



CERTIFIED PUBLIC ACCOUNTANT
OPERATION LEVEL EXAMINATIONS
LG2.1: ETHICS, LAW AND GOVERNANCE
DATE: WEDNESDAY 25, FEBRUARY 2026
MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

Q1	A	Q2	D	Q3	A	Q4	A	Q5	D
Q6	D	Q7	B	Q8	B	Q9	D	Q10	A
Q11	C	Q12	B	Q13	D	Q14	A	Q15	C
Q16	C	Q17	A, B, C	Q18	A, C, D	Q19	B	Q20	C
Q21	B	Q22	C, D	Q23	C	Q24	A	Q25	A, B
Q26	C	Q27	A	Q28	A	Q29	A, C	Q30	B, C

Section A-Marks allocation

2 marks for each correct answer

Total marks for this section

Marks

2

30

Detailed model Answer

Question #	1	
Key (answer)	A	
Rationale	A	The combination excludes the statement IV which is contrary to one of the characteristics of law of being general. A law is meant to protect general interest not a group of people.
	B	See above
	C	See above
	D	See above

Question #	2	
Key (answer)	D	
Rationale	A	The combination contains the statement I which ignores that even the organisation, administration and functioning of security organs are governed by the law. Hence, a society cannot survive without law whether written or unwritten.
	B	See above
	C	See above
	D	This is the right answer as the three statements exhibit the functions or role of the law in the society that include administration of justice, maintaining peace and order, enforcement of morality and protection of public interest.

Question #	3	
Key (answer)	A	
Rationale	A	The purpose of Civil and political rights also known as rights of the first generation or fundamental human rights is “To uphold the sanctity of the individual before the law and guarantee his/her ability to participate freely in civil, economic and political society.”
	B	That is the scope/ propose of the cultural rights
	C	That is the purpose of solidarity rights.
	D	That is the purpose or scope of political rights which is part of the fundamental rights.

Question #	4	
Key (answer)	A	
Rationale	A	This is the right answer. See the statement above.
	B	The executive cannot interfere in the affairs of the judiciary and legislative under the principle of separation of power.
	C	The three powers – legislative, judiciary and executive cannot be exercised by one person or a group of persons.
	D	That is power sharing not separation of power.

Question #	5	
Key (answer)	D	
Rationale	A	Public domain property cannot be subject to any transaction. If the state needs to transfer the property to private investors, the property has to be reallocated from public domain to private domain.
	B	Under no circumstances can public property be seized.
	C	Under no circumstances can public property be seized.
	D	This is correct because the state is always solvent and its properties are meant to serve the public and public interest.

Question #	6	
Key (answer)	D	

Rationale	A	Administrative acts do not only concern regulated services but also all administrative decisions/acts.
	B	The enforcement of the administrative acts does not require the court order as they are presumed lawful and meant to serve the public interest.
	C	Any administrative act arbitrarily taken or taken for private gain is voidable.
	D	This is the right answer. See the statement above.

Question #	7	
Key (answer)	B	
Rationale	A	Mental aptitude not inaptitude. A contract contracted with mental deficiency is not valid
	B	This is the right answer. See the statement A above.
	C	Capacity is in terms of age not physical appearance.
	D	That is consent not capacity.

Question #	8	
Key (answer)	B	
Rationale	A	See below
	B	The right answer is B because, the contract itself is invalid and the object/purpose constitutes a criminal offence, Hence, she cannot invoke her turpitude.
	C	See above
	D	The issue is not capacity but the illicit object and illicit cause which render the contract void.

Question #	9	
Key (answer)	D	

Rationale	A	The combination includes the statement I which is wrong because Private Law does not regulate the state or its instructions. These matters are governed by Public Law.
	B	See above.
	C	See above
	D	See Statements II, III, and IV which are correct.

Question #	10	
Key (answer)	A	
Rationale	A	This is the correct answer- see the statement above.
	B	That is the obligation of result not obligation of means.
	C	The breach of the obligation of means can be enforced in the court and the victim can be awarded compensation of damages or loss suffered
	D	The statement is wrong because the debtor does not have to guarantee a given result or certain goal.

Question #	11	
Key (answer)	C	
Rationale	A	Quasi- contract comes from one party's intention not both parties.
	B	Those are formal contracts not quasi-contract.
	C	It is an informal contract which does not require the consent of the other party thus not constituting contracts at the outset but produce the same effects as formal contract.
	D	Quasi-contract does not require consent of the other party.

