

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS LAW – PAPER 3

THURSDAY, 19 JUNE 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.

SECTION A

Question 1

- (i) There should be law in society in order to:
 - (a) create avenues to the rich to get more money.
 - (b) protect the public from insurgency.
 - (c) promote public order.
 - (d) protect criminals by the police.
- (ii) Equity is:
 - (a) common law.
 - (b) natural justice and fairness.
 - (c) custom and judicial law.
 - (d) equitable justice.
- (iii) Which of the following is correct?
 - (a) The liability of members of a private company may be unlimited.
 - (b) A private limited liability company has only one shareholder.
 - (c) The liability of members of a public limited liability company is limited to seven members.
 - (d) A sole trader has limited liability.
- (iv) What evidence is there to show that a company is incorporated?
 - (a) Articles of Association.
 - (b) Memorandum of Association.
 - (c) A statutory declaration.
 - (d) Certificate of incorporation.
- (v) Which of the following documents is not a pre-requisite for registration of a private limited company?
 - (a) Statement of nominal capital.
 - (b) Prospectus or statement in lieu of it.
 - (c) Articles and Memorandum of Association.
 - (d) Statutory declaration.
- (vi) When may a restraint clause under the contract of employment not be allowed?
 - (a) If it is intended to curtail competition.
 - (b) When it protects misuse of the employer's trade secrets.
 - (c) If it protects business connections.
 - (d) If geographical coverage is reasonable.

- (vii) What is the process by which a legal representative can legally own shares of a deceased shareholder?
- (a) Succession.
 - (b) Inheritance.
 - (c) Transmission.
 - (d) Transfer.
- (viii) Voluntary winding up of a company may be commenced by:
- (a) order from court.
 - (b) a resolution by company employees.
 - (c) a resolution by company shareholders.
 - (d) order from a liquidator.
- (ix) When an employee is incapacitated from duty due to illness, the employer is entitled to terminate his/her contract of service after:
- (a) 4 months.
 - (b) 1 month.
 - (c) 3 months.
 - (d) 2 months.
- (x) The relationship which subsists between people doing business together with intention to profit is:
- (a) agency.
 - (b) partnership.
 - (c) company.
 - (d) sole trader.
- (xi) Under the doctrine of Estoppel, a party is estopped from:
- (a) suing on a contract.
 - (b) fulfilling his obligations.
 - (c) breaching a contract.
 - (d) enforcing his rights on a contract.
- (xii) The rule governing '*stare decisis*' states that:
- (a) the lower courts cannot make binding decisions.
 - (b) only reasonable decisions are binding.
 - (c) a decision remains binding unless another one is made by a higher court overturning it.
 - (d) all court's decisions are binding.

- (xiii) The rights and obligations of partners is set out in the:
- (a) Partnership deed.
 - (b) Articles and Memorandum of Association.
 - (c) Partnership Act and Articles of Association.
 - (d) Memorandum of Association.
- (xiv) Which of the following is a rule of statutory interpretation?
- (a) Liberal rule.
 - (b) Literal rule.
 - (c) Technical rule.
 - (d) Casual rule.
- (xv) An offer cannot be terminated by:
- (a) acceptance.
 - (b) revocation by the offeror.
 - (c) counter offer.
 - (d) lapse of time.
- (xvi) The lowest court of record in Uganda is the;
- (a) Supreme Court.
 - (b) Magistrate's Court.
 - (c) Court of Appeal.
 - (d) High Court.
- (xvii) The doctrine that once a judge has delivered a final ruling he cannot alter is called:
- (a) *stare decisis*.
 - (b) *funitus* official.
 - (c) *fait accompli*.
 - (d) precedent.
- (xviii) An act of the principal to adopt the acts of his agent without the principal's authority is termed as:
- (a) joint venture.
 - (b) merger.
 - (c) rectification.
 - (d) ratification.

- (xix) Which of the following is an act of bankruptcy?
- (a) Mortgaging all one's property.
 - (b) Departing realm without informing creditors.
 - (c) Keeping house.
 - (d) Failing to pay partners on demand.
- (xx) A winding up petition may be presented to the court by any of the following, **EXCEPT**:
- (a) the Minister of Justice.
 - (b) a contributory.
 - (c) any creditor of the company.
 - (d) the company itself.

