

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### BUSINESS LAW - PAPER 3

**TUESDAY, 07 DECEMBER 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.

**© 2010 *Public Accountants Examinations Board***

## SECTION A

### Question 1

- (i) A creditor gives authority to a third party to claim on his/her behalf through:
  - (a) assignment.
  - (b) powers of attorney.
  - (c) novation.
  - (d) agency.
- (ii) Which of the following is true about an agent?
  - (a) Intermediary of the principal.
  - (b) True party to the contract.
  - (c) Not an employee of the principal.
  - (d) A person without ostensible authority.
- (iii) Which of the following is **NOT** true about a company's proper books of account?
  - (a) Contains a record of all money received and expended.
  - (b) Contains the company's assets and liabilities.
  - (c) Contains information about the company's sales and purchases of goods.
  - (d) Contains information about the status of the company's shareholders.
- (iv) ..... is the most important source of consumer protection law?
  - (a) Contract law
  - (b) Tort law
  - (c) Criminal law
  - (d) Common law
- (v) *Ratio decidendi* means:
  - (a) issues decided in a case.
  - (b) facts of a case.
  - (c) reasons for a judicial decision.
  - (d) irrelevant issues in a case.
- (vi) Which of the following is **NOT** true about a promoter of a company?
  - (a) Enters into contracts with third parties.
  - (b) Has an automatic right to remuneration from the company.

- (c) Articles can allow a promoter to be paid preliminary expenses.
- (d) Payments to a promoter must be disclosed in the prospectus.
- (vii) Which of the following is **NOT** a rule of statutory interpretation?
  - (a) Ejusdem Generis Rule.
  - (b) Mischief Rule.
  - (c) The Literal Rule.
  - (d) Stare Decisis Rule.
- (viii) Which of the following is **NOT** true of a company?
  - (a) It has a personality distinct from its owners.
  - (b) It can sue and be sued in its own name.
  - (c) It can acquire assets.
  - (d) Death of any shareholder inevitably leads to dissolution of the company.
- (ix) The purpose of compensatory damages is to:
  - (a) punish the offending party for a deliberate wrongful act.
  - (b) resolve the dispute about the parties' rights.
  - (c) compensate the claimant for the loss(es) suffered.
  - (d) prevent harm from occurring.
- (x) ..... applies to a partnership.
  - (a) Based on agency
  - (b) Limited liability
  - (c) Incorporation status
  - (d) Informal formation
- (xi) The core role of the Parliament of Uganda is to:
  - (a) enact laws.
  - (b) enforce laws.
  - (c) interpret laws.
  - (d) draft bills.
- (xii) Which of the following is **NOT** correct about a partnership?
  - (a) It can be dissolved by consent of all partners.
  - (b) Death of a partner may lead to its dissolution.
  - (c) May be formed by informal agreement.
  - (d) It has perpetual succession.

- (xiii) The term '*ad idem*' means:
- (a) good faith between parties.
  - (b) freedom to contract.
  - (c) mutual trust.
  - (d) mutual consent.
- (xiv) The rule of *estoppel* does **NOT** relate to:
- (a) rule of evidence.
  - (b) cause of action.
  - (c) stopping a person from denying the truth of a statement he/she made.
  - (d) a statement made which 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 status in a company?
- (i) Promoting 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) The process where one party sends a form stating that the contract is on their standard terms of business and the other party responds by returning their form and stating that the contract is on their terms results into:
- (a) negotiation.
  - (b) bidding contract.
  - (c) a counter offer.
  - (d) battle of forms.

- (xviii) When are directors allowed to appoint auditors of a company?
- (a) During an annual general meeting.
  - (b) During the meeting of a company's secretary and directors.
  - (c) Before the first annual general meeting.
  - (d) After the annual general meeting.
- (xix) How many working days of paternity and maternity leave are men and women respectively entitled to?
- (a) 5 and 45.
  - (b) 60 and 15.
  - (c) 4 and 60.
  - (d) 4 and 45.
- (xx) Every public company limited by shares or guarantee and having a share capital must hold a statutory meeting at least:
- (a) after three months but not beyond one year from the date it commences business.
  - (b) one month and not less than three months from the date it commences business.
  - (c) six months and not less than a year from the date it commences business.
  - (d) within in a year from the date it commences business.

## **SECTION B**

### **Question 2**

Mrs. Josh was employed as saleslady by Ponce Trading Company Ltd which is situated in Kampala. She was recruited all the way from Mbale. After serving for only six months, her contract of employment was terminated without any pay. She had not made any savings from her previous salaries and could, therefore, not afford transport back to Mbale. Mrs. Josh's desire was to go back to Mbale.