Question #	12	
Key (answer)	B	
Rationale	A	See below

	B	Legal obligation is binding while moral is not. Hence, a sanction comes only in case of breach of legal obligation.
	C	See above
	D	See above

Question #	13	
Key (answer)	D	
Rationale	A	See below.
	B	See below.
	C	See below.
	D	This is the right answer. The employment in private sector is governed by the labour law of 2018.

Question #	14	
Key (answer)	A	
Rationale	A	This is correct. Unwritten employment contract shall not exceed ninety (90) consecutive days as stipulated by the article 11 (6) of 2018 Labour law.
	B	A fixed term employment contract has to be written if it is concluded for a period exceeding ninety (90) consecutive days.
	C	Whether or not parties agree, an employment contract has to be written if it is concluded for a period exceeding ninety (90) consecutive days
	D	The Labour Law mentioned above considers the duration of employment contract not the probation period.

Question #	15	
Key (answer)	C	

Rationale	A	The combination includes statement III which is wrong because an employment contract cannot be terminated for any reason but for any justifiable reason.
	B	See above.
	C	This is the correct answer. See statements I, II and IV.
	D	See above.

Question #	16	
Key (answer)	C	
Rationale	A	See above.
	B	See above.
	C	The statement is correct answer because to benefit from the pension scheme, the permanent disability is not one of the conditions.
	D	See above.

Question #	17	
Key (answer)	A, B, C	
Rationale	A	See below.
	B	See below.
	C	See below
	D	The statement is wrong because a registered company is allowed to acquire assets from any person including its shareholders, contract, lend and borrow.

Question #	18	
Key (answer)	A,C,D	
Rationale	A	A certificate of incorporation being an evidence of company registration is required for the application for investment certificate.
	B	The capital threshold is not required

	C	The investment has to comply with government policy in terms of protection of environment, job creation and have licence from the Regulator. For example, a commercial bank has to be licenced by the Central Bank.
	D	Business plan and projected cash flow for the next 5 years to evidence the test of company's solvency is very important in the application for the investment certificate.

Question #	19	
Key (answer)	B	
Rationale	A	This is the definition of a Cheque
	B	This is the correct statement that defines a promissory note
	C	This is a bill of exchange
	D	Negotiable instruments are not written contract and the former do not include only promissory note.

Question #	20	
Key (answer)	A	
Rationale	A	A cheque expires after sixty days.
	B	See above
	C	See above.
	D	See above.

Question #	21	
Key (answer)	B	
Rationale	A	See below
	B	This is the correct answer. The interest shall not exceed the outstanding balance of principal debt, in case a financial service consumer fails to repay as per his or her contract with a financial service provider.
	C	A financial service provider is also allowed to recover interests provided that they not exceed outstanding principal debt.
	D	A financial service provider is only allowed to recover the cost incurred in the recovery process in additional to the principal debt and interests.

Question #	22	
Key (answer)	C, D	
Rationale	A	See below C and D
	B	See below C and D
	C	Under the meaning of article 7 (1) of 2018 Insolvency Law, , insolvency proceedings can commence if the assets of the debtor are less than its liabilities plus its stated capital.
	D	As per the article 7 (2) of 2018 Insolvency Law, insolvency proceedings can commence in case of the company's inability to pay debts when they fall due in the normal course of business.

Question #	23	
Key (answer)	C	
Rationale	A	The combination is not correct because it includes the statement III which is wrong because shareholders are not supposed to participate in the daily management of the company. This is the role of the Board and executive management.
	B	See above.
	C	The combination is correct – see statements I, II and IV
	D	See above.

Question #	24	
Key (answer)	A	
Rationale	A	The elements required for any offence including business fraudulent conduct are: Legal element, material element (actus reus) and mental element (mens rea).
	B	See above
	C	See above
	D	See above

Question #	25	
Key (answer)	A, B	
Rationale	A	Any single transaction above the threshold is reputable.
	B	Reporting entity has obligation to report to FIC any transaction is part of a series of transactions which are or seem to be linked and the total is less, equal or exceeds the threshold.
	C	FIC does not receive profit and loss accounts reports.
	D	FIC gets a report of a transaction made by a PEP in case it is only a suspicious transaction.

Question #	26	
Key (answer)	C	
Rationale	A	See below
	B	See below.
	C	This is the correct answer. An erratum or amendment of the same should be published subject to internal approval procedure.
	D	See above.

