ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL 02 EXAMINATION - JULY 2026

(2803) BUSINESS LAW

25-07-2026
Afternoon
[01.45 – 05.00]

No. of Pages : 06
No. of Questions : 07

- **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.*

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 is the final appellate court in Sri Lanka?

(1) High Court.
(2) Supreme Court.
(3) Magistrate's Court.
(4) District Court.

1.2 Which one of the following cases is heard in a District Court?

(1) Cases on custody of children.
(2) Divorce cases.
(3) Cases to recover damages.
(4) All of the above.

1.3 Which one of the following is an example for a negotiable instrument?

(1) A Promissory Note.
(2) A Cash Receipt.
(3) An Invoice.
(4) A Postal Order.

1.4 Which one of the following is correct with reference to the Colombo Stock Exchange (CSE)?

(1) It is the primary stock exchange in Sri Lanka, which only allows foreign investors to trade.

(2) Shares of listed companies are not traded in the CSE.

(3) It is the primary stock exchange in Sri Lanka, where securities are bought and sold.

(4) It is the primary stock exchange in Sri Lanka, where securities are stored.

1.5 Which one of the following is **not** a feature of a Bill of Exchange?

(1) It has a clear indication of payee.

(2) It should be signed by the drawee.

(3) The definite amount to be paid must be mentioned.

(4) Date of payment should be clearly indicated.

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

(1) Existing Goods.

(2) Unascertained Goods.

(3) Specific Goods.

(4) Future Goods.

(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 Freedom of thought, conscience and religion is a fundamental right guaranteed under the constitution of Sri Lanka.

1.8 A contract to sell a house falls under a sale of goods contract.

1.9 Mediation and Arbitration are the most popular alternative methods of dispute resolution.

(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) elements of a Partnership as per the Partnership Ordinance 1890.

1.11 List two(02) fundamental elements of a contract of sale of goods.

1.12 State two(02) characteristics of a holder in due course.

1.13 State two(02) objectives of the financial intelligence unit.

1.14 List two(02) parties involved in a bill of exchange.

(02 marks each, 10 marks)

(Total 25 marks)

End of Section A

SECTION B

(Total 50 marks)

Question 02

Nethmi is the author of a revision book titled *"Exam Ready: Contract Law Basics"*. She created the texts, diagrams, and summary tables herself and sold the book in both printed form and as a paid PDF e-book.

Saman, who conducts a private tuition institute bought one copy of the PDF of this book. Without **Nethmi's** permission, he removed her name and watermark and added its own logo, uploaded the full PDF to its student portal for all students to download and printed 200 copies to sell as "course notes." **Saman** claimed: "he paid for the PDF, so he can use it for his students." **Nethmi** took legal action against **Saman**.

You are required to:

(a) **State** the main type of intellectual property involved in this scenario with two(02) examples. (04 marks)

(b) **Explain** whether **Nethmi** can succeed with her legal action against **Saman**. (06 marks)

(Total 10 marks)

Question 03

Directors play a key role in the management and administration of a company. A company director must meet certain legal requirements to be appointed and to be continued in his / her office.

You are required to:

(a) **List** four(04) powers of directors that may not be delegated. (04 marks)

(b) **State** three(03) duties of a director under the Companies Act. (03 marks)

(c) **Explain** what is meant by "Separate Legal Personality" as a characteristic of a company. (03 marks)

(Total 10 marks)

Question 04

Nimal joined **City Care Hospital (Pvt) Ltd.** on 01st March 2025 to work in its IT Support Unit. His duties include troubleshooting computers, maintaining the hospital network, and assisting staff with system access issues faced by them.

Under the written agreement:

- **Nimal** must report to the hospital's IT office before 8.30 a.m. on weekdays and follow the duty roster issued by the IT Manager.
- He must perform work assigned "for the benefit of the hospital," and the hospital may terminate the arrangement if his performance is unsatisfactory.

- The hospital provides laptops, access cards, software licenses, and all tools required for the job and bears related expenses.

On 30th November 2025, the hospital terminated **Nimal's** services. **Nimal** claims that he is an employee, while the hospital claims that he is an independent contractor.

