



Association of Accounting Technicians of Sri Lanka

January 2017 Examination - AA2 Level

**Questions and Suggested Answers
(AA 25)**

**BUSINESS LAW AND ETHICS
(BLE)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA
EDUCATION AND TRAINING DIVISION

**AA2 Examination - January 2017
(AA 25) Business Law and Ethics**

SUGGESTED ANSWERS

SECTION – A

Objective Test Questions (OTQs)

Ten (10) compulsory questions.

(Total 20 marks)

Suggested Answers to Question One:

<i>Question</i>	<i>Answer</i>
1.1	(4)
1.2	(3)
1.3	(4)
1.4	(4)
1.5	(4)
1.6	(3)
1.7	(1)
1.8	- Copyright - Industrial Designs - Marks (Trademarks and Service Marks) - Trade Names - Geographical Indications
1.9	- Finance lease - Operating lease - Sale and back leasing
	- Direct leasing - Leveraged leasing - Domestic lease
1.10	- Mercantile Holidays - Poyaday Holidays - Public holidays - Annual leave - Casual / Sick leave - Maternity leave (for female employees)

(Total 20 marks)

End of Section A

Five (05) compulsory questions.

(Total 25 marks)

Suggested Answers to Question Two:

Letter of credit method gives solutions to both parties and it is a most common methods of payment for goods in the export trade.

The letter of credit issued by the Commercial Bank of the importer to the Commercial Bank of the exporter promises to pay the exporter in the event the importer fails to pay for the imported goods.

In this system, the importer opens a letter of credit in his country's bank.

Once opened, the importer directs the bank for payments to the exporter in a bank of his country.

The paying bank holds the documents as a collateral security. It can have recourse to the issuing bank if necessary.

If the transport documents consist of bill of lading, the bank will ask for the delivery of a full set of original bills.

Because of this, the paying bank is prepared to pay the exporter. In simple, letter of credits can be defined as a conditioned undertaking given by a bank to a seller to make payments against stipulated documents.

(Total 05 marks)

Suggested Answers to Question Three:

The effect of crossing as "Not Negotiable" is that it excludes the negotiability of the cheque. Such a cheque cannot be further negotiated but can only be transferred.

The transferee holder of such a cheque receives no better title than the transferor had.

As a result, if the transferor's title is defective then the transferee holder's title is also defective.

In this case, **D** (the transferee holder) receives no better title than **A** (transferor) had. **A**'s title is defective and therefore, **D**'s title is also defective.

D is not entitled to claim the amount on this cheque from **B**.

(Total 05 marks)

Suggested Answers to Question Four:

(a)

- 1) Securing unauthorized access to a computer and doing any act to secure such access.
- 2) Causing a computer to perform a function without lawful authority and or with the intention to commit a further offence.
- 3) Specific acts of computer misuse for instance, destroying, deleting, corrupting and altering information.
- 4) Illegally intercepting data using illegal devices and unauthorized disclosure of information, etc..
- 5) Attempts to commit offences, abetment and conspiring to commit offences is also punishable.

(b)

1. Intellectual Property Act No. 36 of 2003.
2. Electronic Transactions Act No. 19 of 2006.
3. Payment Devices Frauds Act No. 30 of 2006.
4. Computer Crimes Act No. 24 of 2007.
5. Information and Communication Technology Act No. 27 of 2003.
6. Payment and Settlements System Act No. 28 of 2005.
7. Evidence (Special Provisions) Act No. 14 of 1995.
8. Interconnection Rules of 2003 under Sri Lanka Telecommunication Act No. 25 of 1991 (as amended by Act No. 27 of 1996)

(Total 05 marks)

Suggested Answers to Question Five:

a)

Following criteria to be fulfilled by an employee to get entitled to gratuity payment

1. The minimum number of employees in the establishment shall not be less than 15.
2. The Employee who resigned shall have at least 5 year of service in the establishment.
3. Following categories of employees are not entitled to gratuity payment.
 - Personal chauffeurs (drivers)
 - Domestic servants.
 - Employees who are entitled to any non- contributory pension scheme.

b)

Gratuity is calculated by considering the salary received by the employee at the time of termination of his/hers services. Only for the completed years gratuity is payable.

$$\text{Gratuity} = \frac{\text{Last received salary (or 14 days earning)} \times \text{Number of years Completed}}{2}$$

Therefore Dilan is entitled for Rs 600,000/- as gratuity.

