

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF LAW II – PAPER 6

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 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.

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SECTION B

Attempt two of the three questions in this section.

Question 2

JJ Limited deals in different kinds of hardware materials in Kampala. Zakim, one of the shareholders was very much involved in promoting the company until the company was incorporated. During the process of incorporation, Zakim appointed Poma as a company auditor, a position he holds to-date. By the time the general meeting was organised by the first directors, the issue of investigating Poma's qualification had been settled. The Directors had got full and reliable information that he is not a member of the Institute of Certified Public Accountants of Uganda. During the meeting, the directors accordingly requested the general meeting to appoint a company auditor on grounds that Poma was illegally appointed.

Zakim argued that there is no reason to waste time on that item since Poma was working well. A hot argument ensued and the meeting became chaotic. Consequently, the chairman was forced to adjourn the meeting prematurely.

In a related event, Patel wanted to buy shares from JJ Limited, after he was approached by Kamau, one of the company directors. He hired the services of Mputu, a re-known auditor to advise him (Patel) on JJ Limited's financial viability.

Mputu relied on the financial statements prepared by the company's internal auditors in preparation of his advice. He then advised Patel that the company was in good financial position. Patel accordingly bought shares worth Shs.1 billion from the company. It later transpired that 2 houses of the company had been sold after an internal auditors' report which information Mputu never considered while preparing his advice to Patel. Four months later JJ Limited went into liquidation due to heavy debts.

Required:

Raise and resolve the issues arising from the facts.

(20 marks)

Question 3

Joseph Otto was recruited in April 2014 from Amuru District and transported to Jinja to work for Uganda Tobacco Company Limited (UTCL) in Jinja. Otto was transported with his wife Angela Otto and three children.

On 18 February 2015, while Otto was cleaning a machine his right hand was severely injured when the machine was negligently set in motion by a workmate, John Okumu.

Otto was hospitalised at Jinja Medical Centre, where he was compelled to pay for his medical bills of Shs 375,000 since his employer, UTCL refused to pay,

arguing that Otto was not employed to operate machines and was therefore not in the course of employment. Otto was also denied his wages of Shs 375,000 for the period when he was undergoing medical treatment which lasted for one and a half months.

Otto resumed work in April 2015 but on 30 May 2015, he was summarily dismissed due to diminished productivity. He was evicted from the company house and he was told to keep away from the company premises.

Meanwhile, UTCL also employs Peter Mukasa and Jane Nkole as accountants. Mukasa who is male is paid Shs 950,000 while Nkole the female is paid Shs 700,000 per month though both have the same qualifications and the same job description. When Nkole complained, she was told that she was unmarried and had fewer responsibilities than Mukasa!

Required:

Raise and resolve the issues arising from the facts.

(20 marks)

(Total 20 marks)

Question 4

Firoz Company Limited (FCL) is a private company with five shareholders namely: Jane Walaba, Harriet Nabiryo, Anna Nyonyi, Jessica Muwonge and Hamidah Nansubuga. Anna Nyonyi, Jessica Muwonge and Hamidah Nansubuga also double as directors of the company.

The main objectives of the company are to sell and hire out bridal gowns and to do any other business which, in the opinion of the directors, can advantageously be carried out in line with the main objective.

In their board meeting, the directors of the company resolved to start a bridal car-rental business which appeared profitable.

To raise capital for the bridal car rental business, the directors borrowed Shs 500 million from DEBU Bank for the purchase of five star Mercedes Benz cars from Benzi (2010) Ltd. To-date, FCL has failed to pay back the loan and interest.

The directors, who are majority shareholders have also engaged the company in the business of distillation of special wine called "Cana wine" for personal benefit contrary to the company articles of association that prohibit dealing in activities that would offend the wishes of Jane Walaba and Harriet Nabiryo who are born again Christians and the company as a whole. Hamidah Nansubuga who is the chairperson of Board of directors of FCL pledged, on behalf of the company to donate Shs 15 million to refugees in the internally displaced persons camp of Mutwa district but the company failed to raise the money. Sooner or later the company will undergo winding up process. The employees of the company who are demanding salary arrears of Shs 20

million have vowed to cause chaos in case their salary arrears are not paid first as the company closes.

Required:

Identify the issues and advise the aggrieved parties on the possible remedies available to them.

(20 marks)

SECTION C

Attempt four of the five questions in this section

Question 5

- (a) State the companies' majority rule reflected in the case of Foss Vs Harbottle (1843).

(4 marks)

- (b) Explain the exceptions to the general rule in (a) above.

(6 marks)

(Total 10 marks)

Question 6

- (a) Differentiate between a bill of exchange and a cheque.

(5 marks)

- (b) Explain circumstances under which a banker's authority to pay may be discharged before effecting payment.

(5 marks)

(Total 10 marks)

Question 7

- (a) Define the term 'debenture'.

(4 marks)

- (b) Explain the different types of company debentures.

(6 marks)

(Total 10 marks)

Question 8

- (a) Identify and explain the type of meeting(s) under which the directors deliberate on company affairs.

(3 marks)

- (b) Explain the circumstances under which a director may vacate office.

(7 marks)

(Total 10 marks)

Question 9

- (a) Define the term 'negligence' under the law of torts.

(1 mark)

- (b) Explain the elements of the tort of negligence.

(9 marks)

(Total 10 marks)