

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF LAW I - PAPER 2

TUESDAY, 27 NOVEMBER 2012

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. This examination contains Sections **A**, **B** and **C**.
3. Section **A** is bound separately from Sections **B** and **C**.
4. Attempt all the 20 multiple-choice questions in Section **A**. Each question carries 1½ marks
5. Attempt **two** out of **three** questions in Section **B**. Each question carries 20 marks.
6. Attempt **three** out of **four** questions in Section **C**. Each question carries 10 marks.
7. Write your answer to each question on fresh page in the answer booklet.
8. Please, read further instructions on the answer booklet, before attempting any question

SECTION B

Attempt two of the three questions in this section.

Question 2

Christopher, a real estate dealer, received a written offer from Yokania, one of the business moguls in Kampala for the sale of his posh house in Munyonyo, a Kampala suburb for Shs 5 billion on the 15th day of October 2012. Christopher, got interest in the same and posted a letter of acceptance, on the following day i.e. 16th day of October 2012. On the same day, a rich merchant from India in the names of Kharia met Yokania at one of the hotels in Kampala and concluded a deal with him to buy the property at Shs 12 billion and an agreement for sale was concluded between the two and Kharia paid cash through Prime Bank

On realizing that Christopher might sue him for breach of contract Yokonia posted a letter revoking his offer and announcing that he had sold the house to Kharia on the 16th day of October 2012. Meanwhile Christopher's letter of acceptance reached Yokonia on the 20th day of October 2012 while Yokonia's letter of revocation reached Christopher on the 17th day of October 2012.

Required:

Explain the legal position in the above scenario.

(20 marks)

Question 3

Chandiru, Dhikula and Endobo are three good friends; they studied together at Nairobi University from where they graduated in Law, Business administration and Journalism respectively. They decided to start a business in common with a view to make profits. In their meeting they drew up an agreement in which they agreed to work as insurance brokers. There is a provision in the agreement that prohibits any member from borrowing money on behalf of the business.

The business boomed and progressed and lots of profits were realized. They acquired a lot of properties both in Kenya and Uganda. Dhikula, one of the members decided to borrow Shs 100 million (One hundred million shillings) from Muchope bank stating that the loan was required for purposes of the business.

Dhikula, used some of the money to host a graduation ceremony for his son who had just graduated from the military academy in the United States of America.

Chandiru and Endobo are not happy with the acts of Dhikula and have asked him to pay the loan. He has told them off that he used the money for graduation of his son who wills serve the country and defend all of them.

Required:

- (a) Advise the parties on what type of business entity this may be.
(4 marks)
 - (b) Discuss the liability of the business as far as the loan is concerned and any available remedies.
(16 marks)
- (Total 20 marks)

Question 4

Empaya Sharp is one of the richest men in Kampala. His wife Kyana lives with him at Munyonyo country resort and they have two children who go to Kampala Parents School. Empaya Sharp's family always goes to Bunyonyi Resort Hotel in Kabale for their Easter Holidays. On the return journey, they usually visit the village to see his parents.

As they were preparing to go for their holidays Kyana bought herself an expensive dress worth three million shillings from Masente supermarket. Kyana did not have cash so she pledged the credit of her husband. Masente supermarket management did not hesitate to extend credit to Kyana because they knew Empaya Sharp very well as a loaded man who would pay them anytime. Meanwhile the children also went to the same supermarket and bought themselves expensive toys to take with them to the village. They also pledged credit of their father and the supermarket agreed to this.

Sometime later, Masente Supermarket sent a demand note to Empaya Sharp demanding payment for the dress and toys. This surprised him as he had always provided everything to his family members. He is disputing liability to pay for the said commodities

Required:

Discuss whether Empaya Sharp is liable for the commodities his family got from the Supermarket
(20 marks)

SECTION C

Attempt three of the four questions in this section.

Question 5

Explain the circumstances under which an agent may become personally liable upon a contract made by him on behalf of his principal.

(10 marks)

Question 6

Write short notes on each of the following:

- (a) Minor partner.
- (b) Partner by holding out.
- (c) Retired partner.
- (d) Misapplication of money received by the partnership.

(10 marks)

Question 7

- (a) Define the term 'contract'.
- (b) Explain the essential elements of a valid contract.

(2 marks)

(8 marks)

(Total 10 marks)

Question 8

Write short notes on the following:

- (a) A company limited by shares.
- (b) A company limited by guarantee.
- (c) An unlimited company.
- (d) Articles of association.

(10 marks)