



Association of Accounting Technicians of Sri Lanka

Level II Examination – July 2025

Suggested Answers

(203) BUSINESS LAW (BLA)

Association of Accounting Technicians of Sri Lanka

No.540, Ven. Muruththettuve Ananda Nahimi Mawatha,

Narahenpita, Colombo 05.

Tel : 011-2-559 669

A publication of the Education and Training Division

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 (2)

1.2 (4)

1.3 (2)

1.4 (2)

1.5 (2)

1.6 (3)

1.7 True

1.8 False

1.9 False



(02 marks each, 12 marks)

(01 mark each, 03 marks)

1.10 *Any two of followings*

- Bill of Lading
- Invoice
- Insurance Certificate
- Other documents relevant to the agreement (sanitary certificates, certificates of provenance, certificates of weight or condition, certificates of quality)

1.11 *To provide the necessary measures to combat and prevent money laundering and to provide for matters connected there with or incidental there to.*

1.12 A bill of exchange should be endorsed to convert a bill payable to order into a negotiable status. Endorsement refers to the act of the transferee signing his/her name on the back of the bill of exchange.

1.13 Any two of followings

- Conducting discussions with the investors on project proposals
- Accepting voluntary projects and reviewing and also forwarding them to the respective government institutions to take the necessary steps.
- Providing special advisory assistance and preparing relevant documents
- Providing tax and other reliefs
- Marketing infra-structure projects to future investors

1.14 Any two of followings

- Promissory Note
- Bill of Exchange
- Cheque
- Bank Note
- Dividend Warrant
- Treasury Bills
- Bearer Debentures



(02 marks each, 10 marks)

(Total 25 marks)

End of Section A

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

(a) To determine whether **Minuki** is bound by the contract entered into by **Shama** under the **Law of Agency**, we must analyze the situation using core principles of agency law, particularly **actual authority, agent’s duties, and principal’s liability**.

Under agency law, a principal can only be held liable for acts done by an agent **within the scope of authority granted** to that agent. Authority can arise in three forms: express, implied, and apparent. This scenario primarily concerns **express authority**.

In this case, **Minuki** expressly appointed **Shama** as her agent and gave her authority to:

- **Negotiate contracts** to purchase electronic equipment for resale purposes.
- **Sign agreements** on behalf of **Minuki**.

Thus, **Shama** was acting within her **express authority** when she entered into a contract with the supplier. The fact that she failed to inform **Minuki** about the price or details does not invalidate the transaction, as she did not act beyond the scope of her authority. Therefore, **Minuki is bound by the contract because Shama was acting within the authority granted to her**.

(04 marks)

(b) Even though **Minuki** is bound by the contract signed by **Shama** due to the latter acting within her express authority, this does not preclude **Minuki** from seeking remedies against **Shama** for any **breach of duty**. Under the Law of Agency, an agent owes several duties to their principal, and breach of these duties may entitle the principal to legal remedies.

Agents are fiduciaries and must act with **good faith, loyalty**, and in the **best interests of the principal**. Failure to disclose material facts such as the terms or unusually high price of a contract may constitute a **breach of fiduciary duty**.

An agent must perform their functions with the **standard of care and skill** expected of a reasonable person in similar circumstances. **Shama**, in purchasing goods at a significantly higher price than the market rate without informing **Minuki**, may have breached this duty by acting negligently or without market awareness.

Case Law: *Turpin v. Bilton*

The agent was held liable for failing to insure goods as instructed. The court emphasized the agent's duty to act with reasonable diligence, and failure to do so rendered the agent liable in damages.

In **Shama's** case, the failure to act prudently in the transaction caused a foreseeable financial loss to the principal. Hence, **Minuki** is entitled to recover damages for the loss suffered.

(06 marks)

(Total 10 marks)

Suggested Answers to Question Three:

Chapter 07 – Labour Law

- (a) Under the Payment of Gratuity Act, No. 12 of 1983, every employee who is not expressly excluded under the Act is entitled to a gratuity payment upon the termination of employment, provided that the employee has completed a minimum of five (5) years of continuous service with the same employer.

