



Association of Accounting Technicians of Sri Lanka

July 2018 Examination - AA2 Level

**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 - July 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	(2)
1.2	(3)
1.3	(4)
1.4	(4)
1.5	(2)
1.6	(1)
1.7	(2)
1.8	Any two of the following: a. Cases which relate to property issues b. Actions by landlords to eject tenants c. Action to recover debts d. Claims for compensation and damages e. Family disputes
1.9	Any two of the following: a. Cheque is an instrument in writing b. Cheques contain an unconditional order to pay c. Cheques are drawn by a customer on his bank d. Cheques must be signed by the customer e. Cheques are payable only on demand f. Cheque must mention the exact amount to be paid g. The person to whom the payment must be made should be stated clearly and with certainty h. Cheques must be duly dated by the customer of the bank / the account holder i. Rules relating to crossing applies to cheques. j. The three parties to the cheque are the drawer, the drawee and the payee.
1.10	07 days of annual leave (Total 20 marks)

End of Section A

Five (05) compulsory questions.

(Total 25 marks)

Suggested Answers to Question Two:

This is based on creation of agency by ratification. However, the mere ratification by the principal is not sufficient to create the agency by ratification and it is governed by certain rules.

At the time the agent enters into the contract, he should enter into the contract as an agent on behalf of a principal. On the otherhand if he has entered into the contract without mentioning the principal, even if the contract is ratified by the principal later no agency by ratification arises.

Sunil authorized Piyal to buy bulk of sugar at a certain price and due to the circumstances Piyal exceeded his authority and bought the Bulk of sugar at a higher price.

At that time Piyal hasn't disclosed the name of Sunil as the Principal and has bought sugar in his own name.

There's no agency between Sunil and Nimal due to the fact that Piyal had not entered into the contract as an agent of Sunil-Thus, no agency by ratification arises. Therefore, Nimal is not entitled to recover the money from Sunil.

Case Law : *Keighley Maxted and Co. Vs Durant*

(Total 05 marks)

Suggested Answers to Question Three:

Any one of the below two fundamental principles.

A. Integrity

1. Integrity is the moral soundness of a professional.
2. A professional is expected to be straightforward and honest in decision-making.
3. A professional must be fair and truthful and avoid concealing the truth from others.
4. A professional must treat all the colleagues in a consistent manner and not treat different colleagues in different manner.

B. Objectivity

1. A professional's judgment must always be uninfluenced by emotions and personal prejudices.
2. A professional must not be bias and not allow conflict of interest to affect his professional decisions. A conflict of interest arises when his personal goals collide with professional goals.
3. When reaching decisions, a professional must use all available resources and information without allowing personal biases to enter into decision making.

C. Technical competence

1. Technical competence is the ability to consistently provide the services at a professionally acceptable level.

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2. When rendering services the professional must maintain the knowledge and skill in line with the current developments, legislations and techniques to ensure that the client receives competent professional service.
 3. A professional must act diligently in line with applicable technical and professional standards when providing services to his clients.

D. Due care

1. Due care is the degree of care which is expected from a reasonable person under the circumstances. That implies the efforts which are expected from a prudent professional in a given situation.
2. Due diligence principle arise out of due care principle. This means the steady and careful application of the knowledge with proper attention and care to a particular situation.

E. Confidentiality

1. This is where a professional is required not to divulge information acquired as a result of professional and business relationships to third parties without proper authority. (Exception - However, a professional can disclose such confidential information if there is a legal or professional duty to do so.)
2. A professional must not utilize the confidential information acquired as a consequence of professional and business relationships for personal gains and benefits.

F. Independence

1. Independence can be in two ways:
 - a. Independence of mind
 - b. Independence in appearance
2. Independence of mind is the state of mind that allows a professional to express a judgment without being affected by influences.
3. It is only if independence of mind is available that an individual will be able to act with integrity, objectively and professional skepticism (i.e.-doubt something bad will happen)
4. Independence in appearance is where the independence of the mind is visible to those who observe him. Third parties must view the decision as an independent decision without being subject to bias.

