

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL II EXAMINATION - JANUARY 2026

(203) BUSINESS LAW

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

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

07-02-2026

Afternoon

[01.45 – 05.00]

Writing : 03 hours.

No. of Pages : 07

No. of Questions : 07

(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.**

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 The residuary law in Sri Lanka is:

(1) English Law.	(2) Thesawalamai Law.
(3) Kandyan Law.	(4) Roman Dutch Law.

1.2 Which one of the following is **not** a special law in Sri Lanka?

(1) Kandyan law.	(2) Muslim law.
(3) English law.	(4) Thesawalamai law.

1.3 Which one of the following is **not** identified as a negotiable instrument by the Bills of Exchange Ordinance No.25 of 1927?

(1) A Promissory Note.	(2) A Bill of Exchange.
(3) A Cheque.	(4) A Share Certificate.

1.4 A document issued by the ship owner, when the goods have been loaded to a ship in order to be shipped in accordance with any contract of affreightment that the goods have been acknowledged by the ship for transportation is:

(1) Bill of Lading. (2) Invoice. (3) Letter of Credit. (4) Bill of Exchange.

1.5 **Manuka** owns two BYD motor cars and he agrees to sell the black coloured car bearing the engine number 123697 to **Megha**.

According to the Sale of Goods Ordinance, the subject matter of this contract is:

(1) A public good. (2) A specific good.
(3) A future good. (4) An intangible good.

1.6 Which one of the following is a characteristic of a negotiable instrument?

(1) It cannot be transferred easily.
(2) It can be transferred from one person to another, giving legal rights to the new holder.
(3) It can be transferred from one person to another, giving a lawyer's signature to be valid.
(4) It must be registered with the government. (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 Cheques can be used to make payments in international trade.

1.8 Merchantable quality of goods refers to goods being reasonably fit for its intended use.

1.9 A person who holds a bill without exchange of value can be identified as a holder without value. (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) functions of the Securities and Exchange Commission.

1.11 State two(02) main methods that can be used to resolve international trade disputes.

1.12 State two(02) responsibilities of the banks relating to cheques.

1.13 State two(02) remedies available to an unpaid seller against the goods under Law of Sale of Goods.

1.14 State two(02) functions of the Financial Intelligence Unit in Sri Lanka.

(02 marks each, 10 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

Fernando insured his car in January 2024 with **XYZ Insurance Ltd.** In March 2024, he decided to transfer the car to his nephew, **Dilshan**, who had just obtained his driving license. The formal transfer of ownership was took place on 01st April 2024. **Dilshan** started to use the car from 03rd April 2024. On 08th April 2024, the car met with an accident and sustained a significant damage. **XYZ Insurance Ltd.** paid the damages to **Fernando** under the insurance policy. However, later, the insurance company discovered that the car had already been transferred to **Dilshan** at the time of the accident. **XYZ Insurance Ltd.** now seeks the possibility to claim the return of their payment made to **Fernando** under the insurance policy.

You are required to:

- (a) **Explain** whether **XYZ Insurance Ltd.** can claim the return of their payment under the insurance policy. (06 marks)
- (b) **Explain** the “Principle of Indemnity” in insurance. (04 marks)

(Total 10 marks)

Question 03

- (a) The Consumer Affairs Authority Act was enacted in 2003, establishing the Consumer Affairs Authority to protect consumers.

You are required to:

- (i) **State** two(02) objectives of the Consumer Affairs Authority. (04 marks)
- (ii) **State** two(02) duties of the Consumer Affairs Authority. (02 marks)

- (b) An Intellectual Property refers to creation of the mind such as inventions, literary & artistic works, designs, symbols, images used in commerce, etc.

You are required to:

- State** two(02) main objectives of the Intellectual Property Act No. 36 of 2003. (04 marks)

(Total 10 marks)

Question 04

Kumara owns a textile business in Colombo and appointed his friend **Nimal** as his agent to manage daily operations while he travels abroad for two months. **Kumara** advised **Nimal** to purchase raw materials up to Rs.500,000/- per month and to manage staff. However, he did not specifically mention anything about negotiating prices with customers.

During **Kumara's** absence, several regular customers approached **Nimal** requesting bulk orders at discounted rates. **Nimal**, got to know that this is the common practice in the business. Therefore, he negotiated and sold goods worth Rs. 2 million to these customers at a 15% discount. Additionally, when the store's air conditioner system broke down, **Nimal** immediately called **ABC Ltd.** and made the repair costing Rs.150,000/- to prevent damages to the textile inventory, though he was not expressly authorized to incur such expenses.

Upon returning, **Kumara** discovered these transactions. The customers are demanding delivery of their orders, and **ABC Ltd.** is seeking payment for their services on repair.

