

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF LAW II - PAPER 6

**MONDAY, 8 DECEMBER 2008**

#### **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 mode of terminating an employment contract?
  - (a) Frustration.
  - (b) Agreement.
  - (c) Surrender.
  - (d) Notice.
- (ii) What type of resolution is required to alter a company's objects?
  - (a) Simple.
  - (b) Ordinary.
  - (c) Circular.
  - (d) Special.
- (iii) Who appoints a company's auditor(s)?
  - (a) Auditor General.
  - (b) Company Secretary.
  - (c) Shareholders.
  - (d) Directors.
- (iv) The process by which a deceased shareholder's shares can be legally transferred by the company is known as:
  - (a) transfer.
  - (b) transmission.
  - (c) transformation.
  - (d) transportation.
- (v) For what period will a person have worked in order to qualify for one month notice before his contract of employment is terminated?
  - (a) 1-2 years
  - (b) 3-4 years.
  - (c) 3-5 years.
  - (d) 2-3 years.
- (vi) Which of the following does not constitute the content of a Memorandum of Association of a company?
  - (a) Share capital clause.
  - (b) Limited liability clause.
  - (c) Objects clause.
  - (d) Address of the company.

- (vii) Which of the following is **FALSE** about a negotiable instrument?
- (a) It is transferable by delivery.
  - (b) A holder in due course receives it free from any defect.
  - (c) A transferee has no right of suing the drawer.
  - (d) It is negotiable by endorsement.
- (viii) Who of the following does not qualify to be a shareholder of a company?
- (a) A trustee in bankruptcy.
  - (b) A minor.
  - (c) A company.
  - (d) A partnership.
- (ix) What is the statutory notice required to convene an Annual General Meeting?
- (a) 21 days.
  - (b) 28 days.
  - (c) 14 days.
  - (d) 7 days.
- (x) What is the minimum age qualification for a director of a public company?
- (a) 21 years.
  - (b) 30 years.
  - (c) 20 years.
  - (d) 17 years.
- (xi) Which of the following is **FALSE** about auditors?
- (a) They are appointed at Annual General Meetings.
  - (b) If none is appointed at the Annual General Meeting, the Registrar of Companies may appoint them.
  - (c) A retiring auditor may be deemed to have been reappointed without a resolution being passed.
  - (d) It is always a duty of directors to appoint auditors.
- (xii) Which of the following is **FALSE** about a company registered under the Companies Act?
- (a) It may be limited by shares.
  - (b) It may be limited by guarantee.
  - (c) It may be unlimited.
  - (d) It may be a Non-Governmental Organization (NGO).

- (xiii) Upon an employee's discharge from employment and subsequent assumption of another employment, the:
- (a) original employer remains liable for obligations that arose before discharge.
  - (b) original employer becomes legally discharged from any obligations before discharge.
  - (c) original employer remains with legal right to recall the employee.
  - (d) new employer assumes all the liabilities of the employee.
- (xiv) A bill of exchange drawn on a banker and payable on demand is called a:
- (a) promissory note.
  - (b) cheque.
  - (c) bank draft.
  - (d) treasury bill.
- (xv) Which of the following is **FALSE** about a tort of trespass?
- (a) It applies to land, to persons or to goods.
  - (b) The plaintiff is entitled to legal redress whether or not he /she suffers damage.
  - (c) It is only actionable upon proof of damage.
  - (d) As long as an act constituting trespass remains, there is said to be continuing trespass.
- (xvi) Which of the following is the most appropriate remedy for the plaintiff in a tort of negligence?
- (a) Damages.
  - (b) Injunction.
  - (c) Apology.
  - (d) Imprisonment.
- (xvii) Who of the following are responsible for the day-to-day running of the company business?
- (a) The directors.
  - (b) The secretary.
  - (c) The shareholders.
  - (d) Hired employees.

- (xviii) Dividends may be declared from:
- (a) the company's accumulated assets.
  - (b) secured loans.
  - (c) profits.
  - (d) accumulated capital.
- (xix) Who initiates and controls all the affairs of a company until its incorporation?
- (a) Directors.
  - (b) Promoters.
  - (c) Volunteers.
  - (d) Well-wishers.
- (xx) Which of the following is **FALSE**?
- (a) A cheque may be crossed generally or specially.
  - (b) A holder may cross the cheque specially or generally.
  - (c) The drawer may open a crossed cheque.
  - (d) Where a cheque is crossed generally, the holder cannot add any crossing.

