

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### BUSINESS LAW – PAPER 3

**TUESDAY, 18 DECEMBER 2001**

#### INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**.
2. Attempt **all** questions in Section 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** question of 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.

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## **SECTION A**

### **Question 1:**

- (i) Which of the following is true?
  - (a) Rules of morality are law.
  - (b) Rules of morality are enforced in courts of law.
  - (c) Rules of morality are reflected in a people's law.
  - (d) Rules of morality have a legal effect.
  
- (ii) The law that governs the application of substantive law is:
  - (a) Administrative law.
  - (b) Procedural law.
  - (c) Common law.
  - (d) Private law.
  
- (iii) The general comments on law made by court in a judgement are called;
  - (a) “obiter dicta:
  - (b) “ratio decidendi”.
  - (c) “stare decisis”.
  - (d) precedent.
  
- (iv) Which of these is true?
  - (a) A voidable contract has no effect.
  - (b) A voidable contract is a valid contract unless avoided.
  - (c) A voidable contract is an illegal contract.
  - (d) A voidable contract can never be enforced.
  
- (v) Provisions that tend to limit liability in a contract are called;
  - (a) limited liability clause.
  - (b) “caveat emptor” clause.
  - (c) restriction clauses.
  - (d) exemption clauses.

(vi) Which of these is false?

- (a) A minor cannot execute a binding contract.
- (b) A minor's contract for money repayment is void.
- (c) A minor has to ratify contracts entered into at majority.
- (d) A minor who fails to ratify contracts at majority cannot be bound.

(vii) The age of majority in Uganda is:

- (a) 16 years.
- (b) 18 years.
- (c) 20 years.
- (d) 21 years.

(viii) Lucky is the managing director of Trinity Ltd. What is the nature of his authority to enter into unauthorized contracts on behalf of the company?

- (a) Apparent.
- (b) Implied.
- (c) Express.
- (d) Ostensible.

(ix) In which of the following circumstances is Sarah a member of a company?

- (a) Sarah has sold all her shares in the company to Jim but her name has not yet been removed from the register of members.
- (b) Sarah subscribed the memorandum but her name is not as yet on the register of members.
- (c) Sarah has lodged a transfer with the company as transferee but has not yet been entered on the register of members.
- (d) Sarah has been allocated shares and entered on the register but has not yet received a letter of allotment.

(x) Under the Employment Decree (Decree 4/75):

- (a) All contracts of service must be in writing.
- (b) Only contracts of service for more than a year must be in writing.
- (c) Only contracts of service for a period of six months or more should be in writing.
- (d) Written contracts are not mandatory at all.

- (xi) Who of the following may not make a valid will?
- (a) A person of unsound mind.
  - (b) A married female.
  - (c) An unmarried female.
  - (d) A person of full age.
- (xii) The objects of bankruptcy are;
- (i) To protect the public from bankrupt individuals.
  - (ii) To protect honest debtors.
  - (iii) Safeguarding the interests of creditors.
- (a) (i), (ii) and (iii).
  - (b) (i) and (ii).
  - (c) (i) and (iii).
  - (d) (ii) and (iii).
- (xiii) Which of the following deductions are not authorized from the employee's wages.
- (a) Payments to a registered trade union.
  - (b) Payments to a community service project.
  - (c) Payments to a provident fund.
  - (d) Payments to a provision scheme.
- (xiv) An agent's authority to act on behalf of his principal may be by:
- (i) Necessity.
  - (ii) Ratification.
  - (iii) Express appointment.
  - (iv) Implied appointment.
- (a) (i), (ii), (iii) and (iv).
  - (b) (ii), (iii) and (iv).
  - (c) (i) (iii) and (iv).
  - (d) (iii) and (iv).

