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**CERTIFIED PUBLIC ACCOUNTANT  
INTERMEDIATE LEVEL EXAMINATIONS**

**11.3: COMPANY LAW**

**WEDNESDAY 4 DECEMBER 2013**

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**INSTRUCTIONS:**

- 1. Time Allowed: 3 hours 15 minutes (15 minutes reading and 3 hours writing).**
- 2. This examination has two sections A and B.**
- 3. Section A has two compulsory questions, 1 & 2 and one choice question, (3 or 4) not both.**
- 4. Section B has two questions (5 & 6) to choose one**
- 5. In summary answer 4 questions, three in section A and one in section B**
- 6. Marks allocated to each question are shown at the end of the question.**

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## SECTION A

*Attempt three questions in this section. Question 1 and 2 and either 3 or 4(not both)*

### QUESTION ONE

- a) Explain the meaning of and provide examples of situations requiring:
- An ordinary resolution. **(4 Marks)**
  - A special resolution. **(4 Marks)**
  - An extraordinary resolution. **(4 Marks)**
- b) Explain what is meant by ‘winding up’ in company law? **(3 Marks)**
- c) Distinguish between:
- Voluntary winding up. **(3 Marks)**
  - Compulsory winding up. **(3 Marks)**
  - Winding up under the supervision of the court. **(4 Marks)**
- (Total: 25 Marks)**

### QUESTION TWO

- a) In relation to the rules governing the payment of company dividends explain how dividends may be properly funded. **(5 marks)**
- b) Explain what is involved in the criminal offence of insider dealing. **(5 marks)**
- Flop Ltd was in financial difficulties. In January, in order to raise capital it issued 100,000 Frw 100 shares to Numutisi, but only asked her to pay Frw 75 per share at the time of issue. The directors of Flop Ltd intended asking Numutisi for the other Frw 25 per share at a later date. However, in June the company realized that it needed even more than the Frw 2,500,000 it could raise from Numutisi’s existing shareholding. So in order to persuade Numutisi to provide the needed money Flop Ltd told her that if she bought a further 100,000 shares she would only have to pay a total of Frw 50 for each Frw 100 share, and it would write off the money owed on the original share purchase. Numutisi agreed to this, but the injection of cash did not save Flop and in December it went into insolvent liquidation, owing a considerable amount of money.

#### Required:

Explain any potential liability that Numutisi might have on the shares she holds in Flop Ltd. **(15Marks)**

**(Total 25 Marks)**

### QUESTION THREE

Eric has been employed by Flash Company, for the past 20 years. During that time he has also invested in the company in the form of shares and debentures. Eric owns 5,000 ordinary shares in Flash Co. The shares are of Frw 100 nominal value and are paid up to the extent of 75%. The debentures, to the value of Frw 5millions, are secured by a fixed charge against the land on which Flash Co’s factory is built. In April it

was announced that Flash Co was going into immediate insolvent liquidation, owing considerable amounts of money to trade creditors (trade payables). As a result of the suddenness of the decision to liquidate the company, none of the employees received their last month’s wages. In Eric’s case this amounted to Frw 200,000.

#### Required:

Advise Eric as to his rights and liabilities in relation to Flash Co in regard to:

- His unpaid wages; **( 8 Marks)**
  - His shareholding; **(6 Marks)**
  - His debentures. **(6 Marks)**
- (Total 20 Marks)**

### QUESTION FOUR

- Define the term quorum in meetings. **(2 Marks)**
- State and explain the circumstances under which one individual can constitute a quorum in case of a meeting. **(6 Marks)**
- Sand and Soil have carried on business together for twenty years through a limited company in which each holds 5,000 shares. They share the profits equally in the form of directors’ remuneration. Soil’s son Cray joins the business, buying 1,000 shares from each Sand and Soil. Disputes arose and Soil and Cray use their voting majority to remove Sand from the board. Advice Sand. **( 12 Marks)**

**(Total 20 Marks)**

## SECTION B

*Attempt one question in this section (either 5 or 6)*

### QUESTION FIVE

- One of your friends studying chemistry approaches you and wants to know the sources of Rwandan commercial law. Answer briefly your friend’s question. **(15 Marks)**
- (i) Discuss the substantive requirements specific to the limited companies as per the companies act. **(6 Marks)**
- (ii) Differentiate the term “Promoters” and “Board of directors”. **(3 Marks)**
- (iii) List the main differences between private and public limited companies. **(6 Marks)**

**(Total: 30 Marks)**

### QUESTION SIX

- State and explain the fiduciary duties owed by directors to their companies under company law. **(12 Marks)**

(b) Hans is a director of Imp plc, but he also carries out his own business as a wholesale supplier of specialist paper under the name of Jam Ltd. Last year Imp plc entered into a contract to buy a large consignment of paper from Jam Ltd. Hans attended the board meeting that approved the contract and voted in favour of it, without revealing any link with Jam Ltd. The contract price was considerably above the market price and Jam Ltd and Hans made a considerable profit from it.

**Required:**

Analyze the situation explaining any potential liability that Hans may have under company law in relation to the sale of the paper to Imp plc by Jam Ltd. (18 Marks)

**(Total: 30 Marks)**

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**End of question paper**