

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF LAW I - PAPER 2

WEDNESDAY, 5 JUNE 2013

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

Kadogo, 26, went to Equity Supermarket and bought a smart phone under hire purchase arrangement. At the time of purchase, Kadogo was making a lot of noise and he was clearly staggering within the supermarket. It was evident that he was under the influence of alcohol. He deposited Shs 300,000 for the Smart phone and the supermarket released the phone to him on an equivocal understanding that he would honour his obligation of paying the installments.

Unknown to them, Kadogo had sold the phone to one Kachampi at Shs 200,000 immediately after leaving the supermarket. He subsequently defaulted on the payment of the agreed installments and Equity Supermarket is desirous of taking back their phone. The supermarket has approached you for assistance to recover the phone.

Required:

Discuss the legal issues raised and advise the parties accordingly.

(20 marks)

Question 3

Mapapa, together with his friends, Kapusi and Kabwa, are operating a partnership business in Kamwenge trading centre. Their business is booming and they are making a lot of profits.

Mbuzi, Kabwa's friend was impressed by the partnership business and requested to join it and become rich like the other parties. He approached his friend to guide him on how they can admit him as a partner. Kabwa introduced him to the other partners and he was admitted. But prior to the admission of Mbuzi, the partnership had borrowed Shs 50 million from Dembe Development Bank.

While on a trip to Kenya to attend the presidential swearing in ceremony, Mbuzi saw some items which were being sold at a good price. He decided to buy them for the partnership at Shs 15 million.

Meanwhile, Kapusi struck a deal for the partnership and he made sales close to 80 million shillings and he recorded that he sold them at Shs 50 million. The business continued expanding.

As time passed on, the business started declining to the point that it was no longer making any profits. Mapapa realized that something must be wrong and he demanded to have a look at the books of accounts. He was, however, denied

access by Kapusi who insisted that only the accountant of the firm should access the books.

The firm is on the verge of collapsing as it cannot meet its liabilities and obligations. Dembe Development Bank has been demanding for their money but in vain. Dembe Development Bank has realized that the firm cannot raise the money and have decided to attach Mbuzi's property because the other partners have nothing to attach.

Required:

(a) Raise and resolve the issues.

(14 marks)

(b) What are the fundamental duties of the partners?

(6 marks)

(Total 20 marks)

Question 4

Kajanja, one of the prominent traders in Juba together with his friends, Kashuna, Kajoba and Kajangu, incorporated a company, K4 Co. Ltd, in Uganda. All four shareholders were directors of the company which dealt in a hides and skins business. They could buy hides and skins and export them to Juba where Kajanja had business connections. The business went on very well and a lot of profits were realized. Kashuna, one of the directors was in charge of business operations in Juba and he was attacked by thugs while travelling back to Uganda and robbed of all the money he had obtained from the sale of hides and skins. The company has run into financial problems because of the calamity that befell one of their directors in Juba. The creditors, including Kagwiraho Bank, are threatening to sell off Kajanja's tea factory to recover their money.

Before K4 Co. Ltd was registered, Kajanja had contracted various debts which are now demanded from the company. The assets that were acquired by the company after registration have been attached and are all due for sale.

Required:

Discuss all the issues and advise the parties.

(20 marks)

SECTION C

Attempt three of the four questions in this section.

Question 5

State the rules applied by a court of law in the interpretation of a statute.

(10 marks)

Question 6

Explain the ways in which a contract may be discharged, with aid of examples and decided cases.

(10 marks)

Question 7

Explain the rights and duties of a limited partner.

(10 marks)

Question 8

Write short notes on each of the following:

- (a) Universal agent. **(2 marks)**
- (b) General agent. **(2 marks)**
- (c) Broker. **(2 marks)**
- (d) Auctioneer. **(4 marks)**

(Total 10 marks)