



Association of Accounting Technicians of Sri Lanka

Level II Examination - July 2024

Suggested Answers

(203) BUSINESS LAW (BLA)

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

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(203) BUSINESS LAW

SUGGESTED ANSWERS

(Total 25 Marks)

SECTION - A

Suggested Answers to Question One:

1.1 (3)

1.2 (4)

1.3 (4)

1.4 (3)

1.5 (4)

1.6 (3)



(02 marks each, 12 marks)

1.7 False

1.8 True

1.9 False

(01 Mark each, 03 marks)

1.10 *Any two of the followings*

- The Final and conclusive Civil and Criminal Appellate Jurisdiction
- The jurisdiction on bills
- The jurisdiction on Fundamental Rights
- The jurisdiction on election petitions
- Advisory Jurisdiction
- The jurisdiction regarding breach of parliamentary privileges.
- The power to draft Supreme Court rules
- The jurisdiction with regard to other factors determined by or vested by the Parliament under the spectrum of law

1.11

A **general crossing** of a cheque involves drawing two parallel lines across the face of the cheque. It restricts the cheque from being cashed over the counter. Instead, it must be deposited into a bank account.

A **special crossing** involves drawing two parallel lines across the face of the cheque with the addition of the name of a specific bank either, with or without the words 'not negotiable'. It restricts the payment to be made only through the specified bank mentioned in the crossing. The cheque can only be deposited into an account held at that specific bank.

1.12 *Any two of the followings*

- To investigate or inquire into anti-competitive practices and abuse of dominant position.
- To maintain and promote, effective competition between persons supplying goods and services.
- To promote and protect the rights and interests of consumers, purchasers and other users of goods and services, relating to the price, availability and quality of such goods and services and variety supplied.

- To keep consumers informed about the quality, quantity, potency, purity, standards and price of goods and services made available for purchase.
- To control and eliminate restrictive trade agreements among enterprises, to regulate the arrangements amongst enterprises with regard to prices.
- To control the prices, to eradicate unfair competition adversely affecting local or international trade.
- To carry out investigations and inquiries in relation to any matter specified in this act.

1.13 *Any two of the followings*

- Loading the goods to the ship in the standard described in the agreement
- Enter into a transportation agreement to deliver the goods on the destination agreed by the agreement
- Preparation of an insurance contract that will be beneficial to the buyer
- Preparation of an invoice for goods
- Sending documents to the buyer within a reasonable time from loading to the ship.

1.14 *Any two of the followings*

- Money Order
- Postal Order
- Fixed deposit certificates
- Share Certificate
- Letter of Credit
- Bill of Lading
- Deposit Certificate

(02 marks each, 10 marks)

(Total 25 marks)

End of Section A

Suggested Answers to Question Two:***Chapter 04 – Law of Agency*****(a)**

The agency relationship between **Bandara** and **Videshika** is an express agency relationship. An express agency is formed when a principal explicitly appoints an agent to act on their behalf through a clear agreement. This agreement can be made either verbally or in writing. In this case, **Bandara**, as the principal, has expressly authorized **Videshika** to manage the business activities of his foreign visa consultancy firm, as outlined in their contractual agreement. Therefore, the agency relationship between them is a express agency, where **Videshika** is acting as Bandara's agent within the defined terms of their contract.

(04 marks)**(b)**

Frank could claim compensation from **Bandara** based on the concept of implied authority, as illustrated in Watteau v. Fenwick. Implied authority refers to the power an agent has to perform acts that are reasonably necessary to carry out their expressly authorized duties, even if not explicitly stated in the contract. It arises from the agent's position and the usual scope of duties associated with that role.

In Watteau v. Fenwick, the court held that a principal could be liable for the acts of an agent that fall within the usual authority of someone in the agent's position, even if the agent acts beyond the express limitations set by the principal. Applying this to **Bandara's** situation, even though **Videshika** was explicitly prohibited from handling visa matters related to France, her role as the manager of a visa consultancy firm typically includes handling visa issues.

If handling visa matters is within the usual scope of authority for someone in **Videshika's** position, her actions could be considered within her implied authority from the perspective of third parties like **Frank**. This means that, even though **Bandara** restricted her actual authority, her implied authority to manage visa issues, including those for France, might still bind **Bandara**.

Hely-Hutchinson v. Brayhead Ltd further clarifies that implied authority arises from the nature of the agent's duties and the usual practices of the role. If **Frank** reasonably believed **Videshika** had the authority to handle his visa issue due to her position, he might successfully claim compensation from **Bandara** under the principle of implied authority.