You are required to:

(a) **Explain** whether **Nimal** is an employee or an independent contractor based on the following tests:

- The Control Test.
- The Equipment Test.
- The Integration Test. (06 marks)

(b) **State** four(04) types of persons/employees who are not covered under the *"Employees' Provident Fund Act No. 15 of 1958"*. (04 marks)

(Total 10 marks)

Question 05

Razeen has obtained two insurance policies from **Shakthi Insurance Ltd.** and **PQR Insurance Ltd.** to insure his house against fire. The values of the insurance covers obtained from **Shakthi Insurance Ltd.** and **PQR Insurance Ltd.** are Rs. 25 million and Rs. 30 million respectively. The house was damaged by a fire caused by electric leakage, and the loss due to the fire was Rs. 10 million. **Razeen** claimed damages of Rs. 10 million from both insurance companies.

You are required to:

(a) **Explain** whether **Razeen** is entitled to claim Rs. 10 million each from both companies. (06 marks)

(b) **State** four(04) elements of a contract of an Insurance. (04 marks)

(Total 10 marks)

Question 06

Tharindu visited **"Nimal Tech"**, owned by **Nimal**, to buy a new laptop charger. **Nimal** recommended a charger and stated that it was "brand new, original, and safe for fast charging." **Tharindu** purchased it and used it that night.

While charging, the charger overheated and damaged the laptop battery. A technician later said that the charger was a low-quality counterfeit and not suitable for the laptop model. **Tharindu** found that **Nimal** had sold a used, repackaged charger while claiming it was new.

You are required to:

(a) **Explain** the legal rights and remedies available to **Tharindu** under the Sale of Goods Ordinance. (06 marks)

(b) **State** four(04) implied conditions under the law of Sale of Goods. (04 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 25 marks)

Question 07

(A) **Fernando** runs a furniture store in Colombo. He wants to sell a rare antique table made of Kaluwara timber to **Susila**.

Fernando verbally told his assistant, **Piyumi**, to inform **Susila** about the sale of the table for Rs.200,000/-. However, **Piyumi** forgot to tell it to **Susila** and she remained unaware of the offer. Later, another customer purchased the table. Subsequently, **Susila** found this information and requested the rare antique table.

Further, **Fernando** has a vintage cabinet to sell. He wrote a letter offering to sell the vintage cabinet to **Malani** for Rs.50,000/- and posted it on 01^{st} March. **Malani** received the letter on 04^{th} March and immediately posted her acceptance on 05^{th} March. **Fernando** received acceptance letter on 08^{th} March and in the meantime, he sold the cabinet to another buyer on 06^{th} March.

You are required to:

(a) **State** four(04) elements of a valid contract. (04 marks)

(b) **Discuss** whether **Susila** could take a legal action against **Fernando**. (06 marks)

(c) **Explain** whether **Malani's** acceptance forms a valid contract in the event of postal acceptance. (05 marks)

(B) **Ranjith**, a vehicle importer, appointed **Nihal** as his agent to purchase a consignment of spare parts from overseas suppliers. **Nihal** was clearly instructed to purchase only genuine spare parts from approved suppliers and not to exceed a budget of Rs. 20 million.

While negotiating with suppliers, **Nihal** was offered a deal by a new supplier who was not on the approved list. The supplier claimed that the parts were genuine and offered them at a discounted price of Rs. 18 million. Without verifying the authenticity or informing **Ranjith**, **Nihal** entered into the contract.

When the goods arrived, it was discovered that a significant portion of the spare parts were of inferior quality and not genuine. As a result, **Ranjith** suffered a financial loss and his business reputation was damaged. **Ranjith** now refuses to pay the supplier and holds **Nihal** responsible for the loss.

