

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF LAW I - PAPER 2

WEDNESDAY, 15 JUNE 2011

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 Section **A**, any **two** questions in Section **B** and any **three** questions in Section **C**.
3. Section **A** has **twenty** compulsory multiple-choice questions, each carrying 1¹/₂ marks.
4. Section **B** has **three** questions and only **two** are to be attempted. Each question carries 20 marks.
5. Section **C** has **four** questions and only **three** are to be attempted. Each question carries 10 marks.
6. Please read further instructions on the answer booklet.

SECTION A

Question 1

- (i) Which of the following is **NOT** a definition of law?
- (a) General rules of external human action enforced by a sovereign political authority.
 - (b) A body of rules which are seen to operate as binding rules in the community by means of which sufficient compliance with rules may be secured to enable the set of rules to be seen binding.
 - (c) A body of principles recognized and applied by the state in the administration of justice.
 - (d) Rules of conduct and standards prescribed by the people in authority to deal with criminals in the state.
- (ii) Which of the following is **NOT** a type of civil wrong?
- (a) Breach of law like murdering.
 - (b) Breach of contract.
 - (c) Breach of tort.
 - (d) Breach of trust.
- (iii)defines the composition and powers of different organs of the state on the institution and their relationship to each other and to the private citizens.
- (a) An Act of Parliament.
 - (b) Amended law.
 - (c) The constitution.
 - (d) The Companies Act.
- (iv) A legal person is:
- (a) a human being who is liable to be sued alone.
 - (b) one whom the law recognizes as having certain legal rights and duties which the courts will enforce.
 - (c) a group of persons known as corporations which are created by law and operate as partners.
 - (d) an advocate of the High Court who is authorized to represent people in courts of law.

- (v) An unincorporated association is:
- (a) one which does not have a distinct legal personality of its own separate from the members themselves.
 - (b) where in the eyes of the law regards its existence as a legal entity.
 - (c) where members are not individually responsible for their torts but the association.
 - (d) that one which can own property or enter into contracts in their own names.
- (vi) A contract is:
- (a) a set of rules between two persons which are intended to create an understanding between them.
 - (b) an agreement between two or more persons which is intended to create legally binding obligations.
 - (c) an agreement enforceable at law, made between two or more persons, by which rights are not acquired by one or more.
 - (d) an agreement between a husband and a wife to pay her housekeeping allowance or a gold ring on her birthday.
- (vii) Which of the following contracts do **NOT** need to be supported by written evidence?
- (a) Contracts of sale of land.
 - (b) Contracts of guarantee.
 - (c) Contracts of employment for one week.
 - (d) Contracts for sale of goods of two hundred shillings and above.
- (viii) Which of the following is **NOT** a rule of offer?
- (a) An offer may be made by word of mouth, in writing or by conduct.
 - (b) An offer must contemplate giving rise to legal consequences if accepted.
 - (c) Every offer must be communicated.
 - (d) The offeror can bind the other party without his consent.
- (ix) An agent is:
- (a) a person employed expressly or impliedly to do any act for another or to represent another in dealing with a third person.
 - (b) a person with authority conferred to him by law to deal with his principal.
 - (c) a businessman employed to do any act on behalf of the principal.
 - (d) the relationship that subsists between the agent and principal.

- (x) Which of the following is **NOT** a right of an agent?
- (a) Indemnity.
 - (b) Lien.
 - (c) Ratification.
 - (d) Remuneration.
- (xi) A universal agent is:
- (a) appointed to do anything within the authority given to him.
 - (b) appointment for one particular purpose.
 - (c) one employed to buy or sell goods for a commission.
 - (d) one who has been appointed to act for the principal in all matters.
- (xii) Which of the following documents contains the rights and duties of the partners among themselves?
- (a) Articles of association.
 - (b) Partnership Act.
 - (c) Memorandum of association.
 - (d) Partnership deed.
- (xiii) The relationship that subsists between persons carrying on business with a view of making profits may be termed as a:
- (a) partnership.
 - (b) corporation.
 - (c) company.
 - (d) business.
- (xiv) Which of the following is true about a partnership?
- (a) Its membership must not exceed twenty persons.
 - (b) Its membership must not exceed ten in case of banking.
 - (c) Its membership could exceed twenty in case of a professional partnership.
 - (d) It is governed by the Companies Act.
- (xv) A document issued by the Registrar of companies showing that the company is registered is the:
- (a) Certificate of Trading.
 - (b) Memorandum of Association.
 - (c) Guarantee.
 - (d) Certificate of Incorporation.

