

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF LAW I - PAPER 2

WEDNESDAY, 08 DECEMBER 2010

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, before attempting any question.

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SECTION A

Question 1

- (i) Who introduces a private member's bill in parliament?
 - (a) A minister.
 - (b) A private member of parliament.
 - (c) The Prime Minister.
 - (d) Attorney General.
- (ii) The two main branches of law are:
 - (a) company and contract law.
 - (b) civil and customary law.
 - (c) commercial and contract law.
 - (d) criminal and civil law.
- (iii) Which of the following is **NOT** true about the maxims of equity?
 - (a) He who seeks equity must do equity.
 - (b) Equality is equity.
 - (c) Equity looks to form rather than intent.
 - (d) He who comes to equity must come with clean hands.
- (iv) A legal person, in law, is:
 - (a) one whom the law recognises as having certain legal rights and duties which are enforceable by courts.
 - (b) a human being who is entitled to rights and subject to obligations.
 - (c) a person who can sue for damages.
 - (d) a person who can be held criminally liable.
- (v) Which of the following is **NOT** true about unincorporated associations?
 - (a) They do not have a distinct legal personality of their own separate from the members themselves.
 - (b) They exist as legal entities separate from the members.
 - (c) They are groups of individuals separate from the entity.
 - (d) Their property is treated as the joint property of all their members.
- (vi) A corporation is:
 - (a) a natural legal person created by law.
 - (b) a company formed for purposes of lending money only.
 - (c) an artificial legal person created by law.

- (d) a trade union created by law to cater for the interests of workers.
- (vii) A contract where one of the basic ingredients such as offer, acceptance, consideration or the intention to create legal relations is missing can be referred to as:
 - (a) valid.
 - (b) legal.
 - (c) voidable.
 - (d) void.
- (viii) Which of the following is true about the law of contract?
 - (a) Contracts for supply of necessities to an infant are illegal.
 - (b) Contracts for the infant's benefit are not binding.
 - (c) An infant cannot be liable on a bill of exchange.
 - (d) Necessaries of an infant excludes services.
- (ix) On breach of contract, the innocent party becomes entitled to the following remedies **EXCEPT**:
 - (a) damages.
 - (b) restitution.
 - (c) specific performance.
 - (d) injunction.
- (x) Which of the following is **FALSE** about agency?
 - (a) An agent is a person employed to do any act for another.
 - (b) The relationship between the agent and the principal is agency.
 - (c) An agent is a connecting link between his principal and third parties.
 - (d) An infant cannot be appointed as an agent.
- (xi) At common law, the only person who can sue and be sued according to the law of agency is the:
 - (a) principal.
 - (b) agent.
 - (c) broker.
 - (d) commission agent.
- (xii) Which of the following is a legal person in law?
 - (a) Kapere Traders.
 - (b) Twekambe Associates.
 - (c) Paparazi Ltd.

- (d) Taranta Trading Association.
- (xiii) Which of the following does **NOT** lead to automatic termination of the agent's powers?
- (a) The principal's bankruptcy.
 - (b) The principal's refusal to pay the agent.
 - (c) The principal's death.
 - (d) The principal's insanity.
- (xiv) Which of the following is contained in the articles of association of a company?
- (a) The share capital of the company.
 - (b) The name clause of the company.
 - (c) The objects clause.
 - (d) Regulations for managing the internal affairs of the company.
- (xv) A person who conceives an idea of forming a company is known as a:
- (a) promoter.
 - (b) director.
 - (c) contributory.
 - (d) secretary.
- (xvi) The document that provides conclusive evidence that a company has been registered is the:
- (a) trading licence.
 - (b) certificate of incorporation.
 - (c) tax identification number from the Uganda Revenue Authority.
 - (d) letter of no objection from the Registrar of Companies.
- (xvii) A public company can only commence business after it has obtained the:
- (a) certificate of compliance.
 - (b) certificate of occupation.
 - (c) trading certificate.
 - (d) permission from the police in the area.
- (xviii) The main difference between a partnership and an incorporated association is that while the latter are only liable, in respect of its transactions to the extent of the agreed contribution, partners:

- (a) bind each other by acts in the ordinary course of the partnership business.
- (b) can transfer their property at will.
- (c) have limited liability.
- (d) act on behalf of the association.

