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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER EXAMINATION
FOR THE DIPLOMA IN ACCOUNTING
DBA 1118: COMPANY LAW

Date: 17TH AUGUST 2023

Time: 8:30AM-10:30AM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

Case: Salomon v. Salomon & Co. Ltd. (1897)

Mr. Salomon was a successful leather merchant who operated his business as a sole proprietorship. In order to take advantage of the benefits of limited liability, Mr. Salomon incorporated his business as a private limited company called Salomon & Co. Ltd. He held 20,001 of the company's 20,007 shares, with the remaining six shares being held by his wife, daughter, and four other individuals. After the company faced financial difficulties and went into liquidation, Mr. Salomon claimed that he should not be personally liable for the company's debts.

Required:

- a) What is the principle of legal personality and how does it apply to corporations? (5 Marks)
- b) What does limited liability mean in the context of a corporation? (5 Marks)
- c) Why did Mr. Salomon incorporate his business as a private limited company? (5 Marks)
- d) Did the court hold Mr. Salomon personally liable for the company's debts? (5 Marks)
- e) What were the key factors considered by the court in this case? (5 Marks)
- f) What was the prove that the company was validly formed and was a real company liable for its own debts? (5 Marks)

QUESTION TWO (20 MARKS)

- a) Differentiate a legal person from a natural person stating their rights. (4 Marks)
- b) Explain the concept of limited liability as used in company law. (4 Marks)
- c) In order to secure the registration of a company the promoters must prepare and register certain documents. Discuss three of these documents. (6 Marks)
- d) A company may issue different types of shares also known as classes of shares. Identify three of these classes. (6 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss the significance of the principle of perpetual succession. (6 Marks)
- b) Explain four liabilities of Members of a registered company. (4 Marks)

- c) Identify two requirements which must be presented in order to acquire membership of a company. (4 Marks)
- d) Discuss three methods of cessation of membership from a company. (3 Marks)

QUESTION FOUR (20 MARKS)

- a) Lifting the corporate veil under the Companies Act, means ignoring that a company is a separate legal entity holding owners liable for any unlawful acts committed in the name of the company. Discuss three circumstances under which the corporate veil can be lifted. (6 Marks)
- b) Describe five documents (or requirements) which must be presented to the registrar of companies during the process of the registration of a company. (5 Marks)
- c) Explain two methods of creating a company in Kenya and give an example of a company that has been formed through each method. (4 Marks)
- d) Discuss the concept of legal personality as used in company. (5 Marks)

QUESTION FIVE (20 MARKS)

- a) Explain the meaning of “Ultra Vires Act”. (2 Marks)
- b) Describe two examples of Ultra Vires Actions. (4 Marks)
- c) Discuss four duties of directors under the Kenyan Companies Act 2015. (8 Marks)
- d) Deliberate three circumstances through which a tribunal may issue an order to wind up a company. (6 Marks)