



## **Association of Accounting Technicians of Sri Lanka**

**AA2 Examination - January 2018**

**Questions and Suggested Answers  
Subject No : AA25**

**BUSINESS LAW AND ETHICS  
(BLE)**

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**THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

EDUCATION AND TRAINING DIVISION

**AA2 Examination - January 2018  
(AA25) 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	(3)
1.2	(1)
1.3	(2)
1.4	(4)
1.5	(4)
1.6	(3)
1.7	(3)
1.8	Thesawalamai Law Kandyan Law Muslim Law
1.9	<ul style="list-style-type: none"><li>- To advise the government on the development of the securities market.</li><li>- To regulate the listing and issue of securities in a licensed stock exchange.</li><li>- To direct a licensed stock exchange to reject any application made to it for listing.</li><li>- To inquire and conduct investigation into any activity of a licensed stock exchange, broker, dealer, company or a trustee of a unit trust a registered market intermediary or any listed public company.</li><li>- To implement the policies and programmes of the government with respect to the market in securities.</li></ul>

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1.10

- To protect consumers against the marketing of goods or providing services which are harmful to life and property of consumers.
- To protect consumers against unfair trade practices and guarantee that consumers' interest shall be given due attention.
- To ensure that whenever possible, consumers have sufficient access to goods and services at competitive prices.
- To seek damages against unfair trade practices, restrictive trade practices or any other form of exploitation of consumers by traders.

*(Total 20 marks)*



*End of Section A*

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## SECTION –B

**Five (05) compulsory questions.**

**(Total 25 marks)**

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### ***Suggested Answers to Question Two:***

Siripala and Duminda had entered into a contract of sale of goods by description.

Where there is a contract of sale of goods by description, one of the **implied conditions** applied to such a contract is that the goods shall correspond with the description.

- *Beal Vs. Taylor*
- *Moore and Landauer (1921)*
- *Harrison Vs. Knowles and Faster (1918)*

Siripala advertised by describing as the car was a “Mazda 1200 model”. Further the board itself had described that it was “Mazda 1200 model”.

Relied on those descriptions Duminda had bought the car. Therefore if the car was not correspond with the description it would breach the above implied condition.

Therefore the aggrieved party, **Duminda** is entitled to repudiate the contract and recover the damages from **Siripala** for the vehicle purchased.

**(05 marks)**

### ***Suggested Answers to Question Three:***

According to the Bills of Exchange Ordinance, a cheque is a bill of exchange drawn on a banker payable on demand.

If a bill is payable on demand it shall be present to the drawer for payments within a reasonable time.

According to the well establish banking practice, the reasonable time that the cheque to be present for payments is six months from the date of the cheque.

Therefore after expiry of six month time a cheque is treated as a “stale cheque” and the bank, drawer will refuse to pay for such a cheque.

In this given situation, the cheque given to **Sunil** was dated as 01st April 2017. But he went to the bank on 15th December 2017 to encash the cheque. Thus, **Sunil** cannot encash the cheque given because six (06) months have lapsed from the date of issue.

**(05 marks)**

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### **Suggested Answers to Question Four:**

This is based on Law of Insurance. It has to be considered whether Alice has any insurable interest on her sisters' life.

A contract of insurance should be supported by an insurable interest. Otherwise, the contract of insurance will be invalid.

When it comes to life insurance, the person, who seeks insurance of a life of another person, should establish that he / she suffers pecuniary / monetary loss on the death of another person whose life is insured and thus, he / she has an insurable interest in the life of the insured.

Accordingly, there is no insurable interest in the life of one sibling of the other.

#### ***Evans Vs. Crooks (1911)***

Therefore **Alice** has no insurable interest in her sister's life. Therefore **Safe Line Insurance Ltd.** cannot accept the application made by Alice for insuring the life of Alice's sister.

**(05 marks)**

### **Suggested Answers to Question Five:**

#### **The Bill of Lading**

A bill of lading is issued to the exporter of the goods by the owner of the ship by acknowledging to transport of specific goods from one port to another port by ship.

A bill of lading performs four functions.

- I) It acts as the receipt for the goods from the shipping company to the exporter. Generally, it contains quantity and quality of the goods.
- II) It is an evidence of the contract of carriage between the exporter and the shipping company. Generally, the parties enter into the contract prior to issuing the bills. Therefore, the bill of lading is only an evidence of the contract of carriage between shipper and carrier. The terms of the contract are usually stated on the back of the documents.
- III) It acts as the document of title for the goods which are being shipped. The goods will be released at the port of destination, only presentment of an original copy of the bill of lading.
- IV) It is used to claim insurance compensation in the case of any damages caused to the imported goods.

**(05 marks)**

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## **Suggested Answers to Question Six:**

*(Explaining only two type Intellectual properties were expected.)*

### **(1) Copyright:**

This is a form of protection given by law to the creators for their original works. “Originality” concerns the manner or ways of expression and not the ideas themselves. Derivative works such as translations and collection of works are too protected.

