

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JANUARY 2025

(203) BUSINESS LAW

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

(1) **Time Allowed:** Reading : 15 minutes.

Writing : 03 hours.

(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 will begin 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.**

01-02-2025

Afternoon

[01.45 – 05.00]

No. of Pages : 07

No. of Questions : 07

SECTION A

Objective Test Questions (OTQs)

(Total 25 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.6. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Which one of the following courts has the jurisdiction relating to the fundamental rights?

(1) Supreme Court.

(2) District Court.

(3) High Court.

(4) Court of Appeal.

1.2 Which one of the following is a remedy available to a buyer as per the Sale of Goods Ordinance?

(1) Right of lien.

(2) Right of re-sale.

(3) Action for non-acceptance.

(4) Obtaining a specific performance.

1.3 Which one of the following is a Source of Law in the legal system of Sri Lanka?

(1) The Constitution.

(2) Customs.

(3) Judicial Precedent.

(4) All of the above.

1.4 You are provided the following basic functions of the Board of Investment (BOI) in Sri Lanka:

- (a)** Registration of names of the businesses.
- (b)** Conducting discussions with the investors on project proposals.
- (c)** Providing tax and other reliefs.

Of the above, the correct function/s with reference to BOI is / are:

- (1) **(a)** only.
- (2) **(b)** only.
- (3) **(a)** and **(b)** only.
- (4) **(b)** and **(c)** only.

1.5 Which one of the following is a negotiable instrument?

- (1) Letter of Credit.
- (2) Bill of Lading.
- (3) Promissory Notes.
- (4) Fixed Deposit Certificates.

1.6 Consider the following documents used in the International Trade:

- (a)** Insurance Certificate.
- (b)** Bill of Lading.
- (c)** Invoice.

Of the above, the document/s submitted by the seller to the buyer in a Cost, Insurance & Freight (CIF) Agreement is / are:

- (1) **(a)** only.
- (2) **(a)** and **(b)** only.
- (3) **(b)** and **(c)** only.
- (4) All of the above.

(02 marks each, 12 marks)

*State whether each of the following statements in question No.1.7 to 1.9 is **TRUE** or **FALSE**. Write the answer (True/False) in your answer booklet with the number assigned to the question.*

1.7 As per the Bills of Exchange Ordinance, the endorser is liable that the bill shall be paid on due submission for payment.

1.8 An authority granted to an agent is expressed only in writing.

1.9 In a Free on Board (FOB) Agreement, the seller should bear the transportation charges, loading charges and export duty till the goods received by the buyer.

(01 mark each, 03 marks)

Write short answers for question No. 1.10 to 1.14 in your answer booklet with the number assigned to the question.

1.10 State two(02) main offences identified under the Computer Crimes Act No. 24 of 2007.

1.11 Explain briefly what is meant by a blank endorsement.

1.12 State two(02) methods that price is determined in a sale of goods contract.

1.13 State two(02) ways that a bill of exchange is discharged.

1.14 State two(02) payment methods used in the International Trade. (02 marks each, 10 marks)

End of Section A

(Total 25 marks)

SECTION B

(Total 50 marks)

Question 02

Ravini purchased goods worth of Rs. 2 million from **Silva** on credit for her business. Due to bad economic conditions of the country, **Ravini's** business turnover reduced and requested **Silva** to grant one year period to settle her debt. **Silva** has considered **Ravini's** request provided that he can obtain a life insurance policy on the life of **Ravini**.

You are required to:

- (a) **Explain** whether **Silva** can obtain an insurance policy on the life of **Ravini**. (04 marks)
- (b) **Explain** the following principles of insurance:
- (i) Utmost Good Faith. (03 marks)
- (ii) Proximate Cause. (03 marks)
- (Total 10 marks)

Question 03

"Intellectual Property law encompasses various legal rights that protect creations of the mind, including inventions, designs, symbols, and images used in commerce. These rights are crucial in encouraging innovation and creativity".

Further, the government has introduced the Prevention of Money Laundering Act No. 05 of 2006 also to provide necessary measures to combat and prevent money laundering activities.

You are required to:

- (a) **State** three(03) rights enjoyed by the owner of a registered trade mark. (03 marks)
- (b) **State** three(03) inventions which are not patentable as per Intellectual Property Act No.36 of 2003. (03 marks)
- (c) **State** four(04) unlawful activities as per the Prevention of Money Laundering Act. (04 marks)
- (Total 10 marks)

Question 04

Naveen a well-known shoes manufacturer has a boutique in the middle of the town and sells various types of shoes. **Manisha** is a regular customer, specifically asked **Naveen** for a pair of shoes in size 8. **Naveen** who knows the shoes well, confirmed that the shoes **Manisha** was buying were indeed size 8. **Manisha** purchased the shoes and, upon trying them on at home, realized they were actually size 9. **Manisha** contacted **Naveen**, who insisted that there was no mistake and informed that all the shoes in the batch were size 8.

You are required to:

- (a) **Explain** **Manisha's** legal rights against **Naveen**. (06 marks)
- (b) **State** four(04) implied conditions under the Sale of Goods Ordinance. (04 marks)
- (Total 10 marks)

Question 05

Nuwan owns an Advertising Agency and hired **Rukaa** to design a new theme song for a politician who is going to contest for the General Election. **Rukaa** is a freelance musician and works on various projects for different clients. **Nuwan** provided **Rukaa** with a brief for the song, including specific requirements and deadlines. **Rukaa** was free to choose his working hours, and he used his own equipment and software to complete the song composition task. **Rukaa** submitted the theme song to **Nuwan** and **Rukaa** was paid a fixed fee for the project.

