

**INSTITUTE OF CERTIFIED PUBLIC  
ACCOUNTANTS OF UGANDA**

**BUSINESS LAW - PAPER 3  
DECEMBER 1997**

**INSTRUCTIONS TO CANDIDATES**

1. Time allowed: 3 hours
2. Attempt all questions in Sections A and B and any three questions from Section C
3. Section A carries 20 marks i.e. 1 mark each and all questions are compulsory
4. Section B is a compulsory question which carries 20 marks
5. Section C has five questions and only three are to be answered; each question carries 20 marks
6. Please read further instructions on the answer book

**SECTION A**

**Question 1**

- i. The Head of the High court of Uganda is
  - a) the Chief Justice
  - b) the Deputy Chief Justice
  - c) the Principal Judge
  - d) the Overall Judge
  
- ii. "obiter dicta" means
  - a) the most important part of a judgement
  - b) a less important part of a judgement
  - c) the most bulky and complex part of a judgement
  - d) a necessary and vital part of a judgement
  
- iii. Arbitration in Uganda is governed by
  - a) the Arbitration Act cap 55
  - b) the Arbitration Act cap 56
  - c) the Arbitration Act cap 77
  - d) the Arbitration Act cap 88
  
- iv. The estoppel doctrine is also known as
  - a) the doctrine of preclusion
  - b) the doctrine of waiver
  - c) the doctrine of necessity
  - d) the doctrine of priority
  
- v. Which of the following is not a duty of an agent
  - a) to exercise care and skill in doing his job
  - b) to always obey his principal
  - c) to act in good faith
  - d) to be accountable to his principal
  
- vi. The following is an example of an avoidable contract
  - a) a contract induced by undue influence
  - b) a contract which lacks consideration
  - c) a contract which involves commission of a crime
  - d) a divorce agreement drawn when parties were not legally married

- vii. Ostensible authority of an agent is also called
- a) actual authority
  - b) express authority
  - c) excessive authority
  - d) apparent authority
- viii. A mutual mistake occurs when
- a) both parties make the same mistake as regards one subject
  - b) both parties misunderstand each other and make mistakes about different subject matters
  - c) both parties misunderstand each other deliberately
  - d) one party is aware of the mistake but the other is not
- ix. Quasi partners are partners who
- a) participate in the day to day running of the partnership
  - b) contribute capital but do not participate in the day to day running of the partnership
  - c) allow the firm to use their names
  - d) are minor partners
- x. Which of the following is not an equitable remedy?
- a) rescission
  - b) suing on quantum merit
  - c) suing to recover damages
  - d) suing for the price
- xi. An employment contract is a contract
- a) for service
  - b) of service
  - c) on service
  - d) to service
- xii. A private company is a company which
- a) limits the number of people to 40
  - b) commences business immediately after getting a trading certificate
  - c) restricts the right to transfer its shares
  - d) is required to send a statutory report to members

xiii. Which of the following agents normally guarantees that buyers pay for the goods purchased

- a) a broker
- b) a factor
- c) estate agents
- d) a "del credere" agent

xiv. In agency law, a wife's right to pledge her husband's credit is lost when

- a) the husband is poor
- b) the wife had sufficient income
- c) the husband does not consume the goods supplied
- d) the wife is not legally married to the husband

xv. A statutory meeting of a company is held

- a) once a month
- b) once a year
- c) once in 18 months
- d) once in a life time of a company

xvi. Express authority of an agent is also known as

- a) apparent authority
- b) ostensible authority
- c) usual authority
- d) actual authority

xvii. Which of the following is not a duty of an auditor

- a) to check vouchers and make arithmetical computation
- b) to attend company meetings when financial information is discussed
- c) to take care in balancing company accounts
- d) to present the state of company records in a general meeting

xviii. A company may dispense with the use of the word "limited" in its name if

- a) the company is set up to promote education
- b) it chooses to do so
- c) if the memorandum and articles are silent
- d) if the company is a going concern

xix. A partnership is

- a) a relationship of people who agree to form a partnership
- b) a relationship of partners for purposes of profit
- c) a relationship of people who agree to form a partnership for purposes of advancing various interests
- d) a relationship existing between partners

xx. The "veil of incorporation" may be lifted if

- a) the company passes a resolution to this effect
- b) the company reconverts itself into a partnership
- c) the company is used to commit a crime
- d) the company is an agent of another parent company

**SECTION B - COMPULSORY**

**Question 2** MHC Ltd is a liability company dealing in an assortment of products. On 20th May 1997, Okumu purchased their Sony TV on hire purchase terms and he initially paid a deposit of Shs200,000/=. He was subsequently expected to pay monthly instalments of Shs50,000/= to cover the purchase price in six months.

Unfortunately, Okumu was retrenched and his pay suspended. Immediately, he sold the TV to his friend Okello. Okumu then defaulted on the fifth instalment. MHC Ltd looked for the TV and found it at Okello's house where they forcefully removed it.

Okello has approached you for advice. Explain to him the rights of all the parties involved over the TV and advise him accordingly.

(20 marks)

SECTION C

Question 3

- a) "Common law is the law common to all and need not be written."  
Do you agree? Explain this statement.  
(10 marks)
- b) What is equity and how did it develop?  
(10 marks)

Question 4

Name and describe five essentials of a valid contract.  
(20 marks)

Question 5

- a) Define agency and explain the types of agency that may be created  
(12 marks)
- b) When can an agent be held liable on contract he has made on behalf of his principal?  
(8 marks)

Question 6

"The doctrine laid down in Salomon vs Salomon + Co Ltd (1897) A.C.22 has to be carefully watched. It has always cast a veil over the personality of a limited company through which courts cannot see, but that is not true. The courts can and often do draw aside the veil. They can and often pull the mask. They look to see what really lies behind."

Discuss the above statement.

(20 marks)

Question 7

- a) What is a trust?  
(5 marks)
- b) Explain how trusts are created.  
(15 marks)