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

YEAR I SEMESTER II – INTAKE VIII (GROUP A)
END SEMESTER EXAMINATION – JANUARY 2018

LAW 10125 Commercial Law

Date : 24th January 2018
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** questions in the separate sheet given to you.
Section B – Answer **ALL** questions
Section C – Answer **ALL** questions
- 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. X goes into a shop and sees a price label on a marker pen for Rs.50/-. He takes it to the cashier, but the cashier informs him that the price stated in the price tag is incorrect and it should be Rs.150/-. X argues that he only has to pay Rs.50/-.How would you describe the price on the price label in terms of contract law?
 - a. Display of goods for sale with a price label is an invitation to treat.
 - b. In this context the shop must be treated as making an offer which X had accepted.
 - c. The original offer of Rs.50/-had been terminated by the counter-offer of Rs.150/-.
 - d. None of the above

2. In which of the following is a way to terminate an agency relationship by the operation of law?
 - a. Bankruptcy of either the principal or agent.
 - b. Death of the principal.
 - c. Insanity of either the principal or agent.
 - d. All of the above.

3. Not an Alternative Dispute Resolution Method is
 - a. Adjudication
 - b. Litigation
 - c. Mediation
 - d. Arbitration

4. Anil endorses a cheque to Basith as a gift. Basith is a :
 - a. Holder for value.
 - b. Mere holder.
 - c. Holder in due course.
 - d. Wrongful possessor.

5. In a normal agency relationship where the agent acts within his authority, a binding contract is usually created between which two parties?
- The principal and agent
 - The principal and a third party
 - The agent and a third party
 - all of the above
6. A misrepresentation is:
- A statement of fact which proves to be untrue
 - A statement of law which proves to be untrue
 - Made by one party to the other before the contract is formed in order to induce the latter to enter into the contract
 - A statement which affects the claimant's judgement
- (ii) and (iv) only
 - (i), (iii) and (iv) only
 - (i), (ii), and (iv) only
 - All of the above
7. A retired partner;
- Will never be liable for any debts of the firm
 - Has the right to transfer debts to the remaining partners
 - Will be liable for debts incurred before retirement
 - Will be liable for debts incurred before and after retirement

8. Which of the following is NOT a feature of bills of exchange?
- a. To become the holder in due course, the holder must take the bill in good faith not knowing of the lack of title of the person from whom he/she received it and he/she has given value for it
 - b. A forged signature on bills, including an endorsement is of no effect
 - c. A thief may steal a bearer bill and passes it to another who will become the legal owner of it
 - d. A person cannot be the legal owner of a bill if he/she receives it from a person who was not the legal owner of it
9. A difference between a contract of sale and an agreement to sell is;
- a. Contract of sale covers goods that the property has already been transferred to the other party, and agreement to sell covers goods that the property is still in the possession of the seller
 - b. Contract of sale covers goods and agreement to sell covers services
 - c. Contract of sale covers existing, specific goods, and agreement to sell covers goods that have not yet been identified
 - d. Contract of sale covers goods that not yet been identified, and agreement to sell covers goods that are specific
10. Which statement describes the INCOTERM term C.I.F correctly?
- a. The buyer has to nominate the ship
 - b. The seller has to secure the insurance
 - c. The Seller has to name the port final port of destination
 - d. The ownership of goods passes with the passing of the railing

(Total 20 Marks)

Part B
Answer **ALL** Questions

Question No. 02

- a. Explain “creation of agency by necessity”
(4 Marks)
- b. What are the conditions to be satisfied for creation of agency by necessity?
(4 Marks)
- c. State four (04) duties of an Agent.
(4 Marks)
- (Total 12 Marks)**

Question No. 03

- a. Outline the differences between a holder in due course and a holder for value.
(3 Marks)
- b. Saman handed two cheques to Ashan named cheque (1) and cheque (2) respectively to the value of Rs.500 each. Cheque (1) was given as a gift to Ashan. Cheque (2) for the goods purchased from Ashan. Ashan produced the cheque (1) for payment and the bank dishonored the cheque. Secondly, Ashan produced the cheque (2) for payment to the bank. The bank dishonored cheque (2) as well. Thereafter, Ashan endorsed the cheque (1) as “pay Varuna” and handed the cheque to Varuna who took it in good faith for the sale of his lunch box to Ashan. When Varuna produced the cheque (1) to the bank, it was again dishonored. Also, Hashan, a servant of Ashan forged Ashan’s signature in cheque (2) by endorsing it and gave it to Thusitha who took it in good faith for 10 milk purchased by Hashan.

