

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF LAW II - PAPER 6

**MONDAY, 15 DECEMBER 2003**

#### INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours**.
2. Attempt **all** questions in Section A, **two** questions from Section B and **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** are to be attempted. Each question carries 10 marks.
6. Please read further instructions in the answer book.

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## SECTION A

### Question 1

- (i) Which of the following is an appropriate remedy for commission of a tort?
  - (a) Imprisonment.
  - (b) Damages.
  - (c) Injunction.
  - (d) Fine.
- (ii) Which of the following companies are required to hold statutory meetings?
  - (a) Private companies.
  - (b) Statutory companies.
  - (c) Public companies.
  - (d) Companies limited by guarantee.
- (iii) What type of resolution would you need to change the Articles of Association?
  - (a) Ordinary resolution.
  - (b) Extra-ordinary resolution.
  - (c) Special resolution.
  - (d) Circular resolution.
- (iv) Which of the following is an entitlement of a deferred shareholder?
  - (a) Fixed dividend relative to the profits.
  - (b) Cumulative dividends.
  - (c) Surplus dividend.
  - (d) Interest on dividend.
- (v) What is capital at call?
  - (a) Reserve capital.
  - (b) Issued capital.
  - (c) Nominal capital.
  - (d) Unpaid share capital.
- (vi) What are the statutory days within which annual returns should be filed with the registrar after the Annual General Meeting?
  - (a) 60 days.
  - (b) 21 days.
  - (c) 42 days.
  - (d) 14 days.

- (vii) What are pre-emption rights?
- (a) Restriction on transfer of shares where priority is given to the existing members.
  - (b) Equitable rights exercised by directors to register a transfer.
  - (c) The right accorded to the legal representative to participate in the company.
  - (d) Rights of a member to opt out of the company if oppressed.
- (viii) What do you understand by underwriting as applied in raising of company finance?
- (a) Writing off unrecoverable capital.
  - (b) Insurance against any poor reception from the public to buy shares.
  - (c) Undertaking by the issuing house to persuade the public to buy shares.
  - (d) Capitalisation of profits.
- (ix) What is the effect of non- registration of a charge?
- (a) It distinguishes an obligation to pay.
  - (b) It becomes void as against the liquidator and creditors.
  - (c) It renders the transaction illegal.
  - (d) Attracts a penalty.
- (x) Which of the following debts take first priority in the process of winding up?
- (a) Government taxes.
  - (b) Payment to secured creditors.
  - (c) Outstanding payments to National Social Security Fund.
  - (d) Liquidator's remuneration.
- (xi) Which of the following institutions can determine a petition for winding up?
- (a) Registry of Companies.
  - (b) Supreme Court.
  - (c) High Court.
  - (d) Magistrate Courts.
- (xii) What is the basis for liability in a tort of defamation?
- (a) Proof of a false statement.
  - (b) Proof of an innuendo.
  - (c) Publication to a third party.
  - (d) Slanderous statement.

- (xiii) What is the legal effect of a company not commencing business within a year after incorporation?
- (a) It becomes a ground for being struck off from the register.
  - (b) It attracts a fine not exceeding Shs 2000.
  - (c) The directors are liable for imprisonment.
  - (d) It calls for an inspection.
- (xiv) What is the major test of remoteness of damages?
- (a) Extent of injury relative to quantum of damages.
  - (b) Foreseeability and reasonableness.
  - (c) Novus actus interveniens.
  - (d) Consent of the parties.
- (xv) Which of the following is an appropriate remedy where there has been breach of a statutory duty intended to benefit the public?
- (a) Damages.
  - (b) Imprisonment and / or a fine.
  - (c) Specific performance.
  - (d) Delegation.
- (xvi) Which of the following forms of trespass to person are actionable?
- (a) Reasonable chastisement.
  - (b) Forceful ejection of a trespasser.
  - (c) Arrest of a criminal by citizens.
  - (d) Confining a person under a tree.
- (xvii) Who appoints a managing director in a company?
- (a) Shareholders.
  - (b) Registrar.
  - (c) Directors.
  - (d) The General Meeting.
- (xviii) An employee must get at least ..... days of holiday in a year.
- (a) 18.
  - (b) 21.
  - (c) 30.
  - (d) 45.
- (xix) Who has the power to declare a dividend?
- (a) The General Meeting.
  - (b) Directors.
  - (c) Auditors.
  - (d) Registrar.

