

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF LAW II - PAPER 6

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 **four** questions in 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 on the answer booklet, before attempting any question.

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SECTION A

Question 1

- (i) In case a shorter period is not agreed upon, the minimum notice for the annual general meeting of a limited company is days.
- (a) 14
 - (b) 21
 - (c) 30
 - (d) 45
- (ii) An employment contract may be terminated in any of the following ways **EXCEPT** by:
- (a) agreement.
 - (b) frustration.
 - (c) court order.
 - (d) failure of the employer to provide work.
- (iii) Which of the following claims take priority upon winding up of a company?
- (a) Wages and salaries of employees.
 - (b) Government rates and charges.
 - (c) Claims of preferred creditors.
 - (d) Liquidator's remuneration.
- (iv) The term 'account payee' on a cheque means that the:
- (a) cheque is only acceptable by a specified bank.
 - (b) amount specified on the cheque can only be paid in cash.
 - (c) cheque cannot be paid across the counter.
 - (d) account number of the payee is well known to the drawee.
- (v) Which of the following is **NOT** a form of a tort of trespass to person?
- (a) Assault.
 - (b) Battery.
 - (c) False imprisonment.
 - (d) Attempted murder.
- (vi) Directors' duties are owed to the:
- (a) shareholders.
 - (b) company.
 - (c) company creditors.
 - (d) company secretary.

- (vii) Which of the following is the basic component of a memorandum of association?
- (a) Management rules of the company.
 - (b) Share capital of the company.
 - (c) The objects of the company clause.
 - (d) The address of the company clause.
- (viii) A change of the share capital of a company can be achieved by:
- (a) a simple majority resolution.
 - (b) an extraordinary resolution.
 - (c) a special resolution.
 - (d) an ordinary resolution.
- (ix) Which of the following is **NOT** a duty of employees?
- (a) Obeying employer's lawful orders.
 - (b) Not to compete with the employer.
 - (c) To act in good faith.
 - (d) To hire services of experts in order to produce quality work.
- (x) To prove negligence on the part of the defendant, the plaintiff must prove all the following **EXCEPT**:
- (a) recklessness.
 - (b) legal duty.
 - (c) breach of duty.
 - (d) consequential damage.
- (xi) A person who takes a bill, complete and regular on the face of it in good faith for value without notice of any defect in title is known as a holder:
- (a) of value.
 - (b) in due course.
 - (c) of a bill.
 - (d) of title without defect.
- (xii) A neighbour, in law, can best be described as a person:
- (a) with whom one shares boundaries.
 - (b) with whom one shares common facilities.
 - (c) who resides nearby one's residence.
 - (d) who may be affected by one's acts such that he must be put into contemplation.

- (xiii) Under the Employment Act, 2006, maternity leave and paternity leave are fixed foranddays respectively.
- (a) 30 and 1.
 - (b) 45 and 2.
 - (c) 60 and 3.
 - (d) 60 and 4.
- (xiv) Negotiation of a bill means:
- (a) transfer of title in the bill to a third party.
 - (b) purchase of a bill at a discount.
 - (c) surrender of one's right to the bill.
 - (d) opening of the bill which was initially crossed.
- (xv) Which of the following documents contains matters of a company's management?
- (a) Articles of association.
 - (b) Memorandum of association.
 - (c) Company register.
 - (d) Prospectus.
- (xvi) In which of the following meetings may dividends be declared?
- (a) Statutory meeting.
 - (b) Creditors' meeting.
 - (c) Annual general meeting.
 - (d) Board of directors' meeting.
- (xvii) The maximum number of members that constitute a private limited company is:
- (a) 20.
 - (b) 50.
 - (c) 70.
 - (d) infinite.
- (xviii) Which of the following documents is required to show that a company legally exists?
- (a) VAT certificate.
 - (b) Incorporation certificate.
 - (c) A valid trading licence.
 - (d) Certified copies of memorandum and articles of association.

- (xix) What is the legal effect of proof of contributory negligence on part of the plaintiff?
- (a) It is a complete defence for the defendant.
 - (b) Plaintiff loses the right of claim.
 - (c) It reduces the quantum of damages for the plaintiff.
 - (d) The defendant becomes entitled to damages from the plaintiff.
- (xx) The statutory notice for the termination of the services for an employee on probation is days.
- (a) 7
 - (b) 14
 - (c) 21
 - (d) 30

SECTION B

Question 2

Star Crafts Ltd was incorporated in Uganda in 2008. The object(s) of the company are to buy wood crafts from an upcountry district in eastern Uganda, add value to the crafts at their factory in Kampala and export the final products to Europe.