- (xv) Who of the following is not a promoter of a company?
- (a) One who prepares the Memorandum and Articles of Association.
  - (b) One who prepares the prospectus.
  - (c) One employed in professional capacity to float the company.
  - (d) One who identifies the first directors.
- (xvi) Which of these is true?
- (a) A partnership is a corporate body.
  - (b) A partnership cannot own property.
  - (c) A partnership may be sued with its partners
  - (d) A partnership has no perpetual succession.
- (xvii) One of these documents is not filed with the Registrar of Companies before a company is registered.
- (a) Memorandum and Articles of Association.
  - (b) Company returns and resolutions of compliance.
  - (c) Statutory declaration of compliance.
  - (d) Statement of nominal capital.
- (xviii) The exceptions to the rule in Foss Vs Harbottle:-
- (a) Enhance the position of the company vis a vis shareholders.
  - (b) Protects the interests of all shareholders.
  - (c) Protects the interests of minority shareholders.
  - (d) Protects the interests of majority shareholders.
- (xix) What is a floating charge?
- (a) An encumbrance attached to all company assets.
  - (b) An encumbrance attached to specific assets of a company.
  - (c) An encumbrance attached to only tangible assets of a company.
  - (d) An encumbrance not attached to any specific assets of the company.
- (xx) “Quantum meruit” refers to:
- (a) Value for work done on a contract.
  - (b) Value for the contract.
  - (c) Damages for breach of contract.
  - (d) Damages for the uncompleted work on a contract.

## **SECTION B**

### **Question 2:**

M/s Cartel Ltd entered into an agreement for supply of timber for making furniture with Ash Furnishers Ltd. The company was given an advance part payment and the balance was to be paid on delivery. Cartel Ltd opted to engage another person, Congi to purchase the timber and ensure that it is delivered in Kampala for a commission. After dispatching the timber, Congi organized with a gang of robbers who commandeered the lorries that were carrying the timber and diverted them to a neighbouring country where the timber was sold. Congi telephoned the directors of Cartel Ltd and reported that the timber was stolen and he went into hiding. From his hiding place, he contacted his other business associates in town and informed them that Ash Furnishers was in urgent need of timber. He also directed them to where cheap timber could be secured as originally advised by the directors of Cartel.

Ash Furnishers Ltd have decided to have the contract terminated and they now are demanding for a refund of the deposit from M/s. Cartel Ltd so that they engage another supplier. It has also been learnt that the timber deal was planned and executed by only the director of Cartel Ltd without informing others. Such a transaction is not even included in the objects clause of the company's Memorandum of Association, where the major object of the company is food processing.

The same director was discovered to have been in the habit of borrowing money from other persons without first obtaining the necessary company authorization although the company is allowed to borrow money. These debts are also due for payment and the company is reluctant to pay them.

### **Required:**

You are required to discuss the issues raised and advise all the parties.

***(20 marks)***

## **SECTION C**

### **Question 3:**

Mukasa used to operate a one-man taxi business until last year when it expanded and he decided to form a company, Twekobe Ltd. The other shareholders in the company are his former colleagues in the taxi business but they jointly hold minority shareholding. He sold his two taxis at a handsome profit although he never revealed this to any person. The vehicles were comprehensively insured but the insurance policies remained in his names after he sold them to the company. Last week, one of the vehicles got involved in a fatal accident and is now a write off. Mukasa put in a claim, on behalf of M/s Twekobe Ltd but the Insurance Company has declined to pay.

#### **Required:**

Discuss the issues raised herein and advise Mukasa.

**(20 marks)**

### **Question 4:**

Discuss the various ways by which a partnership may be dissolved.

**(20 marks)**

### **Question 5:**

Singh is an upcoming businessman with a beef-packing factory in Kampala. He employs several workers and he recruited some of them directly from their home villages. One of such workers Ejalu has been working at the factory for over 3½ years. He has never been allowed permission to go home to see his family and he has been working at the factory everyday except Saturdays, which is his Sabbath. When he recently requested to be off duty for two weeks to attend to some domestic matters, Singh scolded him before fellow workers and called him by all sorts of names and insults. He was suspended from his regular work without pay although he was ordered to keep reporting at the factory. Other workers have heard Singh threatening that Ejalu shall have his contract terminated effective the suspension date and that he would not pay him any other extra coin, save for his wages up to that date. That he would serve as a living example to the other workers.

**Required:**

Ejalu is disturbed by the trend of events and needs advice. Advise him on the course of action to take.

***(20 marks)***

**Question 6:**

“The doctrine of consideration is the cornerstone of the modern law of contract”.

**Required:**

Do you agree with the statement? Give reasons to your answer.

***(20 marks)***

**Question 7:**

(a) What is liquidation of a company

***(5 marks)***

(b) Under what circumstances may a company face liquidation?

***(15 marks)***