

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD
A Committee of the Council of ICPAU

BUSINESS LAW - PAPER 3

DECEMBER 1998

INSTRUCTIONS TO CANDIDATES

1. Time allowed: 3 hours
2. Attempt all questions in Section **A** and **B** and any **three** questions from Section **C**.
3. Section **A** has **twenty** compulsory questions each carrying 1 mark.
4. Section **B** is a compulsory question carrying 20 marks.
5. Section **C** has **five** questions and only **three** questions are to be attempted. Each question carries 20 marks.
6. Please read further instructions on the answer book.

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SECTION A

Question 1

- (i) Which of these courts has no original jurisdiction?
- (a) The Magistrates Court.
 - (b) The High Court.
 - (c) The Constitutional Court.
 - (d) The Supreme Court.
- (ii) Legislation means:-
- (a) direct law.
 - (b) substantive law.
 - (c) enacted law.
 - (d) codified law.
- (iii) "Obita dicta" refers to:-
- (a) precedents for a case.
 - (b) general comments on law in a case.
 - (c) reasons for decisions in a case.
 - (d) the judgement in a case.
- (iv) Which of the following has become a disadvantage of equity?
- (a) Creation of new rights and readings.
 - (b) Lack of any formalities.
 - (c) Flexibility.
 - (d) Unwritten.
- (v) Substantive Law
- (a) lays down rights and duties.
 - (b) relates to enforcement of rights and duties.
 - (c) relates to evidence.
 - (d) lays down procedural law.

- (vi) The person who transfers property to another person for the benefit of another is called;
- (a) a settler.
 - (b) a beneficiary.
 - (c) a testator.
 - (d) a trustee.
- (vii) A trust created "inter vivos" or by will for the benefit of a particular person or group of persons is called:-
- (a) an express trust.
 - (b) an implied private trust.
 - (c) a constructive private trust.
 - (d) an express private trust.
- (viii) Which of the following is true?
- (a) Directors of a company must be shareholders in the company.
 - (b) Directors in a company must be national persons.
 - (c) The death of one director dissolves a company.
 - (d) A company may be a director in an other company.
- (ix) What relationship exists between the company, the board and members of the company?
- (a) trust relationship.
 - (b) agency relationship.
 - (c) partnership relationship.
 - (d) mutual relationship.
- (x) Authority to exercise the company's powers is delegated to;
- (a) members of the company in the general meeting.
 - (b) individual directors of the company.
 - (c) the Secretary of the company.
 - (d) the Company Board of Directors.

- (xi) The "Ultra Vires" doctrine means;
- (a) being in breach of duties.
 - (b) acting in excess of powers.
 - (c) taking bad decisions.
 - (d) taking decisions without quorum.
- (xii) The duties of the directors of a company include the following except one. Which is the exception?
- (a) suing in the name of the company.
 - (b) acting in good faith.
 - (c) avoiding conflict.
 - (d) not to act "ultra vires".
- (xiii) The termination notice for a contract that has lasted five years is
- (a) three months.
 - (b) two months.
 - (c) one month.
 - (d) one week.
- (xiv) In what situations are the normal hours of work deemed not to apply?
- (a) in bad weather.
 - (b) during a strike by workers.
 - (c) in an emergency.
 - (d) when there is a change in schedule of duties.
- (xv) A representation is:-
- (a) a term of the contract.
 - (b) a statement that induces the contract.
 - (c) a misrepresentation.
 - (d) an illegal term in a contract.
- (xvi) Contractual capacity in Uganda is attained at the age of:-
- (a) 25 years.
 - (b) 21 years.
 - (c) 18 years.
 - (d) 15 years.

(xvii) A "Cestui que" trust is:-

- (a) a trustee in a trust relationship.
- (b) a benefactor under a trust.
- (c) an agent in a trust.
- (d) a beneficiary in a trust.

(xviii) The doctrine of preclusion is called:-

- (a) Caveator emptor.
- (b) Estoppel.
- (c) Waiver.
- (d) Exclusion clause.

(xix) The duties of a principal include:-

- (a) exercising due care and skill.
- (b) indemnifying the agent.
- (c) acting personally.
- (d) acting in good faith.

(xx) The statutory meeting of a company must be held;

- (a) within a month.
- (b) within a year.
- (c) within 18 months.
- (d) once in the company's life time.

SECTION B

Question 2

Eyere is one of the Directors in Cin - Cin Co. Ltd; which deals in furniture. He used his influence to secure a loan from the Company's Cashier and he has since failed and/or refused to repay the loan. He is also a Director in Pin Ltd which has been supplying timber to Cin Cin Co. Ltd., on the recommendation of Eyere, at higher prices than other companies.

Of recent, Cin - Cin is plagued with financial difficulties and Eyere has proposed that the un-allotted shares in Cin - Cin Co. Ltd be allotted to Pin Ltd at a reduced share value. The Company members have approached you for advice.

Advise them on what course of action to take against Eyere, if at all. (20 marks)

SECTION C:

Question 3.

Discuss directors' duties towards a company. (20 marks)

Question 4.

Discuss the possible mistakes that may occur at the making of a contract and the effects of any such mistakes. (20 marks)

Question 5.

(a) Distinguish between common law and equity. (10 marks)

(b) Trace and discuss the origin of equity. (10 marks)

Question 6.

(a) What is a misrepresentation? (10 marks)

(b) What remedies are available to the party who suffers as a result of a misrepresentation? (10 marks)

Question 7.

ADF Co. Ltd. is a limited liability company that is having hardships both financially and in management. Both the shareholders and creditors are wary of the precarious situation. They approach you for advice on how to wind up the company.

Advise them on all the alternatives available to them. (20 marks)