

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF LAW II - PAPER 6

MONDAY, 10 DECEMBER 2007

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.

SECTION A

Question 1

- (i) Which of the following is **NOT** a prerequisite for grant of a certificate of commencement to a public company?
 - (a) Filing a copy of prospectus with the registrar of companies.
 - (b) Payment of qualification shares by directors.
 - (c) Appointment of members of Board of Directors.
 - (d) Allotment of and payment for the shares of nominal capital.
- (ii) Once registered, the Memorandum and Articles of Association of an incorporated company become binding between;
 - (a) the company and all members.
 - (b) members and among themselves.
 - (c) the company and the public.
 - (d) the company and its employees.
- (iii) Which of the following does **NOT** qualify to be registered as a shareholder of a company?
 - (a) A minor.
 - (b) A person of unsound mind.
 - (c) A trustee in bankruptcy.
 - (d) Another company.
- (iv) A permanent form of a defamatory statement is referred to as:
 - (a) derogatory.
 - (b) innuendo.
 - (c) slander.
 - (d) libel.
- (v) Powers to declare dividends to shareholders is vested in the:
 - (a) Registrar of companies.
 - (b) Shareholders themselves.
 - (c) Directors of the company.
 - (d) Company auditors.

- (vi) A cheque is:
- (a) an order by a bank drawn on any other bank for payment of any of its clients.
 - (b) a promissory note payable on demand.
 - (c) a bill of exchange payable at any bank.
 - (d) It is a bill of exchange drawn on a specific bank and payable to a specific person or holder on demand or on a future named date.
- (vii) A neighbour, in law, is a person:
- (a) with whom one shares land boundary.
 - (b) with whom one shares a compound.
 - (c) who is within a radius of about 200 metres from one's home.
 - (d) who may be affected by one's omissions and acts in such way that he/she must be put in consideration in doing such acts/omissions.
- (viii) Unless all members agree to a longer notice, the notice for Annual General Meeting must be for at least days.
- (a) 14.
 - (b) 21.
 - (c) 28.
 - (d) 30.
- (ix) Which of the following claims must take priority of settlement in event of winding up?
- (a) Claims of the preferred creditors.
 - (b) Claims of ordinary creditors.
 - (c) Costs and charges of winding up.
 - (d) Wages of employees.
- (x) Who of the following appoints a liquidator in voluntary winding up of a company?
- (a) Registrar.
 - (b) Court.
 - (c) Shareholders.
 - (d) Directors.

- (xi) Which of the following is **NOT** true about a private company?
- (a) The minimum number of members is two.
 - (b) The minimum number of directors is one.
 - (c) Transfer of shares is restricted.
 - (d) The maximum number of members is twenty.
- (xii) An employee is entitled to at least days of annual leave.
- (a) 45.
 - (b) 60.
 - (c) 21.
 - (d) 30.
- (xiii) Upon commission of a tort of trespass, which of the following is an appropriate remedy for a plaintiff?
- (a) Suing the trespasser for damages.
 - (b) Reporting the trespasser to police.
 - (c) Reporting the trespasser to the nearest neighbour.
 - (d) Having the trespasser imprisoned.
- (xiv) A Liquidator in compulsory winding up of a company is appointed by;
- (a) Registrar of companies.
 - (b) Court.
 - (c) Shareholders.
 - (d) Directors.
- (xv) The nominal capital of a company is referred to as:
- (a) share capital.
 - (b) share holding.
 - (c) share value.
 - (d) net capital.
- (xvi) An employment on probationary service may be terminated by either party giving the other a notice of days.
- (a) 20.
 - (b) 10.
 - (c) 7.
 - (d) 14.

- (xvii) What would a company need to do in order to create a reserve capital?
- (a) Pass an ordinary resolution.
 - (b) Seek permission from registrar of companies.
 - (c) Pass a special resolution.
 - (d) Seek permission from the Board of Directors.
- (xviii) Who of the following may be held liable for misstatement in audited accounts?
- (a) The company.
 - (b) The directors.
 - (c) The company clerk.
 - (d) The auditor.
- (xix) Which of the following deductions are not permitted by law?
- (a) Contribution to NSSF.
 - (b) Income tax under the PAYE system.
 - (c) Trade Union dues.
 - (d) Costs for protective tools provided by employer.
- (xx) A "restrictive endorsement" of a bill is one which is;
- (a) not negotiable.
 - (b) crossed generally.
 - (c) crossed specially.
 - (d) prohibitive of further negotiation.

