

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA (U) EXAMINATIONS

### LEVEL ONE

#### BUSINESS LAW – PAPER 3

**MONDAY, 26 NOVEMBER 2012**

#### 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. This examination contains Sections **A**, **B** and **C**.
3. Section **A** is bound separately from Sections **B** and **C**.
4. Attempt all the 20 multiple-choice questions in Section **A**. Each question carries 1 mark.
5. Attempt **two** of the **three** questions in Section **B**. Each question carries 20 marks.
6. Attempt **two** of the **three** questions in Section **C**. Each question carries 20 marks.
7. Write your answer to each question on a fresh page in your answer booklet.
8. Please, read further instructions on the answer booklet, before attempting any question.

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## SECTION B

*Attempt two of the three questions in this section.*

### Question 2

Musota, 70, an accountant by profession promoted and formed Musota Construction Company Limited. Other shareholders include Kicere, 30, Muchobe, 28, Lubuto, 72 and his wife, Mangeri, 66.

The company has been contracted to construct a road in Kayunga district in commemoration of 50 years of Uganda's independence.

At the annual general meeting held in October 2012, one of the members pointed out that Musota was too old to continue running the company as the sole director and company secretary. The shareholders urged Musota to retire but he refused. He argued that he was still strong and was the one who had the vision for the company.

Before registration of the company, Musota had secured a loan from Kafuma Commercial Bank which he used to construct an office block for the company. Todate, the loan has not yet been repaid and the bank is threatening to sell the office block to recover their money.

The shareholders were informed that Kafuma Commercial Bank was in the process of selling their property to recover the loan. They demanded that Musota personally pays back the loan. In retaliation, Musota unilaterally dismissed Muchobe and Kicere from the company as a punitive measure for demanding for his retirement and paying the bank. Musota's actions threw the shareholders into confusion and are frantically seeking for help .

### Required:

(a) Raise and resolve the issues.

**(14 marks)**

(b) Give circumstances under which a director may be disqualified.

**(6 marks)**

**(Total 20 marks)**

### Question 3

Wambwa owns a plot of land in Nansana Town Council, Wakiso district which he put up for sale at Shs 20 million. Humura Nkwine expressed interest in the land. He gave an offer of Shs 19.5 million, which was outrightly rejected by Wambwa.

A couple of weeks later Humura Nkwine wrote back to Wambwa accepting to pay the Shs 20 million. Wambwa responded that he was no longer interested in selling the land.

Humura Nkwine is furious and intends to sue Wambwa for specific performance.

#### Required:

(a) Raise the issues and advise the parties.

(14 marks)

(b) What are the rules of revocation of an offer?

(6 marks)

(Total 20 marks)

### Question 4

Komakech, a resident of Namugongo, recently travelled to India for a heart surgery of his one year old son. While in India, he met Praka Patel at a social club. They had an interesting conversation on business. Patel, a businessman, who had always wanted to establish business in Uganda was excited. He requested Komakech to represent him in Uganda. Komakech accepted the offer and an agreement was entered into. One of the conditions was for him to exclusively work for Patel. A bank account was opened in Bank of New Delhi in India with Komakech as the sole signatory.

Komakech was instructed to purchase a wide range of products from India to be sold in Uganda at a very good profit.

In the meantime, Komakech had established a business relationship with Nehru supermarket. He had negotiated with the supermarket to extend to him credit facilities. He was fascinated by winter clothes which were abundantly available at cheap prices since the winter was coming to a close. On return to Uganda, he discovered that woolen clothes had no demand. In a bid to dispose them of, he sold some to third parties on credit. Patel is now trying to recover the debts from third parties directly. Meanwhile, the business bank account is at the verge of closing since there is no money.

It is now over six months since Komakech received goods on credit from Nehru supermarket. The management is now demanding for payment for the woolen

clothes. Komakech is neither responding to their e-mails nor picking their telephone calls.

**Required:**

- (a) Describe the kind of relationship that was entered into by Komakech and Patel.  
(4 marks)
  - (b) Raise the issues and advise the parties involved.  
(16 marks)
- (Total 20 marks)**

**SECTION C**

*Attempt two of the three questions in this section*

**Question 5**

- (a) Explain what is meant by the term 'partnership property'.  
(6 marks)
  - (b) Under what circumstances may a partnership be dissolved by court?  
(14 marks)
- (Total 20 marks)**

**Question 6**

In relation to the law of contract, write short notes on the following:

- (a) Infants. (5 marks)
  - (b) Voidable contracts. (5 marks)
  - (c) Void contracts. (5 marks)
  - (d) Executed consideration. (5 marks)
- (Total 20 marks)**

**Question 7**

- (a) Discuss the various methods by which the authority of an agent can be terminated.  
(10 marks)
  - (b) Briefly state the duties of an employer and the employee.  
(10 marks)
- (Total 20 marks)**