

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF LAW I - PAPER 2

MONDAY, 15 JUNE 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**, 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) A crime, in law, is:
 - (a) an act that is punishable by state sanction.
 - (b) an omission that is punishable by paying damages to the plaintiff.
 - (c) any wrong committed against another person.
 - (d) a law passed by parliament to punish all wrongdoers.
- (ii) Which court in Uganda tries people involved in robbery using guns?
 - (a) High Court.
 - (b) Magistrates Courts.
 - (c) Court of Appeal.
 - (d) Supreme Court.
- (iii) Which of the following is **NOT** true about an offer?
 - (a) An offer is a definite and unequivocal statement of willingness to be bound by a contract.
 - (b) The offeror can make the offer expressly.
 - (c) The offer must be in writing.
 - (d) The offeror can make the offer impliedly.
- (iv) Why should an accountant study law?
 - (i) All people are subject to the law and its ramifications affect everybody everyday.
 - (ii) If the advice and reports prepared by an accountant are to be accurate and meaningful they must take account of the legal status of the matters they cover.
 - (iii) Since law affects the actions of private individuals, it also affects business of those people where the accountant is employed.
 - (a) (i).
 - (b) (ii) and (iii).
 - (c) (i) and (ii).
 - (d) (i), (ii) and (iii).
- (v) An invitation to treat is an:
 - (a) invitation to others to make an offer.
 - (b) offer in itself.
 - (c) invitation to the whole world to buy certain products.
 - (d) offer to a specific group of people.

- (vi) Which of the following statements is **FALSE** about the rules of consideration?
- (a) Consideration need not be adequate but must be valuable.
 - (b) Consideration need not be sufficient.
 - (c) Consideration must move from the promisee.
 - (d) Consideration must be expressed in monetary terms.
- (vii) Specific performance, under the law of contract, is:
- (a) an equitable remedy whereby both parties agree to pay one another.
 - (b) a common law remedy that is granted to the aggrieved person in business.
 - (c) a remedy granted where damages are not an adequate remedy.
 - (d) an equitable remedy whereby court orders the defendant to carry out his obligations under the contract.
- (viii) Which of the following statements is **FALSE**?
- (i) A condition is a vital term of the contract the breach of which may be treated by the innocent party as a substantial failure to perform a basic element of the agreement.
 - (ii) A warranty is a less important term which is incidental to the main purpose of the contract.
 - (iii) A restraint of trade does not exist where a contract imposes on a person a restriction wholly or in part from carrying on his or her business, profession or occupation as he or she wishes.
- (a) (i).
 - (b) (ii) and (iii).
 - (c) (iii).
 - (d) (i) and (ii).
- (ix) Agency by necessity may be created when the following requirements are satisfied **EXCEPT** if:
- (a) there is no pre-existing legal relationship between the parties.
 - (b) there is an emergency.
 - (c) it is impossible for the agent to communicate with the principal.
 - (d) the agent is acting in the best interests of the principal.

- (x) Which of the following does **NOT** constitute the usual terms of a partnership agreement?
- (a) Names of partners.
 - (b) Duties of partners.
 - (c) Principal place of business.
 - (d) Date of dissolution.
- (xi) Which of the following conditions is necessary in order for a principal to be able to ratify a contract entered into by an agent?
- (a) The principal is only required to have contractual capacity when the contract was made.
 - (b) The principal must have contractual capacity both when the contract was made and when it is ratified.
 - (c) The principal is only required to have contractual capacity when the contract is ratified.
 - (d) The agent must have contractual capacity when the contract was made.
- (xii) The right to is **NOT** a right of an agent against the principal.
- (a) claim remuneration or commission for services performed
 - (b) claim indemnity against the principal for all expenses incurred in carrying out their obligations
 - (c) exercise a lien over the principal's property
 - (d) perform duties and account to their principal for all money and property received
- (xiii) The minimum number for a partnership is:
- (a) two persons.
 - (b) seven persons.
 - (c) twenty persons.
 - (d) infinity.
- (xiv) When may court order dissolution of a partnership?
- (a) At the expiry of the fixed term.
 - (b) Where a partner is suffering from mental disorder.
 - (c) Where death of a partner has occurred.
 - (d) When a partner is bankrupt.

