

**KE3 - FUNDAMENTALS OF LAW**

**Suggested Answers and Marking Guide**

## **SECTION 1**

### **Section 1(a)**

#### **1.1 Correct Answer: B.**

Department of Registrar of Companies is entrusted with the task of implementing the provisions of the Public Contract Act No. 3 of 1987.

#### **Learning Outcome :**

1.4.1 Explain the regulatory role of each of these institutions: Institute of Chartered Accountants, Sri Lanka Accounting Standards Monitoring Board, Securities and Exchange Commission, Colombo Stock Exchange, Board of Investment, Registrar of Companies, Dept. of Customs, Central Bank (Exchange Control aspect).

1.4.2 Identify the main functions of each institution stated above.

#### **1.2 Correct Answer: B.**

Money laundering is the movement of criminally derived funds, for the purpose of concealing the true identity of the source of the owner.

#### **Learning Outcome :**

7.1.1 Define fraud, theft, money laundering, bribery, negligence and explain the main defences.

#### **1.3 Correct Answer: C.**

A cheque is crossed when two parallel lines are drawn across it.

#### **Learning Outcome :**

- 4.1.1 Define and identify differences between cheques, bills of exchange and promissory notes.
- 4.1.2 Explain the functions of cheques, bills of exchange and promissory notes from a business context.
- 4.2.1 Explain, in respect of the following, the applicable principles of cheque law and their commercial significance (endorsements, crossings, dishonour and banker's liability).
- 4.3.1 Define and explain the commercial significance of "holder in due course" and "presentment" in relation to a bill of exchange.

**1.4** Correct Answer: A.

A cheque is a special form of bill of exchange that is drawn specifically against a banker and is payable on demand.

Learning Outcome :
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| <ul style="list-style-type: none"><li>4.1.1 Define and identify differences between cheques, bills of exchange and promissory notes.</li><li>4.1.2 Explain the functions of cheques, bills of exchange and promissory notes, from a business context.</li><li>4.2.1 Explain, in respect of the following, the applicable principles of cheque law and their commercial significance (endorsements, crossings, dishonour and banker's liability).</li><li>4.3.1 Define and explain the commercial significance of "holder in due course" and "presentment" in relation to a bill of exchange.</li></ul> |
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**1.5** Correct Answer: A.

A person who has authority to bind his principal to buy or to sell goods, or to consign goods for sale, or to raise money by pledging goods as security.

Learning Outcome :
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| <ul style="list-style-type: none"><li>5.1.1 Explain the circumstances under which a relationship of Principle-Agent would be recognised by mutual agreement, by ratification, by necessity and by estoppels.</li></ul> |
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**1.6** Correct Answer: C.

An invitation to treat

Learning Outcome :
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| <ul style="list-style-type: none"><li>2.1.1 Explain the requisites of a valid contract i.e. offer and acceptance, intention to create legal relations, consideration (including the concept of "LaesioEnormis"), "capacity and form". Definition of contract, agreement, offer and acceptance, capacity to contract, form of contracts, "reality of consent".</li></ul> |
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**1.7** Correct Answer: D.

The Act does not apply to employees entitled for a pension under a non-contributing pension scheme.

Learning Outcome :
6.2.1 Explain the entitlement of gratuity.

**1.8** Correct Answer: C.

Meal allowance

Learning Outcome :
6.1.1 State who should contribute to EPF and ETF, along with relevant exemptions.
6.1.2 Identify the main differences between EPF & PPF.

**1.9** Correct Answer: A.

The contract must be in writing

Learning Outcome :
2.1.1 Explain the requisites of a valid contract i.e. offer and acceptance, intention to create legal relations, consideration (including the concept of "LaesioEnormis"), "capacity and form". Definition of contract, agreement, offer and acceptance, capacity to contract, form of contracts, "reality of consent".

**1.10** Correct Answer: A.

Family law & Commercial law

Learning Outcome :
1.1.1 Identify the main branches of the Sri Lankan Legal system and their roles.

**(2 marks each)**

## **Section 1(b)**

### **Question 2.1**

**Learning Outcome :**

1.1.1 Identify the main branches of the Sri Lankan Legal System and their roles.

- The custom must be ancient, well-established and enjoyed for a long and unbroken duration.
- It must be reasonable, and not opposed to sound legal principles.
- It must be certain and there should be no doubt about its acceptance as a custom, and it should not be abrogated by disuse.

**(1 mark per point, upto a maximum of 2 points =02 Marks)**

### **Question 2.2**

**Learning Outcome :**

5.1.1 Explain the circumstances under which a relationship of Principle-Agent would be recognised by mutual agreement, by ratification, by necessity and by estoppels.

- It must be impossible to get the principal agent's instructions.
- There must be an actual and definite commercial necessity for the creation of the agency.
- The agent must act in good faith in the interests of all parties concerned.

**(Any two points, one mark each =02 Marks)**

### **Question 2.3**

**Learning Outcome :**

5.1.1 Explain the circumstances under which a relationship of Principle-Agent would be recognised by mutual agreement, by ratification, by necessity and by estoppels.