- (xix) Which of the following is **NOT** contained in the memorandum of association?
- (a) The objects clause.
 - (b) The name clause with "Limited" as last word.
 - (c) Quorum clause.
 - (d) The registered office clause.
- (xx) What justification is there for a partnership form of business to persist in spite of the obvious advantages of an incorporated company?
- (a) There are publicity requirements which are enjoyed by the partnership.
 - (b) The corporate status is only available to certain professionals like accountants.
 - (c) The partnership is expensive to form as it requires documents in its registration.
 - (d) There is a desire for mutual confidence and secrecy in business transactions.

SECTION B

Question 2

Toto sold a piece of his land to Magezi. He invited his friends and spent the whole day celebrating and drinking a potent gin commonly known as zebra at Mwenge's Bar, Pub and Restaurant. He left that place at around 3:00 pm and entered Twekambe's showroom where he saw an expensive music system. Toto was excited as it was approaching national independence day celebrations and decided to buy it and rock his friends on that day. The price for the music system was Shs 2 million and Toto deposited Shs 600,000 and promised to bring the balance on the same day before dusk. Twekambe believed that the promise would be fulfilled but Toto never went back. When Twekambe demanded for the balance Toto told him that he was drunk and had no intentions of buying the music system and demanded for a refund of the money he had deposited.

In another incident, Twekambe had sold an executive watch worth Shs 3 million to Kato for Shs 2.5 million whereby Kato made part payment of Shs 900,000 promised to pay the balance after he had sold his motorcycle. Kato, 16, had lied to Twekambe that he was 23 years. Twekambe has approached Kato for the balance on the executive watch but Kato does not have any money.

Required:

Discuss the issues raised by the facts and advise Twekambe.

(20 marks)

Question 3

Tom, Peter and Mary are shareholders in TP&M Ltd that received its registration certificate in July 2010. In May 2010, the three shareholders obtained unsecured loan from TC Bank Ltd. The company's business of exporting hides and skins has not been doing well. They recently started an agency firm (partnership) and obtained business from Cheng Cheng Ltd as distributors of Chinese herbal medicines.

Recently, they supplied medicine on credit worth Shs 40 million to Kush who sold the goods on profit but failed to pay. It has turned out that when the contract with Kush was concluded, he was only 16 years old. The partners are demanding that Tom should absorb the loss and pay the partners since he is the one who negotiated and sold the goods on behalf of the firm to a fake customer.

The bank is contemplating suing TP& M Ltd for the loan. Tom, Peter and Mary as partners have also approached their lawyers to sue Kush.

Required:

(a) Raise the legal issues involved and advise the parties.

(14 marks)

(b) Explain **three** types of mistakes that can affect the validity of a contract.

(6 marks)

(Total 20 marks)

Question 4

Mapenzi, Rukundo and Kalanzi who had been carrying on business in South Africa, returned to Uganda and teamed up to form a partnership. They subsequently opened up a shop on Kampala Road.

When Mapenzi was on a pilgrimage in Mecca, he saw a variety of reasonably priced goods which could fetch a good profit margin. He decided to make purchases of Shs 20 million for their shop on Kampala Road.

One of their customers bought goods worth Shs 30 million and defaulted. There are other bad debtors. The business is on the verge of collapsing. Mapenzi wants a refund of his Shs 20 million but the other partners have refused to pay.

Meanwhile, Rukundo wanted to examine the books of accounts for the partnership but the accounts assistant told him to first secure clearance from the other partners.

Kalanzi who had borrowed some money from a commercial bank died recently. The money was used to renovate the shop premises. The bank is now pestering the firm for loan repayment but the surviving partners have advised the bank to make their claim from the estate of the deceased partner.

Due to the problems being encountered by the firm, the partners have resolved to admit 25 other partners so that the firm can raise enough money to do business. The new partners are not aware of the difficulties the business is experiencing.

Required:

Raise and resolve the legal issues involved.

(20 marks)

SECTION C

Question 5

Differentiate between:

- (a) common law and statute law.
- (b) customary law and equity.

(10 marks)

Question 6

Explain how a contract may be discharged.

(10 marks)

Question 7

Describe the legal procedure of registering a public limited company in Uganda.

(10 marks)

Question 8

Discuss the fundamental duties of an agent.

(10 marks)