If the court accepts this reasoning, **Bandara** could be held liable for compensation to Frank despite the internal restrictions placed on **Videshika's** authority.

Alternative Answer

One of the main duties of an agent is that the agent must follow the principal's instructions and the agent must not exceed the authority vested in her/him. In the case scenario, Videshika (the agent) was advised not to advise or handle his visa issue with France at a high rate. Unfortunately, it went wrong due to Videshika's fault. As Videshika fails to follow the given instructions. However, Frank could claim compensation from Bandara. Since Frank did not aware of limitation of authority. Further, Bandara can claim damages from Videshika as she has not performed her duties as an agent.

Case: Ferrers v Robins.

Suggested Answers to Question Three:

Chapter 05 – Company & Partnership law

(a)

Under partnership law, a partnership can be held liable for the wrongful acts of a partner if those acts are performed within the scope of the partnership's business. This principle of vicarious liability means that the partnership is responsible for civil wrongs committed by a partner in the course of the partnership's activities. However, criminal acts such as bribery introduce complexities. The case of Humlyn v Houston & Co clarifies that while partnerships may be liable for civil wrongs committed by partners, criminal liability generally rests with the individual who committed the crime, unless the criminal act directly benefits the partnership.

In the case at hand, **B** bribed a marketing manager at **Cooray Ltd.** to obtain confidential information. Bribery is a criminal act and is typically outside the scope of legitimate business activities. Although **B's** actions were intended to benefit **ABC Partnership** by gaining a

competitive advantage, bribery is not a standard or acceptable business practice. According to Humlyn v Houston & Co, the partnership itself might face repercussions such as legal consequences or reputational damage due to B's actions. However, the criminal liability for the bribery primarily falls on **B**, not on the partnership as a whole.

Regarding **A and C**, their personal liability for **B's** actions would only arise if they were directly involved in or had knowledge of the bribery. In general, criminal liability does not extend to other partners unless they are complicit in the criminal conduct. Thus, while **ABC Partnership** may be affected by the legal and reputational fallout from the bribery, the primary criminal responsibility lies with **B**, and **A and C** are not personally liable for **B's** criminal actions under the principles established in Humlyn v Houston & Co.

(06 marks)

(B)

In Sri Lanka, the concept of **legal personality** for companies, as defined by the Companies Act No. 07 of 2007, is fundamental for understanding how companies function as separate legal entities. This principle means that a company is considered a distinct legal person, separate from its shareholders, directors, and officers, with its own rights and obligations.

This principle is supported by Section 02 of the Companies Act No. 07 of 2007, which grants a company the capacity to engage in any business, perform any act, or enter into any transaction, both within and outside Sri Lanka. It underscores the company's independence from its shareholders and directors.

Additionally, Section 87 of the Act confirms limited liability by stating that shareholders are not personally liable for the company's debts or obligations beyond their investment. This protection ensures that shareholders' personal assets remain secure from the company's liabilities.

In summary, the legal personality under the Companies Act No. 07 of 2007 establishes that a company is a distinct legal entity with its own rights and responsibilities, as illustrated by Macura v Northern Assurance Co Ltd and supported by Sections 02 and 87 of the Act

(04 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 10 - Offences related to the business environment
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(a)

- Copyrights
- Patents
- Trade Marks
- Geographical Indexes
- Industrial Designs
- Layout Designs and Integrated Circuits.

(04 marks)

(b)

According to Section 6 of the Intellectual Property Act, the producer of a certain drama has copyright in respect of that drama. The economic and moral rights given to Classical, Artistic, and scientific works of creators are known as copyrights. Owner of the copyright will enjoy the economic rights of reproduction of the work, sale or lease of work, distribution, communicating to public, translation of the work while he or she also enjoy the moral rights of protection against any distortion, mutilation, or other modifications of or other derogatory action in relation to his work, which would be prejudicial to his honor or reputation. The general rule is that from the day the work is presented to the public, it is protected during the entire lifetime of the author and for a further period of seventy years after the death of the author or the producer. By publishing **professor Gamini's** "Bari-Nana" book and selling it to students, **Anil** has violated economic rights related to intellectual property. **Professor Gamini's heirs** lose the right to make a profit by selling the "Bari-Nana" book to the A/L students. Since **Professor Gamini's** intellectual property rights have apparently been infringed by **Anil's** action, **Professor Gamini's heiress** wife can sue **Anil** for violation of the Intellectual Property Act. She also has economic and moral rights over the book for 70 years.