(Total 05 marks)

Suggested Answers to Question Six:

Independence has two aspects.

- 1) Independence of mind
- 2) Independence in appearance

Independence of mind is the state of mind that allows a professional to express judgment without being affected by an influence. Only if there is an independence of mind professionals can act with integrity and objectively.

Independence in appearance is where the independence of the mind is ostensible to third party who observes the professional.

(Total 05 marks)

End of Section B

Three (03) compulsory questions.

(Total 30 marks)

Suggested Answers to Question Seven:

- (a) The indemnity concept in insurance is a notion that the insurance is not for profit and the insured is entitled to be compensated for his or her loss but not more than that.

In insurance contracts, the insurer indemnifies the insured to pay the amount of the insured's actual loss up to the amount covered by the insurance policy.

In this case **Saparamadu** is not entitled to receive the compensation under the insurance policy from **XYZ Insurance Ltd.** Since he is not entitled to make a profit out of the insurance.

Related Case Law : *Castallian Vs. Preston*

(06 marks)

- (b)
1. Cheque is an instrument in writing.
 2. There is an unconditional order in cheques.
 3. Cheques are drawn by a customer on his bank.
 4. Cheques must be signed by the customer.
 5. Cheques are payable only on demand.
 6. The cheque must mention exact amount to be paid.
 7. The person to whom the payment is made must be certain.
 8. Cheques must be duly dated by the customer of the bank / the account holder.
 9. The three parties to the cheque are the drawer, the drawee and the payee.

(04 marks)

(Total 10 marks)

Suggested Answers to Question Eight:

- a) - One person or persons not exceeding 50 may apply to incorporate a private limited liability company. Therefore, **Aminda** can register his business as a private limited liability company. Also if one person is incorporating a company the same person can't act as a company secretary.
- The applicant should submit 16 A name approval application form to the company register.

Note : If there are any irregularities regarding the name, the applicant will be advised to amend the name to continue the process. If the applicant has requested for a name which already exists his application will be rejected.

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- Once the name is approved, the applicant should submit two copies of Articles of Association together with filled documents. (Form 1 - the registration of a company form, Form 18 - the consent and certificate of Director and Form 19 - consent and certificate of security.)
 - If the incorporation clerk does not find any error in the documents they will be submitted to the registrar. If he does the needed corrections will have to be done by the applicant.

(04 marks)

b) 1. **Separate legal existence**

The company becomes a separate legal person, upon incorporation (incorporation means the act of creating a company). Then, the company could enter into transactions between itself and natural persons who established it. It could also sue and be sued in its own company name. Moreover, a company is also recognized as being able to contract, to do business, to have its own property and money, to employ workers, to open bank accounts, to borrow money.

2. **Company could sue its own employees**

A striking feature of a company that arises due to its separate legal existence is that a company can sue its own employees and its directors if they have caused any loss to the company by their actions.

3. **Perpetual Succession**

As a company is distinct from both the shareholders and the directors, the company is unaffected by the acts of either of them. For instance, a shareholder may sell off his shares, a director may resign or die, a director may become insane but the company will continue to exist. A company dies only when it is liquidated, wound up or becomes insolvent. The life of the company is not affected by the life of the shareholders.

4. **Concept of limited liability**

In a limited liability company, the shareholders are not personally liable for the debts of the company except to the extent of the value of their shares.

This ability to collect large sums of capital by issuing shares and the avoidance of personal liability are other distinguishing features of companies.

5. **Separate property**

The property of an incorporated company is vested in the corporate body. The company is capable of holding and enjoying property in its own name which is another feature of companies. None of the members could claim the ownership of any asset of the company's assets.

(06 marks)

(Total 10 marks)

Suggested Answers to Question Nine:

- (a) As a general rule, the ex-principal is not liable for contracts entered by the ex-agent. However, in this case **Silva** entered into contract with **Rose** without the knowledge that **Rose's** agency has been terminated.

Therefore the principal agent relationship by estoppel could arise between **Rose** and **Kumar**.

The principal of estoppel means once you have expressly or impliedly represented something, you are prevented from subsequently denying it.

Therefore, if **Kumar** has induced expressly or impliedly **Silva** to believe that **Rose** is his agent and **Silva** believing so has entered into a contract with **Rose**, the principal agent relationship by estoppel arises respectively between **Kumar** and **Rose**.