The amount of gratuity is calculated using the following formula:

$$\text{Gratuity} = \frac{1}{2} \times \text{Last Month's Salary} \times \text{Number of Completed Years of Service}$$

In this case, **Ann** joined the company on 01st April 2016 and resigned with effect from 30th June 2025, completing 9 full years of continuous service. Her last drawn monthly salary was Rs. 300,000/-.

$$\text{Gratuity} = \frac{1}{2} \times 300,000 \times 9 = 150,000 \times 9 = \text{Rs. } 1,350,000/-$$

Accordingly, **Ann** is entitled to claim a gratuity of Rs. 1,350,000/- from her employer upon her resignation.

(04 marks)

(b)

- Weekly Holidays:
- Annual Leave:
- Casual Leave:
- Public Holidays:
- Poya Holidays:
- Maternity Leave:

(Expect only three leaves)

(03 marks)

(c)

- Right to Non-Discrimination
- Right to Engage in an Occupation or Profession of Choice
- Right to Equal Pay and Fair Treatment
- Right to Fair and Safe Working Conditions
- Right to Freedom of Association and Collective Bargaining
- Right to privacy
- Right to join trade unions.
- Right to obtain leave
- Right to make payments for work performed.

(Expect only three risks)

(03 marks)

(Total 10 marks)

Suggested Answers to Question Four:

Chapter 08 - Concept of Law of Insurance, Hire Purchase and Leasing

(a)

Samantha's ability to recover her insurance claim from **Secure Insurance Ltd.** depends on the legal principle of utmost good faith, which governs insurance contracts. Under this principle, the insured must fully and truthfully disclose all material facts which could influence the insurer's decision to accept or reject the risk. A misrepresentation, even if made innocently, may entitle the insurer to avoid the contract if it relates to a material fact.

In the case of O'Conner v. BDB Kirby & Co, the insured, O'Conner, mistakenly stated in the insurance application that he parked his car in a garage, when in fact he parked it on the street. When the car was later damaged, the court held that the incorrect statement about where the vehicle was kept was a material misrepresentation, and the insurer was entitled to refuse payment under the policy.

Applying the same principle to **Samantha's** case, he declared in the insurance application that her store had a functional CCTV system. However, the system had been non-functional for over three months, and she had not checked or repaired it. This incorrect statement, although made under a mistaken belief, relates to a material fact which could affect the insurer's willingness to provide coverage or influence the terms of the policy. Just as in O'Conner v. BDB Kirby, the

court is likely to view **Samantha's** answer as a misrepresentation, giving the insurer grounds to reject the claim.

Therefore, based on the law of misrepresentation and the principle of utmost good faith, it is likely that **Samantha** will not be able to recover her insurance claim, as her mistaken statement had a material impact on the contract. **(04 marks)**

(b)

When the insurance company has settled the loss for the damage caused to the insured property, transfer of other advantages and rights from external parties that the insured can obtain, to the insurer is known as subrogation. This concept arises as a consequence of the principle of indemnity.

For example, if X obtained a fire insurance policy on goods and thereafter, the goods were destroyed by fire due to a negligence of Y, when X is paid by the insurance company, the right to sue Y now passes on to the insurance company from X, under the principle of subrogation.

The doctrine of subrogation does not apply to life and accident insurance

(03 marks)

(b) - Intention to create a legal obligation

- Insurance offer or proposal
- Acceptance
- Legal validity
- Competent parties
- Consideration

(Expect only three elements)

(03 marks)

(Total 10 marks)

Suggested Answers to Question Five:

<i>Chapter 05 – Company Law</i>
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(a)

The principle of separate legal personality, recognized under Section 2 of the Companies Act No. 7 of 2007, means that a company is a distinct legal entity from its shareholders and directors. It can own property, sue and be sued, enter contracts, and incur debts in its own name. **Under Section 87 of the Act, shareholders are not liable for the acts, defaults, or obligations of the company merely by reason of being shareholders.**

This principle was firmly established in Salomon v. A. Salomon & Co. Ltd , where the court held that even though **Mr. Salomon** was the sole shareholder and controller of the company, the company was a separate legal person, and its debts were not his personal debts.