After a few months, **Nuwan** decided to offer **Rukaa** for designing more songs and suggested that **Rukaa** should work exclusively for **Nuwan** for the next six months. **Nuwan** also proposed that **Rukaa** should follow a set of guidelines issued by **Nuwan**, use **Nuwan's** studio equipment, and report the progress weekly to **Nuwan**.

You are required to:

- (a) **Explain** whether **Rukaa** would be classified as an employee or an independent contractor under the labor law. (07 marks)
- (b) **State** three(03) main functions of the Employees' Trust Fund (ETF) as per the ETF Act No. 46 of 1980. (03 marks)
- (Total 10 marks)

Question 06

Island Machinery Ltd. is a company incorporated under the Companies Act No. 07 of 2007 in the year 2017. According to the Articles of Association of **Island Machinery Ltd.**, the primary objective of the company is to engage in manufacturing and selling industrial machinery, including the production, marketing, and distribution of such equipment.

The Articles of Association of **Island Machinery Ltd.** also includes a clause stating that any dispute between members of the company must be resolved through arbitration.

In response to the economic challenges posed by the recent global economic downturn, **Anil**, a director of **Island Machinery Ltd.**, has proposed to purchase four advanced commercial coffee machines at a cost of US \$50,000 each through a financing arrangement. He suggested leasing these coffee machines to coffee shops and the company can generate rental income. Considering these facts, the company purchased four coffee machines.

Chandra, a major shareholder of **Island Machinery Ltd.**, disagreed with this proposal and has initiated a legal action against the company.

You are required to:

- (a) **Discuss** the validity of the Articles of Association of **Island Machinery Ltd.** in relation to the above scenario. (07 marks)
- (b) **State** three(03) duties of a Director of **Island Machinery Ltd.** (03 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

(A) **Sanjaya** operates a business as the name of **GreenTech** situated in Ratnapura. His business specializes in producing eco-friendly bamboo furniture. On 8th January, **Sanjaya** contacted over the phone a bamboo supplier, **Priyantha**, who lives in NuwaraEliya, offering to purchase 500kg of bamboo at Rs.5,000/- per kilogram. He requested **Priyantha** to accept or reject the offer through a postal letter to **Sanjaya's** office in Ratnapura. **Priyantha** posted a letter accepting the offer on the morning of 10th January, which arrived at **Sanjaya's** office on 13th January. Meanwhile, **Ramesh**, another bamboo supplier, heard about **Sanjaya's** offer and decided to accept it. On the evening of 10th January, **Ramesh** met **Sanjaya** and agreed to supply 500kg of bamboo at a reduced price of Rs.4,500/- per kilogram. **Ramesh** delivered the bamboo as requested. **Sanjaya** then disclosed the contract with **Ramesh** and rejected **Priyantha's** bamboo. **Priyantha** is now considering legal action against **Sanjaya**.

Additionally, **Sanjaya** discovered that extracts from his bamboo processing could be used to make a special type of packaging, which he named "**EcoWrap**." He advertised this product with a reward offer stating.

"Rs.100,000 reward for any person who claims damages for the usage of 'EcoWrap.

You are expected to follow the instructions properly."

Kumara, a packaging designer, purchased **EcoWrap** from **GreenTech** and used it to design packaging for organic products according to the instructions provided by **GreenTech**. Unfortunately, the packaging disintegrated within a week, leading to the loss of the products.

You are required to:

- (a) **Explain** whether **Sanjaya's** telephone call made a valid offer to **Priyantha**. (03 marks)
- (b) **Discuss** whether **Priyantha** could take legal actions against **Sanjaya**. (06 marks)
- (c) **Discuss** whether **Kumara** could take legal actions against **Sanjaya**. (06 marks)

(B) **Rajeev** is an estate owner and he wrote a letter to **Saman** informing him that he would be traveling abroad for one year. During this period, **Rajeev** expected **Saman** to manage his estate to collect any outstanding payments, and to maintain the estate. **Rajeev** instructed **Saman** to keep him updated regularly on any issues and the status of the estate. Additionally, **Rajeev** explicitly prohibited **Saman** from making any purchases on credit.

Subsequently, **Saman** met **Rajeev** and obtained the keys and relevant documents for the estate. Despite the prohibition, **Saman** purchased some supplies on credit from **Nimal** to support the estate's operations. **Saman** also developed a vegetable garden on part of the estate, generating approximately Rs.120,000/- per month as income, but he did not inform **Rajeev** about this.

Further complicating matters, **Saman** delegated some of his responsibilities to **Kamal**, a local resident, without informing **Rajeev**. **Kamal**, acting on his own accord, made additional purchases on credit from **Nimal** for the estate's maintenance.

When **Rajeev** eventually got to know about the estate and questioned **Saman**, he also insisted that the amount owed to **Nimal** should not be paid, citing that **Saman** had no authority to buy items on credit. **Rajeev** also regretted about the unauthorized delegation of duties to **Kamal**.

You are required to:

- (a) **Discuss** whether **Saman** has breached any duties owed to **Rajeev** as his agent. (06 marks)
- (b) **Discuss** the legal rights of **Nimal** to recover the amount owed to him. (04 marks)
(Total 25 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.