

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS LAW – PAPER 3

TUESDAY, 19 JUNE 2007

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) An agent is taken under the law as:
 - (a) a true party to the contract.
 - (b) an intermediary of the principal.
 - (c) a person without ostensible authority.
 - (d) not an employee of the principal.
- (ii) Which of the following may **NOT** constitute reasons for giving notice of termination of a contract of employment?
 - (i) Enable a party sort out his / her affairs.
 - (ii) Allow an employee seek for alternative employment.
 - (iii) Allow the employer seek for another employee.
 - (iv) Inform the public of the availability of the job.
 - (a) (i) and (iv).
 - (b) (i) and (ii).
 - (c) (i) and (iii).
 - (d) (ii) and (iii).
- (iii) is agreement to all terms of an offer.
 - (a) Acceptance
 - (b) Contract making
 - (c) Invitation to treat
 - (d) Intention to enter an agreement
- (iv) *Ratio decidendi* means:
 - (a) issues decided in a case.
 - (b) facts of a case .
 - (c) irrelevant issues in a case.
 - (d) reasons for a judicial decision.
- (v) A void contract is:
 - (a) illegal but enforceable.
 - (b) enforceable.
 - (c) not a valid contract.
 - (d) can confer rights.

- (vi) Which of the following is **FALSE** about a promoter of a company?
- (a) Enters into contracts with third parties.
 - (b) Possesses an automatic right to remuneration from the company.
 - (c) Can be allowed by the Articles to be paid preliminary expenses.
 - (d) Payments to a promoter must be disclosed in the prospectus.
- (vii) Which set below explains two concepts that govern internal relationship of partners?
- (i) Freedom of partners to collectively change the nature of the partnership.
 - (ii) Majority decision does not determine the affairs of partnership.
 - (iii) Utmost good faith.
 - (iv) Partnership does not operate on contract principles.
- (a) (ii) and (iv).
 - (b) (ii) and (iii).
 - (c) (i) and (iii).
 - (d) (i) and (iv).
- (viii) Which of the following is **NOT** a form of winding up of a company?
- (a) By High Court.
 - (b) Registrar striking it off the register.
 - (c) Voluntarily by creditors.
 - (d) Directors' agreement.
- (ix) The purpose of compensatory damages is to:
- (a) compensate the claimant for the losses suffered.
 - (b) resolve the dispute about the parties' rights.
 - (c) punish the offending party for a deliberate wrongful act.
 - (d) prevent harm from occurring.
- (x) Which of the following may **NOT** define a partnership?
- (a) It is based on agency.
 - (b) It has unlimited liability.
 - (c) It has incorporation status.
 - (d) It can be formed informally.
- (xi) Which of the following is true?
- (a) Parliament enacts laws.
 - (b) Parliament enforces laws.
 - (c) The executive interprets laws.
 - (d) Courts can table bills in Parliament.

- (xii) Which of these is **NOT** correct about a corporation?
- (a) Formed by a charter.
 - (b) Formed by a statute.
 - (c) Formed under companies Act.
 - (d) Formed by informal agreement.
- (xiii) Which of these may **NOT** apply to rescission of contract?
- (a) Puts parties into the position they were before the contract was made.
 - (b) Involves repayment of contract price.
 - (c) Involves return of goods supplied under the contract.
 - (d) Involves negotiation of another contract.
- (xiv) Which of the following is **NOT** true about *estoppel*?
- (a) Rule of evidence.
 - (b) Cause of action.
 - (c) Stops a person from denying the truth of a statement he / she made.
 - (d) Statement made makes another party to believe in it.
- (xv) *Caveat Venditor* means:
- (a) seller be aware.
 - (b) sellers' interest.
 - (c) buyers' interest .
 - (d) buyer be aware.
- (xvi) Which of the following may **NOT** grant a person membership of a company?
- (i) Marketing the company's business.
 - (ii) Allotment of shares.
 - (iii) Transfer or transmission of shares.
 - (iv) Subscribing to the Articles of Association.
- (a) (i) and (ii).
 - (b) (i) and (iv).
 - (c) (ii) and (iii).
 - (d) (i) and (iii).