## SECTION B

### Question 2

Safari Shoe Company Ltd was incorporated in June 2004 as a private company Ltd by shares. Its shareholders are Juma, Ali and John.

The Articles of Association of the company contained a clause to the effect that borrowing in excess of Shs 10 million must be approved by a special resolution through an extra ordinary general meeting. In January 2007, Juma who was the sole company director called an extra ordinary general meeting for which he gave a notice of one day. John was attending to his sick child and did not attend the meeting.

In the meeting, Juma and Ali passed a resolution in which Juma was appointed Company Secretary. It was also resolved that Juma borrows Shs 25 million from Cave Bank on behalf of the company. Upon getting the loan, Juma used part of it to complete his personal house. The rest of the money was used to increase the company stock.

Safari Shoe Company Ltd has since failed to pay back the loan with the accumulated interest. John and the manager of Cave Bank have approached you for advice.

**Required:**

- (a) Raise and resolve the issues that arise from the facts. (14 marks)
  - (b) Advise the bank manager on the likelihood of success of recovery of the loan. (2 marks)
  - (c) Mention **four** duties of a company director. (4 marks)
- (Total 20 marks)**

**Question 3**

Suzuki (U) Ltd is one of the customers of Coin Bank. In June 2007, Suban, an employee of Suzuki (U) Ltd stole a cheque leaf from the accounts section. He forged the authorized signature of the Managing Director and drew a cheque of Shs 30 million in his names.

Upon negotiation of the cheque to Honda Motor Dealers, he purchased a vehicle which he has since sold and vanished. Upon realizing the fraud, Suzuki (U) Ltd lodged complaints to their bank and the police. In the course of investigations, the bank provided the name of Jakata as a person who received the cheque at the bank. The bank statement of the company from the date of forgery was also provided.

Transparent Newspaper landed on the above information provided by the bank and published it in their newspaper.

Suzuki (U) Ltd wants to recover the Shs 30 million from Honda Motor Dealers and sue the bank for negligence as well as Transparent Newspaper for defamation.

**Required:**

- (a) Raise and resolve the issues that arise from the facts. (16 marks)
  - (b) Give **four** requirements of a valid bill of exchange. (4 marks)
- (Total 20 marks)**

**Question 4**

Nyumba Construction Company Ltd, which has its registered offices within Kampala, employed one Fungo as a driver. On 28 June 2008, Fungo was assigned to deliver materials to a new construction site in Seeta, a few kilometers to Mukono town. On his way back, he offered a lift to a friend and drove passed Kampala towards Entebbe, where his friend lived.

While driving on Entebbe road, talking and shaking the hand of his friend whom he had taken long without seeing, he lost control of the vehicle. In the process, he knocked one Mpora, an employee of Hot Mail Delivery Co. Ltd. Upon recovery, after three weeks in Quick Aid Hospital, Mpora found out that he had been dismissed from work. Before Mpora was discharged, misfortune befell his brother Mambo when he came to visit Mpora at Quick Aid Hospital. He slid on a slippery floor and fell down, breaking his arm.

**Required:**

- (a) Raise and resolve the issues involved.

**(16 marks)**

- (b) What defenses are available to Fungo?

**(4 marks)**

**(Total 20 marks)**

**SECTION C****Question 5**

- (a) What is meant by compulsory winding up of a company?

**(2 marks)**

- (b) Under what circumstances may compulsory winding up be ordered?

**(8 marks)**

**(Total 10 marks)**

**Question 6**

- (a) Differentiate between a servant and an independent contractor.

**(2 marks)**

- (b) What are the duties of an employee under a contract of employment?

**(8 marks)**

**(Total 10 marks)**

**Question 7**

- (a) Define the term “defamation”.  
(2 marks)
  - (b) Enumerate the defenses available to the defendant in a tort of defamation.  
(8 marks)
- (Total 10 marks)

**Question 8**

What are duties and qualifications of an auditor?  
(10 marks)

**Question 9**

- (a) Mention **four** types of meetings authorized under the Companies Act.  
(4 marks)
  - (b) List the characteristics of a limited company.  
(6 marks)
- (Total 10 marks)