

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS LAW – PAPER 3

THURSDAY, 11 DECEMBER 2008

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**.
2. Attempt **all** questions in Sections **A** and any **two** from Section **B** and any **two** questions from Section **C**.
3. Section **A** has **twenty** compulsory multiple-choice questions each carrying 1 mark.
4. Section **B** has **three** questions and only **two** are to be attempted. Each question carries 20 marks.
5. Section **C** has **three** questions and only **two** questions are to be attempted. Each question carries 20 marks.
6. Please, read further instructions on the answer book before attempting any question.

© 2008 Public Accountants Examinations Board

SECTION A

Question 1

- (i) Which one of the following is an equitable remedy?
 - (a) Compensation.
 - (b) Decree absolute.
 - (c) Specific performance.
 - (d) Restitution.
- (ii) An order requiring an officer to produce a person in his custody before a court of law is called:
 - (a) Mandamus.
 - (b) Habeas corpus.
 - (c) Certiorari.
 - (d) Prohibition.
- (iii) Perpetual succession in company law means that:
 - (a) changes in membership arising from bankruptcy or death do affect the company's existence.
 - (b) shares in the company are freely transferable.
 - (c) there is a restriction on the transfer of shares to existing members.
 - (d) changes in membership arising from the death or bankruptcy do not affect the company's existence.
- (iv) Which of the following does **NOT** constitute a source of law?
 - (a) An Act of parliament.
 - (b) Custom.
 - (c) Constitution.
 - (d) Government policy.
- (v) Which of the following courts in Uganda also sits as the Constitutional Court?
 - (a) High Court.
 - (b) Court of Appeal.
 - (c) Court Martial.
 - (d) Supreme Court.
- (vi) A rule of statutory interpretation which is used by court in order to interpret a statute to avoid arriving at an absurd decision is known as:
 - (a) Ejusdem Generis rule.
 - (b) Literal rule.
 - (c) Mischief rule.
 - (d) Golden rule.

- (vii) The principle of law through which subordinate courts are bound by decisions of superior courts is known as:
- (a) precedent.
 - (b) obiter dictum.
 - (c) ratio decidendi.
 - (d) locus classicus.
- (viii) The doctrine of estoppel was exhaustively discussed in:
- (a) High Trees case.
 - (b) Pinnel's case.
 - (c) Salomon v Salomon.
 - (d) Foss v Harbottle.
- (ix) Which of the following statements is correct?
- (i) It is not possible to register a company limited by shares with the same name as a company already on the register.
 - (ii) Once on the register, a company limited by shares cannot change its registered office.
- (a) (i).
 - (b) (ii).
 - (c) (i) and (ii).
 - (d) Neither (i) nor (ii).
- (x) Which of the following is correct?
- (i) The articles of association of a company limited by shares contain the internal regulations of the company.
 - (ii) The articles of association form a contract between the shareholders and the company.
- (a) (i).
 - (b) (ii).
 - (c) (i) and (ii).
 - (d) Neither (i) nor (ii).
- (xi) The rule that only a person who is party to contract can sue on it is known as:
- (a) indoor management rule.
 - (b) FIFO rule.
 - (c) privity rule.
 - (d) hearsay rule.
- (xii) A person is said to have died intestate when he dies:
- (a) without marrying.
 - (b) without making a will.
 - (c) without children.
 - (d) after making a will.