“Work” includes literary creations, artistic creations and scientific creations.

Eg: - Literary creations include works in written or spoken such as books and speeches.  
- Artistic creations include architectural and graphical work.  
- Scientific works include works of visual / signification such as maps, plans and sketches.

### **(2) Marks:**

A mark is any visible sign that serves to distinguish goods or services of one enterprise from another. It could be a word, slogan, name and group of letters, symbol, design and picture, any combination of above sound or shape of a product or packaging.

A mark used in connection with goods is known as a “Trade Mark” and a mark used in connection with services is known as a “service mark”.

### **(3) Patent:**

An inventor has a right to patent his invention provided that his invention is;

- New
- Involving an inventive step, and
- Industrial applicable

Invention is a practiced solution to a problem in the field of technology. It may relate to a product or process. By means of patent the government gives the exclusive right to the owner of the patent for a period of 20 years.

The patent right excludes others from using, selling, making the qualified invention. Patent right gives benefits to the inventors. It also encourages and promotes research and development at large.

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**(4) Trade Names:**

Trade names are defined as the name or designation identifying the enterprise of a natural or a legal person. They too can be registered and protected. However, certain trade names including trade names which are contrary to morality or public order, likely to offend religious or racial feelings of any community or are likely to mislead the public cannot be registered.

**(5) Industrial Design:**

Industrial design is the ornamental or aesthetic aspect of an article. Protection to an industrial design will be available only if it is “new”. The design is new if it has not been made available to the public anywhere before application date.

**(6) Geographical Indication:**

This is an indication which identifies any goods as originating in the territory of a country, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributed to its geographical origin. What basically meant is that a geographical indication could be a name or sign which indicate that the good have special quality, character or reputation because of the special place they originated from.

For example, Ceylon tea and Swiss chocolate.

*(Total 05 marks)*

***End of Section B***

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## SECTION –C

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**Three (03) compulsory questions.**

**(Total 30 marks)**

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### ***Suggested Answers to Question Seven:***

This is based on the law of contract. **Ashen** and **Automobile Lanka (Pvt) Ltd.** have entered into a contract for the purpose of renting a car.

A agreement which was entered between **Ashen** and **Automobile Lanka (Pvt) Ltd.** is a valid contract.

**Ashen** has already made a reservation for a car while specifically mentioning the particular requirement. Eventhough, he ordered for a car which is suitable for touring and which has the seating capacity for 5 passengers. On the day he only got a sport car with the seating capacity for 2 passengers.

Thus, Automobile company has breached the contract because it has not obliged the “expressed terms” specifically mentioned and agreed between **Ashen** and the company at the time of entering into the contract.

On this basis, **Ashen** is entitled to remedy for breach of contract by the company.

When considering the given facts, Ashen can ask for damages from the company as a remedy for the breach. Damages are compensation to the injured party for the loss suffered as a result of the other party’s breach. Further, The purpose of awarding damages is to place the injured party in the same position as he would have been had the contract being properly performed.

Accordingly, Ashen could ask court to calculate damages considering direct losses incurred by the breach of contract in the ordinary course of businesses.

Due to the breach, Ashen would have to cancel the entire tour which could directly affect his earnings of that day. Hence, Ashen is entitled to sue the automobile company seeking damages from it and is entitled to receive damages including the amount of entire tour package which he was planning to perform on that particular day.

**(Total 10 marks)**

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### **Suggested Answers to Question Eight:**

An employee means a person who is employed by an employer under a contract of service. A person who is employed by an employer under a contract for service, is not an employee but such a person is called as an independent contractor.

**Sunimal** worked as a cook of **Samro (Pvt) Ltd**. It is necessary to identify whether he was an employee or an independent contractor.

There are four test in the labour law which help to determine the employee status of a person and those tests are as follows;

- Control test
- Test of equipment
- Integral test
- Economic reality test

#### **Control Test:**

If the employer can take disciplinary control the work to be done by the employee in relation to arrival time, tea time and lunch time, he is an employee. **Sunimal** has flexible hours in the morning and night and he has paid an hourly rate. Therefore, under the control test he is not an employee.

#### **Test of equipment:**

It means that the person employed is an employee, if the employer provides tool and equipment required to work to be done. In this case **Sunimal** brought his own equipment required to the kitchen. Therefore, he is not an employee.

Based on the above, **Sunimal** is an independent contractor.

*(Total 10 marks)*

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### **Suggested Answers to Question Nine:**

- (a) **Kamal** has started a similar business with his wife using contracts from his businesses with **Bimal**. According to the partnership ordinance, there is a duty on every partner not to compete with the partnership by carrying on businesses of the same nature and competing with that firm without the consent of other partners. If he does so, he should pay over to the firm all profits made by him in such businesses.

#### **Pillans Brothers Vs. Pillaws**

Thus, **Kamal** should pay over all the profits he made from the new business carried out with his wife to the partnership with **Bimal**.

