

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### BUSINESS LAW – PAPER 3

**TUESDAY, 14 DECEMBER 2004**

#### 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.

## SECTION A

### Question 1

- (i) What is meant by the term Caveat emptor?
  - (a) Catching on accused ready handed.
  - (b) Let the buyer be aware.
  - (c) Lodging a Caveat on land.
  - (d) Mortgaging one's entire property.
- (ii) Which Court in Uganda also sits as the Constitutional Court?
  - (a) The High Court.
  - (b) The Supreme Court.
  - (c) The Court Martial.
  - (d) The Court of Appeal.
- (iii) The part of a case that contains the authority is called:
  - (a) Ratio decidendi.
  - (b) Stare decisis.
  - (c) Obiter dictum.
  - (d) Decision.
- (iv) A partner who participates in the management of the firm is called?
  - (a) A dormant partner.
  - (b) A general partner.
  - (c) A partner by holding out.
  - (d) A Corporate partner.
- (v) Which of the following is true about the doctrine of consideration?
  - (a) The price which induces a party to enter into a contract.
  - (b) The breach of the outstanding contract.
  - (c) The merit of the contract performed.
  - (d) Declaration of compliance with contractual obligations.
- (vi) What do you understand by the term "inherent right"?
  - (a) A right that accrues to one by reason of entering into a contract.
  - (b) A right which a person has because he is a person.
  - (c) A right that accrues by reason of employment.
  - (d) A right that accrues from equity.
- (vii) The net worth of a business is called?
  - (a) Assets
  - (b) Shares
  - (c) Capital
  - (d) Liabilities

- (viii) Which of the following is a rule of statutory interpretation?
- (a) The causal rule.
  - (b) First in first out rule.
  - (c) The rule against hearsay.
  - (d) The ejusdem Generis rule.
- (ix) Which of the following is true about a floating charge?
- (a) It attaches itself to a specific company property.
  - (b) It does not allow the company to freely deal with an asset once it is created.
  - (c) No subsequent fixed charge can be created once a property is subject of a floating charge.
  - (d) It crystallizes at the commencement of liquidation.
- (x) Which of these is true?
- (a) A partnership is a company.
  - (b) A partnership is based on agency.
  - (c) A company is a partnership.
  - (d) A company is based on agency.
- (xi) An interim order or decree which will ripen into a final decree in divorce, unless something changes, or some event takes place is also called;
- (a) Decree absolute.
  - (b) Decree Nisi.
  - (c) Adel credere.
  - (d) Conviction.
- (xii) The term mitigation of loss means:
- (a) Suing a person who has breached a contract.
  - (b) Forcing a person to perform a contract.
  - (c) Reducing the effects of breach of contract.
  - (d) An Insurance Company re-insuring a loss.
- (xiii) Who is a Shadow Director in Company Law?
- (a) An independent Director in the company.
  - (b) An alternate Director of a company.
  - (c) A person who is not a Director in the company but influences the way the company is run.
  - (d) A person who is on standby to replace any Director who resigns or vacates Directorship.

- (xiv) In law, a situation in which an action has already been occasioned and cannot be reversed is also referred to as:
- (a) *Fait accompli*.
  - (b) *Res Ipsa liquidator*.
  - (c) *Volenti non fit injuria*.
  - (d) *Functus officio*.
- (xv) Any action by the Directors of the Company not included in the object of the company is:
- (a) Excessive.
  - (b) Illegal.
  - (c) *Ultra vires*.
  - (d) Voidable.
- (xvi) Which of the following is true of a Going Concern when applied to a Corporation;
- (a) A Corporation that continues to transact its ordinary business.
  - (b) A Corporation that has been issued with a Certificate of Incorporation.
  - (c) A Corporation which is already entered on the list of business names registration roster.
  - (d) A Corporation that has filed forms indicating that it has complied with all the pre-incorporation requirements.
- (xvii) Which of the following can also describe the authority principal, intentionally or by want of ordinary care causes or allows a third person to believe that the agent possesses;
- (a) Excessive authority.
  - (b) Actual authority.
  - (c) Express authority.
  - (d) Ostensible authority.
- (xviii) A doctrine in which a party is prevented by his own acts from claiming a right to the detriment of the other party who is entitled to rely on such conduct and has acted accordingly is called:
- (a) Estoppel.
  - (b) *Quantum merit*.
  - (c) Frustration.
  - (d) *Fructus industrials*.

- (xix) An employment contract for the period above .....has to be in writing.
- (a) 1 month.
  - (b) 6 months.
  - (c) 12 months.
  - (d) 24 months.
- (xx) Unless the employee agrees in the first instance, a probationary contract shall not exceed a period of:
- (a) 1 month.
  - (b) 2 months.
  - (c) 3 months.
  - (d) 6 months.

## SECTION B

### Question 2

Annette wishes to set up a company specializing in the provision of catering services. She wishes to call her new company “The Uganda Catering Co. Ltd” and she wishes to make herself Managing Director once the company is incorporated.

As she does not possess suitable ovens and refrigerators, she rents these from Kiyembe Catering Equipment Firm. She signs the contract with Kiyembe Catering Equipment Firm with her new company name, even though at the time of signing the contract “The Uganda Catering Co. Ltd” has not been incorporated.

Her uncle, Jim, wishes to invest some money in “The Uganda Royal Catering Co. Ltd but wants to know what options would be best for him. He wishes to protect his investment in the event of her new company failing to prosper.

#### **Required:**

Advise Annette and her uncle on how best to achieve their objectives.

**(20 marks)**

## SECTION C

### Question 3

- (a) Discuss the organs responsible for the management of a company.  
(10 marks)
  - (b) Discuss the duties of directors in the functioning of a company.  
(10 marks)
- (Total 20 marks)

### Question 4

You have been approached by Isanga who runs a private limited company. He tells you that he needs to expand his business and attract additional investment and he wants you to give him ideas whether there is need to convert his company into a public limited company.

- (a) How and why would a private company wish to convert itself into a public limited company  
(15 marks)
  - (b) To what extent is it advantageous for a company to be a public limited company?  
(5 marks)
- (Total 20 marks)

### Question 5

- (a) What is meant by misrepresentation in contract law and what are the different natures of misrepresentation?  
(10 marks)
  - (b) What are the remedies available for misrepresentation?  
(10 marks)
- (Total 20 marks)

### Question 6

- (a) What are the duties of a partner in a partnership?  
(10 marks)
  - (b) Discuss the different modes of termination of a partnership.  
(10 marks)
- (Total 20 marks)

### Question 7

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 an artificial personality.  
(20 marks)