The Sri Lankan case of DFCC Bank Ltd v. Muditha Perera applied the same doctrine, holding that separate execution could not be exercised against a director who had mortgaged his property as security for loans obtained by the company, as the company's liabilities were distinct from those of its directors.

Accordingly, in the present scenario, since **XYZ (Pvt) Ltd.** is a separate legal entity and there is no evidence of a personal guarantee or fraud, **Amara** is not personally liable for the company's debts. The liability to repay debts solely with the company.

(04 marks)

(b)

- Register of Members – details of shareholders, shareholdings, transfers, and related information.
- Register of Directors and Secretaries – names, addresses, dates of appointment and resignation of directors and the company secretary.
- Register of Charges – particulars of charges or mortgages created over company assets.
- Register of Interests – declarations by directors of their interests in shares, debentures, contracts, or proposed contracts with the company.
- Minutes of all meetings including Annual General Meetings and passed resolutions of directors.
- Share Register
- Register for monitoring attendance of directors and secretaries.

(Expect only three books)

(03 marks)

(c)

Under the Companies Act No. 7 of 2007, a significant change from the previous law is the flexibility given to companies regarding their objectives clause in the Articles of Association. Under the old Act, it was mandatory to include objectives, and the company could act only within those stated purposes under the ultra vires doctrine. The 2007 Act, however, makes inclusion of objectives optional. If no objectives are included, the company may engage in any lawful business.

According to Section 17, if a company has stated objectives in its Articles, it must operate in accordance with them. However, an act, contract, or transfer of property will not be invalid merely because it contravenes the stated objectives. Instead, such contravention may constitute a breach of directors' duties.

(03 marks)

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 10 - Offences related to the business environment

(a)

Trade Mark

Any sign, word, symbols, devices, colors, shapes or combination of both which distinguish goods of one enterprise from those of another enterprise can be defined as a “Trade Mark” The registration of a mark is initially valid for a period of 10 years from the date of receipt of the application for its registration and it can be renewed.

Patent

Innovator in an innovation will receive a patent valid for 20 years from the date of filing of the application for its registration. The monopoly granted to the inventor by the state to exclude others from making, using, and selling the patented invention is known as the patent right. According to the section 62 of the Intellectual Property Act No 36 of 2003, an invention is defined as “an idea of an inventor which permits in practice the solution to a specific problem in the field of technology.”

(04 marks)

(b)

The tea producers of Haputale can protect the name “**Haputale-Tea**” under the Intellectual Property Act No. 36 of 2003, which recognises Geographical Indications (GIs) as signs identifying goods that originate from a particular location and possess qualities or a reputation essentially linked to that origin. The distinct flavour of **Haputale-Tea** arises from the region’s specific climate, soil, and traditional production methods, making it eligible for GI protection. By registering “Haputale-Tea” as a GI with the National Intellectual Property Office, the producers can secure exclusive rights to the name and prevent its use by those outside the region.

Once registered, or even prior to registration, the Haputale producers can take legal action against the Galle tea producer whose false use of the name misleads the public as to the tea’s origin, amounting to unfair competition and misrepresentation.

(06 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Seven:***Chapter 02- Contract Law*****(A)****(a)**

A valid contract requires, among other elements, a legally recognised offer and acceptance. An offer is a definite promise to be bound on specific terms, made with the intention that it will become binding once accepted by the person to whom it is addressed. In contrast, an invitation to treat is merely an expression of willingness to enter into negotiations, inviting others to make offers. It does not amount to a binding promise and can be freely accepted or rejected. The law recognises several common examples of invitations to treat, such as advertisements, goods displayed in shops, or items shown in catalogues. This principle is established in ***Pharmaceutical Society of Great Britain v. Boots Cash Chemists***, where goods on shelves were held to be invitations to treat, and in ***Fisher v. Bell***, where displaying a flick knife in a shop window was not an offer.