In November 2009, Jozo, one of the shareholders, discovered that, following a decision made by the board of directors, the company had resorted to exporting to Europe, plastic toys made by Muko Plastics Ltd. It was also discovered that unknown to the rest of the directors and shareholders, Kerry and Roky, two of the directors of Star Crafts Ltd, were also shareholders in Muko Plastics Ltd.

Jozo, in an extraordinary general meeting held on 10 October 2009 protested any further dealings of the company with Muko Plastics Ltd. She also advocated for the nullification of all the past transactions between Star Crafts Ltd and Muko Plastics Ltd.

Having realized that Jozo had support from some shareholders, though minority, the chairman, board of directors dismissed her from the company for interfering with the company's business. This puzzled the remaining minority shareholders and they are wondering on how to pursue their rights. Jozo is also wondering whether her dismissal has any legal effect.

Required:

- (a) Raise and resolve all the issues arising from the facts in the above scenario.

(17 marks)

- (b) Mention any **three** company officers who can make binding decisions on behalf of a company.

(3 marks)

(Total 20 marks)

Question 3

Chika (U) Ltd held its annual general meeting on 31 December 2007. A notice of 5 days had been given by the company secretary and only two shareholders out of five attended the meeting. In the meeting, it was resolved that the company should buy a house for storage of the company's movable assets. It was also resolved that Linda, the sole company director and majority shareholder, negotiates and concludes the transactions with the aid of private valuers.

Basing on the resolution, Linda bought his wife's house for the company at Shs 180 million. He did not seek any advice from valuers prior to the conclusion of the contract with his wife. It later transpired that the market price of the house at time was Shs 160 million instead of Shs 180 million.

In addition, Karate, a shareholder in Chika (U) Ltd, died in May 2008 and was survived by his only daughter, Latest. Upon attaining majority in May 2010, Latest applied for and was granted letters of administration of the estate of her late father. She applied to have her late father's shares transferred into her names and hence her name to be entered on the register of shareholders. The company director and secretary have, however, refused to enter her name on the register and instead insisted that they would buy the shares whether she was willing to sell them or not.

Required:

- (a) Raise and resolve the legal issues arising from the facts in the above scenario.

(17 marks)

- (b) How may a company director's services be terminated?

(3 marks)

(Total 20 marks)

Question 4

Nkanja is the proprietor of Vision Star Hotel Ltd. He contracted M/S Zeth Contractors Ltd to renovate the interior and roofing of the hotel bar which was in a sorry state. While work was in progress, Addo, a customer, was seriously injured by falling debris as he passed by. There was no notice to the effect that renovations were going on.

In a related unfortunate event, Jowel, a customer care personnel of Star Vision Hotel Ltd was injured as she slid on a slippery bar floor while attempting to call for a special hire taxi to take Addo to hospital.

An ambulance was immediately called to take both Addo and Jowel to hospital. Upon recovery they sought compensation but all parties denied responsibility.

Required:

- (a) Raise and resolve the legal issues arising from the facts in the above scenario. (15 marks)
 - (b) What are the possible general defences available to the parties? (5 marks)
- (Total 20 marks)**

SECTION C

Question 5

- (a) What is compulsory winding up of a company? (2 marks)
 - (b) Under what circumstances may compulsory winding of a company take place? (8 marks)
- (Total 10 marks)**

Question 6

- (a) Explain the duties of a company secretary. (6 marks)
 - (b) Enumerate the types of meetings that can be legally held by a company. (4 marks)
- (Total 10 marks)**

Question 7

- (a) What are the general features of the tort of negligence? (4 marks)
 - (b) Explain any three general defenses of the tort of defamation. (6 marks)
- (Total 10 marks)**

Question 8

- (a) What is 'a floating charge' of a company? **(2 marks)**
 - (b) Explain how a company can raise its capital to boost its business. **(8 marks)**
- (Total 10 marks)**

Question 9

- (a) What are the duties of a bank to a customer in the customer-bank contractual relationship? **(7 marks)**
 - (b) What remedies are available to the customer in case of breach of the duties in (a) above? **(3 marks)**
- (Total 10 marks)**