

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS LAW – PAPER 3

THURSDAY, 20 JUNE 2002

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** has **twenty** compulsory multiple-choice questions each carrying 1 mark.
4. Section **B** has **one** compulsory 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.

SECTION A

Question 1

- (i) The rules of law by which law is enforced are generally referred to as:
 - (a) Substantive law.
 - (b) Public law.
 - (c) Civil law.
 - (d) Adjectival law.
- (ii) Which of these is the most correct?
 - (a) Only courts of law make law.
 - (b) Customary law is superior to common law.
 - (c) A Constitution is an Act of Parliament.
 - (d) Both customs and culture are enforced by courts of law.
- (iii) The part of a case that is said to possess authority is called?
 - (a) “obiter dicta”.
 - (b) “ratio decidendi”.
 - (c) “stare decisis”.
 - (d) “traverse”.
- (iv) Which of the following is false?
 - (a) Law is only created by legislation.
 - (b) Law may be created by a peoples customs.
 - (c) Judicial decisions create laws.
 - (d) Law is not created by equity.
- (v) Which of these is a duty of the employer?
 - (a) To share the benefit of invention with the employee?
 - (b) To render personal service and instruction.
 - (c) To disclose all confidential information to the employee.
 - (d) To meet safety standards at work.
- (vi) Which of the following is true?
 - (a) The remedy of re-instatement is similar to that of re-engagement.
 - (b) Re-instatement is when an employee is treated like there had been no dismissal.
 - (c) Re-engagement is ordered when an employee is restored to the former job.
 - (d) Re-engagement entitles the employee to salary arrears.

- (vii) Frustration of a contract of employment occurs when;
- (a) The employer gives the employee notice of dismissal.
 - (b) The employee is effectively dismissed.
 - (c) The performance of the contract is impossible due to the employee's fault and changed circumstances.
 - (d) The performance of the contract is impossible due to intervening events which change the nature of the contract.
- (viii) What are the normal weekly hours of work?
- (a) At least 48 hours.
 - (b) At most 48 hours.
 - (c) Less than 48 hours.
 - (d) More than 48 hours.
- (ix) Which of the following statements is true?
- (a) Contracts in restraint of trade are void unless they are reasonable.
 - (b) Contracts in restraint of trade are illegal.
 - (c) Contracts in restraint of trade are invalid.
 - (d) Contracts in restraint of trade do not require consideration.
- (x) Persons who enter into partnership with one another are collectively called;
- (a) A partnership.
 - (b) A company.
 - (c) A partner.
 - (d) A firm.
- (xi) A beneficiary under a trust is called
- (a) Trustee.
 - (b) "Cestui que trust".
 - (c) "Causa que trust".
 - (d) "Sui juris".
- (xii) Which of the following is false?
- (a) A general partner has unlimited liability.
 - (b) A general partner may have his personal properties attached to settle partnership debts.
 - (c) A limited partner can never be allowed in a partnership.
 - (d) A limited partner cannot be held liable for the firm's obligation beyond the amount contributed.

- (xiii) Which of the following is false?
- (a) A proxy is an agent of a member of the company.
 - (b) A proxy need not be a member of the company.
 - (c) A proxy must be a member of the company,
 - (d) A proxy can only be appointed where a company has share capital.
- (xiv) Quorum refers to:
- (a) Members of the company attending a meeting.
 - (b) Company members present at the commencement of meeting.
 - (c) Minimum number of members of the company required to be present at the commencement of business.
 - (d) Minimum number of members of a company required to pass a resolution.
- (xv) The Annual General Meeting of a company is normally called by:
- (a) The Company Secretary.
 - (b) The Company Directors.
 - (c) The Company members.
 - (d) The Company Auditors.
- (xvi) The maximum time limit between the Annual General Meeting and the next is:
- (a) 24 months.
 - (b) 18 months
 - (c) 15 months
 - (d) 12 months
- (xvii) Which of the following statements is correct?
- (a) The company has to always sue on its own behalf.
 - (b) The company shareholders must always sue on behalf of the company.
 - (c) Individual shareholders may sue on behalf of the company.
 - (d) Individual shareholders can never sue on behalf of the company.
- (xviii) The corporate duties of the directors are owed to:
- (a) The shareholders of the company.
 - (b) The company.
 - (c) The majority shareholders of the company.
 - (d) The minority shareholders of the company.

- (xix) Define the company prospectus.
- (a) A document containing company rules.
 - (b) A document detailing company performance.
 - (c) A document inviting the public to subscribe to an issue of company shares.
 - (d) A document containing the objects of the company.
- (xx) Which of these is false?

A company Memorandum and Articles of Association bind:

- (a) Members to the company.
- (b) Company to the members.
- (c) Members to members.
- (d) Company to third parties.

SECTION B

Question 2

M/s Liberation Ltd has been carrying on successful business since mid 1980s. Recently it has been found out that due to its connection with top government officials it has never paid any taxes to the tax authority. Besides, although on incorporation it had six members, all of them have since fallen out of the company, except “one Osama, the original majority shareholder and director. This status quo” has subsisted for over one year now and the company has continued to trade but most especially in prohibited merchandise from a neighbouring country. The company has of late been faced with financial problems and it is in debt. Creditors and suppliers are not being paid and there are no signs of their debts being settled. Employee’s salaries have also not been paid in a long time. Last year, one of the employees had an accident as he operated a machine that was in a serious state of disrepair. His arm got badly injured and it had to be amputated. The company, according to Osama cannot afford to pay his medical bills and his services are to be terminated.

Required:

Identify the issues raised and give relevant advice to the parties.

(20 marks)

SECTION C

Question 3

“A corporation may be defined as a legal entity or artificial person”

Explain what is meant by this statement and state the main features of artificial personality. **(20 marks)**

Question 4

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

Explain the doctrine and state whether you agree with the statement. **(20 marks)**

Question 5:

Discuss ways by which the principal-agent relationship may be created. **(20 marks)**

Question 6

Discuss the grounds upon which a company may be compulsorily wound up by government and the person who may present such petition. **(20 marks)**

Question 7

Yusuf, a Tanzanian based businessman entered into an agreement with M/s Nyanzi Coffee Dealers for the supply of Uganda Coffee at his coffee processing plant in Dar-es-Salaam. The agreement was for the supply of one hundred, 50kg, bags to be delivered by or during the first week of December 2001. He fully paid for the coffee. As a consequence of the agreement, M/s Nyanzi Coffee Dealers contracted Uganda Railways Corporation to take the consignment. However M/s Nyanzi Coffee Dealers only loaded sixty (60) bags each weighing 80kg into Uganda Railways Corporation Wagons. Due to the poor state of the railway line, the delivery did not reach Dar-es-Salaam until March 2002. Meanwhile Yusuf had stopped the coffee processing business and sold the expected coffee to one Abudalla who has declined to take the consignment and wants a refund of the money paid by Yusuf. The other reason for refusing the delivery was because the packaging was different from the one agreed upon.

Required:

Discuss the legal issues involved and advise the parties. **(20 marks)**