SECTION B

Question 2

Musa is a Human Resources (HR) Manager of Trust Telcom Ltd, a telecommunications company. Last month, two ladies, Tabu and Jogo, appeared for an interview. Tabu was black while Jogo was brown. At the interview, the HR Manager informed Tabu that the institution does not employ black ladies and that was enough for her to fail the interview. No reason was given to her why that was so.

Meanwhile, Jogo who got the job in the company has been under too much pressure from her boss, Mr. Muwanga, who writes to her small notes suggesting a secret love relationship. Last week, Mr. Muwanga offered her a car as a gift for her birthday. She was so depressed and did not know what to do. In a desperate measure, she confided in the Chief Executive Officer (CEO) about the state of affairs and sought advice on what to do. To her surprise, the CEO suspended her for insubordination. The CEO and Mr. Muwanga convened a disciplinary extraordinary meeting and summoned her accordingly. She appeared with her lawyer but the lawyer was chased away by Mr. Muwanga. Jogo remained in the disciplinary meeting alone. Mr. Muwanga immediately asked her whether she had anything to say before she was sentenced. She said she wanted to know the charges against her before she could respond. Mr. Muwanga got annoyed and accused her of being insubordinate. She was immediately dismissed.

Meanwhile, Ms Bizibu, the chief accountant, who gave birth last week was given a three weeks' maternity leave. When she requested for more days, she was suspended. Yet before her maternity leave, she had spent three years without going for leave. Upon returning from leave, her office had been taken over by Ms

Namutebi, the new girl on the block. The CEO advised her to take on the position of receptionist. Her salary was immediately reduced.

Required:

Raise all the issues and advise the parties accordingly.

(20 marks)

Question 3

Joseph, Vincent and Francis are very good friends and are intending to start up a business together. They all intend to take part in the management of the business but would like to avoid personal liability for its debts. They are anxious that the affairs of the business and the arrangements between themselves should be kept secret as far as possible, and would like to be able to transfer their respective interests in the business without difficulty.

Required:

Without regard to tax considerations, advise them whether it would be better for them to form a company limited by shares or a partnership and state the advantages and disadvantages of each.

(20 marks)

Question 4

Mayinja, a well known businessman in Nambole improved his business and was desirous of upgrading it to a company. In June 2006, he teamed up with Kaketo, Tatu, Lamunu, and four others and formed a company limited by shares; Makatala Ltd. In July, Mayinja identified some buildings for the company and borrowed some money amounting to Shs 40 million from Bwavu Mporogoma Credit Micro Finance Ltd. From that amount he used Shs 20 million to purchase a building and the remaining Shs 20 million was used to buy a second-hand tractor for the company.

Meanwhile, on 27 July 2007 they received a certificate of incorporation from the Registrar of Companies. This actually showed that all the requirements for incorporation were met.

Mayinja and Kaketo appointed themselves Directors of Makatala Ltd. In September 2007, the Directors after issuing a notice of seven days convened an extra-ordinary meeting which was never attended by other shareholders. A resolution was passed to change the objectives of the company to include provision of audit services.

Another resolution was also passed to dismiss the other members who did not attend the meeting. The two directors also resolved to sell off the company's

building to meet its debts with Bwavu Mporogoma Credit Finance Ltd. Other members are furious and don't know what to do. The Micro Finance has unleashed its lawyers to sue the company and recover its money.

Required:

- (a) Raise all the legal issues involved and advise the parties on the appropriate course of action.

(12 marks)

- (b) Discuss the necessary qualifications of a director of a company.

(8 marks)

(Total 20 marks)

SECTION C

Question 5

- (a) What is meant by the term 'agency' in the law of agency?

(2 marks)

- (b) How is an agency created and terminated?

(18 marks)

(Total 20 marks)

Question 6

What is a misrepresentation and what effect does it have upon the formation of contract?

(20 marks)

Question 7

Explain the circumstances under which the veil of incorporation would be lifted in order to find the members of a company personally liable on a company transaction.

(20 marks)