

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF LAW II - PAPER 6

MONDAY, 7 DECEMBER 2009

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours 15 minutes**.
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
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) Defamation which is **NOT** temporary in nature is referred to as:
 - (a) innuendo.
 - (b) slander.
 - (c) libel.
 - (d) serious abuse.
- (ii) Who of the following company officers would be held liable for a company's false audit report?
 - (a) The auditor.
 - (b) The directors.
 - (c) The company secretary.
 - (d) The office clerk.
- (iii) What resolution is required to change a company's objective(s)?
 - (a) Ordinary.
 - (b) Extraordinary.
 - (c) Circular.
 - (d) Special.
- (iv) A 'probationary contract' of employment means a contract of employment for a period of:
 - (a) 4 months.
 - (b) 8 months.
 - (c) 6 months.
 - (d) 12 months.
- (v) Which of the following types / categories of employment is regulated by the Employment Act, 2006?
 - (a) Independent contractor working under contract for services.
 - (b) Serving army officers in the Uganda Peoples Defence Forces.
 - (c) Dependant relatives of an employer working in a family undertaking where the employed relatives are four in number.
 - (d) Contract of apprenticeship.
- (vi) Which of the following courts is charged with settling labour disputes?
 - (a) Court Martial.
 - (b) High Court.
 - (c) Land Tribunal.
 - (d) Industrial Court.

- (vii) Which of the following is **NOT** true about child employment under Employment Act, 2006?
- (a) A child under the age of 12 is not permitted to engage in any employment.
 - (b) A child between 12 – 14 years can be employed for light work.
 - (c) A child shall not be employed to work between 7.00 p.m. to 7.00 p.m.
 - (d) Any employment of a child is illegal.
- (viii) What is the effect of restrictive endorsement of a bill?
- (a) It prohibits negotiation of a bill.
 - (b) Endorsement of a bill is restricted to one person.
 - (c) Further instructions of the drawer not permitted.
 - (d) It becomes an invalid bill.
- (ix) The maximum number of members in a private company is people.
- (a) infinite.
 - (b) 50.
 - (c) 20.
 - (d) 7.
- (x) The quorum required for passing a special resolution at a general meeting of a company is:
- (a) 50%.
 - (b) 65%.
 - (c) 75%.
 - (d) 85%.
- (xi) The document which conclusively shows that a company has been registered is the:
- (a) prospectus.
 - (b) trading licence.
 - (c) certificate of incorporation.
 - (d) certificate of VAT registration.
- (xii) In which of the following circumstances may a company be wound up under just and equitable grounds?
- (a) Carrying out of illegal business.
 - (b) Under creditors' petition.
 - (c) Upon loss of substratum.
 - (d) Upon the company's resolution.

- (xiii) An employer is vicariously liable for the torts which his / her employee commits while:
- (a) doing work of his / her employer's close relative(s).
 - (b) on normal course of his / her duty.
 - (c) on florid of his / her own.
 - (d) off duty.
- (xiv) Which document(s) give(s) the directors power to manage the affairs of a company?
- (a) Companies Act and Memorandum of Association.
 - (b) Companies Act and Articles of Association.
 - (c) A special Resolution by company's creditors.
 - (d) Guidelines issued by the Registrar of Companies.
- (xv) The directors declare dividends in:
- (a) an extraordinary general meeting.
 - (b) a statutory general meeting.
 - (c) an annual general meeting.
 - (d) a board of directors' meeting.
- (xvi) The main purpose of a statutory meeting is to:
- (a) appoint a company secretary.
 - (b) receive accountability from directors.
 - (c) celebrate the company's registration.
 - (d) receive more members from the public.
- (xvii) Which of the following is **FALSE** about a negotiable instrument?
- (a) The transferee has no right of action against the drawer.
 - (b) It is referred to as a chose in action
 - (c) It is transferable.
 - (d) A holder in due course receives it free from any defect.
- (xviii) What is the statutory notice period for an annual general meeting?
- (a) 28 days.
 - (b) 21 days.
 - (c) 30 days.
 - (d) 15 days.

- (xix) A trustee in bankruptcy can be entitled to the shares of a bankrupt person by:
- (a) transfer of shares.
 - (b) transmission of shares.
 - (c) negotiation of shares.
 - (d) declaration by registration of companies.
- (xx) The following are parties to a cheque **EXCEPT** the:
- (a) drawer.
 - (b) drawee.
 - (c) payee.
 - (d) cashier.