You are required to:

(a) **Discuss** whether **Nihal** has breached duties as an agent. (06 marks)

(b) **Explain** the legal remedies available to **Ranjith** against **Nihal**. (04 marks)

(Total 25 marks)

End of Section C

Action Verbs Check List

Level	Action Verb	Definition	Detailed Instructions for Students
REMEMBER Recalling facts, terms, basic concepts, or answers without necessarily understanding what they mean.	**Identify**	Recognition of someone or something.	Find and name key parts of the topic.
	Define	Meaning of a word or concept.	Provide a clear meaning of a term or concept.
	Recognise	Awareness of something seen before.	Spot and acknowledge something from previous learning.
	State	Clear and concise expression of information.	Express key facts or concepts in a straightforward way.
	List	A series of names, numbers, or items.	Write down key points in an organized manner.
	Record	Entry of details into a system (not accounting).	Enter relevant details clearly and accurately.
UNDERSTAND Comprehending the meaning of informational materials and being able to interpret or explain it.	**Construct**	Formation of something by combining elements.	Bring together different parts into a meaningful whole.
	Differentiate	Recognition of differences between two or more things.	Highlight distinctions between concepts or items.
	Discuss	Consideration of different ideas and opinions about a topic.	Explore various perspectives and provide insights.
	Explain	Clarification of something in greater detail.	Provide a logical and detailed description.
	Illustrate	Use of examples, charts, or visuals to clarify a point.	Support explanations with appropriate examples or visuals.
	Interpret	Explanation of the meaning of information or actions.	Explain what something means in your own words.
	Describe	A detailed account of something.	Provide relevant details in a structured manner.
	Summarise	A brief statement of the main points.	Present key information concisely.
APPLY Using learned material in new and concrete situations. It requires the practical application of knowledge and skills.	**Apply**	Use of knowledge, skills, or rules in a situation.	Utilise relevant knowledge or techniques to achieve an outcome.
	Calculate	Determination of a value through mathematical or logical methods.	Use numerical or logical processes to reach a solution.
	Determine	Establishment of something through research or calculation.	Find out or conclude something after calculation or research.
	Demonstrate	Display of a process or method.	Show a clear example through structured steps.
	Prepare	Organisation of materials or information for use.	Arrange necessary details before engaging in a task.
	Use	Application of a concept, tool, or method for a purpose.	Implement relevant knowledge or resources appropriately.
	Present	Sharing of information effectively.	Deliver key insights clearly and professionally.
ANALYSE 1Breaking down information into its components to understand its structure and relationships.	**Analyse**	Detailed examination of something to understand its components.	Break down information into key parts for better understanding.
	Compare	Examination of similarities and/or differences.	Point out the key commonalities and distinctions.
	Distinguish	Recognition of unique characteristics.	Identify what makes things different from each other.
	Examine	Inspection of something to determine its nature.	Look at something closely to understand it better.
	Outline	Summary of the main points.	Provide an organised overview of key aspects.
	Conduct	Organisation of elements for an experiment, survey, or study.	Follow structured steps to carry out a task systematically.
	Report	Structured presentation of findings.	Present analysed information in a clear and logical format.
EVALUATE Making judgments about the value or quality of ideas or materials based on criteria or standards.	**Advise**	Offering of suggestions or recommendations.	Provide informed guidance based on analysis.
	Evaluate	Critical assessment of value, effectiveness, or impact.	Judge the quality or relevance of something based on criteria.
	Formulate	Development of a structured approach or plan.	Create a well-defined method or strategy.
	Recommend	Suggestion of a suitable course of action.	Propose an approach backed by logical reasoning.
CREATE Combining elements in novel ways to form a coherent or functional whole; the ability to generate new ideas, products, or ways of understanding.	**Create**	Generation of something new.	Develop something original and purposeful.
	Assess	Estimation or evaluation of quality, ability, or nature.	Provide a reasoned judgment based on available information.
	Develop	Expansion or refinement of an idea, product, or concept.	Strengthen and improve an idea over time.
	Propose	Suggestion of a plan or concept for consideration.	Present an idea or structured recommendation.
	Synthesis	Combination of different elements to form a coherent whole.	Integrate multiple ideas or insights into a meaningful conclusion.
	Design	Creation of a structured plan for something	Formulate a detailed structure for a product or process.
	Compile	Assembly of information from various sources.	Organise collected data into a comprehensive format.