



MANICALAND STATE UNIVERSITY OF APPLIED SCIENCES

FACULTY OF AGRI BUSINESS AND SOCIAL SCIENCES

DEPARTMENT OF APPLIED BUSINESS SCIENCES

MODULE: COMPANY LAW AND PRACTICE/BUSINESS LAW 2

CODE: BMAN 213

SESSIONAL EXAMINATIONS

DECEMBER 2023

DURATION: 3 HOURS

EXAMINER: MR S. SIZIBA

INSTRUCTIONS

1. Answer **All questions** in Section A
2. Answer **any three** questions in Section B.
3. Start each question on a fresh page
4. Total marks 100

Additional material(s): Unmarked copy of Companies and
Other Businesses Entities Act 24:31

SECTION A:

(Answer all questions in this section. Section A carries 40 marks)

Question 1

Peter wants to establish a company to carry out biomedical research. The company is not intending to declare profits or pass them on to members for a number of years, as all money from trading will be used for further research. The company is proposed to be on a small scale with about 10 specialist researchers. The company once registered, is hoping to raise \$6 million over a four-year period raising \$1.5million every year from a select group of investors. It is projected that the capital injection every year will meet the company's research needs.

The company, once established, hopes to receive a government research grant of \$5million provided it can show that the money will only be used for research and not for profit. Manicaland State University of Applied Sciences (MSUAS) has also indicated that it would be prepared to collaborate with new company and help the company access an interest free loan for research purposes to the company once it is registered.

Peter engages a consultant to prepare a business plan at a cost of \$3,000, which he intends to submit to the government and to MSUAS in support of his proposal. Peter tells the consultant that the company will pay the bill after it is registered.

Required:

a) Considering the above facts, explain the type of a company Peter should consider setting up . Justify your answer. (10 marks)

b) Discuss the different sources of capital available to the company in order to raise the required \$6 million. (10 marks)

c) Is Peter responsible for the cost of the business plan prepared by the consultant? Justify your response. (10 marks)

d) Advise Manicaland State University of Applied Sciences on what it should do to secure the interest free loan for the company. (10 marks)

[Total marks:40]

Section B: (60 marks)

Attempt any three questions

Question 2

Hamura is one of three directors in Citizens Engineering Pvt Ltd. Hamura is out for lunch one afternoon with a supplier of engineering parts, and after a long session of talking and drinking with the supplier, he agrees to place a very large order with that supplier. It appears the parts are inappropriate for their business, overpriced and the supplier has a poor record in the industry for delivering on time. The other directors are planning to cancel but the suppliers are insisting that a valid contract exist and everything was above board .

Required :

Can Citizens Engineering Pvt Ltd cancel the order? Explain the viewpoint of the supplier and Engineering Products Pvt Ltd and its directors. (20 marks)

Question 3

Directors have a primary duty to manage the company and not to answer to individual shareholders. Critique this statement with reference to Companies and Other Businesses Entities Act 24:31 . (20 marks)

Question 4

You are consulted by Mwendamberi, a shareholder carrying on business as Gushungo Trading Company in Odzi. He informs you that last week he received a summons claiming payment of the sum of \$2000 as damages arising out of an incident in which two guard dogs at his business premises allegedly attacked a customer without provocation resulting in the customer sustaining severe injuries. Further investigations revealed that that the dog's vaccination certificates identify the owner as Gushungo Trading Company although the summons bears his individual name.

Required :

Advise jack on:-

- a) Whether it is legally possible to hold him liable for the company debts .(10 marks)
- b) Whether or not as the sole shareholder he would be liable to compensate the customer in the event of the company being sued. (10 marks)

Question 5

Explain the meaning of the following terms as used in Company law ;

- a) Ultra vires doctrine . (5 marks)
- b) Equitable duty of disclosure. (5marks)
- c) Prospectus (5 marks)

d) Tuquand rule

(5 marks)

Question 6

Natasha and Rejoice are two new young entrepreneurs in the ever-expanding telecommunications industry. They come from a media family and with the use of some family money they invest in Masavara Communications Ltd. They both have a 15% stake in Masavara Communications and both hold positions as non-executive directors on the Board of Masavara Communications Ltd.

Due to excessive competition in the telecommunications sector Masavara Communications Ltd is facing liquidity problems. The managing director Sam Smart approaches Natsha and Rejoice and while assuring them that all is well, suggests that the company could do with a capital injection and convinces them to increase their respective stakes in Masavara to 18%. Shortly after the capital injection Masavara Communications is still struggling. The directors fear that the company may be trading while insolvent so the board decides to place the company under corporate rescue .

Required

Natasha , Rejoice and Sam now seek your advice as to their potential liability under the Companies and other Businesses Entities. (20 marks)

END OF EXAMINATION!