- (xx) By what process may Jane get entitled to her deceased husband's shares in ZZ Co Ltd?
- (a) Transmission.
  - (b) Transfer.
  - (c) Petitioning the Registrar.
  - (d) Dissolution.

## SECTION B

### Question 2

- (a) Muko operates a bank account with CPA Bank Ltd. Last month Muko deposited a cheque of Shs. 500,000. The cheque was entered as Shs 50,000. When Muko attempted to draw money to pay examinations fees for his daughter, he was told that he did not have enough money on the account. He attempted to see the manager who angrily shouted at him in front of other customers that he wanted to defraud the bank. Muko is seriously annoyed. When the bank tried to rectify the error, it credited the account with Shs 5,000,000. Believing that it was a reward for the embarrassment caused, he withdrew Shs 4,000,000 and bought land. The bank seeks to recover the money from him.

**Required:**

Raise and resolve the issues involved.

**(10 marks)**

- (b) Describe the basic characteristics of a negotiable instrument.

**(10 marks)**

**(Total 20 marks)**

### Question 3

Majjani, a driver with Mwenge Beverages Co Ltd based in Kampala, was sent to deliver beer and collect empty bottles from Jinja. On his way back he offered a lift to a friend and drove to Entebbe where he negligently collided with Otim, a cyclist, injuring him badly. Otim is an employee of NTN Co Ltd. While assisting Otim to get to the admission ward at Entebbe Government Hospital, Majjani fell into an open manhole that was being repaired by Sewage System Contractors Ltd hired by the hospital administration. His leg has been amputated. Otim was discharged four weeks ago only to find that he has been dismissed for absconding from duty.

**Required:**

- (a) Giving reasons, advise the aggrieved parties on their legal rights.
- (10 marks)**
- (b) What are the defences available to an occupier who has breached his duty of care?

**(10 marks)**

**(Total 20 marks)**

**Question 4**

- (a) Diiku a director and majority shareholder in Dikuula & Co Ltd was involved in negotiating a house deal with the company last month. He informed the owner that the company has lost interest in the house because it did not have the money. It has now transpired that the company still had interest and is financially sound but Diiku has already bought the house for his wife. Kiwanda a co-shareholder died a month ago and Diiku has refused to enter his wife's name who holds letters of administration on the register. Kiibo who holds 1% share capital complained about the manner the company is being run and he was dismissed by Diiku. Kiibo and Kilanda who holds one and two shares respectively convened an extra-ordinary general meeting and purportedly dismissed Diiku. Diiku has refused to vacate the office.

**Required:**

Raise and resolve the issues involved.

**(14 marks)**

- (b) Explain various types of resolutions and circumstances in which they can be made.

**(6 marks)**

**(Total 20 marks)**

**SECTION C**

**Question 5**

- (a) What are the basic characteristics of a contract of employment?  
(b) Discuss the remedies available to both the employer and employee where there has been a breach of a contract of employment.

**(10 marks)**

**Question 6**

The duties of an auditor like those of a Company Secretary in a corporate structure have moved from mere loyalty to professionalism and from servant to manager and liabilities arising there from have taken a similar trend.

Required:

Discuss the above statement.

**(10 marks)**

**Question 7**

Explain how a company may raise capital and the rules that have been developed to ensure maintenance of such capital to protect the creditors interests.

**(10 marks)**

**Question 8**

- (a) What is the distinction between a cheque and a bill of exchange?
- (b) Describe the circumstances that may terminate the bank's authority to meet the customers demand.

**(10 marks)**

**Question 9**

- (a) Describe the process of creditors voluntary winding up.
- (b) Under what circumstances may compulsory winding up of a company be commenced?

**(10 marks)**