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SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE
PROGRAMME

YEAR I SEMESTER II (INTAKE V – GROUP A)
END SEMESTER EXAMINATION – JULY 2016

LAW 10125 Commercial Law

Date : 29th July 2016
Time : 9.00 a.m. – 11.30 a.m.
Duration : Two and a half (02 ½) hours

Instructions to Candidates:

- This paper consists of three sections (A, B and C).
- Section A – Answer **all** the questions in the sheet provided.
Section B – Answer **five (05)** questions out of the six questions given.
Section C – Answer **one (01)** question out of the two questions given.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Answers should be written neatly and legibly.

PART A
Answer **ALL** questions

Question No. 01

- 1.1 Which one of the following is NOT a feature of a negotiable instrument?
- a. It is written order or unconditional promise
 - b. It can be transferred from one person to another
 - c. Once it transferred the holder obtain full legal title for the instrument.
 - d. It does not pay a fixed sum of money on demand or at a certain time.
- 1.2 An agency relationship which is made retrospectively is known as an agency by:
- a. Estoppel
 - b. Ratification
 - c. Necessity
 - d. Commerce
- 1.3 Of the following, select the INCORRECT answer regarding the partnership in Sri Lanka
- a. Partnership is essentially a result of an agreement.
 - b. Partnership agreement may be oral or implied.
 - c. Maximum partners are limited to 20 in every types of partnership.
 - d. Real partners share profits and loss both.
- 1.4 Which of the following statements is CORRECT, in relation to the withdrawal of an offer?
- a. An offer may only be withdrawn by the offeror.
 - b. An offer may be withdrawn by the offeror or a reliable third party.
 - c. Once an offer has been made it can never be withdrawn.
 - d. An offeror has one week to withdraw his offer.

1.5 Which of the following is NOT an institute of alternative dispute resolution in Sri Lanka?

- a. Labour Tribunal
- b. Commercial High Court
- c. Debt Conciliation Board
- d. Mediation Board

1.6 Janith e-mails Sabeena offering to sell his computer to her for Rs.50,000/=. Sabeena replies asking if he will accept a cheque or does he want cash? Sabeena's statement will be treated as which of the following.

- a. A counter offer terminating the offer made by Jake.
- b. A refusal of the contract.
- c. Acceptance of Janith's offer.
- d. A request for information.

1.7 Which of the following statements is CORRECT?

- a. A legally enforceable contract can never be made via the Internet.
- b. A legally enforceable contract can never be made orally.
- c. An unenforceable contract is a valid contract but it will not be enforced by the courts.
- d. Unilateral contracts are unenforceable in the courts.

1.8 Githa gave police information about a jewel thief on Monday. On Tuesday she learns that the owner has offered a reward of £200 for giving information on the thief. Is the owner contractually obliged to pay Githa the reward money?

- a. No, because a party cannot accept an offer of which he has no knowledge.
- b. Yes there is a unilateral contract.
- c. Yes there is a bilateral contract.
- d. No, a person is never contractually obliged to pay reward money.

1.9 Which of the following is NOT a type of alternative dispute resolution?

- a. Arbitration.
- b. Court proceedings.
- c. Conciliation.
- d. Mediation.

1.10 In which court does a Trade Mark case is heard in?

- a. District Court
- b. Provincial High Court
- c. Magistrates' Court
- d. Commercial high Court

PART B

Answer **FIVE** questions only

Question No. 02

- i. Explain "conditions and warranties".

(06 marks)

- ii. Ashen, a tourist guide in Sri Lanka was planning his next tour with some foreigners. He wanted a comfortable car for touring and ordered one from Automobile Lanka (Pvt) Ltd., a car rental company. When he was making the order he specifically mentioned that he needed a car suitable for touring. However, on the day of the tour what he received was a sports car. Advise Ashen as to the remedies he can obtain against Automobile Lanka (Pvt) Ltd. with reference to case law.

(06 marks)

(Total 12 marks)

Question No. 03

Crossing on cheques are part of a drawer's mandates to his or her banker. They must consequently, be clearly indicated. It has been aptly said that, just as people are urged by the Railway Department to 'cross railway crossing carefully so should banks request their customers to 'cross cheque carefully'.

- i. Mention the different types of crossings on a cheque.

(04 Marks)

- ii. Explain the legal effect of Not Negotiable crossing.

(04 Marks)

- iii. Ann borrowed a loan from Bandara and gave an order cheque written in favour of Bandara as a security. After Bandara has indorsed it in blank, Marikkar has stolen the cheque and presented it for payment over counter. The bank overlooking the crossing paid the amount to Marikkar. Ann intends to file an action against the bank.

Explain the protection available to the bank in this regard.

