



**CPA PART II SECTION 3**  
**CS PART II SECTION 3**  
**CCP PART II SECTION 3**  
**COMPANY LAW**

**WEDNESDAY: 23 May 2018.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

- (a) With reference to formation of companies:
- (i) Explain the meaning of the term “articles of association”. (2 marks)
  - (ii) Describe four effects of registration of the articles of association of a company. (4 marks)
  - (iii) Outline the provisions of the Companies Act which govern the alteration of the articles of association of a company. (4 marks)
- (b) Ben Sikujua, a sole trader carrying on a business in the printing industry has asked Milele Bank Limited to advance him Sh.500,000 as additional working capital. The bank is prepared to advance the money on condition that Ben Sikujua offers a security. Ben Sikujua has a share certificate for 5,000 shares issued by Jewel Company Limited. Ben Sikujua wants to know whether he can use the shares whose value is Sh.650,000 as a security for the loan. He further seeks to know whether he would still receive dividends even after he has charged the shares to the Bank.
- Advise Ben Sikujua. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) With reference to debt capital:
- (i) Outline four circumstances under which a floating charge will crystallise. (4 marks)
  - (ii) Explain four contents of a trust deed. (8 marks)
- (b) John Mbao is a non-executive director of Kuzi Limited, a listed company. Shortly after attending a board meeting where arrangements were finalised for an agreed takeover bid of the company by Sahara Limited, John Mbao bought shares in Kuzi Limited from the listing in the securities exchange. He thereafter bought shares of the same company from Jane Uza, a shareholder. Immediately the takeover bid was made public, John Mbao sold all the shares he had bought at a profit.
- Discuss whether Kuzi Limited, Jane Uza and Sahara Limited are entitled to any legal action against John Mbao for recovery of profit. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) (i) Highlight four books of account that a company is required to maintain. (4 marks)
  - (ii) Outline four purposes of a profit and loss account of a company. (4 marks)
- (b) Summarise eight offences that could be committed by foreign companies and their officers. (8 marks)
- (c) Highlight two types of foreign companies that might be required to deliver the profit and loss account and balance sheet to the registrar of companies in your country. (4 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) Define the following terms:
- (i) Reverse merger. (2 marks)
  - (ii) Amalgamation. (2 marks)
- (b) Discuss four advantages of a reverse merger over the initial public offer (IPO). (8 marks)
- (c) Explain the duties of company auditors under the following sub-headings:
- (i) Duties towards the company. (5 marks)
  - (ii) Duties towards the general public. (3 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) BigShow Ltd. is proposing to offer shares to its shareholders instead of giving them dividends. Philip Shaka, a shareholder has opposed the proposal on the grounds that it offends all the rules governing the maintenance of capital but BigShow Ltd. is adamant. Philip Shaka feels aggrieved and has approached you for your advice.
- Advise Philip Shaka on the legality of the proposed offer by BigShow Ltd. (10 marks)
- (b) In relation to membership of a company:
- (i) Describe three ways through which a person might become a member of a company. (6 marks)
  - (ii) Elaborate the process of effecting changes to the register of members. (4 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a) Suggest four possible reasons why directors might want to remove a company secretary. (8 marks)
- (b) In the context of company meetings:
- (i) Outline six contents to be recorded in the minutes of a director's meeting. (6 marks)
  - (ii) Every company must hold an annual general meeting in each year. Explain three purposes of the annual general meeting (AGM). (6 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) In the context of corporate insolvency:
- (i) Discuss five offences that might be committed by the liquidator before and during liquidation. (10 marks)
  - (ii) Describe three circumstances under which a person who has ceased to be a liquidator is released from their obligations with respect to a voluntarily liquidated company. (6 marks)
- (b) Cliff, Mohammed and Mwikali have been running the business of supplying stationary to various customers including some government ministries as a partnership trading under the name "Relax Enterprise". They are desirous of converting their business into a limited liability company.
- Explain to them two differences between companies and partnerships. (4 marks)
- (Total: 20 marks)**
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