Discuss remedies available to Ashan, Varuna and Thusitha.

(9 Marks)

(Total 12 Marks)

Question No. 04

“The expression F.O.B determines how the goods shall be delivered, how much of the expense shall be borne by the seller and when the risk loss or damage shall pass to the buyer”.

Per Staughton LJ in Mitsui and Co. Ltd V. Flota Mercante Jrancolabiana SA (1890) 1 ALL ER 951 at 956.

In light of the above statement

- a. Discuss your answer in relation to F.O.B contracts.

(6 Marks)

- b. Compare and contrast your answer under CIF contracts.

(6 Marks)

(Total 12 Marks)

Question No. 05

- a. Explain the difference between an agreement to sell and a sales contract.

(3 Marks)

- b. ComCorp Ltd purchases twenty pine office cabinets from Homeware Ltd, after viewing a sample cabinet in Homeware’s factory. Upon delivery of the goods, Lee, a director of ComCorp, notices some minor scratches on the rear of one of the cabinets. It is also discovered that the cabinets are made from oak, not pine, although this makes no practical difference to ComCorp or to the users of the cabinets.

On the way home, Lee stops at his local branch of BuyPhone Ltd and purchases a new mobile phone. Upon returning home, Lee removes his phone from the box in order to charge it up. He notices that the glass screen of the phone contains a number of small scratches, but the phone functions perfectly.

Discuss the remedies made available to ComCorp Ltd and Lee.

(9 Marks)

(Total 12 Marks)

Question No. 06

- a. Write three (3) rights and three (3) duties of partners of a partnership.

(3 Marks)

- b. Roisin has been a partner in the Partnership with her soon-to-be ex-husband Marcus since they met in 1995. Both Roisin and Marcus injected £500,000 capital into the Partnership when it commenced. Roisin and Marcus separated earlier this year when Marcus met his new girlfriend Sharon. Roisin and Marcus are currently in dispute about how to distribute the partnership assets.

The partnership has received an invoice from a travel agency called Romantic Getaways Limited, in the sum of £800 for a weekend break for two in Paris, which was booked by Marcus. Marcus says because the invoice is in the name of the Partnership that Roisin will have to pay her share of it.

Advise Roisin whether she could be held liable for the Romantic Getaways Limited invoice.

(9 Marks)

(Total 12 Marks)

Part C

Answer **ALL** Questions

Question No. 07

Adam is an owner of a toy shop. He recently received a new shipment of toy cars and intends to sell the new arrival. Therefore, he advertised his toys in the weekend newspaper stating that “10 toy cars from Japan for \$45.”

The following Monday, David saw the advertisement and phoned Adam. When Adam answered the phone, David informed that “I will buy your Toy cars as advertised by you in the paper”. However, Adam then told David that he changed his mind and, therefore, he intends to sell the said 10 toys for \$ 55. David was furious on hearing that and threatened to take legal action against it.

On Tuesday, Mary saw the advertisement and phoned Adam. However, Mary could not reach Adam. Therefore, she left a message on Adam’s answering machine stating that “she wishes to buy the said 10 toys for the price stated in the advertisement”. On Wednesday, Chandler called Adam. Adam informed Chandler that “the new price for 10 toys is \$55 but not \$45”. Chandler stated that “he will only pay \$40 for the said 10 toys and that is the best price he could give”. Thus, Chandler gave his home address and telephone number and asked Adam to confirm it before Friday. On Thursday, Adam posted a letter to Chandler agreeing to sell 10 toys for \$40. However, due to a postal strike, it never reached Chandler. On Thursday evening, Chandler changed his mind and phoned Adam to inform about his decision. Since he could not reach Adam, he left a message on Adam’s answering machine regarding his change of mind.

Advise Adam, David, Mary and Chandler whether they have entered into legally binding contracts.

(Total 20 Marks)