

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF LAW II – PAPER 6

**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 1 mark.
5. Attempt **two** of the **three** questions in Section **B**. Each question carries 20 marks.
6. Attempt **four** of the **five** questions in Section **C**. Each question carries 10 marks.
7. Write your answer to each question on a fresh page in your 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

In 2000, Myumba Construction Ltd, upon incorporation, opened an account with Sure Bank Ltd. The operating instructions of the account were as follows:

- (i) The company shall operate a savings account whose approved and authorized signatories shall be Ronnie (director), Mali (director) and Nickson (company secretary), whose specimen signatures were given to the bank.
- (ii) Any two of the three signatories shall suffice to transact on behalf of the company except that in case of withdrawal of money in excess of Shs 50,000 the withdrawal instrument shall be accompanied with a company's resolution.

The company's cheque book was kept under "lock and key" in the managing director's office. On 22 December 2012, one Karuma, a company cleaner, landed on the cheque book in the office of the managing director. On that date, the managing director had left the drawer open while rushing for a board of directors' meeting. Karuma forged the signatures of Mali and Nickson, put his name in the space of the payee for Shs 60 million. He, on the very day, presented the cheque to teller No.7, one Nkola Sente who paid him the money. Nkola Sente did not bother to check on the account operating instructions and specimen signatories because he had been overwhelmed by the big turn up of clients who wanted to withdraw money to go for Christmas festivities.

Karuma has since disappeared and he is still a large.

On 2 January 2013, when the company discovered the forgery, they wrote to the bank a demand note that their account be credited or else they would seek legal redress.

The bank in reaction held a "crisis management" meeting. In the meeting, it was agreed that the bank's public relations officer, Pokopoko, exposes the company's dubious deals" with the bank staff, to the public. The following day, Pokopoko published the following article in the secret newspaper:

"Nyumba Construction Ltd, which holds an account with Sure Bank Ltd is conniving with the bank staff and casual labourers to extort money from our bank. This is, therefore, to notify the public that our bank shall not be liable for any loss incurred by any member of the public as a result of transactions involving such connivance".

Following the publication, demand for services of Nyumba Construction Ltd tremendously reduced. Some of their clients openly informed them that they would no longer deal with them unless they “clear the air”. The company attributes loss of the money and their reputation to the bank staff and the bank itself.

**Required:**

- (a) Raised and resolve issues. (18 marks)
  - (b) What defences may Sure Bank plead? (2 marks)
- (Total 20 marks)**

**Question 3**

Bonne is a Ugandan businessman and a sole director of Petrol Super (U) Ltd. The company runs an account with Uganda Private Finance Bank Ltd (UPFBL).

In May 2013, Bonne was contacted by Kelly, a Kenyan of American origin, for a business deal. Kelly, who is the managing director of Automobile Fuel Supply (K) Ltd agreed with Bonne to supply Petrol Super (U) Ltd with petrol.

Bonne reluctantly accepted, on condition that supply should be on credit payable two weeks from the date of each delivery. This prompted Kelly to probe Petrol Super (U) Ltd's credit worthiness.

Upon approaching the bank manager of UPFBL, with approval of Bonne, the bank manager, Mr. Mubaya, wrote to the Automobile Fuel Supply (K) Ltd assuring Kelly that Petrol Super (U) Ltd was in good financial position and was able to financially sustain such transactions. On that basis, Kelly accepted to supply fuel and business between the parties commenced.

Unfortunately six months later, Petrol Super (U) Ltd went into liquidation. It transpired that at the time UPFBL had made the assurance, the in charge of loans had listed Petrol Super (U) Ltd as one of the companies which had failed to repay their loans.

Having lost Shs 500 million, Automobile Fuel Supply (K) Ltd is contemplating to sue UPFBL.

**Required:**

- (a) Raise and resolve issues arising from the facts. (13 marks)
- (b) Would your answer in 3 (a) above be different if the following words had appeared on the company's headed assurance letter that Mubanya issues on behalf of the company “...without assumption of liability”? (4 marks)

- (c) What are the remedies available to the employer arising from employees' breach of their duties?

**(3 marks)**

**(Total 20 marks)**

#### **Question 4**

In April 2013, Muliro, a driver of Quick Transporters Ltd's fuel tanker left Port Bell with petrol heading to Kasese. While at Kalonge trading centre, towards Mubende Town, the truck hit a hump which made it tilt at an angle. As a result the driver failed to proceed any further. Shortly after, one Kulembeka, mobilized residents who quickly opened the tank cap at the tilting angle and started tapping "free fuel" in jerrycans and drums. In fear, Muliro, sought assistance of police who turned up in 20 minutes and tried to disperse the crowd in vain. In the process, an unidentified person lit a match and fire erupted. The tanker was burnt to ashes. In the process 10 people died instantly while 15 others sustained serious injuries. Fortunately, they received treatment at the nearby health centre and recovered. Muliro lost Shs 500,000 which he had obtained the previous day in form of salary advance. It was stolen in the confusion.

When the relatives of the deceased and injured persons threatened to sue the company, Muliro was summarily dismissed. He intends to sue the company.

#### **Required:**

- (a) Raise and resolve issues.

**(17marks)**

- (b) What are the remedies for the intending plaintiff?

**(3 marks)**

**(Total 20 marks)**

### **SECTION C**

*Attempt four of the five questions in this section.*

#### **Question 5**

A company's shareholder's interest in the company is limited to the "shares" that he/ she has paid for.

#### **Required:**

- (a) Define the term 'share'.

**(3 marks)**

- (b) Explain the rights and obligations of a shareholder.

**(7 marks)**

**(Total 10 marks)**

### Question 6

- (a) Explain what is meant by 'a holder in due course'.  
(4 marks)
  - (b) Explain the characteristics of a valid bill of exchange.  
(6 marks)
- (Total 10 marks)**

### Question 7

Dividends refer to profits that accrue to shareholders and are determined according to the shares held.

#### Required:

- (a) What are the rules governing the distribution of dividends?  
(4 marks)
  - (b) Under what circumstances may a company's inspector(s) be appointed by courts?  
(6 marks)
- (Total 10 marks)**

### Question 8

One of the duties of a company secretary is to issue notices for meetings.

#### Required:

- (a) Explain the other duties of a company secretary.  
(6 marks)
  - (b) Mention **four** types of meetings that companies hold.  
(4 marks)
- (Total 10 marks)**

### Question 9

Winding-up of a company is also referred to as bringing the life of a company to an end. Winding-up may be done voluntarily or under court's supervision.

#### Required:

Explain the grounds of winding-up a company under court's supervision.  
(10 marks)