

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF LAW I - PAPER 2

MONDAY, 16 JUNE 2008

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours**
2. Attempt **all** questions in Section **A**, any **two** questions in Section **B** and any **three** questions in Section **C**.
3. Section **A** has **twenty** compulsory multiple-choice questions, each carrying 1½ marks.
4. Section **B** has **three** questions and only **two** are to be attempted. Each question carries 20 marks.
5. Section **C** has **four** questions and only **three** are to be attempted. Each question carries 10 marks.
6. Please read further instructions on the answer booklet.

SECTION A

Question 1

- (i) Which of the following is **NOT** a source of Law in Uganda?
 - (a) Constitution.
 - (b) Customs.
 - (c) Court martial.
 - (d) Legislature.
- (ii) The law that regulates the citizens vis-à-vis the state is:
 - (a) civil.
 - (b) criminal.
 - (c) public.
 - (d) private.
- (iii) Which of the following organs of the state is responsible for administering justice?
 - (a) Judiciary.
 - (b) Executive.
 - (c) Legislature.
 - (d) Local council courts.
- (iv) The doctrine of precedent is applied in:
 - (a) statutory legislation.
 - (b) administrative decisions.
 - (c) parliamentary proceedings.
 - (d) case law.
- (v) People involved in the planning and incorporation of a company are known as:
 - (a) promoters.
 - (b) founding directors.
 - (c) directors.
 - (d) shareholders.
- (vi) The veil of incorporation is lifted when a:
 - (a) company is winding up.
 - (b) company is used to commit a fraud.
 - (c) resolution is passed at the annual general meeting to do so.
 - (d) company forms subsidiary companies.

- (vii) A partner by holding out can be described as someone who:
- (a) holds majority shares in a partnership.
 - (b) is a partner in the true sense as per the Partnership Act.
 - (c) is deemed a partner for a particular purpose through the doctrine of estoppel.
 - (d) takes part in the management of a partnership in the absence of any agreement.
- (viii) Under criminal law, the burden of proof lies with the:
- (a) accused.
 - (b) defendant.
 - (c) plaintiff.
 - (d) prosecution.
- (ix) The document that contains the internal arrangement of a company is the:
- (a) Articles of Association.
 - (b) Memorandum of Association.
 - (c) Prospectus.
 - (d) Prospectus and Articles of Association.
- (x) Which of the following is **FALSE**?
- (a) A firm may be held liable for wrongs or torts of a partner committed against a third party where partners have authorized the wrong.
 - (b) A firm may be held liable for wrongs or torts of a partner committed against a third party at all times.
 - (c) Every partner of the firm is liable jointly with other partners.
 - (d) The joint liability will only arise at the time when a partner is a member of the firm.
- (xi) The document that spells out rights and obligations of the partners is the:
- (a) Memorandum of Association.
 - (b) Articles of Association.
 - (c) Partnership Act.
 - (d) Partnership Deed.
- (xii) Which of the following is **NOT** a right or duty of a partner in the management of a partnership?
- (a) Right to participate in the management of the firm.
 - (b) Duty to act in good faith.
 - (c) Right to make drawings of funds at any time.
 - (d) Right to be indemnified.

- (xiii) Agency is the:
- (a) relationship which exists whenever one person acts on behalf of another person and has power to affect the legal position with regard to a third party.
 - (b) buying and selling of goods with an intention of making profits.
 - (c) relationship that subsists between two or more people with a common view of making profits.
 - (d) relationship which exists whenever one person called wholesaler acts on behalf of a retailer to institute legal proceedings in a court of law.
- (xiv) Which of the following does **NOT** terminate an agency?
- (a) Performance.
 - (b) Failure to get goods.
 - (c) Frustration.
 - (d) Death of a principal or agent.
- (xv) Which of the following is **NOT** an exception to the general rule that an agent is neither liable under or entitled to enforce a contract he makes on behalf of his principal?
- (a) Trade usage or custom.
 - (b) Principal disclosed.
 - (c) Where agent contracts personally.
 - (d) Where principal is non-existent.
- (xvi) Which of the following is **NOT** an essential element of a binding contract?
- (a) Counter offer.
 - (b) Capacity.
 - (c) Consideration.
 - (d) Intention to create legal relations.
- (xvii) A void contract:
- (a) can be avoided by the party prejudiced by it.
 - (b) is enforceable in courts of law.
 - (c) is not legally binding to the parties.
 - (d) may confer limited legal rights.
- (xviii) The responsibility of disciplining lawyers in Uganda lies with the:
- (a) Judicial Service Commission.
 - (b) Uganda Law Society.
 - (c) Public Service Commission.
 - (d) High Court.

- (xix) The promoters of a company are people who:
- (a) own the company.
 - (b) wind up the company.
 - (c) direct the operations of the company.
 - (d) undertake to form a company.
- (xx) Under the privity rule, a person who is:
- (a) not a party to a contract may claim under it.
 - (b) a party to a contract may deny liability.
 - (c) not a party to a contract is not bound by it.
 - (d) a party to a contract may assign his rights to a third party.

SECTION B

Question 2

Mulalu, aged 15, heard that there was a new telecommunications company which established business in Uganda called Waringa Telecom. He went to one of its outlet shops in Kampala and got interested in a very nice Nokia telephone set. He picked it and presented it to one of the shop attendants and asked to know the price and how it operates. The shop attendant explained to him the benefits accruing from that phone and Mulalu was very much impressed about its radio music tones. The price was fixed at Shs 800,000. Mulalu had just got Shs 450,000 from his guardian to pay school fees and he used it to pay an installment on the phone. Mulalu took the phone on the understanding that he would pay the remaining amount in two installments. To the surprise of Waringa Telecom Mulalu has defaulted on the payment of the remaining installments and they are threatening to take back their phone. However, Mulalu has already sold the phone to his girl friend Musilu, a third party.

Waringa Telecom has come to you for assistance to recover the phone.

Required:

Discuss the legal issues raised and advise Waringa Telecom, Mulalu and Musilu accordingly.

Question 3

Mugaga and Muguda are great friends who sat and agreed to start a company dealing in timber. They started business which attracted other people to join them because it was booming and making a lot of profits.

At one of their meetings they resolved to extend their business to Southern Sudan because there was a lot of timber in that country dealing through a person based there. However, they are wondering as to what relationship would exist between their company and that person in Southern Sudan. They are even eager to know how such a relationship can come to an end.

Required:

Advise them on the relationship with the person in Southern Sudan and on the duties of each party.

(20 marks)

Question 4

Obanju, a prominent businessman based in Kampala improved his partnership business and converted it into a company limited by shares. He started managing the business of the company with his four brothers as co-directors. The newly formed company is known as Oba and Brothers Limited. Due to lack of good managerial skills by the directors, the company ran into grave financial problems. The creditors of the company are bitter and are threatening to attach and sell off Obanju's residential house in Munyonyo to recover their money. It is on record that before the company was registered, Obanju had contracted various debts which are now being demanded from Oba and Brothers Ltd. The other shareholders are confused on what to do because the assets which were acquired by the company after registration have been attached for sale.

Required:

Discuss all the issues raised and advise the parties accordingly.

(20 marks)

SECTION C

Question 5

What is agency by ratification and what are the pre-conditions for ratification to be valid?

(10 marks)

Question 6

(a) Distinguish between common law and statute law.

(4 marks)

(b) Outline the advantages and disadvantages of case law.

(6 marks)

(Total 10 marks)

Question 7

Define the term 'contract' and explain the essential elements of a valid contract.

(10 marks)

Question 8

What is a partnership and how is it put to an end?

(10 marks)