

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### BUSINESS LAW – PAPER 3

**TUESDAY, 15 JUNE 2010**

#### INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 15 minutes**.  
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
2. Attempt **all** questions in Sections **A**, any **two** questions 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** questions 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) Which of the following branches of law governs the relationship between the individual and the state?
- (a) Private law.
  - (b) Public law.
  - (c) Criminal law.
  - (d) Civil law.
- (ii) A company's meetings can be convened by the following **EXCEPT** by the:
- (a) directors.
  - (b) members.
  - (c) contributories.
  - (d) court.
- (iii) Civil proceedings are initiated by the:
- (a) magistrate.
  - (b) plaintiff.
  - (c) Director of Public Prosecutions.
  - (d) Inspector General of Police.
- (iv) At common law, the **two** main duties of the directors of a company are:
- (i) the fiduciary duty.
  - (ii) duty to keep books of account.
  - (iii) duty of care and skill.
  - (iv) duty to disclose secret profits.
- (a) (i) and (ii).
  - (b) (ii) and (iii).
  - (c) (i) and (iii).
  - (d) (ii) and (iv).
- (v) A secured debenture holder can apply to court for the following orders.
- (i) sale
  - (ii) foreclosure
  - (iii) delivery of possession.
- (a) (i) and (ii).
  - (b) (i) and (iii).
  - (c) (ii) and (iii).
  - (d) (i), (ii) and (iii).

- (vi) Case law is:
- (a) the law which applies in a country declared by judges on the basis of fundamental legal principles.
  - (b) a body of discretionary rules and remedies devised by the courts on the basis of fairness and good conscienceness to rectify the defects of common law.
  - (c) a law created by parliament and other bodies to whom it has delegated authority.
  - (d) a set of rules that govern courts.
- (vii) Which of the following statements best defines what is meant by a share in company law?
- (a) It is the money which is paid by the people who form a company.
  - (b) It is the interest of a shareholder in a company measured by a sum of money.
  - (c) It is the dividend which has to be shared among the shareholders of a company.
  - (d) It is the amount of money injected into the company and is secured by one of the company assets.
- (viii) Which of the following is true about the appointment of auditors of a company?
- (a) There is no need for a resolution for the appointment of new auditors.
  - (b) A casual vacancy in the office of auditor may be filled by the secretary of the company.
  - (c) Dormant companies may, by special resolution, be exempted from appointing auditors.
  - (d) The first auditors are appointed by the shareholders.
- (ix) Which of the following is **NOT** an exception for the protection of minorities emanating from the rule in Foss-v-Harbottle?
- (a) Any member may take action where the company has acted illegally.
  - (b) A member may object where his personal rights are denied.
  - (c) If a majority of shareholders have perpetuated a fraud on the minority they cannot vote to ratify their own misconduct.
  - (d) The minority will not have a right of action where the company fails to comply with special procedures.

- (x) Which of the following is **FALSE** about the liquidator of a company?
- (a) He/she must exercise reasonable care and skill in carrying out his/her obligation.
  - (b) He/she is an agent and sole principal of the directors of the company when he/she enters into the contract for liquidation.
  - (c) He/she takes over the powers of the directors of the company and therefore owes a fiduciary duty to the company.
  - (d) He/she has powers to pay any class of creditors.
- (xi) Which of the following is **FALSE** about the law of contract?
- (a) All contracts are agreements.
  - (b) A contract may be oral or in writing.
  - (c) Contracts which must be by deed include conveyance of land.
  - (d) All agreements are contracts.
- (xii) An offer is:
- (a) an invitation to make offers.
  - (b) a definite and unequivocal statement of willingness to be bound by a contract.
  - (c) one of the ways in which a contract can be terminated by revocation.
  - (d) an invitation to treat.
- (xiii) Under the law of contract, when an offer is made by the offeror to the offeree and the latter replies by suggesting another price, it is termed as:
- (a) consideration.
  - (b) acceptance of offer.
  - (c) counter offer.
  - (d) lapse of the offer.
- (xiv) Which of the following is **NOT** part of the sources of law in Uganda?
- (a) Case law.
  - (b) International treaties / conventions.
  - (c) Statutes.
  - (d) Common law.

- (xv) A husband is free to rebut the presumption of agency by cohabitation in any of the following ways **EXCEPT** where:
- (a) the wife's order was excessive in quantity.
  - (b) he had forbidden the wife to pledge his credit.
  - (c) he had previously warned the shopkeeper in question not to give any credit to his wife.
  - (d) the wife's order was a necessity suitable to their life style.
- (xvi) In order to prove the existence of a partnership, the following elements must concur:
- (i) There must be business.
  - (ii) The business must be carried on in common.
  - (iii) The business must be carried on with a view of making and sharing profits.
- (a) (i) and (ii)
  - (b) (i) and (iii)
  - (c) (ii) and (iii)
  - (d) (i), (ii) and (iii)
- (xvii) Which of the following is **NOT** found in a partnership deed?
- (a) The names of the directors.
  - (b) The names of persons to be partners.
  - (c) The nature and place of business and the name of the firm.
  - (d) How profits and losses are to be shared.
- (xviii) The following documents are necessary for the registration of a private limited company **EXCEPT**:
- (a) articles and memorandum of association.
  - (b) prospectus
  - (c) statement of nominal capital.
  - (d) statutory declaration.
- (xix) Which of the following is **FALSE** about the employment of children in Uganda?
- (a) A child between the age of 12 – 14 years can be employed for light work.
  - (b) A child under the age of 12 is not permitted to engage in any employment.
  - (c) It is illegal to employ a child.
  - (d) A child shall not be employed to work between 8.00am to 8.00 p.m.

