

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF LAW I - PAPER 2

TUESDAY, 2 JUNE 2015

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

Odongo, Madaraka and Toriti are business partners and agreed to incorporate a company under the names of OMT Ltd, which deals in agricultural products. Odongo owns many shambas of sugarcane in the Jinja region while Madaraka is a transporter who owns fleets of buses, most of them operating on Gulu road. Toriti is a lawyer who runs a law firm on Lubas road in Jinja town.

Before registration of OMT Ltd with the Registrar of Companies, the members had borrowed some Shs 200 million from Masente Commercial Bank Ltd (MCBL) and the money was injected in the business. In their Articles of Association there was a clause to the effect that nobody can borrow money on behalf of the company without consent from the other members but when Madaraka ran into financial hardships with his transport business, he decided to secure a loan of Shs 100 million using the company's name.

In the meantime, the directors had resolved to pay themselves for the services they rendered while forming the company.

By the time of reaching the resolution referred to above, the Shs 200 million borrowed from MCBL had become overdue, and the bank was threatening to attach the assets of OMT Ltd to recover the money.

Required:

Raise and resolve the issues involved

(20 marks)

Required:**Question 3**

Mugo advertised the sale of his pickup vehicle online, with a requirement that an intending buyer sends a hardcopy of acceptance. On the same day, Gingo sent an email to Mugo about his intention to buy and sent a letter of acceptance by post to the address given by Mugo.

However, before Mugo had read Gingo's email and the letter, he sold the pickup to Nina who paid cash. When Gingo heard of the sale he complained to Mugo for breaching the contract but Mugo responded that the sale to Nina amounted to revocation of the offer to any other person.

In another instance, Gabez Ltd advertised a catalogue of their furniture for sale, and Jumbe ordered for a desk that was on sale. Two days after Jumbe's order,

Gabez Ltd sold the desk to Sami Hotel. Jumbe has now instructed his lawyer to sue Gabez Ltd for wrongly selling off the desk to Sami Hotel.

Required:

Raise and resolve the issues involved.

20 marks

Question 4

Abdu and Sulaiman formed and incorporated a company known as Absula Co. Ltd, which deals in hides and skins. The company had been doing very well until one of the directors, Abdu, died. After his death, the company continued with its business as usual. Businessmen dealing with the company were not aware of the death of Abdu until 8 months later, when the company was in financial problems and could not pay its creditors. The creditors were furious and wanted to be paid but the company had no money. When they approached Sulaiman for payment, he told them to deal with the company, since it was a legal entity separate from him. The creditors are confused and did not know what to do.

On the other hand, before the death of Abdu and immediately after the incorporation of the company, Karim had sold hides to Sulaiman who gave him a goods received note headed 'Absula Co. Ltd'. The hides were worth Shs 12 million. When he went for payment from Sulaiman, he was advised to seek for payment from the company. Karim is hesitant to demand for payment from the company and is contemplating taking legal action against Sulaiman for refusing to pay him for the hides. He is in addition planning to attach and sell Sulaiman's car to recover his money.

Required:

Raise and resolve the issues.

(20 marks)

SECTION C

Attempt three of the four questions in this section

Question 5

(a) Explain the difference between common law and case law.

(4 marks)

(b) Explain at least **three** advantages and **three** disadvantages of case law.

(6 marks)

Total 10 marks

Question 6

- (a) Differentiate between a general agent and a special agent. (4 marks)
- (b) Outline the rights of an agent. (6 marks)

Total (10 marks)

Question 7

- (a) Describe how a corporation is created. (6 marks)
- (b) Write short notes on the doctrine of ultra vires. (4 marks)

Total (10 marks)

Question 8

Outline the contents of a partnership deed. (10 marks)