(Total 05 marks)

Suggested Answers to Question Four:

In terms of section 80, where a banker pays a crossed cheque in good faith without negligence in accordance with the crossing, the bank is protected from the true owner of the cheque, even though the money has been obtained by an unauthorized person.

The drawee bank of a generally crossed cheque should pay the value of such a cheque only to an account with any banker. The payment of value of such a cheque by the drawee bank over the counter

is a payment which is contrary to the general crossing, then the drawee bank is liable when there is a loss to the true owner.

This is a bearer bill and any person can get it encashed or deposited. In this case, the drawee bank overlooking the general crossing paid in good faith the value of the cheque to the holder who is the thief during the normal course of business. Even though the bank has paid the crossed cheque contrary to the crossing, there is no loss to the true owner because the holder of it (C) was the true owner due to the endorsement in bank.

Therefore A is not entitled to recover the amount from the bank.

Applicable case law : *Mercantile Bank of India Vs Ratnam*

(05 marks)

Suggested Answers to Question Five:

A company is a legal person though an artificial one. When a company incorporated becomes an artificial legal person distinct from its shareholders, directors and other officers. Therefore, a company can sue and be sued in its own name. Moreover, a company is recognized as being able to contract to do business to have its property and money to open bank account and also borrow money in its own name. In other words like a human being it can enter into contracts.

(Total 05 marks)

Suggested Answers to Question Six:

A partnership is a relationship which subsists between persons to carry on a business in common with a view of profit. Rights and duties of partners are decided by the partnership agreement. If there is no agreement as such, then the partnership act will apply. In terms of Act, one of the duties of partners is to submit true accounts and full information regarding his dealings to other partners. On the other hand every partner must disclose full information with regard to all benefits derived by him from all transactions concerning the partnership.

In the given case **Amal** had not revealed regarding the earned discount of Rs. 50,000/- and had earned a secret profit of Rs. 50,000/-. This is a breach of a duty of partners. Therefore, the partnership is entitled to recover the share of his profit from **Amal**.

Applicable case law: *Bentley Vs Craven (1853)*

Pathirana Vs Pathirana

(Total 05 marks)

End of Section B

Three (03) compulsory questions.
(Total 30 marks)

Suggested Answers to Question Seven:

a)

This is regarding implied conditions of sale of goods. Where there is a sale of goods by sample as well as by description, the goods must correspond not only with the description, but also with the sample.

When the seller sells goods describing quality, contents, etc... the goods shall correspond with the description, otherwise the implied condition is breached.

Raja has agreed to sell a pack of beauty cream to Rani with a sample and a description. Though the product was equal with the sample, it did not equal with the description.

Since the pack of beauty cream does not correspond with the description as to “sea minerals mixed”, Rani is entitled for remedies such as termination of contract, refusal of acceptance of goods, claim of damages etc....

Applicable case law : *Nichol Vs Godts*

(05 marks)

b)

Any one of the following methods could be used. The most suitable and popular payment method in this type of transaction is Letters of Credit and Collection Agreements. Other methods are used rarely.

1. Letters of Credit (Documentary Credits, Banker’s Commercial Credits)

- ▶ Documentary credits can be defined as a conditional undertaking given by a bank to a seller to make payments against stipulated documents.
- ▶ International trade procedure in which the credit worthiness of an importer is substituted by the guaranty of a bank for a specific transaction.
- ▶ Under documentary credit arrangement (also called letter of credit arrangement) a bank (usually in the importer’s country) undertakes to pay for a shipment, provided the exporter submits the required documents (such as a clean bill of lading, certificate of insurance, certificate of origin) within a specified period.
- ▶ The Uniform Customs and Practice for Documentary Credits (UCP) is a set of rules that regulate, implement and operate the Documentary Credit.

2. Collection Agreements

- ▶ Collection agreements are done when the selling price is arranged at the buyer’s place.
- ▶ The seller hands over the shipping documents to his bank (remitting bank) and the remitting bank passes the documents to the buyer’s bank (collecting bank).

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- ▶ The collecting bank then presents the bill of lading to the buyer and requests him to accept the bill of lading.
 - ▶ Once the buyer accepts, the collecting bank releases the shipping documents to the buyer which enables him to receive the original bill of lading and allow him to obtain the goods from the carrier upon the arrival of the ship.
 - ▶ These are governed by the “Uniform Rules for the Collection of Commercial Papers” of the International Chamber of Commerce.

