

CA



THE INSTITUTE OF  
**CHARTERED** ACCOUNTANTS  
OF SRI LANKA

# **SUGGESTED SOLUTIONS**

**KE3(B)-Fundamentals of Law**

**September 2017**

## SECTION 1

### Answer 01

1.1

<b>Learning Outcome/s: 1.4.2</b>
Identify the main functions of each institution stated above.
Study text reference: Pages 23 and 25
<b>Correct answer: C</b>

1.2

<b>Learning Outcome/s: 2.2.1</b>
Explain what is meant by the terms of contract (conditions, warranties, exemption clauses) and the effect of exemption clauses and the Unfair Contract Terms Act No. 26 of 1997.
Study text reference: Pages 46 and 54
<b>Correct answer: D</b>

1.3

<b>Learning Outcome/s: 2.5.2</b>
Explain the principle of unjust enactment
Study text reference: Page 68
<b>Correct answer: D</b>

1.4

<b>Learning Outcome/s: 3.3.1</b>
Discuss the time at which there is a passing of risk and a transfer of title (unascertained goods, reservation of title, instalment deliveries, sales by auction, sale by person not the owner).
Study text reference: Page 90
<b>Correct answer: B</b>

1.5

<b>Learning Outcome/s: 3.2.1</b>
Explain the implied conditions and warranties which are applicable in a contract for sale of goods.
Study text reference: Page 86
<b>Correct answer: C</b>

1.6

<b>Learning Outcome/s: 4.2.1</b>
Explain, in respect of the following, the applicable principles of cheque law and their commercial significance (endorsements, crossings, dishonour and banker's liability)
Study text reference: Page 113
<b>Correct answer: C</b>

1.7

<b>Learning Outcome/s: 5.4.1</b>
State the circumstances under which a contract of agency may be terminated by the act of parties and by operation of law.
Study text reference: Page 131
<b>Correct answer: C</b>

1.8

<b>Learning Outcome/s: 5.2.1 and 5.5.1</b>
5.2.1 Explain the circumstances under which an agent may acquire actual authority (including express authority and implied authority) and ostensible authority.
5.5.1 State the liability of agents for acts done whilst acting within actual authority, within ostensible authority and without authority.
Study text reference: Pages 124 and 133
<b>Correct answer: B</b>

1.9

<b>Learning Outcome/s: 7.1.1 and 7.1.3</b>
7.1.1 State who should contribute to EPF and ETF, along with relevant exemptions
7.1.3 List instances in which employees can withdraw his/her contributions to EPF and ETF.
Study text reference: Page 210
<b>Correct answer: A</b>

1.10

<b>Learning Outcome/s: 8.2.1</b>
State briefly on each of these Acts: Prevention of Money Laundering Act. No. 05 of 2006, Electronic Transaction Act No. 19 of 2006, Computer Crimes Act, Consumer Protection Act, Intellectual Property Act No. 36 of 2003.
Study text reference: Pages 222 and 223
<b>Correct answer: B</b>

**(Total: 20 marks)**

## SECTION 2

### Answer 02

2.1

<b>Learning Outcome/s: 1.2.1</b>
Identify the key legal systems applicable in Sri Lanka.
Study text reference: Page 9
Some of the main laws which comprise the legal system of Sri Lanka are as follows: <ul style="list-style-type: none"><li>• Roman-Dutch Law or Common Law</li><li>• English Law</li><li>• Personal laws such as Kandyan Law, Thesawalamai Law and Muslim Law</li><li>• Buddhist Law and Hindu Law</li><li>• Legislation/Statute Law</li><li>• Judicial decisions/Case Law</li><li>• Customary Law</li></ul>

2.2

<b>Learning Outcome/s 3.1.1</b>
Discuss the difference between a contract for sale of goods and a contract for work and materials, and the classification of said goods.
Study text reference: Page 81
The main difference between a “contract of sale” and an “agreement to sell” is as follows. In a “contract of sale” the property in the goods is transferred from the seller to the buyer at the time of making the contract. However, in “an agreement to sell” the property in the goods is not transferred from the seller to the buyer at the time of entering into the agreement. It will be transferred only in the future or upon the fulfillment of certain conditions.

2.3

<b>Learning Outcome/s: 3.6.1</b>
Identify the differences between a CIF contract and a FOB contract.
Study text reference: Page 247
The duties of a buyer in a Cost Insurance Freight (CIF) contract are as follows: <ul style="list-style-type: none"><li>• To pay the price, less the freight, on delivery of the documents. (He cannot defer payment until after he has inspected goods)</li><li>• To pay the cost of unloading, lighterage and landing at the port of destination according to the Bill of Lading.</li><li>• To pay all import duties and wharfage charges, if any.</li></ul>