(06 marks)

(Total 10 marks)

Suggested Answers to Question Five:

Chapter 08 - Law of Insurance, Hire Purchase & Leasing

(a)

In insurance law, the principle of **indemnity** ensures that an insured can only recover up to the amount of their actual loss, preventing any financial gain from multiple insurance claims. The principle of **contribution** applies when multiple insurance policies cover the same risk, ensuring that each insurer contributes proportionately to the claim.

Perera holds two insurance policies: one with **ZZ Insurance Ltd.** for Rs. 5,000,000/- and another with **AZ Insurance Ltd.** for Rs. 3,500,000/-. The total loss from the fire is Rs. 1,400,000/-. According to the principle of indemnity, **Perera** cannot claim Rs. 1,400,000/- from each insurer for the same damage. Instead, the total recoverable amount is limited to Rs. 1,400,000/-.

Under the principle of contribution, each insurer will contribute proportionally based on their coverage. To calculate the contribution:

Total Coverage: Rs. 5,000,000 (ZZ Insurance) + Rs. 3,500,000 (AZ Insurance) = Rs. 8,500,000

Proportion of Coverage:

- ZZ Insurance Ltd.: Rs. 5,000,000 / Rs. 8,500,000 = 0.588 (or 58.8%)
- AZ Insurance Ltd.: Rs. 3,500,000 / Rs. 8,500,000 = 0.412 (or 41.2%)

Contribution to the Claim:

- ZZ Insurance Ltd.: 58.8% of Rs. 1,400,000 = Rs. 823,200/-
- AZ Insurance Ltd.: 41.2% of Rs. 1,400,000 = Rs. 576,800/-

Therefore, **Perera** is entitled to recover a total of Rs. 1,400,000/-, with **ZZ Insurance Ltd.** contributing Rs. 823,200/- and **AZ Insurance Ltd.** contributing Rs. 576,800/-. This ensures that the total compensation does not exceed the actual loss and aligns with the principles of indemnity and contribution.

(06 marks)

(b) Explaining only two parties would permit full marks

- First party

The person who presents an insurance proposal or the person who obtains insurance coverage, Also known as the 'Insured'.

- Second party

The party who accepts the insurance proposal or the insurance company, Also known as the 'Insurer'

- Third party

The third party is the relationship about external party apart from the first & second party that comes into the activation of the agreement

(04 marks)
(Total 10 marks)

Suggested Answers to Question Six:

Chapter 03 - The Law of sales of goods

(a)

Under Section 15(2) of the Sales of Goods Ordinance, goods sold must be of **merchantable quality**. This means that the goods should be fit for their ordinary purpose and meet the standard that a reasonable buyer would expect. Merchantable quality ensures that goods are suitable for their intended use and free from defects that would render them unacceptable to a reasonable consumer.

In *Grant v Australian Knitting Mills Ltd*, the court established that goods must be of merchantable quality and fit for their intended purpose. The plaintiff suffered a severe skin condition due to defective woolen underwear, which failed to meet the standard of merchantable quality. This case affirmed that goods not meeting the required quality standards entitle the buyer to seek remedies for any resulting harm or inconvenience.

Another relevant case is *Baldry v Marshall*. In this case, the court held that when goods are sold based on a description that implies certain quality standards, they must meet those standards. The seller's failure to provide goods that matched the described quality led to a

breach of contract. This case illustrates that if goods do not conform to the description provided, they do not meet the standard of merchantable quality.

Applying these principles to **Mahanama's** situation, he purchased shrimps from **Dilip** that were described as fresh. However, **Mahanama** later discovered that the shrimps were very old and unsuitable for consumption. This means that the shrimps did not meet the standard of merchantable quality, as they were not fit for their intended purpose. As a result, **Mahanama** is entitled to seek remedies such as a refund, replacement, or damages for the breach of the implied term of merchantable quality under Section 15(2) of the Sales of Goods Ordinance.

(06 marks)

(b)

Existing Goods - Existing goods refer to ones which are in the ownership or possession of the seller at the time of entering into the contract. This includes goods pledged or rented or in the possession of an agent.

Example – **Shehan** is an Automobile Seller. He agrees to sell a Honda Civic vehicle imported from Japan to **Prasad**. As the vehicle is in the possession of **Shehan** at the time of making of the contract, that vehicle is an existing good.

Future Goods - Future goods denote things to be acquired or produced by the seller, subsequent to entering into the contract.

Example - If **Shehan** contracts with **Prasad** to sale a Honda Civic Vehicle, to be imported from Japan, such vehicle is a future good.