SECTION B**Question 2**

In June 2007, Okot was employed as a petrol tanker driver by Fuel Company Limited. On 4 August 2007, while resting at Natete where he had parked the tanker, Okot struck a match to light a cigarette. The fire caused an explosion of the tanker. The fire spread and greatly damaged Mr. Ozio's house in the neighbourhood. Ozio intends to sue Fuel Company Limited.

While Okot was walking on the ground floor of Super Storeyed Plaza, owned by Kalina Company Ltd. to report the accident to his employer, he slipped on slippery floor and fell. As a result, his arm was fractured.

It has transpired that liquid soap and water had been poured on the floor during the cleaning exercise that was still going on at the material time. However, no caution or sign had been put in place about the state of the floor then.

Required:

(a) Raise and resolve all the issues involved.

(15 marks)

(b) What are possible defenses that arise from the facts?

(5 marks)

(Total 20 marks)

Question 3

In September 2007, Mafuta, a businessman drew a Shs 7 million cheque marked "account payee". Before filling in other information, he was abruptly called for a business meeting. He locked the cheque leaf in his drawer.

Kapo, Mafuta's messenger stole the cheque, filled his name in the space of the payee, forged Mafuta's signature and presented the cheque to Wazi Bank. He was paid cash by Kwasa, the Bank cashier who knew him well. Kapo is no where to be traced.

It transpired that two months before, Kwasa had mistakenly credited Sezi's account with Shs 50 million. Sezi withdrew the money and used it to buy a house that he sold to Titi who in turn sold it to Seka.

Wazi Bank has since dismissed Kwasa and published his photograph plus the following words in Mwoto newspaper: "Mr. Kwasa, whose photograph appears above, is no longer our employee. Wazi Bank shall not be held responsible for any transaction(s) made by him on behalf of the Bank".

While Kwasa claims that Wazi Bank tarnished his name, Wazi Bank and Mafuta are finding ways of how they can recover their lost money.

Required:

- (a) In consideration of the issues involved, advise the aggrieved parties on their chances of success, in case they chose to take court action.
(16 marks)
 - (b) Under what circumstances may a bill be discharged?
(4 marks)
- (Total 20 marks)

Question 4

In January 2005, Mukwasi who was 70 years old, promoted and secured the registration of Pex Co. Ltd. He became its first sole director and company secretary. Other 4 shareholders are vibrant youths namely Jemba, Dalia, Susan, and Kamba.

During the annual general meeting of 2006, Mukwasi was advised to retire as a director due to age but he declined. It later transpired that during the process of promotion, Mukwasi borrowed Shs 30,000,000 from Zamani Bank for and on behalf of Pex Co. Ltd. Zamani Bank has written a letter to Pex Co. Ltd. threatening to sell company property.

Upon learning about the letter, all the other shareholders led by Kampa confronted Mukwasi to pay personally. Mukwasi has in turn written a letter dismissing Kamba from the company with immediate effect.

Required:

- (a) Raise and resolve all the issues involved.
(17 marks)
 - (b) Give at least **two** justifications of including limited liability clause upon registration of a limited company.
(3 marks)
- (Total 20 marks)

SECTION C

Question 5

- (a) Define an auditor. (2 marks)
- (b) What are the duties of an auditor? (8 marks)
- (Total 10 marks)

Question 6

- (a) What is an employment contract? (2 marks)
- (b) Enumerate duties of an employee to the employer. (8 marks)
- (Total 10 marks)

Question 7

Explain **five** ways in which a person may cease to be a member of a company? (10 marks)

Question 8

- (a) What is meant by winding up of a company? (3 marks)
- (b) Mention grounds upon which a company may be wound up by Court. (7 marks)
- Total 10 marks)

Question 9

- (a) Outline duties of a holder of a bill. (4 marks)
- (b) What are the main characteristics of negotiable instruments? (6 marks)
- (Total 10 marks)