- (xx) A debenture is a document:
- (a) acknowledging indebtedness of a company.
  - (b) acknowledging the shareholding in a company.
  - (c) which is evidence of incorporation.
  - (d) through which ownership of shares is transmitted.

## SECTION B

### Question 2

Under the law of agency, explain the principles of law applicable to each of the following situations and give the legal advice required:

- (a) Bunkeddeko wanted to sell his house and instructed Fundi to sell it on his behalf. He agreed to pay Fundi Shs 2 million on execution of the sale. Fundi sold the house and was paid his commission of Shs 2 million by Bunkeddeko. Later on Bunkeddeko discovered that Fundi had also been paid a commission of Shs 1 million by the purchaser.

**Required:**

Advise Bunkeddeko whether he can sue Fundi and, if so, what remedies are available to him.

**(8 marks)**

- (b) Purikeria advertised her car for sale in a newspaper and then went abroad leaving her car in the drive. While Purikeria was away, Tombowa, having seen the advertisement, went to inspect the car and decided to make an offer for it. Purikeria's neighbour, Alfonse, pretending to act with Purikeria's authority, entered into negotiations with Tombowa and eventually accepted Tombowa's offer on Purikeria's behalf. Alfonse had no authority to act as such. When Purikeria returned from abroad, she wrote to Tombowa stating that she was ratifying Alfonse's act.

**Required:**

Advise Tombowa whether he is bound by the contract.

**(8 marks)**

- (c) Hanifa wanted to insure the contents of her house against all losses and damage and appointed Corombo to effect the policy instructing him to "insure any furniture".

Having obtained quotations from various companies, Corombo eventually took out insurance with Yanguwa Star Insurance Company Limited.

A few months later, vandals broke into Hanifa's house and did substantial damage to her furniture. They did not steal anything. When Hanifa

lodged a claim, Yanguwa Insurance Company Limited refused to pay claiming that the policy covered loss by theft or fire but not damage by vandals.

**Required:**

Advise Hanifa whether she can recover the value of the damaged furniture from Corombo.

**(4 marks)**

**(Total 20 marks)**

**Question 3**

- (a) The directors of Makondere Ltd have decided to change the name of their company to Kapapara Ltd.

**Required:**

Explain the procedure that they should adopt, and the requirements that must be satisfied.

**(5 marks)**

- (b) Explain how, and to what extent, a company may alter its objects, and the rights of a shareholder who disagrees with the alternation.

**(5 marks)**

- (c) The directors of Paramboti Traders Ltd have resolved to invest the company's funds in property development, an activity not authorized by the company's objects. In furtherance of this resolution, the directors have entered; on behalf of Paramboti Traders Ltd into a contract with Zaidi Property Dealers Ltd to purchase the latter's land for property development purposes.

In the meantime, the directors have received a letter from a number of dissenting Paramboti Traders Ltd's shareholders, who together control 25% of the company's share capital. The shareholders object to the directors' actions on the basis that they are ultra vires the company's memorandum of association and call upon them to cancel the contract with Zaidi Property Dealers Ltd.

The directors, however, maintain that the contract is in the best interests of the company.

**Required:**

As company secretary of Paramboti Traders Ltd, prepare an internal memorandum for the directors advising them:

- (i) on the powers of the dissenting shareholders in the event of the directors ignoring their letter and proceeding with property development.

**(7 marks)**

- (ii) whether Paramboti Traders Ltd is legally entitled to withdraw from its contract with Zaidi Property Dealers Ltd.

**(3 marks)**

**(Total 20 marks)**

**Question 4**

Sheba has been approached by Mawazo Timber Traders, trading as partners, to join them in business. However, Sheba having got money from a money lender, is worried that if she joins Mawazo Timber Traders, they might defraud her and she loses her money. She has reliably been informed that these people neither understand how to manage partnership affairs nor know their rights and duties as partners.

**Required:**

Advise Sheba on the rights and duties of partners in the management of a partnership.

**(20 marks)**

**SECTION C**

**Question 5**

Describe the legal procedure which must be followed in order to effect the registration of a new public limited company and to enable it commence business.

**(20 marks)**

**Question 6**

If court finds out that an employee has been unfairly dismissed, what orders can it make, and under what circumstances will it make them?

**(20 marks)**

**Question 7**

Define what is meant by consideration and state the rules governing it.

**(20 marks)**