Question #	27	
Key (answer)	A	
Rationale	A	This the correct answer.
	B	False. It is required to put in place anti-fraud policy within an organisation.
	C	False. Whistleblowing is a reporting procedure which can be put in place to enforce anti-fraud policy.
	D	False. This is a definition of whistleblowing.

Question #	28	
Key (answer)	A	
Rationale	A	This is the correct answer. See statements I, II and III.
	B	. Contains statement IV see D below for rationale
	C	Contains statement IV see D below for rationale
	D	This is the false statement because confidentiality extends to the staff working with the professional accountant or under his/her supervision.

Question #	29	
Key (answer)	A, C	
Rationale	A	The objectivity principle requires all professional accountants to act with objective judgement, avoid bias, conflict of interest or external and internal influence .
	B	False. The use any kind of subjectivity is contrary to objectivity principle.
	C	The objectivity principle obliges a professional accountant to review the financial records with due care and professional analysis to detect the accuracy of any document at hand
	D	False. A professional accountant has the obligation to make sure that he/she produces an objective financial report or financial statements.

Question #	30	
Key (answer)	B, C	
Rationale	A	A criminal act is to disclose false information.
	B	Those acts are criminalised as offences
	C	Those acts are criminalised as offences
	D	That is not an offence

SECTION B

QUESTION 31

Marking guide

SN	DISTRIBUTION OF MARKS	MARKS
(a)	Award 1 mark for each correctly identified source of law	2
(b)	Award 1 mark for correctly stating the superior instrument	1
(c)	1 mark for Publication is mandatory 1 mark for Instrument not gazetted has no binding force 1 mark for Secondary legislation becomes binding only after gazettment 1 mark for Implication for Ingagi Tours Ltd	4
(d)	Award 1 mark for a well explained correct factor	1
	TOTAL	8

Model answers

a) The candidate is expected to demonstrate knowledge and understanding of the sources of law in Rwanda

The applicable sources include:

1. Legislation (laws enacted by Parliament): This is the primary source of law in Rwanda and includes laws passed by Parliament which are binding on all persons and authorities
2. Case law / Jurisprudence (decisions of courts): Courts may rely on previous judicial decisions to interpret legislation and resolve disputes, especially where administrative acts are challenged.

Other acceptable sources: customs, doctrine, general principles of law.

b) The candidate is expected to demonstrate understanding of hierarchy of laws

A law enacted by Parliament prevails over a Ministerial Order, because Ministerial Orders are secondary legislation and must be issued within the limits of the law. Under the hierarchy of laws in Rwanda, orders and regulations rank below ordinary laws passed by Parliament.

Therefore, where a Ministerial Order contradicts a Parliamentary law, the Order is invalid to the extent of the inconsistency

c) The candidate is expected to demonstrate knowledge of legal enforceability of secondary legislation

A Ministerial Order cannot be legally enforced if it has not been published in the Official Gazette.

- Publication is a constitutional and legal requirement because it ensures that citizens and

businesses are informed of new obligations imposed by the State.

- The workbook explains that a legal instrument becomes binding only after it is published in the Official Gazette.
- Secondary legislation such as Ministerial Orders is only enforceable once gazetted, since gazettment gives it official legal effect

- **Implication for Ingagi Tours Ltd**

Since the Ministerial Order was not published:

- Ingagi Tours Ltd cannot lawfully be required to pay the “compliance contribution.”
- Enforcement measures taken against the company are unlawful.
- The company has valid grounds to challenge the Order before the competent court.

d) The candidate is expected to demonstrate understanding of court jurisdiction

One determining factor is territorial jurisdiction (*ratione loci*).

This means that the competent court is determined by the geographical area where the dispute occurred or where the company operates.

Since Ingagi Tours Ltd operates in Northern Province, the case should be filed in the court with jurisdiction over that region, not necessarily Kigali

QUESTION 32

Marking guide

SN	DISTRIBUTION OF MARKS	MARKS
(a)	Award 1 mark for each correctly explained essential condition	2
(b)	Award up to 2 marks for correct explanation of seller’s obligation.	2
(c)	1 mark for Remedy of restitution (<i>actio redhibitoria</i>) 1 mark for Remedy of price reduction (<i>actio quanti minoris</i>) 1 mark for proper application to the scenario	3
(d)	Award 1 mark for correct court with justification	1
	TOTAL	8

Model answers

a) The candidate is expected to demonstrate knowledge and understanding of the validity requirements of contracts under Rwandan law

Under Article 4 of the 2011 Contract Law, a contract is valid only if it satisfies essential conditions, including:

1. Consent of the parties

A valid contract requires free and genuine agreement between the parties. Both Musanze Supplies Ltd and Kwamamara Trading Ltd voluntarily entered into the written agreement for the sale of laptops

2. Capacity of the parties

Parties must have legal ability (majority age and competence) to enter into binding agreements. Since both are registered companies, they possess legal capacity to contract.

