

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF LAW I - PAPER 2

THURSDAY, 5 JUNE 2014

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

Pakasa is a businessman in the Republic of Kent and has been dealing in timber since 2009. In 2011, he was contracted by Kachina to start supplying him timber for his business in Beijing, China. Pakasa in turn contracted Kawanga who is based in Kampala to go to Republic of Bemba and purchase for him the best timber which he would then supply to Kachina in Beijing. Pakasa did not inform Kawanga that the timber was to be supplied to Kachina. Kawanga left for the Republic of Bemba and started buying timber from Bemban timber dealers, whom he informed that he was buying the timber for and on behalf of Pakasa who is based in the Republic of Kent.

Business went on well until the sudden outbreak of civil war in the Republic of Bemba between the Revolutionary Bemban rebels and government forces. The forests were no longer accessible as they were occupied by rebels. Therefore, lumbering could not take place and timber could not be obtained.

Meanwhile, Kachina had sent USD 10,000 to Pakasa who had in turn sent the money to Kawanga to buy timber. Kawanga had on his part also passed on the money to his dealers in the Republic of Bemba. Later, it was established that some of the dealers had actually died during the war. One of the dealers, Olemide who had survived the killings had lost all the money during the war and could therefore not supply the timber which he had been paid for.

Having waited for so long without hearing from Pakasa, Kachina is demanding for his timber or money from Pakasa. Pakasa is also demanding from Kawanga who is in turn demanding from the timber dealers in the Republic of Bemba.

Required:

Raise issues and advise the parties on their relationship, rights and liabilities.

(20 marks)

Question 3

Mandevu is one of the businessmen in downtown Kampala and has been planning to build an executive home. He, however, does not have enough money. He has a tractor and has at one time offered to sell it at Shs 100 million. He even went ahead and advertised the sale in the Daily News newspaper. When Macho saw the advertisement, he called Mandevu on telephone and told him that he was ready to buy the tractor at the advertised price but Mandevu declined sell, having changed his mind.

On the same day while Mandevu was still at his place of work, someone by the name of Kontracta called him on telephone and told him that since he was planning to build an executive home, he (Kontracta) had decided to clear the site for him. Indeed when Mandevu visited the site later that evening he found that the site had actually been cleared. He promised to pay Kontracta Shs 2.5 million for the job well done. However, when Kontracta demanded for the money a couple of weeks later, Mandevu barked at him and informed him that he did not have the money.

As he prepared to start construction of the executive home, Mandevu negotiated with Nzimbe to make for him bricks, agreeing to pay him Shs 2 million. Mandevu promised Nzimbe that if the work could be done within one month, he would pay him an extra Shs 400,000 on top of the agreed sum. Nzimbe, therefore, worked exceptionally hard and completed the job before the end of one month but Mandevu refused to pay the additional Shs 400,000.

Meanwhile Mandevu had sold to Kachebezi, on credit, merchandise worth Shs 10 million. Along the way Kachebezi got some problems and was not able to clear the debt. Mandevu, who was in great need for money told Kachebezi that if he (Kachebezi) could at least pay Shs 7 million, he would release him from the debt of Shs 10 million. Kachebezi looked around for the Shs 7 million which he paid to Mandevu but later, Mandevu opened a court case against Kachebezi demanding that he pays the outstanding balance of Shs 3 million.

Required:

Advise the parties as per the law of contract.

(20 marks)

Question 4

Kaleega, Masuuti and Sahubu are great friends and had been operating separate businesses in Kawempe, Matuga and Kalwere respectively. A couple of years ago, they met at a party of one of their friends and decided to form a partnership. They subsequently registered their partnership after which they opened a big shop in Kikuubo, Kampala.

Njangu, one of the businessmen in Kikuubo was impressed by the partnership business and wanted to join them. At that time, Sahubu was out of the country but the other two partners who knew Njangu very well, decided to admit him as a partner. When Sahubu came back, he was informed that a new partner, Njangu, had been admitted. This, however, did not please Sahubu.

After three months another businessmen called Majengo applied to join the partnership to which all the partners agreed. After he had joined, business continued very well. Trouble started when external auditors were engaged to

audit the books of account of the partnership. The audit discovered that the firm had outstanding liabilities that go back from the time it was started. Later, when the partners met, they resolved that in order to come out of the mess, each partner had to contribute equally towards the settlement of the debts. This did not go down well with Majengo. He tried to find out how and when the debts were incurred by accessing the books of account. However, he was denied access to the books on grounds that he was a new partner who could not be trusted with the records of the firm. This annoyed Majengo very much and is now contemplating quitting the firm to form his own partnership alone.

Required:

Raise all issues and advise the parties.

(20 marks)

SECTION C

Attempt three of the four questions in this section

Question 5

An agent's authority to act on behalf of his principal may be by virtue of any of the following:

- (a) Express authority.
- (b) Implied authority.
- (c) Appointment by ratification.
- (d) By necessity.

Required:

Write short notes on each of the above, giving examples in each case.

(10 marks)

Question 6

- (a) What is meant by 'partnership property'? **(2 marks)**
- (b) Explain the rights that partners have over partnership property on the dissolution of the firm. **(8 marks)**

(Total 10 marks)

Question 7

Identify and explain at least **five** examples of contracts which are considered to be contrary to public policy.

(10 marks)

Question 8

Write short notes on sources of law in Uganda.

(10 marks)