Specific goods/ascertained goods – Ascertained or specific goods are the goods agreed upon and identified by the parties as being the subject matter, that the time of entering the contract.

Unascertained goods – If the goods, that the parties agreed although not yet properly identified, such goods are unascertained goods.

(04 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Seven:***Chapter 02 - Contract Law***

(A)

(a)

To determine whether **Pirisindu** can take legal action against **Savarika** to claim the reward, we must analyze the principles of contract law related to unilateral contracts, particularly the requirement that an **offer must be communicated** to form a binding contract.

A **unilateral contract** is formed when one party (the offeror) makes a promise in exchange for a specific act by another party (the offeree). In this case, **Savarika's** notice on her home gate offering a reward of Rs. 100,000 for the return of her passport constitutes such an offer. For a contract to be binding, the offer must be communicated to the offeree, and the act must be performed with knowledge of the offer. In *Fitch v. Snedaker*, the court held that a contract cannot be formed if a person performs an act without knowing of the offer. The **offer must be communicated** to the offeree, and acceptance must occur in response to it.

Applying this principle, **Pirisindu**, a cleaner at the local supermarket, found **Savarika's** passport while emptying the store bins. Recognizing the name, he returned it to **Savarika** when she visited the supermarket, but he did not know of the reward offer posted on her home gate. He only became aware of the offer later that day when passing her house.

This is similar to *Bloom v. American Swiss Watch Company*, where a company offered a reward for information leading to the arrest of certain thieves. Bloom provided the information without knowing of the reward, and the court held he could not claim it because the **offer was not communicated** to him when he acted. Since Bloom did not perform the act in response to the offer, no contract was formed.

Likewise, because **Pirisindu** returned the passport without knowledge of **Savarika's** reward offer, he did not accept the offer by performing the act in response to it. Since the **offer must be communicated** for a valid acceptance, **Pirisindu's** actions do not meet this requirement.

In conclusion, **Pirisindu** cannot successfully sue **Savarika** for the reward because he was unaware of the offer when he returned the passport. No contract was formed, and **Savarika** is not obligated to pay the reward. Any legal action by **Pirisindu** would likely fail

(06 marks)

(b) Explaining any four from the above would permit full marks

- **The Offer:** An offer is a clear proposal made by one party to another, showing a willingness to enter into a contract on specific terms. It must be communicated and demonstrate an intention to be legally bound. In Carlill v. Carbolic Smoke Ball Co., the court held that an advertisement was an offer because it showed clear intent to be bound.
- **The Acceptance:** Acceptance is the unconditional agreement to the terms of the offer, which must be communicated to the offeror. Acceptance must match the offer exactly. In Hyde v. Wrench, the court found that a counter-offer invalidated the original offer, meaning there was no acceptance.
- **The Consideration:** Consideration involves something of value exchanged between the parties and must be sufficient but not necessarily adequate. Under the doctrine of privity of contract, consideration must be provided by the promisee, and only parties to the contract can enforce it. In Tweedle v. Atkinson, the court held that a promise to pay money was unenforceable because the promisee was not a party to the contract and thus had no consideration supporting the promise.
- **Contractual Capacity of parties:** Parties must have the legal capacity to contract, meaning they should not be minors, mentally incapacitated, or under duress. In Nash v. Inman, a contract with a minor for non-necessities was held void due to a lack of legal capacity.
- **The Intention to Create Legal Relationship:** The parties must intend for their agreement to be legally binding. Social or domestic agreements typically lack this intention. In Balfour v. Balfour, the court found that an agreement between a husband and wife was not intended to be legally binding.
- **The Legality of contract:** The contract's purpose must be lawful. Agreements involving illegal activities are void. In Everet v. Williams, the court held that a contract between two highwaymen to share stolen goods was void for being illegal.
- **The Genuineness of Consent:** Consent must be freely given, without duress, undue influence, misrepresentation, or mistake. In The Atlantic Baron, the court found that a

contract was unenforceable due to misrepresentation about the ship's arrival date, which affected the genuineness of consent.

- **The accordance with the formalities required by the law** : This requires certain procedures or conditions that must be met for a contract. These formalities can include elements such as written documentations signatures or specific language used in the contract.

(08 marks)

Chapter 07 – Labour law

(B)

(a)

To determine whether **Silva** is an employee or an independent contractor of **Lanka Air Ltd.**, various tests identified by labor law should be applied. Based on the given facts, a conclusion can be reached by carrying out the following tests:

The Control Test

The Control Test assesses whether the employer has control over the discipline and work conditions of a person providing a service. This includes control over the time of commencing work, leave, duties, work intervals, finishing time, promotions, and demotions. If such control exists, the person is likely to be an employee.

