

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS LAW – PAPER 3

TUESDAY, 16 DECEMBER 2003

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** 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.

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SECTION A

Question 1

- (i) The doctrine of precedent means:
 - (a) That cases must be decided in line with similar decided cases.
 - (b) That judges must give reasons for the judgment they give.
 - (c) That courts must dispose of cases without undue delay.
 - (d) That justice delayed is justice denied.
- (ii) Which of the following is a Court of record?
 - (a) Magistrate Grade I Court.
 - (b) Commission of Inquiry into Corruption in the Police Force.
 - (c) The High Court.
 - (d) The Chief Magistrate's Court.
- (iii) Which of the following is not a core function of law?
 - (a) To regulate the conduct of persons.
 - (b) To provide justice to members of society.
 - (c) To enhance economic development.
 - (d) To protect fundamental rights of individuals.
- (iv) The following are examples of voidable contracts except a contract:
 - (a) induced by undue influence.
 - (b) to defeat justice.
 - (c) with a minor.
 - (d) induced by duress.
- (v) Which of the following may not lead to dissolution of a partnership?
 - (a) Death of a partner.
 - (b) Bankruptcy of a minority partner.
 - (c) Court order.
 - (d) Business losses.
- (vi) Apparent authority of an agent is also called:
 - (a) actual authority.
 - (b) express authority.
 - (c) ostensible authority.
 - (d) excessive authority.

- (vii) A private limited company;
- (a) may not file articles of association.
 - (b) may commence business before incorporation.
 - (c) must issue a prospectus.
 - (d) must have at least 7 members.
- (viii) The following statements are true of an agency relationship except:
- (a) For every agent there must be a principal.
 - (b) An agent can be liable on contracts entered by the principal.
 - (c) An agent need not be expressly appointed.
 - (d) An agent is entitled to a commission.
- (ix) Issued capital of a company is also called:
- (a) Nominal capital.
 - (b) Allotted capital.
 - (c) Authorized capital.
 - (d) Reserve capital.
- (x) Which of the following may not be found in the Articles of Association?
- (a) Mode of conducting meetings.
 - (b) Procedure of appointing directors.
 - (c) The objects clause.
 - (d) Signatories to the company accounts.
- (xi) A contract is frustrated when:
- (a) it is totally impossible for one of the parties to perform.
 - (b) one of the parties is bankrupt.
 - (c) both parties die in a common calamity.
 - (d) the cost of performance becomes higher than originally estimated.
- (xii) The term mitigation of loss means:
- (a) insurance against risk.
 - (b) reducing the effects of breach of contract.
 - (c) claiming damages for loss.
 - (d) reporting a loss to legal authorities.
- (xiii) Which of the following is an equitable remedy?
- (a) Suing for specific performance.
 - (b) Suing for damages.
 - (c) Suing for the price of goods.
 - (d) Suing for ejusdem generis.

- (xiv) An employment contract is a contract:
- (a) for service.
 - (b) of service.
 - (c) on service.
 - (d) to service.
- (xv) In the absence of express provision, the termination notice of an employment that has lasted six years is:
- (a) three months.
 - (b) two months.
 - (c) one month.
 - (d) one week.
- (xvi) Which of the following is a requirement prior to the incorporation of a company?
- (a) Trading Certificate.
 - (b) VAT Registration.
 - (c) Income Tax clearance.
 - (d) Statutory declaration of compliance.
- (xvii) Which of the following constitutes a company's capital?
- (a) Company shares.
 - (b) Company funds.
 - (c) Company assets.
 - (d) Company profits.
- (xviii) A misrepresentation is an untrue statement of:
- (a) opinion in a contract.
 - (b) fact in a contract.
 - (c) fact that induces a contract.
 - (d) opinion that induces a contract.
- (xix) The Rule in *Foss v Herbottle* was elaborated for the purpose of:
- (a) Enhancing the position of the company vis- a-vis shareholders.
 - (b) Protecting the interests of all shareholders.
 - (c) Protecting the interests of minority shareholders.
 - (d) Protecting the interests of majority shareholders.

- (xx) Which of the following company forms must be filed within 60 days of incorporation:
- (a) Declaration of compliance with the Companies Act.
 - (b) Return of allotment.
 - (c) Particulars of Directors and Secretary.
 - (d) Income tax clearance.

SECTION B

Question 2

Mukasa formed M/s Mukasa Co. Ltd holding 99% shares and being its sole director. During the process of incorporation, he borrowed money from Kassajja on account of M/s Mukasa Co. Ltd. The debt is still unpaid despite Kassajja's several demands. M/s Mukasa Co. Ltd has also defaulted on repayment of a loan it obtained from Nile Bank Ltd on the day of its registration. Nile Bank has attached Mukasa's personal vehicle on grounds of the said loan.

Mukasa has also, as majority shareholder amended the Articles of Association to exclude liability of a director towards the company. Mukasa has also refused to register Mukuzi as a new shareholder because Mukuzi supports the "Presidential Third Term" while Mukasa does not. Mukuzi settled for the purchase of five and a half shares from Mukwasi one of the original shareholders of Mukasa Co. Ltd which he wants transferred into his names.

In order to reduce the pressure on him, Mukasa has appointed his daughter Namukasa to be his co-director. This was announced at a party thrown to celebrate Namukasa's 17th birthday. The other shareholders, Mukwasi and Opio have rejected the decision to appoint Namukasa, a non-shareholder, as director. In a private and secret meeting, Opio supported by Mukuzi the 'new' shareholder voted unanimously to dismiss Mukasa as shareholder and director and instead appointed Opio and Mukuzi as the new directors. Their argument was that since Opio is a mature man aged 71 years, he would give the company the wisdom it deserves.

Required:

Discuss all the issues and advise all the parties accordingly.

(20 marks)

SECTION C

Question 3

You have been appointed director of Mutembe Academy Ltd, a company incorporated under the Laws of Uganda.

Required:

- (a) Explain to your Managing Director what you think your duties are as director.

(10 marks)

- (b) What remedies (if any) would Mutembe Academy Ltd have against you in the event of your failure to observe your duties?

(10 marks)

(Total 20 marks)

Question 4

Describe the concept of 'mistake' in all its manifestations under the law of contract and explain how it affects contracts.

(20 marks)

Question 5

Aware that you have completed the Business Law examination, a colleague contacts you to assist him with drafting a Memorandum and Articles of Association.

Required:

Describe the required clauses, considerations and contents that you would include in each of these company documents and why.

(20 marks)

Question 6

- (a) Describe the formation of an agency relationship and explain the duties and rights of an agent as against the principal.

(12 marks)

- (b) When can an agent be held liable on contracts made on behalf of his principal?

(8 marks)

(Total 20 marks)

Question 7

- (a) Describe the contents of a partnership deed.

(10 marks)

- (b) Discuss the methods by which a partnership may be dissolved.

(10 marks)

(Total 20 marks)