2.4

<b>Learning Outcome/s: 7.3.2</b>
State hours of employment, weekly, annual holiday and leave.
Study text reference: Page 203
The restrictions imposed on the working hours of female employees under the Shop and Office Employees (Special Provisions) Act, No. 19 of 1954 are as follows: <ul style="list-style-type: none"><li>• Shall not work for more than 9 hours per day (inclusive of overtime hours).</li><li>• Shall not work after 8 p.m.</li><li>• Exemptions to the above restrictions are applicable to women working in hotels, restaurants, airlines etc.</li></ul>

2.5

<b>Learning Outcome/s: 8.2.1</b>
State briefly on each of these Acts: Prevention of Money Laundering Act. No. 05 of 2006, Electronic Transaction Act No. 19 of 2006, Computer Crimes Act, Consumer Protection Act, Intellectual Property Act No. 36 of 2003.
Study text reference: Page 228
The intellectual properties recognised by the Intellectual Property Act, No. 36 of 2003, are as follows: <ul style="list-style-type: none"><li>• Copyright</li><li>• Industrial designs</li><li>• Patents</li><li>• Marks and trademarks</li><li>• Trade names</li><li>• Layout designs of integrated circuits</li><li>• Geographical indications</li></ul>

**(Total: 10 marks)**

## SECTION 3

### Answer 03

(a)

<b>Learning Outcome/s: 2.1.1</b>
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".
Study text reference: Page 43

#### Case name

The facts of the scenario are similar to the decided case of *Felthouse vs Bindley (1862) 11 CB (NS) 869*.

#### Case facts

Felthouse (F) wrote to his nephew Brindley (B), offering to buy his horse saying that "if I hear no more of this offer, I shall consider that the horse is mine for \$30."

B did not respond. But B told his auctioneer not to sell this horse as he had already sold it to F. But mistakenly the horse was sold in the auction to another.

It was held that the offer made by F was not accepted by B as no communication was made to F. Therefore a valid contract was not formed between F and B.

Per the principles of offer and acceptance, an acceptance must be communicated to the offeror, either in writing, or verbally or by conduct.

Silence or inaction by the offeree, will not be treated as a valid acceptance of the offer. In other words, a mental acceptance or an un-manifest assent to an offer does not result in the acceptance of an offer.

Therefore in the given scenario, even though Tom told (communicated to) the auctioneer that his car has been sold to Frank, Tom had not communicated such acceptance to the offeror, Frank.

Therefore, there is no proper acceptance of the offer under the law of contracts.

(b)

<b>Learning Outcome/s: 2.1.1</b>
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".
Study text reference: Pages 36 and 37

### Case name

Similar facts were discussed in *Carlill v Carbolic Smoke Ball Co.* [1893] 1 Q.B. 256.

### Case facts

Carbolic Smoke Ball Co. offered to pay a reward of £100 to anyone who contracted influenza after using their smoke ball as prescribed. Ms. Carlill contracted influenza, even after using the smoke ball as prescribed. She claimed the reward of £100, which the company refused to pay.

It was held that this was an offer made to the world at large. The fact that Ms. Carlill acted on the offer by using the smoke ball as prescribed, amounts to her accepting this offer. Therefore the company was bound to pay the £100 reward to her.

In this scenario the press notice of SPL amounts to an offer made to the world at large. Such offers are made to any specific person anywhere.

Therefore these offers can be accepted by anyone.

Acceptance of this offer is made by merely acting on the offer, and there is no need to specifically communicate the acceptance to the offeror.

Therefore in the given scenario, since a valid offer had been made by the company to Sampath, and as Sampath had accepted this offer by acting on it, SPL is liable to pay the reward of Rs. 25,000 to Sampath.

**(Total: 10 marks)**

## Answer 04

(a)

<b>Learning Outcome/s: 5.7.6</b>
State the relationship between partners and third parties.
Study text reference: Page 149

A retiring partner is generally not liable for a debt incurred by the partnership after his retirement.

Further, if a creditor has had no previous dealings with the firm and did not know the retiring partner to be a partner before, or if notice had been given of the retirement of the retiring partner, then the retiring partner will not be held liable for such debts.

In the given scenario, Tharuni had no previous dealings with the partnership and did not know Imran to be a partner before. Therefore even though no notice was given about his retirement, Imran is **not liable** to Tharuni for this transaction.

(b)

<b>Learning Outcome/s: 4.3.1</b>
Define and explain the commercial significance of "holder in due course" and "presentment" in relation to a bill of exchange.
Study text reference: Page 106

### Rules applicable for the presentment of a bill for acceptance

- Presentment must be made at a reasonable hour on a business day and before the bill is overdue.
- When a bill is addressed to two or more drawees who are not partners, presentment must be made to all, unless one of them has authority to accept on behalf of all.
- Where the drawee is dead, presentment may be made to his personal representative.
- Where the drawee is bankrupt, presentment may be made to him or his trustee.
- Where authorised by agreement or usage, a presentment through the post office is sufficient.
- Where the day on which a bill should be presented is a bank holiday, the bill must be presented on the succeeding business day.

**(Total: 10 marks)**



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