- (xv) The principal duty of a promoter is to:
- (a) make profits.
 - (b) sell the company to investors.
 - (c) recover his expenses from the company even if the company has not made profits.
 - (d) disclose any interest he / she has in or any profit he / she may make out of a transaction involving the company.
- (xvi) Prior to the certificate of incorporation:
- (a) the company does not legally exist.
 - (b) the promoters are not liable on contracts.
 - (c) the company can be sued.
 - (d) contracts concluded on the company's behalf are known as incorporation contracts.
- (xvii) Which of the following documents is **NOT** necessary to be presented to the Registrar of Companies so as to effect the registration of a company?
- (a) Memorandum of Association.
 - (b) Articles of Association.
 - (c) Certificate of trading.
 - (d) Declaration of compliance.
- (xviii) Which of the following companies may **NOT** be registered in Uganda?
- (a) Company limited by shares.
 - (b) Unlimited company by guarantee.
 - (c) Company limited by guarantee.
 - (d) Unlimited company.
- (xix) Which of the following is **FALSE**?
- (a) A Memorandum of Association defines the constitution and powers of the company.
 - (b) The Articles of Association regulate the internal affairs of a company.
 - (c) A company must have a registered office.
 - (d) A private company cannot commence business before obtaining a trading certificate.

- (xx) A prospectus is defined as:
- (a) notice, circular, advertisement or other invitation, offering the public for subscription or purchase of any shares of a company.
 - (b) advertisement for all members of the public who are interested to become promoters to apply for it.
 - (c) a circular to prospective and educated people to express interest in becoming directors.
 - (d) a call to the public to advertise the company.

SECTION B

Question 2

Due to the rampant fire outbreaks in the country including schools and markets, a regulation is made by the Minister for Disaster Preparedness under an Act of Parliament. Under the authority conferred by the regulation, it is provided that “no person may interfere with any fire escape, fire safety door, fire extinguisher or any other article”. Mugyega stubbornly set off the fire alarm. He was arrested and told that he was to be prosecuted in court for this act.

Required:

- (a) Explain whether the court proceedings against Mugyega will be civil or criminal. (2 marks)
 - (b) Explain the meaning of “Act” and “Regulation”. (6 marks)
 - (c) Explain reasons for delegated legislation. (12 marks)
- (Total 20 marks)**

Question 3

In 2008, Mujomba, Matata and Kapasi registered a partnership and received a certificate of registration on 10 June 2008. The firm supplied stationery to Sebeta High School and received Shs 50 million in payment. It has transpired that the contract would have fetched Shs 60 million or more but Matata had negotiated for Shs 50 million himself being a shareholder in the school. He was denied a share in the profits for reasons that he had made the other partners make a loss. Mutata was annoyed and requested for the dissolution of the partnership but the other partners refused, insisting that Mutata had no grounds for such action. He is now contemplating registering a company alone to avoid conflicts.

Required:

- (a) Advise the parties on their legal rights and course of action. (8 marks)
 - (b) What is the distinction between a company and partnership? (12 marks)
- (Total 20 marks)**

Question 4

Upon the discovery of oil in Western Uganda, Musisi, a road contractor, was tipped by his friend Arali that there was a tender for roads to be constructed in Hoima. He quickly registered a company in the names KK(U) Ltd, but before a certificate of registration was issued, the company appointed Kafuru as its agent to submit a tender for the construction of roads that connect oil deposits sites in Hoima. Kafuru accepted the assignment because he was well versed with agency laws. In the course of employment as an agent for the company, Kafuru started dealing with other tenderers in Hoima without disclosing that he was an agent of KK(U) Ltd. He was paid a commission which he banked on the same account where his principal's money was being banked.

The tenders which were awarded to him as the agent of KK(U) Ltd were not being well executed. Fuel meant for the road construction equipment was being stolen by some shrewd employees and the roads constructed were substandard. They had already started to develop potholes. Both the company and Musisi are considering suing Kafuru for breach of duties.

Required:

- (a) Raise the probable legal issues and advise the parties. **(10 marks)**
 - (b) Under what circumstances may an agent be held personally liable on a contract made by him / her on behalf of his / her principal? **(10 marks)**
- (Total 20 marks)**

SECTION C**Question 5**

Briefly explain how a contract may be discharged or terminated.

(10 marks)**Question 6**

Briefly explain the advantages of private companies over public companies.

(10 marks)**Question 7**

If a person wishes to avail him / herself the defence of misrepresentation in avoiding the contract, explain what he / she needs to prove.

(10 marks)**Question 8**

Briefly explain the advantages and disadvantages of case law.

(10 marks)