(04 Marks)

(Total 12 marks)

Question No. 04

- i. There are different types of contract used in International Trade. The two main types of contracts that are used more frequently in International Trade are FOB and CIF contracts.

State the main differences between FOB contract and CIF contracts.

(05 Marks)

- ii. Explain the major advantages of alternative dispute resolution (ADR) method with compare to the traditional court proceedings.

(05 Marks)

(Total 10 marks)

Question No. 05

- i. Explain advantages and disadvantages of a patent

(04 Marks)

- ii. Define Trade Marks

(04 Marks)

- iii. Explain whether following are registrable Trade Mark

- a. ABC

(02 Marks)

- b. A Name of an Individual

(02 Marks)

(Total 12 marks)

Question No. 06

- i. M applied for a life insurance policy with ARGO. He was asked whether he had applied to the insurance policies with other insurance companies for such a policy. He said that he had insurance policies with two other companies but he did not reveal the fact that his application for life insurance had been rejected by several other companies. Also M did not reveal his bad health condition to ARGO. ARGO issued a policy for M and after 1 year M died. Now M's wife wants to have the policy?

Explain on what ground ARGO can reject the payment.

(06 Marks)

- ii. Madura has sold his business to a Madara (Pvt) Ltd in which he is a sole shareholder. The property which was also transferred to the company has been insured in Madura's Name. After the transfer to the company the property was destroyed by a fire and when Madura claim under his insurance policy the Insurance company refuse to pay arguing that after the transfer Madura has no insurable interest in the property because it now belong to the company.

Explain what is meant by Insurable interest with examples.

(06 Marks)

(Total 12 marks)

Question No. 07

- i. Partnership is defined by section 1(1) of the Partnership Act as “relationship which subsists between persons carrying on business in common with a view of profit”.

Discuss the characteristic of a partnership business in light of above statement.

(7 Marks)

- ii. Write 5 duties owe by partners within their partnership.

(5 Marks)

(Total 12 marks)

PART C

Answer **ONE** question only

Question No. 08

- i. Large PLC own all the share capital in its subsidiary, Small Ltd. Last year Small's bank, Mudland Bank PLC, were uncertain about Small's future but, when the directors of Large PLC Provided a written statement to the effect that Large PLC would honour all of Small's debts, the bank agreed to continue to provide with extensive overdraft facilities. Now, Small has gone into insolvent liquidation with no assets to cover the debt owing to Mudland Bank PLC, and Large PLC are refusing to pay the amount owed.

What legal action is open to Mudland Bank in relation to Large PLC's statement of last year?

(10 Marks)

- ii. Rajitha carried on business of a food restaurant in Nugegoda. It was bought by Alina (pvt) Ltd. The company placed Rajitha as its General Manager. He was given instructions not to make any credit purchases. However, Rajitha continued to buy a range of beverages from Lion Ltd, on credit terms as he used to do prior to the change in ownership of the business. Alina (pvt) Ltd refuses to pay for the credit purchases. Lion Ltd is contemplating legal action against Alina Ltd.

Advise Lion Ltd.

(10 Marks)

(Total 20 marks)

Question No. 09

Seetha places an advertisement in her local shop window, 'Five marble vases for sale: each Rs10,000/= available only to the first five people who pay me this amount by Saturday 1st May'. Amara sends Seetha Rs.10,000/= in the post on Tuesday 27th April and says he will collect one marble vase on Monday 3rd May. The letter gets lost in the post.

In the morning of Thursday 29th April Charlie telephones Seetha and asks if he can buy two marble vases for 15,000/= Seetha says she needs time to think about this and Charlie tells her to let him know by Saturday at 10am. On Thursday evening Seetha calls Charlie and leaves a message on his answering machine saying, 'I agree you can have two marble vases for Rs15,000/=. Charlie does not hear the message until Saturday morning.

Being disappointed by the response to the advertisement, Seetha decides to place the remaining three marble vases in an auction on Friday 30th April. Seetha places a note in her window stating that the marble vases are no longer for sale and that they are going to auction.

Charlie attends the auction and is delighted to see the marble vases for sale. He makes a successful bid and buys the three for Rs.15,000/=. He sees Edward, Seema's partner, at the auction and says 'What a bargain I've got! I'm glad that Seetha didn't respond to my telephone call'. Edward informs Seetha immediately. She is furious as she was keeping two marble vases for Charlie. In anger she takes two marble vases to a charity shop on Friday evening.

Having seen the advertisement Dilum arrives at Seetha's house on Saturday morning with Rs10,000/= and is very annoyed to see the note as he planned to give a marble vase to his mother as a present. Amara arrives on Monday to collect his marble vase.

Advise Seetha.

(Total 20 marks)