You are required to:

- (a) **Discuss** whether **Nimal** had implied authority to sell goods and to negotiate discounted prices with customers (05 marks)
- (b) **Explain** whether **Nimal's** decision to get the services from **ABC Ltd.** is appropriate and falls under his duty. (05 marks)

(Total 10 marks)

Question 05

The Articles of Association in Sri Lanka is a legal document and it is required when registering a company under the Companies Act No. 07 of 2007.

You are required to:

- (a) **State** three(03) key contents of the Articles of Association. (03 marks)
- (b) **List** four(04) qualifications required to be fulfilled to become a director under the Companies Act No. 07 of 2007. (04 marks)
- (c) **State** three(03) reasons how a director of company is vacated. (03 marks)

(Total 10 marks)

Question 06

Priyanka, a software developer, works in **TechSoft (Pvt) Ltd.** under a one-year agreement. She works at the company's office from Monday to Friday, from 9.00 a.m. to 5.00 p.m., using equipment and software provided by the company. Her supervisor, **Ravi**, assigns daily tasks, monitors her progress through regular meetings, and requires approval for any code changes. **Priyanka** receives a monthly salary of Rs.150,000/- with EPF and ETF contributions. However, her contract states that she is an "independent contractor," and she occasionally takes on small freelance projects for other clients on weekends.

You are required to:

- (a) **Explain** whether **Priyanka** would be classified as an "employee" or an "independent contractor" under the applicable tests in labour law. (04 marks)
- (b) **State** three(03) instances where employees can claim benefits under the Employees' Trust Fund (ETF) Act No. 46 of 1980. (03 marks)
- (c) **State** three(03) types of employees not covered under the Termination of Employment of Employees (special provisions) Act No. 19 of 1954. (03 marks)
(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

- (A) **Ruwan**, a tea plantation owner in Nuwara Eliya, decided to sell 500kg of premium Ceylon tea to expand his business operations. He prepared a written offer on Monday, offering to sell the premium Ceylon tea to one of his regular buyers **Mahesh** who lives in Colombo for Rs.1,500/- per kilogram. This offer is valid until Friday. However, **Ruwan** placed the letter in his desk drawer and forgot to send it.

On Tuesday, **Mahesh** visited **Ruwan's** tea plantation for a routine inspection. During their conversation, **Mahesh** mentioned that he heard from his friend **Silva** that **Ruwan** is planning to sell 500 kg of tea at Rs.1,500/- per kg. **Mahesh** said that he was interested in purchasing the tea at that price and he was excited by this opportunity. After listening to the **Ruwan's** idea, **Mahesh** immediately said that he accepted **Ruwan's** offer and asked **Ruwan** to prepare the necessary documentation. **Ruwan** was surprised, that **Mahesh** knew about his intended offer.

On Wednesday, realizing his mistake, **Ruwan** finally posted the written offer letter to **Mahesh's** office situated in Colombo. The letter reached **Mahesh** on Thursday morning. After careful consideration, **Mahesh** wrote an acceptance letter stating that he accepted the offer of **Ruwan** and will purchase 500 kg of Premium Ceylon tea at Rs.1,500/- per kilogram. **Mahesh** posted the acceptance letter on Thursday from the Colombo post office. Meanwhile, on Friday morning at 9.00 a.m., **Ruwan** received a more attractive offer from another buyer and he is willing to pay Rs.1,800/- per kilogram. **Ruwan** accepted this offer. Consequently, he immediately posted a revocation letter to **Mahesh** at 10.00 a.m. **Mahesh's** acceptance letter reached **Ruwan** on Friday at 5 p.m., while **Ruwan's** revocation letter reached to **Mahesh** on Saturday morning.

You are required to:

- (a) **Explain** whether a valid contract was formed between **Ruwan** and **Mahesh** on Tuesday. (06 marks)
- (b) **Discuss** whether **Mahesh** could take legal action against **Ruwan**. (05 marks)
- (c) **Explain** two(02) elements of a valid contract. (04 marks)

(B) **Nimal** runs a Communication Center in front of a University. **Nimal** purchased a second-hand laptop for his Communication Center from **Sunil**, who operates a small mobile equipment shop. **Sunil** assured **Nimal** that he had completed ownership of the laptop. However, a week later, the police seized the laptop, claiming it was reported stolen from the University's computer laboratory. **Nimal**, had already paid the full price, for this laptop.

You are required to:

- (a) **Explain** whether **Nimal** can take successful legal actions against **Sunil** on the purchase of the laptop. (06 marks)
- (b) **Explain** the following terms in relation to the Law of Sale of Goods:
 - (i) Unascertained Goods.
 - (ii) Future Goods. (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.