In **Silva's** case, he was required to report to the office before 9:30 am every day, and his duties and obligations were outlined by **Lanka Air Ltd.**, with the company reserving the right to terminate his employment if he failed to comply. This shows that **Lanka Air Ltd.** had significant control over **Silva's** work conditions and schedule. Therefore, based on the Control Test, **Silva** is more likely to be considered an employee of **Lanka Air Ltd.**

The Equipment Test

The Equipment Test determines whether the equipment necessary for the provision of services is supplied by the employer. If the employer provides the equipment, the person is generally considered an employee.

For **Silva**, all necessary pet control equipment and other relevant expenses were provided by **Lanka Air Ltd.** This provision of equipment indicates that **Silva** did not need to invest in his own tools or materials, a key characteristic of an employee rather than an independent contractor. Thus, according to the Equipment Test, **Silva** appears to be an employee.

The Integration Test

The Integration Test considers whether a person's role is integrated into the core business operations of the company or if it is only an accessory. If the role is integral to the business, the person is considered an employee; if the role is peripheral, they may be an independent contractor.

Silva was part of the pet control unit, performing essential tasks such as inspections, assessments, and controlling pests like rats on airplanes. This work is integral to ensuring safety and hygiene, which is vital to the airline's core operations. Therefore, **Silva's** work is inseparable from the main functions of **Lanka Air Ltd.**, indicating that he is more likely an employee under the Integration Test.

Based on the Control Test, Equipment Test, and Integration Test, it can be concluded that **Silva** is an employee of **Lanka Air Ltd.** The company had significant control over his work schedule and duties, provided all the necessary equipment, and **Silva's** role was integrated into the core operations of the company. These factors collectively support the conclusion that **Silva** is not an independent contractor but rather an employee of **Lanka Air Ltd.**

(06 marks)

(b)

(i)

Based on the Payment of Gratuity Act, Act No. 12 of 1983, in Sri Lanka, every employee who is not expressly excluded by the Act is entitled to gratuity upon cessation of employment, provided that they have completed a minimum of five (5) years of continuous service with the same employer. The gratuity amount is calculated by multiplying half of the last month's salary drawn by the employee by the number of completed years of service with the employer.

Calculation of Gratuity Entitlement for Nazeer:

1. **Relevant Details:**

- **Date of Joining:** April 1, 2016
- **Date of Resignation:** June 30, 2024
- **Last Month's Salary:** Rs. 300,000/-

2. **Determine the Completed Years of Service:**

- **Nazeer** worked from April 1, 2016, to June 30, 2024, which totals 8 years and 3 months.
- For the purpose of gratuity calculation, only the completed years are considered. Therefore, **Nazeer's** completed years of service are **8 years**.

3. **Gratuity Calculation:** Gratuity is calculated using the following formula:

$$\text{Gratuity} = \frac{\text{Last Month's Salary} \times \text{Completed Number of Years}}{2}$$

$$\text{Gratuity} = \frac{300,000 \times 8}{2}$$

$$\text{Gratuity} = \frac{2,400,000}{2}$$

$$\text{Gratuity} = 1,200,000$$

Accordingly, **Nazeer** is entitled to claim a gratuity of **Rs. 1,200,000/-** at the time of his resignation from the company, based on his completed years of service and the last drawn salary.

(03 marks)

(ii)

In Sri Lanka, under the Employees' Provident Fund (EPF) Act, No. 15 of 1958, employees have the legal right to withdraw their EPF balance under specific conditions. These conditions include:

- Reaching the age of 55 years (for males) or 50 years (for females).
- Permanent migration to another country.
- Cessation of employment due to permanent disability.
- Joining an employment category that does not fall under the EPF Act, such as employment in a government or semi-government organization.

Since Nazeer is resigning from his job in a private limited company to accept a permanent position with a Government Ministry, he qualifies to withdraw his EPF balance. Employment with a government organization does not come under the EPF Act, and therefore, employees transitioning from the private sector to the public sector are eligible to claim their EPF balance accumulated during their private employment.

To exercise this right, Nazeer must submit an application to the Department of Labour. The application should include necessary documents such as his resignation letter from the private company and proof of his new employment with the Government Ministry. Once the application is submitted and processed, Nazeer can access his retirement savings, ensuring his financial security as he moves from the private sector to government employment.

(02 marks)

(Total 25 marks)



End of Section C

Notice:

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