Then **Kumar** as a principal by estoppel is liable to **Silva** for contracts entered by **Rose** despite the fact that **Rose's** agency has been terminated.

As a result, **Silva** is entitled to claim compensation from **Kumar**.

(06 marks)

- b)
1. The agent must follow the principal's instructions.
 2. The agent must perform the contract with diligence.
 3. The agent's duty to exercise due skill and care.
 4. Agent must act in person and not delegate his duties.
 5. Fiduciary duties of the agent (he must behave in an honourable manner and has to be loyal in the dealings with the principal).
 6. The agent must submit the accounts regarding the principal's property.

(04 marks)

(Total 10 marks)

End of Section C

A compulsory question.

(Total 25 marks)

Suggested Answers to Question Ten:

a) There is a postal contract between **A** and **B**. Therefore the Postal Rule applies to it.

Postal Rule will apply if the parties intend the means of acceptance as the post.

- An offer by post may be accepted by post, unless the offeror indicates another means of acceptance. Even if the offer is not made by post the acceptance may be by post if the circumstances show that the parties must have contemplated that the post may be used. An offer by post is only made when it actually reaches the offeree and not when it would have reached him in ordinary course of the post. Accordingly in this case there is a valid offer by 10th January 2016.
- **An acceptance by post is complete as soon as the letter of acceptance is posted**, prepared and properly addressed, whether it reaches the offeror or not. According to Postal Rule, the acceptance is treated as complete from date when it is posted.
- Depending on the given facts, **B** has posted letter of acceptance on 13th January 2016. Therefore, valid postal contract formed in between **A** and **B**.
- Even though the letter of acceptance is lost or delayed in the post the contract is made, although the offeror may be quite ignorant of the fact, acceptance is complete on posting the letter.
- Therefore delay occurred by handing it to a wrong receiver doesn't adversely affect the process of formation of a valid contract. Postal delay is immaterial.
- The date of delivery of acceptance letter is not a considerable matter.
- A revocation by post is not complete until it actually reaches the offeree. Revocation letter of **A** to **B** isn't complete until it actually reaches to **B**.
- Revocation is valid from 18th January 2016. But at that time as there is a valid acceptance and revocation is not valid.
- Therefore **A** cannot sell his car by 16th January 2016 as there is a valid contract by 13th January 2016.
- As valid contract made between **A** and **B**, before the revocation letter posted by **A**, **B** has right to claim breach of contract against **A** and other damages for breach of contract.
- **B** can sue against **A** for breach of contract.

b)

1. This is a sale of goods contract and a contract of sale of goods is a contract whereby the seller transfer or agrees to transfer the property ownership in the goods to the buyer for a price.
2. If the intention in respect of ownership in goods passing is not clear and the subject matter of contract of sale of goods is unascertained, the ownership in such goods passes from the seller to the buyer as soon as the contract goods in deliverable state are identified with the consent of each other.
3. The ownership in such goods passes from the seller to the buyer as soon as the buyer consents for contract goods identified by the seller or as soon as the seller consents for contract goods identified by the buyer.
4. 100 computers out of the bulk computers are fallen into the category of existing goods.
5. However, those, are unascertained at the time of entering into the contract. But it considered as specific goods when **Kamal** contacted **Nimal** and instructed **Nimal** to store his 100 computers separately and **Nimal** stored those computers as instructed by **Kamal**.
6. The ownership in such 100 computers transfers from the seller to the buyer as soon as when **Nimal** stored those 100 computers as instructed by **Kamal**.
7. Therefore, in this case the risk is with **Kamal** and he should bear the loss of 100 computers.

(Total 25 marks)

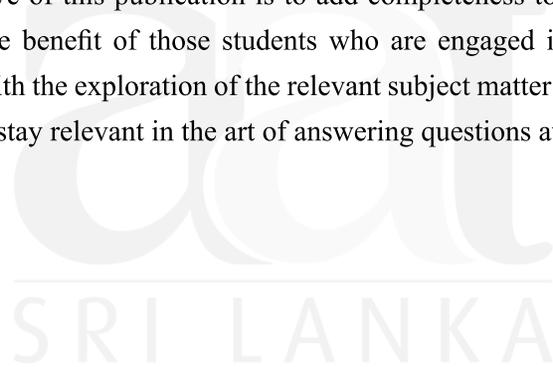
End of Section D

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