- (xvii) explains where an injured party minimizes damage under a contract which has been breached.
- (a) Arbitration
 - (b) Mitigation
 - (c) Court action
 - (d) Renegotiating the contract
- (xviii) When are the directors allowed to appoint auditors of a company?
- (a) During the annual general meeting.
 - (b) During the meeting of a company secretary and directors.
 - (c) Before the first annual general meeting.
 - (d) After the annual general meeting.
- (xix) Under a severable contract:
- (a) payment becomes due in one lump sum when performance is complete.
 - (b) payment becomes due at various stages of performance.
 - (c) only parties to the contract can have rights to receive payment at performance.
 - (d) performance failure entitles the aggrieved party to a remedy.
- (xx) Payment in lieu implies:
- (a) contract does not terminate immediately.
 - (b) a notice of termination must be given.
 - (c) an employee is entitled to be paid money instead of taking the benefit as provided for in the contract.
 - (d) an employee remains in service.

SECTION B**Question 2**

In January, 2006 AYO Group of Companies contracted Basoka Kwavula Company Ltd (Bask) to build a 250 bedroom hotel at contract price of \$ 200 million at Mbuya Hill. The land on which this hotel is constructed belonged to the Uganda Government and was allocated to AYO Group of Companies under the investment policies in Uganda. The Contract states that the hotel must be completed by 2 March, 2007. After 8 months, work on the hotel had fallen behind schedule and Basoka Kwavula Company Ltd. (Bask) approached AYO Group of Companies to explain that they were in financial difficulties and would not be able to complete the hotel in time. The hotel is already fully booked for November 2007 CHOGM meeting in Kampala. AYO has offered to pay an additional \$ 50 million to ensure that the hotel is built in time. Basoka Kwavula agreed to this arrangement and continued with the construction work. In February 2007, just before the hotel was about to be fully completed, AYO informed Basoka Kwavula they did not intend to pay the additional \$ 50 million. However Bask has continued and finished the hotel.

Meanwhile, AYO Group of Companies' director, one Isabirye has entered into another contract with AYO Group of Companies, a company of which he is director to supply the company with *exotic* beds at a very low cost. He did not inform AYO Group of Companies when he entered into this contract. After the supply of the first consignment of beds, he appealed to the general meeting to approve the contract and be paid. He has intimated to his wife that after he gets the deal out he will start a similar company but only dealing in money lending business. The shareholders are opposing Isabirye on the contract he negotiated with AYO Group of Companies arguing that it was unusual for a director to undertake such dealing with a company.

Required:

Advise all parties on legal issues involved.

(20 marks)

SECTION C

Question 3

- (a) What is misrepresentation? (6 marks)
- (b) Explain, with examples, conditions that must be satisfied to make misrepresentation actionable. (14 marks)
- (Total 20 marks)

Question 4

Mark has been approached by Soft Engine traders, trading as partners, to join them in business. However, Mark has been told that they do not understand how they will manage the partnership affairs, including their rights and duties in the new partnership.

Required:

Advise Mark on the rights and duties of a partner in the management of a partnership. (20 marks)

Question 5

- (a) Explain the basic attributes of a constitution. (10 marks)
- (b) What are some of the ways of making a constitution? (10 marks)
- (Total 20 marks)

Question 6

Tom registered a company with an object of supplying stationery. However, business is not forthcoming and would like to change the company's object. The Registrar of companies has asked Tom to give reasons why he would want to change the original object of the company.

Required

- (a) Advise Tom why a company may alter its Memorandum with respect to the objects. (14 marks)
- (b) Give the contents of the Articles of Association. (6 marks)
- (Total 20 marks)

Question 7

Discuss the concept of discrimination in employment. (20 marks)