3. Payment on Open Accounts

- ▶ Open account occurs when a seller ships the goods and all the necessary shipping and commercial documents directly to the buyer who agrees to pay a seller’s invoice at a future date.
- ▶ Open accounts is typically used with established and trusted traders.

4. Payment in Advance

- ▶ There are occasions that the importer pays for goods to the exporter prior to dispatch of the goods at some agreed stage.
- ▶ The exporter can obtain full payment or part payment.

5. Electronic Commerce

- ▶ Electronic Commerce is the paperless trading conducted online via the internet.
- ▶ Benefits of Electronic Commerce
 - a. Reduced costs
 - b. Quicker supplies
- ▶ Disadvantages of Electronic Commerce
 - a. Level of security unsatisfactory
 - b. Sending payment details over the internet is risky

(Total 10 marks)

Suggested Answers to Question Eight:

a)

A contract of insurance should be supported by an insurable interest, or else the contract of insurance will be invalid. The person seeking the insurance should either benefit from the perservation of the subject matter, or else effected from its loss.

According to *Griffith Vs Fleming*, **Amali’s** applications to obtain life insurance policies for herself and her husband should be successful. Becuase it was held that a person has an insurable interest in his own life and one spouse has an insurable interest in the life of the other spouse.

(05 marks)

b)

But, **Sunali** is trying to obtain life insurance policies for elder brother and according to *Evans Vs Crooks* there is no insurable interest in the life of one sibling of the other, and according to *Howard Vs Refuge Friendly Society* **Sunali** cannot obtain a life insurance policy for her parents too due to the lack of insurable interest.

(05 marks)

(Total 10 marks)

Suggested Answers to Question Nine:

a) i)

1. To control and eliminate restrictive trade agreements among enterprises, arrangements amongst enterprises with regard to prices, the abuse of controlling position and any restraint of completion adversely affecting local or international trade or economic development.
2. To investigate or inquire in to anti-competitive practices and abuse of dominant positions. (Anti-competitive practice refers to a wide range of business practices in which a person or a group of persons may engage in order to inter-firm competition so that they could maintain or increase their relative market share of profits without providing goods and services at a higher quality or lower price.)
3. To maintain and promote effective competition between persons supplying goods and services.
4. To promote and protect the rights and interests of consumers, purchases and other users of goods and services relating to the price availability and quality of such goods and services and the variety supplied.
5. To keep consumers informed about the quality, quantity, potency, purity, standards and price of goods and services made available for purchasers.
6. To carry out investigations and inquiries in relation to any matter specified in the Act.

(04 marks)

ii) *Any of the two obligations of the traders as imposed by the Consumer Affairs Authority stated below is acceptable:*

1. Exhibit the maximum retail or wholesale price of the goods available in the place of business.
2. Issue a receipt for goods sold.
3. Keep a notice board to display notices issued by the Consumer Affairs Authority.
4. Not mislead/deceive any consumer or trader in the course of his business.
5. Not make false representation in respect of goods.
6. Register with the Consumer Affairs Authority.

(02 marks)

b)

In the following instances an employee is entitled to claim his/her EPF: (any four instances is acceptable)

- a. Reaching the age of retirement (Male – 55 years; Female – 50 years).
- b. A female employee resigns from employment in consequence of marriage. (Should get married within 3 months of resignation or resign within 5 years of marriage.)
- c. Certified medically unfit to work due to a permanent and total disability. (It has to be certified by a registered medical practitioner who is registered under the medical ordinance)
- d. Migrating from Sri Lanka with no intention of returning.
- e. Takes up pensionable employment in the public service or in the local government service.
- f. An employee in a public corporation or government-owned business undertaking, can withdraw in the event of being retrenched from service.
- g. Death of employee (the nominees can claim the benefits)

(04 marks)

(Total 10 marks)



End of Section C

A compulsory question.

