket to her and the accommodation was arranged in a four-star hotel located 500m from the city center. They e-mailed pictures of the hotel room before they booked it for her. However, she found that the travel company has mistakenly booked her an economy class air-ticket and the hotel room was about 5km away from the city center and it does not match with any of the photos that the travel company sent her. She had to spend extra 5000 Euros due to this error.

**You are required to:**

**Discuss** the following:

- (a) Whether there is a valid contract between **Dasun** and the **auctioneer**. (08 marks)  
(b) Legal rights and remedies available to **Sara** regarding the travel Company. (10 marks)
- (B) **David** has stolen **Perera's** motor car and sold it to **Ronaldo** who purchased it in good faith for value. Thereafter **Ronaldo** sold it to **Silva**. A couple of months later the police seized the vehicle and returned it to true owner. **Ronaldo** returned the money paid by **Silva** and sued against **David** to recover the money which he had paid.

**You are required to:**

**Discuss** whether **Ronaldo** is entitled to recover his money from **David**. (07 marks)

(Total 25 marks)

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*End of Section D*

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## ACTION VERB CHECK LIST

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

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

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