SECTION B

Question 2

Purity Investment is a limited liability company based in Jinja, Uganda. It deals in, among others, the manufacture of Purity bar, Purity powder and Purity liquid soaps. In August 2005, the company recruited 30 people from various parts of Eastern and North Eastern Uganda. One, Odere from Kumi, who commenced work at the Jinja factory in September 2005, was among them.

Afraid of hunger that was looming around his region in February 2009, Odere brought his wife, seven children and three dependant relatives to stay with him at his workplace. He was allocated a bigger house to accommodate his big family. Work went on well and Odere was happy with his family. Unfortunately, in May 2009, Odere's arm was injured while at work. He was rushed to Mponya Hospital where his arm was amputated and was discharged after one month.

Upon discharge, Odere reported for work but was not deployed for two months. The company had stopped paying his salary from the time he got the accident. Odere's family survives on food from a kiosk operated by his wife within the factory premises.

In August 2009, Odere confronted the management demanding for payment of his salaries from the time he got the accident, including the two months period he was reporting for duty without deployment. The management then decided to dismiss Odere for gross misconduct and unbecoming behaviour for a disabled worker like him.

Odere was served with a dismissal letter and eviction notice of 48 hours. Odere has since refused to vacate the company's house unless his arrears are paid and provided with transport for himself and his family back to their home in Kumi.

Required:

- (a) Raise and resolve all the issues involved? **(16 marks)**
 - (b) Under what circumstances may summary dismissal be justified. **(4 marks)**
- (Total 20 marks)**

Question 3

James Wakeso, a degree holder from HOG University, is the son of Professor Wenkya. Wakeso is the Managing Director as well as shareholder of Haraka Transport Service Company Limited. At the time of his appointment as director in 2007, no mention was made about his age. In July 2008, Wakeso celebrated his 18th birthday. He invited, among others Kasoli and Kasoma who are also shareholders and co-directors of Haraka Transport Service Company Limited. Kamone, Mapesa and Binusu were not invited, though they are the majority shareholders because they could not match the education standards of the invited guests.

During the social hour, Wakeso, Kasoli and Kasoma constituted themselves into a company's meeting. By a resolution made therein, they allowed Wakeso to borrow Shs 100 million from Generous Bank. When Wakeso obtained the money, the three directors shared it among themselves upon a decision that they would return it before the annual general meeting of December 2007, which was in the offing. However, before that event, in November 2007, Generous Bank wrote to Haraka Transport Service Company Limited, demanding for the loan repayment. All the shareholders got copies of the demand note. At the annual general meeting, the angry majority shareholders declared dividends though the audit report showed that no profits had been made that year.

Upon discovering the mess in the company's management, the manager of Generous Bank, Kamere, Mapesa and Binusu have come to you for advice.

Required:

- (a) Raise and resolve the issues involved in the above scenario. **(18 marks)**
 - (b) Advise the manager of Generous Bank on how to recover the money. **(2 marks)**
- (Total 20 marks)**

Question 4

Bewayo invited his friend, Panga, to attend the customary marriage ceremony of his son, Dongo. The function took place on 20 April 2008 at his home. Panga attended the function with his friend Mpoza. As the duo were leaving the function venue, Mpoza fell into a pit in Bewayo's compound and broke his leg. Fortunately, Dramo, a driver for Dembe Safari Company, having just dropped his Managing Director to the function venue in a company's vehicle volunteered to rush Mpoza to Zam Zam Hospital.

While entering the hospital, Dramo lost control of the vehicle and knocked the gate. The gate, in turn, hit Sonko, the gate-keeper, who sustained serious injuries on his face.

Mpoza has vowed to sue Panga. Meanwhile Panga and Sonko are puzzled as to the identity of proper the parties to be sued.

Required:

- (a) Raise and resolve the issues involved. (14 marks)
 - (b) Identify the proper defendants in this case. (2 marks)
 - (c) What are the possible defences available to the defendants? (4 marks)
- (Total 20 marks)**

SECTION C**Question 5**

- (a) What is meant by the term 'winding up' of a company? (2 marks)
 - (b) Under what circumstances may winding up of a company be commenced under court's supervision? (8 marks)
- (Total 10 marks)**

Question 6

Explain any **five** differences between a private company limited by shares and a public company.

(10 marks)

Question 7

- (a) State the general rule in Foss Vs Harbottle. (2 marks)
- (b) Describe **four** main exceptions to the general rule. (8 marks)
- (Total 20 marks)

Question 8

Describe the various types into which the capital of a company can be divided. (10 marks)

Question 9

- (a) Define the term 'holder in due course' as used under Bills of Exchange. (3 marks)
- (b) What are the duties of a bank to a customer? (7 marks)
- (Total 10 marks)