

# ***THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD***

*A Committee of the Council of ICPAU*

## **BUSINESS LAW – PAPER 3**

### **CPA(U) EXAMINATIONS**

**JUNE 2001**

#### **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 consists of **twenty** compulsory questions each carrying 1 mark.
4. Section B has **one** compulsory question carrying 20 marks.
5. Section C has **five** questions and only **three** questions are to be attempted. Each question carries 20 marks.
6. Please, read further instructions on the answer book before attempting any question.

## **SECTION A**

### **Question 1:**

- (i) The law applicable in Uganda includes all the following except one:-
  - (a) Common law.
  - (b) Civil law.
  - (c) Customary law.
  - (d) Statutory law.
- (ii) Which of the following is not true of the Uganda High Court?
  - (a) It is only an appellate court.
  - (b) It is a court of record.
  - (c) It has original jurisdiction.
  - (d) It has both original and appellant jurisdictions.
- (iii) “Stare decisis” means:-
  - (a) Statements in court decisions.
  - (b) Stating of court decisions.
  - (c) Precedents by courts of law.
  - (d) Reasons for court decisions.
- (iv) The branch of law that relates to the enforcement of citizens’ rights and duties is called:-
  - (a) Public law.
  - (b) Civil law.
  - (c) Procedural law.
  - (d) Substantive law.
- (v) A Settlor is:-
  - (a) One who settles disputes.
  - (b) One who transfers property to one person for the benefit of another.
  - (c) One who settles on another person’s property by force.
  - (d) One to who property is transferred for settlement.

- (vi) When does a person become a member of a company?
- (a) When the person agrees to become a member.
  - (b) When the person pays for all the shares allotted to him.
  - (c) When the person agrees to become a member and his name is entered on the register.
  - (d) When shares are allotted to the person who intends to become a member.
- (vii) Which of the following is false?
- (a) Wages must be paid in cash only.
  - (b) Wages are paid in a currency which is legal tender.
  - (c) Wages may be paid in kind.
  - (d) Wages may be paid partly in cash and partly in kind.
- (viii) Which of the following is true about a minor?
- (a) A minor cannot be a partner in a firm.
  - (b) A minor cannot repudiate a partnership contract once entered on his behalf.
  - (c) A minor can be a partner in a firm until he disaffirms the partnership.
  - (d) A minor may incur contractual liability for partnership debts.
- (ix) Which of the following is a consequence of incorporation?
- (a) Perpetual succession of a firm.
  - (b) Capacity to transfer shares.
  - (c) Issuance of a prospectus by the company.
  - (d) Shareholders unlimited liability.
- (x) Which of the following statements is correct?
- (a) Every partner is an agent of the firm.
  - (b) Only active partners are agents of the firm.
  - (c) Dormant partners are not agents of the firm.
  - (d) Every partner binds the firm in all his / her actions.

(xi) Novation means:-

- (a) The transfer of contractual rights to a third party with absence of all parties.
- (b) The transfer of contractual rights to a third party without the consent of the other.
- (c) The transfer of contractual obligations to a third party with consent.
- (d) The transfer of contractual obligations and rights to a third party with the consent of all parties.

(xii) Which of the following is true?

- (a) Lifting the veil happens when the company is insolvent.
- (b) Illegal acts by the company always lead to lifting the veil.
- (c) Lifting the veil is done by shareholders.
- (d) Lifting the veil is done before a company winds up.

(xiii) Vicarious liability will render an employer liable for torts which:

- (a) Anyone commits in the course of his business.
- (b) His independent contractors commit in the course of his business.
- (c) He commits in the course of his business.
- (d) His employees commit in the course of his business.

(xiv) A misrepresentation is:-

- (a) An untrue statement of opinion in a contract.
- (b) An untrue statement of fact in a contract.
- (c) An untrue statement of fact that induces a contract.
- (d) An untrue statement of opinion that induces a contract.

(xv) What is a debenture?

- (a) A document evidencing company loans to shareholders.
- (b) A document evidencing company assets and liabilities.
- (c) A document evidencing company indebtedness.
- (d) A document evidencing company shares.

(xvi) What is “quantum meruit”?

- (a) Payment based on quality of work done under a contract.
- (b) Payment based on work completed under a contract.
- (c) Payment based on merit.
- (d) Payment based on agreement by the parties.

(xvii) Which of the following is true?

- (a) All company members vote at a class meeting.
- (b) Only members of a particular class may vote at their class meeting.
- (c) All company members have equal voting rights.
- (d) Only members present at a meeting may vote.

(xviii) A mutual mistake in a contract results into:-

- (a) No contract.
- (b) A voidable contract.
- (c) A valid contract.
- (d) None of the above answers.

(xix) A company special resolution:-

- (a) Is passed by  $\frac{3}{4}$  majority after a special notice.
- (b) Is passed by simple majority after a special notice.
- (c) Is passed by  $\frac{3}{4}$  majority after ordinary notice.
- (d) Is passed by simple majority on winding up the company.

(xx) What constitutes a company's capital?

- (a) Company shares.
- (b) Company funds.
- (c) Company assets.
- (d) Company profits.

## **SECTION B**

### **Question 2:**

Big B Ltd. was registered in 1998 with three shareholders and has since been doing lucrative business. One of the shareholders never paid for all the shares allotted to him. The company had contracted a bank loan from Royal Bank Inc. on the security of one of the paid up shareholder's property. The company has also been evading taxes which the Uganda Revenue Authority is seeking to recover. The paid up shareholders blame one of their colleagues for the company's woes and they intend to sue him on the company's behalf.

#### **Required:**

Advise all the parties on the issues raised and available remedies. **(20 marks)**

## **SECTION C**

### **Question 3:**

Discuss the major sources of law. **(20 marks)**

### **Question 4:**

(a) What is a partnership? **(5 marks)**

(b) Discuss the methods by which a partnership may be dissolved. **(15 marks)**

**(Total 20 marks)**

### **Question 5:**

Oundo, a businessman was contracted to supply uniforms for Oki Tour Co. Ltd. When he finally supplied them, he received payment by cheque belonging to Oki Transporters, a sister company. The cheque bounced and the price for the uniforms is yet to be paid. Meanwhile, the uniforms supplied to Oki Tours Co. Ltd. have been found to be of a different design and undersize from what had originally been ordered for.

#### **Required:**

Advise each party on his rights and remedies available. **(20 marks)**

**Question 6:**

“In law, the Corporation and the aggregate members of the corporation are not the same thing for purposes like this; and the only question can be whether the facts alleged in this case justify a departure from the rule which, *prime facie* would require that the corporation should sue in its own name and in its corporate character or in the name of someone whom the law has appointed to be its representative” per Wigram V.C, in Foss Vs Harbottle.

**Required:**

(a) Explain the above rule and the aim it is supposed to achieve.

**(20 marks)**

(b) What are the exceptions to the rule, if any.

**Question 7:**

(a) What do you understand by the term “Promoter” of a company?

(b) What are the duties of a promoter and what is the effect of breach of such duties.

**(20 marks)**