Other conditions include lawful object and licit cause

b) The candidate is expected to demonstrate understanding of the seller's duties in a contract of sale of goods

In a sale contract, the seller has the obligation to:

- Deliver goods that conform to the contract specifications, meaning the goods must match the agreed description and expected quality.
- Guarantee the buyer against hidden defects, ensuring that goods are fit for the intended commercial purpose.

Since laptops are commercial goods, they must be fit for distribution and resale

c) The candidate is expected to demonstrate knowledge and application of remedies available for defective goods

Where goods delivered are defective or non-conforming, the buyer has remedies including:

1. Actio redhibitoria (rescission/restitution)

The buyer may return the defective goods and claim refund of the purchase price

2. Actio quanti minoris (reduction of price)

The buyer may keep the goods but claim a reduction in the price proportionate to the defect

3. Application to Musanze Supplies Ltd

Since the laptops were defective and unfit for commercial purpose:

- Musanze Supplies Ltd may refuse payment and seek cancellation of the contract by returning the laptops (restitution), or
- Keep them and demand a reduction in the purchase price plus compensation for losses suffered.

Therefore, Musanze has valid grounds for legal action against the seller.

d) The candidate is expected to demonstrate understanding of jurisdiction

A competent court is the Commercial Court in Kigali, since:

- Both companies operate in Kigali, and
- The dispute concerns a commercial sale agreement.

Territorial jurisdiction is determined by the place of delivery and performance of the contract.

Thus, the Commercial Court in Kigali is competent

Marking guide

SN	DISTRIBUTION OF MARKS	MARKS
(a)	Award 1 mark for each correctly stated feature.	2
(b)	1 mark for Duty to act in good faith and company interest 1 mark for Proper use of company funds / avoid misuse	2
(c)	1 mark for Principle of separate legal personality 1 mark for Exception — lifting/piercing the corporate veil 1 mark for Application to misuse/fraud in scenario	3
(d)	Award 1 mark for one correct shareholder action	1
	TOTAL	8

Model answers

a) The candidate is expected to demonstrate knowledge and understanding of the characteristics of a company

Two key distinguishing features are:

1. Separate legal personality

Once incorporated, a company becomes a legal person distinct from its shareholders and directors. This means the company can own property, enter contracts, sue and be sued in its own name

2. Limited liability of shareholders

Shareholders are generally not personally responsible for company debts beyond their share contribution because the company has its own liabilities separate from members.

These features distinguish companies from partnerships and sole traders.

b) The candidate is expected to demonstrate understanding of directors' fiduciary duties.

Directors have a duty to:

- Act honestly and in good faith in the best interests of the company, not for personal gain.
- Manage company assets and borrowed funds responsibly, ensuring funds are used only for lawful company purposes.

Misusing company money for personal business constitutes a breach of trust and conflict of interest.

Directors are representatives through which the company acts, and must not treat company assets as personal assets

c) The candidate is expected to demonstrate knowledge and application of director liability

Normally, due to separate legal personality, company debts belong to the company, not directors personally. However, personal liability may arise where a director abuses company status.

The law allows courts to pierce or lift the corporate veil where:

- Company assets are used as personal assets
- Fraudulent or illegal purposes are involved
- Directors misuse their authority

In this case:

- The Chairperson used borrowed funds for personal business unrelated to Imanzi Agro Ltd
- This is a breach of fiduciary duty and misuse of company assets
- Therefore, the Chairperson may be held personally liable for the misappropriated funds and resulting losses.

Thus, shareholders' argument for personal liability is justified

d) The candidate is expected to demonstrate knowledge and understanding of shareholders' powers in protecting the company against misconduct by directors

Shareholders may protect the company by:

- Removing the Chairperson/director from office through a shareholders' resolution in a general meeting, since shareholders have the authority to appoint and remove directors when directors abuse their powers.

This is the main shareholder control mechanism over directors.

