

CA



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA

SUGGESTED SOLUTIONS

KE3(B)-Fundamentals of Law

September 2019

SECTION 01

Answer 01

1.1

Learning Outcome: 1.3.1 Identify the courts in Sri Lanka and their functions.
Study text reference – Pages 13, 16 & 20
Correct Answer: C

1.2

Learning Outcome/s: 2.1.1 Explain the valid requisites of a contract.
Study text reference – Pages 35 to 37
Correct Answer: C

1.3

Learning Outcome/s: 2.5 Remedies for breach of contract.
Study text reference – Page 67 & 68
Correct Answer: A

1.4

Learning Outcome: 3.2.1 Explain the implied conditions and warranties which are applicable in a contract for sale of goods.
Study text reference – Page 86
Correct Answer: B

1.5

Learning Outcome/s: 4.1.1 Define and identify the differences between cheques, bills of exchange and promissory notes.
Study text reference – Page 102
Correct Answer: D

1.6

Learning Outcome/s: 5.7.6 State the relationship between partners and third parties.
Study text reference – Pages 148 & 149
Correct Answer: C

1.7

Learning Outcome/s: 7.2.1 Explain the entitlement of gratuity.
Study text reference – Page 212
Correct Answer: B

1.8

Learning Outcome/s: 7.3 Shop & Office Act
Study text reference – Page 203 – 205
Correct Answer: C

1.9

Learning Outcome/s: 7.1 Labour Law
Study text reference – Page 205 – 209
Correct Answer: C

1.10

Learning Outcome/s: 8.2.1 State briefly on each of these Acts: Prevention of Money Laundering Act. No. 05 of 2006. Electronic Transactions Act No. 19 of 2006. Computer Crimes Act, Consumer Protection Act, Intellectual Property, Act No. 36 of 2003.
Study text reference – Pages 223, 224, 226, 227 & 233.
Correct Answer: A

(2 x 10 = Total 20 marks)

SECTION 2

Answer 02

2.1

Learning Outcome/s: 1.4.1 & 1.4.2 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 and Board of Investment. 1.4.2 Identify the main functions of each institution stated above.
Study text reference - Pages 22 & 23
The main function of the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) is as follows: To monitor compliance with the Sri Lanka Accounting Standards and the Sri Lanka Auditing Standards in the preparation, presentation and audit of financial statements of Specified Business Enterprises.

2.2

Learning Outcome : 3.4.1 Explain the remedies which are available to a buyer and seller, including the rights of an "unpaid seller".
Study text reference - Page 93
The right of stopping the goods in transit (stoppage in transit) is available to an unpaid seller in the following situations: <ul style="list-style-type: none">• When the buyer becomes insolvent.• The goods are in transit.

2.3

Learning Outcome/s: 4.3.1 Define and explain the commercial significance of "holder in due course" and "presentment" in relation to a bill of exchange.
Study text reference – Page 107
The rights of a holder in due course of a bill of exchange (as per section 38 of the Bills of Exchange Ordinance No. 25 of 1927) are as follows: <ul style="list-style-type: none">A. He may sue on the bill in his own name.B. He holds the bill free from any defect of the title of prior parties.C. He may enforce payment against all parties who are liable on the bill.D. Where his title is defective, if he negotiates the bill, the person who pays him in due course gets a valid discharge for the bill.

2.4

Learning Outcome/s: 5.3 Rights and duties between Principal and Agent
Study text reference – Page 129 & 130
The rights vested with the principal under the law of Agency, if an agent makes a secret profit without the principal's consent, are as follows: <ul style="list-style-type: none">A. Refuse to pay the agent his commission or remuneration.B. Repudiate the agency contract.C. Recover the secret profit from the agent.D. Dismiss the agent without any notice.

2.5

Learning Outcome/s: 8.2.1 (Intellectual Property Act, No. 36 of 2003)
Study text reference – Page 228
<p>The following are the types of intellectual properties recognised by the Intellectual Property Act, No. 36 of 2003:</p> <ul style="list-style-type: none">• Copyright• Industrial designs• Patents• Marks and trademarks• Trade names• Layout designs of integrated circuits• Geographical indications

(2 x 5= Total 10 marks)

SECTION 3

Answer 03

(a)

Learning Outcome/s: 2.2.2

Explain mistakes, misrepresentation and undue influence & their consequences.