- (xiii) Which of the following is **NOT** a method of dissolution of a partnership other than by court?
- (a) Expiration of time or duration.
 - (b) Notice.
 - (c) Illegality.
 - (d) Insanity.
- (xiv) A process through which a third party undertakes to perform the obligations of another party to a contract is known as
- (a) novation.
 - (b) ratification.
 - (c) frustration.
 - (d) discharge.
- (xv) A trust formed by:
- (a) deed.
 - (b) court.
 - (c) the Administrator General.
 - (d) the Local Government.
- (xvi) The partner who does not actively participate in the management of the partnership is called a:
- (a) general partner.
 - (b) dormant partner.
 - (c) dominant partner.
 - (d) holding out partner.
- (xvii) Which of the following is not a condition for ratification?
- (a) Ratification should be done within reasonable time.
 - (b) Ratification should be for the whole contract.
 - (c) The principal should be having capacity to contract.
 - (d) Ratification can be done any time.
- (xviii) Which of the following remedies is **NOT** available for a breach of contract to provide personal services?
- (a) Damages.
 - (b) Specific performance.
 - (c) Injunction.
 - (d) Action for the price.
- (xix) Apparent authority of an agent is also referred to as:
- (a) ostensible.
 - (b) actual authority.
 - (c) excessive authority.
 - (d) express authority.

- (xx) A document acknowledging the indebtedness of the company is known as:
- (a) prospectus.
 - (b) debenture.
 - (c) advertisement.
 - (d) share certificate.

SECTION B

Question 2

Kamya and Sabuli are registered as partners in a firm of building and civil engineering contractors known as 'Gookya Partners'. Bakuli Bank (U) Ltd opened an account for the firm on an application signed by Kamya. The bank subsequently granted overdraft facilities and sent the monthly statements of the firm's account only to Kamya. Later on, after a considerable period of operation of the account, notices were published in the Hot News newspaper in the name of 'Pleader and Co Advocates' stating that Kamya had ceased to be a partner in the firm. Bakuli Bank (U) Ltd has now sued the partners to recover the balance owing on the overdraft on the firm's account.

Required:

Discuss all the legal issues arising from the above facts.

(20 marks)

Question 3

Gundi and Kapapala incorporated a company under the Uganda Companies Act. The company is registered as Nani Railway Carriage Ltd. Clause 3 of its memorandum of association provides that the objects for which the company was established was 'to make and sell or lend or hire; railway carriages and wagons of all kinds of railway plant, fittings, machinery, and rolling stock; carry on the business of mechanical engineers and general contractors; purchase and sell as merchants; timber, coal, metals or other materials and buy and sell any such materials on commission or as agents'. Clause 4 of the company's articles of association provides that 'an extension of the company's business beyond or for other than the objects or purposes expressed or implied in the memorandum of association shall take place only in pursuance of a special resolution'.

Nani Railway Carriage Ltd agreed to provide Rift Valley Railways Company with finance for the construction of a railway line in Kenya. Nani Railway Carriage Ltd later repudiated the agreement and Rift Valley Railways Company sued for damages.

Required:

Do you think Rift Valley Railways Company's suit will succeed? Give reasons for your answer.

(20 marks)

Question 4

Crazy P, a music performer, entered into two separate contracts. The first contract was with a reputable beer company and the other one with a reputable phone company.

According to the first contract with the beer company, Crazy P was supposed to perform on 1 and 10 April 2008. Unfortunately he was taken ill and was unable to appear until 10 April 2008. The beer company hired a substitute who insisted on a contract covering the whole duration and therefore refused to engage Crazy P when he turned up on 10 April 2008. Crazy P sued the beer company for breach of contract.

According to the second contract with the phone company Crazy P was engaged for a period of 15 weeks to sing in theatres, halls and concerts. He was required to appear six days in advance for the purpose of rehearsals but owing to illness he only arrived three days in advance. The phone company refused to accept his services contending that the company was discharged by breach. Crazy P has sued the phone company as well.

Required:

Advise Crazy P on the chances of success of his two cases

(20 marks)

SECTION C

Question 5

'A company may be defined as a legal entity or artificial person'.

Required:

Explain what is meant by this statement and discuss the consequences of incorporation.

(20 marks)

Question 6

Discuss the different rules of statutory interpretation.

(20 marks)

Question 7

Discuss the elements (vitiating elements) that may render a perfectly regular contract void or voidable.

(20 marks)