(Total 25 marks)

Suggested Answers to Question Ten:

a) i)

This is based on the law of contract. A contract could be defined as an agreement between parties with an intention to create a legal relationship. Two basic elements which creates an agreement is “the offer” and “the acceptance”. An offer could be defined as a definite promise to be bound on specific terms made by the offeror to the offeree. The offer could be made in writing, by word of mouth or even by implication. In this case **Mala** has made an offer to sell her house to **Kumari** at Rs. 2 million.

Offer may be terminated by rejection. When offeree rejects the offer, it comes to an end. For rejection to become effective, it must be communicated to the offeror. Offer may be rejected by making a counter offer. A counter offer can be made in either by making a fresh offer by accepting the offer by laying down conditions.

Therefore, in this case **Kumari** has made a counter offer saying that she will buy the house at Rs. 2 million, but payment will be made in 4 installments. Here, the original offer of selling the house for Rs. 2 million was rejected by the counter offer of paying by installments.

Therefore, there is no valid contract between **Mala** and **Kumari**. Valid acceptance for this offer is to accept the offer by **Kumari** as it is. i.e. to pay at once. **Mala** has refused the counter offer.

At the end there is a valid offer made by **Kumari** but it has not been accepted by **Mala**. Therefore, there is no valid contract between **Mala** and **Kumari**.

Hyde Vs Wrench

Neal Vs Merett

(08 marks)

ii)

This is based on the law of contracts. A contract can be terminated by many ways including termination of a contract by frustration. If a party has been subsequently unable to perform the contract because something has occurred beyond the control of parties after the contract has been entered into, the contract is said to be terminated by frustration.

In the given scenario, the contract had been frustrated due to non-occurrence of the procession due to a security issue, when it was the sole purpose of the contract. Therefore, the room to view procession was useless.

Since the contract was frustrated both parties to the contract were discharged from their obligations. Accordingly, **Piyal** will be able to recover the money he paid on room reservation.

(Krell Vs Henry)

(03 marks)

b) i)

This contract between **Kusal** and **Maya** is based on Future Goods. These are the goods to be manufactured or produced or acquired by the seller after making the contract of sale.

They have entered in to a sale of goods contract and the scanner is to be imported and acquired by **Kusal** after the valid contract. Future goods are neither in existence nor in possession of the seller at the time the contract of sale is made.

Accordingly, there is a valid sale of goods contract between **Kusal** and **Maya**.

(03 marks)

ii)

The contract between **Ravindu** and **Kusal** is based on existing goods. Goods owned and possessed by the seller at the time of making the contracts of sale are called existing goods.

Accordingly, there is a valid sale of goods contract between **Ravindu** and **Kusal**.

(03 marks)

iii)

Kusal failed to deliver the printer to **Dayal** 3 days before the New Year festival day. Therefore, Dayal as a buyer is entitled for following legal rights and remedies.

An action for non-delivery: This arises since **Kusal** wrongfully neglected or refused to deliver the goods to the buyer. In such a case **Dayal** can file an action against **Kusal** for damages.

For recover of the price: Since **Dayal** has paid the full price and the goods are not delivered, he can recover the amount paid.

Specific performance when the contract is to deliver specific goods, the court may if it thinks fit direct that the contract shall be performed specifically. Without giving the seller the option of retaining the goods on payment of damages. This being a discretionary remedy will not be granted when damages would be an adequate remedy. Generally, only in the case of goods of special value which cannot be readily bought in the market that such a remedy will be granted.

(05 marks)

(Total 25 marks)

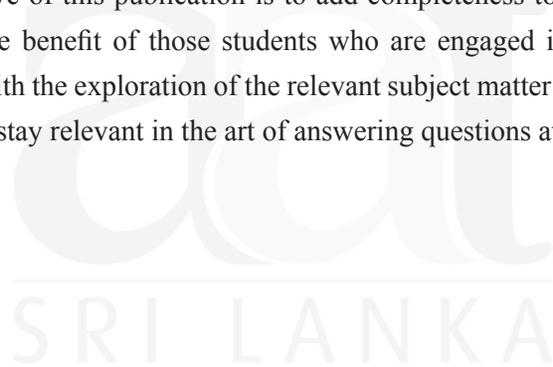
End of Section D

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