- (xvi) Who owns the company after it has been formed?
- (a) Shareholders.
 - (b) Contributors.
 - (c) Directors.
 - (d) Promoters.
- (xvii) Which of the following is correct about a public limited company?
- (a) It does not have more than 50 members.
 - (b) It has at least 7 members and unlimited membership.
 - (c) It has a maximum of 20 members.
 - (d) It must have seven members and the limit is 50 members.
- (xviii) Which of the following is **NOT** a requirement for incorporation of a private company?
- (a) Memorandum of Association.
 - (b) Articles of Association.
 - (c) The Prospectus.
 - (d) Declaration of share capital.
- (xix) Which of the following is **FALSE**?
- (a) A private company restricts the right to transfer its shares.
 - (b) A private company limits the number of its members to fifty.
 - (c) Articles of association are concerned with the internal administration of the company.
 - (d) A private company allows any invitation to the public to subscribe for its shares.
- (xx) Which of the following is **NOT** an essential element of a legally binding contract?
- (a) Capacity of the parties to contract.
 - (b) Consensus ad idem.
 - (c) Contact of the parties.
 - (d) Consideration.

SECTION B

Question 2

Potel is a student at Wandegeya International University. He is 16 years old and a good performer in all University games. He has a girl friend who is also student at the same university. He has been dating her for all the time they have been at university and has ended up impregnating her. He is stressed and does not know what to do.

Potel was advised by his friend to assist the girl friend have an abortion but he did not have money for it. So he went to the bank and obtained a bank overdraft after pretending that he was 20 years old.

Potel failed to repay the overdraft and the bank later found out that Potel was not able to raise the money. The bank later approached Potel's father and threatened him that, unless the overdraft was repaid, they were going to prosecute his son for obtaining money by deceit or imprison him (father).

In another incident Katoto, an infant special hire taxi driver, obtained a car on hire purchase terms from Japan Auto Dealers Ltd. He refused to pay the hire purchase price, and the company is threatening to sue him for breach of contract, contending that the contract was binding because it was as a whole for Katoto's benefit.

Required:

- (a) Raise and resolve the issues involved. **(15 marks)**
- (b) Give an exception where a money lender can recover money lent to an infant.

(5 marks)

(Total 20 marks)

Question 3

Karonzo and Mandiba are friends and have raised a substantial sum of money. They would like to form a private company limited by shares, and both of them will be subscribers to the memorandum of association of the company. Their intention is that the company will at some stage in the near future purchase a plot of land in Ntinda from Sebalu.

Karonzo and Mandiba have now approached you to help them in the formation of the company. They have informed you that Sebalu is insisting that the contract for the acquisition of the plot be signed within the next three days, even though the company is unlikely to be registered for at least another five weeks.

Required:

- (a) Advise Karonzo and Mandiba. (14 marks)
 - (b) (i) List the documents that should be filed with the Registrar of Companies for the incorporation of a company (2 marks)
 - (ii) Briefly explain the purposes that these documents serve. (4 marks)
- (Total 20 marks)**

Question 4

Ayebare, Basemera and Kugonza are partners and all of them have been performing their duties as partners. Kugonza on behalf of the firm entered into a contract with Mahogany Television Ltd to supply the partnership with television and radio sets. Mahogany Television Ltd's salesman was impressed with the deal and as a reward for entering into the contract gave an expensive radio to Kugonza. Kugonza did not disclose this gift to the other partners but they later learnt about it.

In another development, Basemera, who owns a retail shop dealing in the same merchandise as the firm has been buying television sets from Dubai for her business. She is planning to abandon the partnership.

On the other hand Ayebare, who has much knowledge as an accountant has been handling the marketing and sales functions of the firm does not allow the other two partners to inspect the firm's books of accounts.

Required:

- (a) Raise issues and advise the parties. (16 marks)
 - (b) Give **four** examples of illegal partnership. (4 marks)
- (Total 20 marks)**

SECTION C

Question 5

Discuss the main ways through which an offer can be terminated.

(10 marks)

Question 6

Enumerate the rights and duties of partners among themselves.

(10 marks)

Question 7

Explain how agency is:

- (a) created.
- (b) terminated.

(10 marks)

Question 8

Explain the advantages that private companies have over public companies.

(10 marks)