QUESTION 34

Marking guide

SN	DISTRIBUTION OF MARKS	MARKS
(a)	Award 1 mark for each correctly explained principle	3
(b)	Award 1 mark for each Effective governance practices provided	5
	TOTAL	8

Model answers

a) The candidate is expected to demonstrate knowledge and understanding of the principles of good corporate governance

The workbook explains that good corporate governance creates an environment of:

- **trust,**
- **transparency, and**
- **accountability**

Therefore, three key principles that should be promoted in Ubumwe Manufacturing Ltd include:

1. Transparency

Transparency requires timely disclosure of relevant information to shareholders and stakeholders, including procurement decisions and financial reporting.

Good governance promotes openness in corporate decision-making.

2. Accountability

Accountability means that directors and management must be answerable for their decisions and actions.

The Board must oversee governance structure and ensure management is held accountable

3. Proper allocation of rights and responsibilities

Corporate governance deals with the distribution of rights and responsibilities among the Board, shareholders, directors, creditors and other stakeholders

b) The candidate is expected to demonstrate understanding of how corporate governance practices resolve governance weaknesses.

1.Strengthening Board oversight and decision-making

The Board has responsibility for governance structure, internal organisation, risk management and compliance.

Therefore:

- Contracts should not be approved quickly without documentation
- Directors must critically oversee major procurement decisions

2. Managing conflicts of interest

Awarding a supply contract to a director's relative without disclosure is a governance failure

Thus, directors must declare interests before decisions are taken.

3.Promoting transparency through timely reporting

Shareholders noted that financial reports are presented late

Good governance promotes transparency and disclosure to support trust and stability.

Hence, financial statements and procurement records must be provided on time

4. Enhancing internal controls and anti-fraud measures

Organizations should implement anti-fraud policies and internal mechanisms to prevent abuse of position

Fraud includes abuse of position for private benefit

Thus, internal audit issues should be discussed regularly

5.Establishing specialised Board committees for risk and governance

The Board may delegate powers to committees for better governance

Therefore, Ubumwe should establish:

- A risk committee
- An internal control/audit committee

to oversee procurement and contract risks.

QUESTION 35

Marking guide

SN	DISTRIBUTION OF MARKS	MARKS
(a)	ward 1 mark for each correctly explained ethical principle	3
(b)	Award 1 mark for each appropriate ethical actions provided	5
	TOTAL	8

a) The candidate is expected to demonstrate knowledge and understanding of the fundamental ethical principles applicable to professional accountants.

Three relevant ethical principles include:

1. Integrity

Integrity requires a professional accountant to be honest and straightforward in all professional and business relationships.

In this case, concealing missing documents or allowing false expenses would breach integrity because it involves dishonesty and possible misrepresentation

2. Objectivity

Objectivity requires accountants not to compromise professional judgement because of bias, undue influence or conflicts of interest.

The colleague's pressure not to question the payments creates a threat to objectivity, since the trainee is being influenced to ignore irregularities.

3. Professional Behaviour

Professional behaviour requires compliance with laws, regulations and standards, and avoidance of any conduct that discredits the profession.

Professional accountants must not engage in behaviour that impairs integrity or the good reputation of the profession and must comply with applicable laws and internal procedures

b) The candidate is expected to demonstrate understanding of appropriate ethical responses when faced with suspected fraud or misconduct

The trainee should take the following ethical actions:

1. Refuse to participate in concealment or unethical conduct

The trainee must not cooperate in hiding missing expenditure documentation, as doing so would breach integrity and professional behaviour.

The colleague's suggestion is improper and could amount to fraud.

Fraud includes abuse of position for personal benefit and failure to disclose information.

2. Reject the facilitation token

The trainee must refuse the offered "facilitation token," since it is effectively a bribe intended to influence professional conduct.

Accepting it would damage objectivity and integrity

3. Escalate the matter through appropriate reporting channels

The trainee should report the issue to a supervisor, internal audit unit, or relevant authority within the entity

4. Support whistleblowing culture

The trainee may use whistleblowing mechanisms to report unethical conduct safely.

Whistleblowing is defined as reporting perceived unethical conduct of employees or management to relevant authorities, and stresses protection of whistleblowers against retaliation.

5. Maintain confidentiality but not to conceal wrongdoing

The trainee must treat sensitive information appropriately.

However, confidentiality does not justify covering up fraud or illegal acts.

Confidentiality requires non-disclosure without authorisation and prohibits exploiting information for private gain

THE END OF MODEL ANSWER