

# KASNEB

CPA PART II SECTION 3

CS PART II SECTION 3

CCP PART II SECTION 3

COMPANY LAW

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

## QUESTION ONE

- (a) (i) Explain the meaning of the term "promoter" in the context of company law. (2 marks)
- (ii) Discuss three duties of a promoter of a company. (6 marks)
- (b) Outline the contents of a prospectus issued in Kenya by a foreign company. (6 marks)
- (c) Explain the restrictions imposed on promoters of a company in relation to choice of name. (6 marks)
- (Total: 20 marks)**

## QUESTION TWO

- (a) Discuss five ways in which the veil of incorporation might be lifted under statutory provisions. (10 marks)
- (b) Tom and Harry were in the process of incorporating a company called Foot Shoes Ltd. The objects of the company were to make and sell shoes. Before the process of incorporation was complete, Tom entered into a contract with Clean Leather Ltd. under which Clean Leather Ltd. agreed to supply Foot Shoes Ltd. with leather worth one million shillings.

The price was to be paid in four installments of two hundred and fifty thousand shillings each, over a period of one year.

Tom signed the contract as follows: "Signed by Tom, on behalf of Foot Shoes Ltd." By the time the leather was delivered, Foot Shoes Ltd. had been incorporated.

However, after the second installment had been paid, Foot Shoes Ltd. was unable to pay the balance.

Advise Clean Leather Ltd. on how to recover the outstanding amount of five hundred thousand shillings. (10 marks)

**(Total: 20 marks)**

## QUESTION THREE

- (a) State five ways in which a person's membership in a company might cease. (5 marks)
- (b) Every public company must, within a period of not less than one month nor more than three months from the date at which the company is entitled to commence business, hold a statutory meeting. The statutory meeting enables members of the company to consider the statutory report.
- Outline five contents of the statutory report. (5 marks)
- (c) Explain four duties of a company secretary. (4 marks)
- (d) (i) Define the term "derivative action". (2 marks)
- (ii) Explain four characteristics of a derivative action. (4 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) When debentures are offered for public subscription, the company usually enters into a trust deed with trustees.  
List six contents of a trust deed. (6 marks)
  - (b) Explain four acts or omissions which might give rise to criminal liability in respect of a prospectus. (8 marks)
  - (c) Outline three conditions to be fulfilled before the court can approve a reduction of capital of a company. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain three grounds for removal of an auditor of a company. (6 marks)
  - (b) State four special rights conferred to holders of preference shares of a company. (4 marks)
  - (c) Discuss three events when a floating charge might crystallise. (6 marks)
  - (d) Explain four grounds under which a court might deem it just and equitable to wind up a company. (4 marks)
- (Total: 20 marks)**

**QUESTION SIX**

- (a) In the context of companies in financial difficulty, distinguish between “winding up” and “receivership”. (6 marks)
  - (b) List five registers that must be maintained by a company. (5 marks)
  - (c) Explain the meaning of ‘connected persons’ in relation to insider dealing. (6 marks)
  - (d) Outline three powers of an inspector appointed to investigate the affairs of a company. (3 marks)
- (Total: 20 marks)**

**QUESTION SEVEN**

- (a) In relation to corporate restructuring, explain the statutory provisions relating to schemes of arrangement and compromises. (10 marks)
  - (b) Explain four circumstances under which the office of a director might be vacated. (4 marks)
  - (c) Distinguish between companies and partnerships as forms of business associations. (6 marks)
- (Total: 20 marks)**
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