

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS LAW – PAPER 3

TUESDAY, 13 DECEMBER 2005

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) Which of the following is true?
 - (a) Law is a peoples' morality.
 - (b) Morality is a peoples' law.
 - (c) Morality may be enforced as law.
 - (d) Law reflects morality of the people.
- (ii) The highest court in Uganda is the:
 - (a) Constitutional Court.
 - (b) High Court.
 - (c) Supreme Court.
 - (d) Court of Appeal.
- (iii) Which of the following is true?
 - (a) Courts make the law.
 - (b) Courts enforce the law.
 - (c) Courts enforce equity.
 - (d) Courts determine the law.
- (iv) *Ratio decidendi* refers to:
 - (a) The facts in a case.
 - (b) The issues identified from the facts of a case.
 - (c) The reasons for a decision taken in a case.
 - (d) The facts not relevant to the decision taken in a case.
- (v) Which of the following is false about a partnership?
 - (a) It has incorporated status.
 - (b) It is based on agency principle.
 - (c) It has no perpetual succession.
 - (d) It has limited liability.
- (vi) A partner by "Holding Out" is:
 - (a) A partner who actively participates in business.
 - (b) A partner who may be adjudged a partner for particular purposes on the doctrine of estoppel.
 - (c) A partner who has the majority shareholding in a partnership.
 - (d) A partner who has special immunity from liability suffered by other partners.

- (vii) Which of the following circumstances may lead to dissolution of a partnership by court?
- (a) Expiration of a fixed term.
 - (b) Bankruptcy of one partner.
 - (c) Insanity of one of the partners.
 - (d) Illegality.
- (viii) Which of the following is true?
- (a) The partners in a firm are only jointly liable for the wrongs of the firm.
 - (b) The partners in a firm are only severally liable for the wrongs of a firm.
 - (c) The partners in a firm are severally and jointly liable for the wrongs of a firm.
 - (d) The partners in a firm are never liable for the wrongs of a firm.
- (ix) An employee is:
- (a) entitled to repatriation at the end of employment all the time.
 - (b) entitled to at least three months' notice before the employment is terminated.
 - (c) entitled to an increase in wages and a bonus if the company makes profit.
 - (d) entitled to have his wages paid if he does the work.
- (x) A contract of service:
- (a) must be in writing if it is for more than six months.
 - (b) can never be in writing if not for six months.
 - (c) defines the rights of the employer only.
 - (d) defines the obligations of the employee only.
- (xi) The normal weekly hours of an employee should not exceed...
- (a) 60 hours.
 - (b) 48 hours.
 - (c) 40 hours.
 - (d) 36 hours.
- (xii) In agency, ratification refers to:
- (a) adopting acts of an agent that were never authorised by the principal.
 - (b) disowning the acts of an agent that are illegal by the principal.
 - (c) allowing the agent to enter into contracts with third parties.
 - (d) entering into contracts by the principal for something the agent was supposed to do.

- (xiii) Contracts in restraint of trade are:
- (a) invalid if they are contrary to public policy.
 - (b) never allowed at all under any circumstances.
 - (c) illegal and unenforceable.
 - (d) implied under most contracts.
- (xiv) Voidable contracts:
- (a) are illegal.
 - (b) are enforceable if not declared void.
 - (c) are not valid contracts.
 - (d) do not confer rights.
- (xv) Government rules, regulations and enactment which prevent one party from fulfilling contractual obligations:
- (a) make the contract illegal.
 - (b) are invalid and void.
 - (c) frustrate the contract.
 - (d) amend the contract.
- (xvi) A statement made by one of the parties to a contract with knowledge that it is untrue or made recklessly is:
- (a) a fraudulent misrepresentation.
 - (b) a reckless misrepresentation.
 - (c) an innocent misrepresentation.
 - (d) considered a lie and of no effect.
- (xvii) Which of the following is false?
- (a) A decision of the majority members of a company at a general meeting is an act of the company.
 - (b) An individual shareholder in a company may sue on its behalf.
 - (c) An agency relationship exists between the officers of the company and the company itself.
 - (d) Authority to exercise the powers of the company is delegated to the members of the company.
- (xviii) The auditors of a company are appointed:
- (a) by the directors of the company all the time.
 - (b) by the general meeting of the company.
 - (c) by special resolution of the company.
 - (d) for the entire life - time of a company.

- (xix) The extra – ordinary general meeting of the company is any company general meeting:
- (a) not the statutory meeting or annual general meeting .
 - (b) not convened to transact company business.
 - (c) where the agenda is not circulated.
 - (d) where new officers of the company are appointed.
- (xx) Which of the following is not a duty of company directors?
- (a) To act in good faith in the company's interests.
 - (b) Their private interests not to conflict with company interests.
 - (c) To vote at the company general meeting.
 - (d) To exercise their powers for the proper purpose.

SECTION B

Question 2

Mugi is a Director in a company called M/s Zaga Holdings Ltd. The company wishes to relocate to bigger business premises. Mugi secures the premises he owns with Mbaxi, his uncle and convinces the co-directors to rent it. He never revealed his relationship with Mbaxi nor his interest in the premises. Later it transpired that the rent charged was far higher than the rent paid for similar premises elsewhere. Meanwhile, Mugi had entered into a contract with M/s Texo Inc. to be supplied with double cabin pick-ups for use in Zaga's operations. The agreement was negotiated and signed by Mugi without involving the other directors. When the pick-ups were finally delivered, it occurred to M/s Texo Inc. that M/s Zaga Holdings did not want them and Mugi acted on his initiative without following the procedures for making such purchases although the Memorandum of Association provided for it.

On close perusal of the contract document, and the delivery documents it was established that the pick-ups delivered did not conform to the specifications indicated.

The directors of M/s Zaga Holdings have declined to take the delivery and M/s Texo Inc. is threatening to sue. On the other hand, Jomo, a shareholder in M/s Zaga wants to sue the M/s Texo for failure to perform on another earlier undertaking.

Required:

Identify all the issues involved and advise the parties on the course of action to take.

(20 marks)

SECTION C

Question 3

Discuss the major sources of law in Uganda.

(20 marks)

Question 4

The company is at law a different person altogether from the subscribers... nor are the subscribers, as members liable, in any shape or form..." *Salomon Vs Salomon & Co.*

Required:

Discuss the statement and give instances when it may not be applicable under statute.

(20 marks)

Question 5

Discuss the doctrine of consideration.

(20 marks)

Question 6

Discuss the duties of an employee and the employer to each other.

(20 marks)

Question 7

(a) What do you understand by the word "promoter" of a company?

(5 marks)

(b) Give the contents of the Articles of Association and the Memorandum of Association of a company.

(15 marks)

Total 20 marks)