

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF LAW II– PAPER 6

MONDAY, 17 JUNE 2002

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours.**
2. Attempt **all** questions in Section **A**, any **two** questions from Section **B** and any **four** questions from Section **C**.
3. Section **A** has **twenty** compulsory multiple-choice questions each carrying 1 mark.
4. Section **B** has **three** questions and only two are to be attempted. Each question carries 20 marks.
5. Section **C** has **five** questions and only **four** questions are to be attempted. Each question carries 10 marks.
6. Please, read further instructions on the answer booklet before attempting any question.

SECTION A

Question 1.

- (i) Which of the following elements is necessary for a person to be held vicariously liable?
 - (a) Commission of a tort.
 - (b) Breach of contract.
 - (c) Principal/agent relationship.
 - (d) Master/servant relationship.
- (ii) Which of the following is not a remedy for wrongful termination of a contract of employment?
 - (a) Frustration.
 - (b) Redundancy.
 - (c) Re-instatement.
 - (d) Damages.
- (iii) What is the distinction between libel and slander?
 - (a) Slander is an innuendo while libel is not.
 - (b) Slander is actionable per se while libel is not.
 - (c) The two are both in a permanent form.
 - (d) Libel is actionable per se whereas slander is not.
- (iv) Who is a holder in due course?
 - (a) The holder in good faith of a bill, complete and regular on the face of it without notice of dishonour.
 - (b) Payee or endorsee in possession of a bill or bearer thereof.
 - (c) The holder of a bill in transition.
 - (d) The holder of a bill that has been dishonoured.
- (v) What is meant by negotiation of a bill?
 - (a) Endorsing of a bill by the holder in favour of a third party.
 - (b) Presenting a bill in expectation of advance payment pending clearing.
 - (c) Obtaining goods by issuing a post dated cheque.
 - (d) None of these.
- (vi) Which of the following is not a tort?
 - (a) Conversion.
 - (b) False imprisonment.
 - (c) Theft.
 - (d) Defamation.

- (vii) What is the difference between a tort and a breach of contract?
- (a) In a tort, the parties impose the obligation.
 - (b) In a tort, liquidated damages not awarded unlike in contract.
 - (c) In a tort, the obligation is one imposed by law.
 - (d) Both (a) and (c).
- (viii) Who of the following women may not be employed in underground work?
- (a) A woman employed in welfare services.
 - (b) A woman holding a management position and does manual work.
 - (c) A woman working in an undertaking where only members of the same family are employed.
 - (d) A woman in the course of her studies.
- (ix) What is the basic component of the memorandum of association?
- (a) The objects clause.
 - (b) Management rules of a company.
 - (c) Share capital of the company.
 - (d) The role of promoters.
- (x) Promoters cannot be held liable on contracts entered into on behalf of the company before incorporation only if;
- (a) The company ratifies the contract.
 - (b) When the seal and headed papers of the company are used.
 - (c) When the contract is disclosed in the statutory general meeting.
 - (d) When there is novation.
- (xi) Alteration of the share capital can be achieved by;
- (a) Ordinary resolution.
 - (b) Special resolution.
 - (c) Extraordinary resolution.
 - (d) Simple majority resolution.
- (xii) Which of the following events would result into crystallization of a floating security?
- (a) Reconstruction of a company.
 - (b) Death of a shareholder.
 - (c) Dissolution of the Board.
 - (d) Increasing the share capital.

- (xiii) Who is a contributory?
- (a) A holder of a promissory note from the company.
 - (b) A contingent creditor.
 - (c) Present or past shareholders who are liable to contribute to the assets of the company.
 - (d) Judgement creditor.
- (xiv) Which of the following claims must be settled first in the event of liquidation.
- (a) Claims of the preferred creditors.
 - (b) Claims of ordinary creditors.
 - (c) Costs and charges of winding up.
 - (d) Wages.
- (xv) Which of the following companies is not registrable in Uganda?
- (a) Private companies limited by guarantee.
 - (b) Unlimited companies.
 - (c) Public limited companies.
 - (d) Companies without share capital.
- (xvi) How can a legal representative of a deceased shareholder access the shares in a company?
- (a) By the process of transmission.
 - (b) The process of transfer.
 - (c) By the process of automatic acquisition.
 - (d) By the process of winding up.
- (xvii) According to the Companies Act, the quorum for any General Meeting of a public limited company is personally present.
- (a) 20% of the members.
 - (b) 10% of the members.
 - (c) 3 members.
 - (d) 2 members.
- (xviii) Where is the register of members kept?
- (a) At the registry of companies.
 - (b) At the offices of the company.
 - (c) In the central depository.
 - (d) None of these.

(xix) What is capital at call?

- (a) Unpaid up capital.
- (b) Paid up capital.
- (c) Reserve capital.
- (d) Nominal capital.

(xx) The auditor of a company reports to the:

- (a) directors.
- (b) promoters.
- (c) Registrar of Companies.
- (d) members.

SECTION B

Question 2

Top Foam Ltd was incorporated with the sole objective of manufacturing and exporting mattresses. It subsequently acquired a loan of Shs 150 million from ATM Bank to finance the presidential campaigns and it has now failed to pay. Megar, the majority shareholder and Director has refused to register Odinda as a shareholder on the grounds that he supported a wrong candidate notwithstanding that he paid for his shares. In a secret meeting, Megar appointed his son aged 17 years and his father who was declared bankrupt a year ago as Directors of the company. The directors have not declared dividends for two years notwithstanding that the company has been making profits.

Required:

- (a) Identify the issues raised and advise all parties.
- (b) How can a private limited company raise capital to finance its business?

(20 marks)

Question 3

After the mayoral elections in Kampala, the new mayor invited all the well-wishers to the City Hall for celebrations. Sweger, a resident of Jinja who had visited Kampala attended the function. As he was leaving the premises he fell in an uncovered manhole at the other extreme end of the compound which was partly lit up and broke his leg. He intends to sue K.C.C.

Required:

Advise K.C.C on the possible defences and point out the obligations imposed by the law on both the occupiers and the invitees.

(20 marks)

Question 4

What are the obligations and duties of the parties to a contract of employment?

(20 marks)

SECTION C

Question 5

“A company as an artificial legal entity must of necessity act through the medium of its human officers or agents; but not every act by them will necessarily bind the company.” Per L.C.D Gower – Principles of Modern Company Law.

With reference to this view:

- (a) Explain the circumstances under which a company may be held liable for the acts of its officers.
- (b) What are the tests that have been developed by courts in measuring the standards of care and skill which directors are required to meet in execution of their duties?

(10 marks)

Question 6

The relationship between a bank and a customer is a confidential one which imposes obligations on each of the parties thereto. Discuss.

(10 marks)

Question 7

Under what circumstances may a company be wound up by a court order?

(10 marks)

Question 8

Explain the rule in Foss v Harbottle (1843) and how it has been modified by statutory intervention.

(10 marks)

Question 9

What are the principal duties and powers of a liquidator in the process of winding up of a company?

(10 marks)