A ratification will make the contract binding on the person who ratifies in the capacity of the principal (1 mark), as if the agent had been actually authorised beforehand to contract on behalf of this principal. (1 mark)

**(2 Marks)**

#### **Question 2.4**

Learning Outcome :

5.7.2 State the requirements to form a valid partnership

- There should be a valid agreement between the two parties.
- The partnership must relate to a business.
- The business must be carried out by “persons in common”.
- The partnership business must be operated with a view of making profit.

**(1/2 mark each= 2 marks)**

#### **Question 2.5**

Learning Outcome :

2.1.1 Explain the requisites of a valid contract i.e. offer and acceptance, intention to create legal relations, consideration (including the concept of “Laesio Enormis”), “capacity and form”. Definition of contract, agreement, offer and acceptance, capacity to contract, form of contracts, “reality of consent”.

Some of the instances which fall within the scope of an invitation to treat, are as follows :

- Advertisements
- Display of goods in a shop window
- Self-service counters in shops
- Catalogues
- Auctions

**(Any two, one mark each= 2 marks)**

## SECTION 2

### Question 03

Learning Outcome :

2.1.1 Explain the requisites of a valid contract i.e. offer and acceptance, intention to create legal relations, consideration (including the concept of "Laesio Enormis"), "Capacity and form". Definition of contract, agreement, offer and acceptance, capacity to contract, form of contracts, "reality of consent"

a. **Legal principles on acceptance by post:**

The rule relating to an acceptance by post is that, the moment the letter of acceptance is placed in the post box, there is valid acceptance **(1 mark)**, irrespective of whether the acceptance reaches the offer or not **(1/2 mark)**.

For this rule to be applicable the following should be present:

- post should be the agreed form of communication between the parties. **(1/2 mark)**
- post should be treated as a reasonable means of communication by the parties. **(1/2 mark)**
- the letter of acceptance should be correctly addressed and stamped for the correct value. **(1/2 mark)**

**[Total of 3 marks]**

b. **Legal principles relating to revocation of an offer:**

- An offer can be revoked any time before it is accepted by the offeree. **(1 mark)**.
- But the revocation must be communicated to the offeree **(1 mark)**, and must actually reach the offeree. **(1 mark)**. A revocation is not effective prior to its communication to the offeree.

**[Total of 3 marks]**

c. **Whether a valid contract has been formed or not :**

In the given scenario, a valid offer has been made by Suni. **(1 mark)**

As per the legal principles relating to acceptance, mentioned in the answer to part (a) above, there is a valid acceptance of this offer by Runi on 8<sup>th</sup> January 2016. **(1 mark)**

The revocation of the offer by Suni was communicated to Runi instantly on the 9<sup>th</sup> January as it was done through the telephone. **(1/2 mark).**

But as the offer had already been accepted by that time, the revocation is not valid. **(1/2 mark)**

Hence a valid contract has been made by Suni and Runi. **(1 mark).**

**[Total of 4 marks]**

**(Total for Question 3 = 10 Marks)**

#### **Question 04 (a)**

Learning Outcome :

3.2.1 Explain the implied conditions and warranties which are applicable in a contract for sale of goods.

**(i) From Gayani's point of view :**

From the given facts, it seems that the bag of red basmati rice purchased by Gayani was not fit for its purpose **(1 mark)** and was not of a merchantable quality. **(1 mark)**

This results in the breach of an implied warranty in the sale of goods contract by Amal.  
**(1 mark)**

**(Total of 3 marks)**

**(ii) From Amal's point of view :**

As Amal had inspected and tested a sample to satisfactory results before purchasing the 100 bags of red basmati rice, the goods in a defective condition (where dhal was mixed with the rice) could not be discovered by a reasonable examination of the sample. **(1 mark)**

The implied conditions in a contract for sale by sample, that apply to this scenario would be that :

- the bulk shall correspond in quality to the sample **(1 mark)**; and;
- the defective goods (dhal being mixed with the rice), could not have been discovered by a reasonable examination of the sample. **(1 mark)**

**(Total of 3 marks)**

**[Total for part (a) = 6 marks]**

**Question 04. (b)**

Learning Outcome :

3.4.1 Explain the remedies which are available to a buyer and seller, including rights of an “unpaid seller”.

The remedies available to both Gayani & Amal, under Sale of Goods Ordinance, in relation to the given scenario, are as follows :

Gayani has the right to initiate an action in a court of law **(1/2 mark)** against Amal for the following reasons:

- For damages **(1/2 mark)**;
- For the specific performance of the contract of sale **(1/2 mark)**;
- To recover the price paid for the bag of rice. **(1/2 mark)**

Amal has the right to initiate an action in a court of law **(1/2 mark)** against Kamal for the following:

- To recover the costs incurred by Amal, as a result of Gayani's claim on him **(1/2 mark)**
- For damages for the breach of an implied term of a sale of goods, in relation to a sale by sample **(1/2 mark)**
- For the specific performance of the contract of sale. **(1/2 mark)**

**(Total for part (b) = 4 marks)**

**(Total for Question 4 = 10 Marks)**