Study text reference – Pages 50 & 51

The facts in the given scenario, show that K entered into this contract on a genuinely mistaken belief that he is entering into a contract of a totally different nature. This amounts to a mistake as to the nature of the contract itself.

As per the given facts it was clear that there was no negligence on K's part in signing the wrong document.

Therefore such a contract which is entered into under such a mistake is void, hence is not binding on K.

A similar incident to that of the given scenario, was discussed in the following case:

Case Name:

Foster v Mackinnon (1869) L.R. 4.P. 704

Case facts:

M, an elderly person, endorsed a bill of exchange thinking it was a guarantee. It was also established that there was no negligence on the part of M in making this endorsement.

Held: As M was not negligent in making this endorsement, the contract was not binding on him, and is therefore void.

(b)

Learning Outcome/s: 2.4.1

Explain the manner in which contract could be discharged by performance, agreement, frustration and breach (including anticipatory breach)

Study text reference – Pages 65 & 66

In the given scenario the event could not be held at the reception hall as it was damaged due to civil commotion.

This incident (civil commotion) was beyond the control of the parties to the contract.

Further this incident occurred due to no fault of the parties to the contract.

Under the law of contracts, when the above factors are present it is said that there is “frustration” of the contract. Therefore it can be seen that in the given scenario there is “frustration” of the contract relating to the reception hall.

The contract law says that when there is “frustration” of a contract, that contract can be discharged.

Therefore in the given scenario, the parties can be discharged from their obligations under the contract due to the “frustration” of the contract.

A similar incident to that of the given scenario, was discussed in the following case:

Case Name:

Taylor v Caldwell (1983) 122 ER 309

Case facts:

T, took a music hall on hire from C, but before the first performance the hall caught fire and got burnt down. T had by this time incurred some expenses in arranging the performances. He claimed damages of these expenses from C.

Held: The hall was destroyed due to the fault of neither party. Therefore the parties were discharged from their obligations under the contract as the contract was frustrated. As a result T was not entitled for damages from C.

[Total: 10 marks]

Answer 04

(a)

Learning Outcome/s: 3.3.1

Discuss the point in time at which there is a passing of risk and transfer of title (unascertained goods, reservation of title, instalment deliveries, sales by auction, sale by person not the owner).

Study text reference – Page 90

As per the Sale of Goods Ordinance, when goods are sold by an auction to a buyer, the sale is complete, when the auctioneer announces its completion by the fall of the hammer.

This means that the title in the goods passes on to the buyer at the fall of the hammer in a sale by auction.

Therefore in considering the above theory and the case law, it can be said that the title in the boat passed to Tom (T) at the fall of the hammer.

By the time the agreement was signed and entered into by T, the title or ownership of the boat had already been transferred to him, (with the fall of the hammer). Therefore the agreement has no effect in relation to the transfer of the title.

Therefore J's claim that the title of the boat is still with him, is incorrect.

A similar incident to that of the given scenario, was discussed in the following case:

Case Name:

Dennant v Skinner [1948] 2 K.B. 164

Case facts:

Dennant (D) sold a motor car by auction. It was knocked down to K. (i.e. it was sold to K with the fall of the hammer.) Before taking the car away K had to give a cheque and sign an agreement to say that the ownership will not pass until the cheque is cleared. Subsequently the cheque was not cleared.

Held: The title of the property passed to the buyer (bidder) at the fall of the hammer. Therefore, the subsequent agreement did not have the effect of re-transferring it from K.

(b)

Learning Outcome/s: 5.2.1

Explain the circumstances under which an agent may acquire actual authority (including express authority and implied authority) and ostensible authority

Study text reference – Page 121

In the given scenario, the fact that the board of directors of SPL remained silent when S acted as the MD, implies that they authorized her to perform the role of MD in this instance. S had been impliedly authorized by the board to act as the MD of SPL in this instance.

The Managing Director becomes an agent of the company and therefore an agent principal relationship has been created between S and SPL.

Under the law of Agency, an agent can bind the principal into a contract entered into by the agent on behalf of the principal.

Therefore in this instance the contract entered into by S with T, is valid and binding on SPL.

Similar facts were discussed in the following case:

Case Name:

Hely-Hutchinson v Brayhead Ltd [1968] Q.B. 549

Case facts:

A board of directors, whose chairman assumes the role of Managing Director entered into a contract on behalf of the company to indemnify another company.

Held: The board by allowing the chairman to act as Managing Director, had impliedly authorized him to enter into this contract.

(Total: 10 marks)

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