*(06 marks)*

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(b)

### **Rights and duties of partners**

The rights and duties of partners are decided by the partnership agreement. This agreement may be in writing or orally. If the partnership agreement does not provide for any particular right or duty of the partners, then section 24 of the Partnership Act will applicable to decide the rights and duties. According to the Partnership Act rights and duties should be decided in the following manner.

#### **1. Capital and profit**

Capital should be contributed by the partners equally. Profit and losses should be shared equally.

#### **2. Indemnity**

The firm must indemnify every partner in respect of payments made and personal liabilities incurred by him

- a) In the ordinary and proper conduct of the business of the firm or
- b) For the preservation of the business or property of the firm.

#### **3. Interest for loans**

When a partner gives a lone to the firm, he is entitled to an interest at a rate of 5% per annum.

#### **4. Interests on capital**

No partner is entitled to interests on capital.

#### **5. Management of the partnership business**

Every partner should take part in the management of the firm's business. No partner is entitled to receive salary for take part in the management.

#### **6. Introduction of a new partner**

No new partner can be introduced without the consent of all the existing partners.

#### **7. Differences as to ordinary matters**

Ordinary matters are generally decided by majority of votes. If there is equal voting new changes cannot be made. However nature of the business cannot be changed without the consent of all the existing partners.

#### **8. Partnership books**

The partnership books to be kept at the place of business.

#### **9. Expulsion**

All the partners should agree to expel a partner. As a general rule the majority cannot expel a partner. But the partnership agreement may give that authority to the majority. However that authority should be used in good faith.

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**Duties of Partners:**

**01. Duty to submit true accounts and full information**

Every partner should submit true accounts and full information regarding his dealings to other partners.

**02. The accountability for private profits**

Every partner should disclose full information regarding every benefit which is received by him,

- a) from any transaction concerning the firm,
- b) from any use of partnership property by him,
- c) From the name and business connections.

**03. Duty of not to compete with the firm**

If a partner without the consent of the other partners, carries on any business of the same nature and competing with the firm, he must pay over to the firm all profit made by him in that business.

*(04 marks)*

*(Total 10 marks)*

***End of Section C***

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## SECTION –D

**A compulsory question.**

**(Total 25 marks)**

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### ***Suggested Answers to Question Ten:***

**(a)**

- (i) Under the law of contract, the agreement entered between Kumar and his grandfather is a domestic agreement.

Domestic agreements are made among friends, family members and relatives. The presumption is that parties do not have an intention to create a legally binding agreement with regard to domestic agreement.

In the given situation also, grandfathers reaction as to “It was only to encourage you. Did you really think I would buy a BMW car for you?” shows that grandfather did not have any intention to create a legally binding contract.

#### ***Balfour vs. Balfour***

Thus, **Kumar** is not entitled to receive a BMW car from his grandfather.

**(07 marks)**

- (ii) As per the given case, the agreement was entered with minor. According to law of contract minors cannot enter into a legally valid contract, due to lack of their contractual capacity.

Any person under the age of eighteen (18) years is a minor and most contracts with a minor are “voidable” at his option. Thus, it is clear that, he has a right not to be bound by the contract.

**Ravi** had entered into the agreement with his aunt at the age of thirteen (13) years and it can be argued that the contract is voidable due to **Ravi's** lack of capacity to contract at the time they entered into the agreement. Therefore, **Ravi** is not required to pay one year salary to the Aunt.

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### **Alternative Answer**

Further, it may be argued that since **Ravi** has benefited from the agreement and under the category of “Beneficial Service Contracts” he should pay one year salary to his aunt.

***AG Vs. Costa***

**(07 marks)**

b)

- (i) As per the law of agency, **Siri** is the principal and **Pala** is the agent in the given scenario. **Siri** has created the agency by expression through writing a letter of authority to **Pala**.

According to the law of agency it is a duty of an agent to follow the instructions given by the principal. Further, he must not exceed the authority vested on him.

Further, **Pala** has failed to follow expressed instructions as not to purchase any item on credit and further he has acted beyond the powers which were vested on him.

As an agent, he must not make a secret profit. In this case, **Pala** has stated a farm and earned Rs. 100,000/- per month. Therefore, he has breached the duty as not to make secret profit.

Thus, **Pala** has breached two fundamental duties as an agent.

**(05 marks)**

- (ii) As per the law of agency, agent should follow the instructions given by the principal.

In this case, **Siri** has expressly prohibited **Pala** from purchasing items on credit. But, **Pala** has purchased some item on credit from **Perera**, by exceeding his authority as an agent to **Siri**. Thus, he has no authority to purchase items on credit.

On that basis, **Perera** could recover his money from **Siri**. He can take an action against **Pala** in order to recover his money. **Pala** is liable for paying back that money to **Siri**.

**(06 marks)**

**(Total 25 marks)**

***End of Section D***

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### ***Notice :***

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These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

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