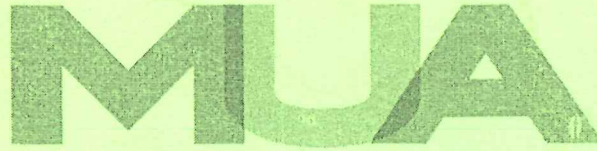


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND
LEADERSHIP/BACHELOR OF COMMERCE

BML 210/BCM 223: COMPANY LAW

DATE: 9th DECEMBER 2019

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

In 2017, Jane graduated with a degree in fashion and design. Being an aspiring entrepreneur, she opened a tailoring business in Nairobi as a sole proprietor under the name KIKOI HOUSE. Since then, her business has grown and turnover increased from Kshs 100,000 to Kshs 600,000/= per annum. Her customer base has grown. She has won a tender to supply school uniforms to a school in a neighboring county and there is likelihood that she may expand her business to the East African Community countries. Her desire is to start designing their own clothes with the help of their 3 staff members who have shown interest in becoming her business partners.

The Business premises where she are operating from is rented and she would like to buy an office apartment at Kshs 5,000,000/=. She has discussed the expansion plans with her brother Peter, who has advised that she converts the sole proprietorship business into a private company limited by shares. The name of the Company will be KIKOI HOUSE LIMITED. Jane will be the majority shareholder and the Managing Director while her brother will be a minority shareholder. Both of them will be Directors of the Company.

She is not aware of the provisions of the Companies Act that relate to a private limited liability company, and makes an appointment to see you as her Business Development Officer. Prior to the meeting, she sends you her business profile and other relevant documents.

On perusal you note the following:

- a) That Jane will need to raise capital for her Company amounting to Kshs 10,000,000/=.
- b) That Jane intends to carry out several businesses which are all related to the fashion and design industry.
- c) That Jane has Kshs 1,000,000/= in the bank and Kshs 500,000/= in cash.

- d) That 3 of Jane's staff have requested to be members of the private limited liability company.

Required:

- a) Advice Jane on the advantages of converting a sole proprietorship business into a private limited liability company. (10 marks)
- b) "The Memorandum of Association is judicially defined as the 'charter' of the Company which defines the limitation of the power of a private limited liability Company". Evaluate the implications of the statement. (6 marks)
- c) Propose how Jane's staff can acquire membership of the Company. (6 marks)
- d) Advise Jane on how she can raise share capital for the Company. (3marks)

QUESTION TWO

- a) A prospectus must contain the necessary information to enable the public to decide whether or not to subscribe for its shares or debentures. Outline the mandatory information divulged to the public in a prospectus. (7 marks)
- b) Distinguish between a share and a stock. (4 marks)
- c) Describe the role of Auditors in the Company (4 marks)

QUESTION THREE

- a) Discuss the powers of a liquidator in a winding up process. (10 marks)
- b) Clarify the difference between transfer and transmission of shares. (5 marks)

QUESTION FOUR

Write short notes on the following:

- a) Pre-incorporation contracts (5 marks)
- b) Effect of Capitalization (5 marks)
- c) Objectives of a statutory meeting (5 marks)

QUESTION FIVE

The general rule is that a company is a legal person and is distinct from its members. The principle is regarded as a curtain, a veil, or a shield between the company and its members, thus protecting the latter from the liability of the former. The veil is impassable as an iron curtain. Discuss the different instance the law may require that a body corporate be treated as if it were not a separate legal person. (15 marks)

QUESTION SIX

- a) Examine the duties of a Company Director. (10 marks)
- b) Discuss the legal restrictions on a Company's power to alter its articles of association. (5 marks)