Three months before her employment was terminated, Mrs Josh had placed an order for executive chairs from Kabusu Wood Company Ltd and made part payment. Three days after her termination, Kabusu Wood Company Ltd delivered the chairs, but Mrs. Josh refused to pay and instead requested for a refund of the part payment she had made to Kabusu Wood Company Ltd. Kabusu Wood Company Ltd has summarily rejected this request.

Meanwhile, Mrs. Josh has formed a company called Spear Clothes Ltd and is now the director of that company. As director, she has entered

into contract with the company to supply the company with *exotic* bed sheets. She did not inform the general meeting of the company prior to entering into this contract. After supplying the first consignment of bed sheets, Mrs. Josh laid the matter before the general meeting and appealed to it to approve the contract so that she is paid all her money. The shareholders have refused to approve this contract and Mrs. Josh is now worried that she may not be paid for the consignment she has already delivered.

**Required:**

Advise Mrs. Josh on the legal issues involved in the above scenario.

**(20 marks)**

**Question 3**

Mrs. Jolobi and Mwiza had been friends for a while and later formed a partnership business called Trendy Honey Partners. The partnership was engaged in the processing of honey for export in and around Aloi county in Lira. After two years of business, they realized that they needed to invest more money into the partnership and as a consequence they approached Mr. Munkeke and requested him to join the partnership.

Mr. Munkeke joined them. However, before he had joined, the business had accumulated debts which the former partners were struggling to pay. The debts included an unpaid loan from Fino Bank. Despite all these liabilities, Mr. Munkeke agreed to join them in business on an understanding that he would not be party to any obligations incurred before he had joined the partnership.

After Mr. Munkeke had joined the partnership, the business greatly improved and no liabilities were accumulated. After five years of progress, Mr. Munkeke resigned from the partnership. However, Mrs. Jolobi and Mwiza as original partners decided to remain together in business, which again accumulated debts. Their creditors, including the Fino Bank took them to court to recover their money. At this point Mrs. Jolobi and Mwiza's lawyer, made an application requesting court to order Mr. Munkeke to meet some of the liabilities they had incurred, even after he had long ago resigned from the partnership, a request Mr. Munkeke objects to in very strong terms.

Following his departure from the partnership, Mr. Munkeke got a job with Nakuwadde Company Ltd as a manager. His contract of service provided that either party should give the other a three months notice in the event of termination of the employment contract. It also provided that in case of any allegations of misconduct, the manager

was entitled to be heard by the disciplinary committee where he would present his case before termination. In March 2009, Mr. Munkeke was suspended in connection with fraud of Shs 65 million. The matter was reported to Jinja Road Police Station. Mr. Munkenke made a statement before AIP Cobra, a no-nonsense police officer and denied all the charges. There were also other staff members who were arrested and charged with him before Nakawa Court. Shortly after the charge but before the court tried their case; Mr. Munkeke received a letter of dismissal from Nakuwadde Company Ltd. The reason for dismissal was that he had mismanaged the company affairs, including financial mismanagement. Nakawa Court later decided that he had no case to answer and that there was no wrong doing. Mr. Munkeke wants to take court action claiming that he was wrongfully terminated and he would want to be reinstated.

**Required:**

Advise Mr. Munkeke on the legal position on the issues involved in the above circumstances.

**(20 marks)**

**Question 4**

MAKS Ltd is a leading company trading in rice in Ntida, a suburb of Kampala. The company sent an offer by post to Chap Boy Ltd in Hoima, offering to supply them with 100 bags of rice on 24 March 2010. MAKS Ltd expected a response before 4 April 2010. The letter was wrongly addressed and did not reach Chap Boy Ltd until 3 April 2010. Chap Boy Ltd replied that very evening accepting the offer. The letter was posted on the same day. MAKS Ltd sold off the rice on 4 April 2010. Chap Boy Ltd is threatening to sue MAKS Ltd, arguing that a contract had been accepted when they posted their reply on 3 April 2010.

**Required:**

- (a) Explain the application and the effect of the postal rule in offer and acceptance.

**(10 marks)**

- (b) Explain, with examples, the exception to the postal rule.

**(10 marks)**

**(Total 20 marks)**



**SECTION C**

**Question 5**

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

**Question 6**

- (a) Define the term 'capital' under company law.  
(4 marks)
- (b) Discuss the different types and classes of share capital.  
(16 marks)
- (Total 20 marks)**

**Question 7**

*"Consideration either represents some benefits to a person making a promise or some detriment, to the person to whom a promise is made, or both" (Currie v Misa 1875).*

**Required:**

In view of the above statement, discuss the doctrine of consideration.  
(20 marks)