In the present case, the limited-edition CDs displayed by **ABC Music Centre** at the promotional stall amount only to an invitation to treat, indicating that they may be available but not constituting an offer to sell. When **Hasini** approached the stall to purchase a CD, she made an offer to buy at the stated price. The stall staff refused, explaining that the CDs were not for sale but only for display purposes. Since there was no acceptance of **Hasini's** offer, no consideration passed, and no mutual consent existed, the essential elements of a contract were absent. Therefore, **no valid contract arose between Hasini and ABC Music Centre.**

(04 marks)**(b)**

In this scenario, Dhanuka and Hasini entered into a contract with the event organizers upon purchasing their tickets for the concert. This Contract included an exemption clause, which stated:

“The event organizers will not be liable for any lost, theft or damage to personal belongings inside the stadium.”

Loss of Mobile Phone (Hasini)

The validity of exemption clauses depends on whether they were clearly communicated to the parties when entering into the contract. In ***Olley v Marlborough Court (1949)***, the court held that an exemption clause must be communicated before or during contracting. If it is introduced after the contract is formed, it does not apply.

In this case, the exemption clause was printed on the concert tickets and displayed at the entrance before Dinuka and Hasini entered the venue. Since Hasini's mobile phone was lost inside the venue, the event organizers are protected by the exemption clause, and she cannot claim compensation from them.

Damage to Dinuka's Car and Stolen Laptop

When **Dinuka** and **Hasini** arrived, a parking attendant directed them to park but informed them that the organizers did not take responsibility for theft or vehicle damage. This verbal disclaimer constitutes an exemption clause communicated before they parked the car.

Since, the clause was clearly communicated in advance, the event organizers cannot be held liable for the theft of Dinuka's laptop and the damage to his car.

Thus, Dinuka and Hasini have no legal claim against the event organizers for their lost belongings.

(07 marks)

(c)

Firstly, where organizers introduce exemption clauses to exclude liability for loss or theft, such clauses are only effective if they are incorporated into the contract before or at the time of its formation and are clearly brought to the attention of the audience. As established in **Olley v. Marlborough Court**, a clause communicated after the contract is concluded will not be binding. In the given facts, the notice on the ticket and the entrance board were communicated before entry, and therefore they can form part of the contract for access to the event, potentially protecting the organizers from liability for items lost inside the stadium.

(04 marks)

Chapter 03 Law of Sale of Goods

(B)

(a)

Under the Sale of Goods Ordinance, **Mala's** purchase of the laptop constitutes a clear breach of the implied conditions of **fitness for purpose** and **merchantable quality**.

The statutory condition regarding fitness for purpose mandates that where a buyer expressly communicates the purpose for which the goods are required and relies on the seller's skill or judgment, the goods must be suitable for that purpose. **Mala** informed the sales representative that she required a high-performance laptop for graphic designing and video editing, relying on the representative's assurance that the suggested model met these requirements. The subsequent defects — poor display resolution, frequent overheating, and battery failure within two weeks — demonstrate that the laptop was wholly unfit for the intended professional use, paralleling the principles in **Baldry v. Marshall**

Additionally, under Section 15(2), goods sold by description by a dealer must be of merchantable quality, reasonably fit for ordinary purposes, and durable for a reasonable period. The laptop's repeated malfunction and substandard performance clearly breach this condition,

(b)

Mala is entitled to several remedies under the Sale of Goods Ordinance as the laptop she purchased suffers from defects that amount to breaches of implied conditions relating to fitness for purpose and merchantable quality. Since these are conditions under the law, **Mala** has the **right to reject the goods** and **repudiate the contract**, thereby recovering the purchase price in full. Alternatively, if she is deemed to have accepted the laptop, the breach may be treated as a warranty, entitling her to **damages for the loss** suffered.

(10 marks)

(Total 25 marks)



End of Section C

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