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Updated With AUGUST 2025 Past Paper with Answers

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TOPIC 1

NATURE AND CLASSIFICATION OF COMPANIES

QUESTION 1

August 2025 Question One A

Enumerate FOUR limitations of a private limited company. (4 marks)

QUESTION 2

April 2025 Question One A

Your friend intends to start running a medium sized enterprise as a sole proprietor in his local town. He has come to you for advise on the possible challenges he might encounter as a result of operating his business.

Required:

Advise your friend on FOUR possible challenges about the form of business he intends to operate. (4 marks)

QUESTION 3

December 2024 Question One A and B

(a) Outline FOUR characteristics that define the legal framework within which companies operate in Kenya. (4 marks)

(b) Explain TWO differences between a "holding company" and a "subsidiary company". (4 marks)

QUESTION 4

August 2024 Question One A and B

(a) With reference to companies, explain the term "body corporate". (2 marks)

(b) Pizza World Enterprises Ltd., is a small family-owned company operating a chain of restaurants. The company has of late been facing financial difficulties. One reason being that the company's directors have been using the company's funds for personal expenses. As a result, the company has not been honouring its obligations to its creditors. The creditors are now contemplating suing the company directors.

Required:

Discuss THREE possibilities of the court lifting the veil of incorporation when the case is brought in a court of competent jurisdiction. (6 marks)

QUESTION 5

August 2024 Question Two A

Highlight THREE characteristics of a company limited by guarantee. (3 marks)

QUESTION 6

April 2024 Question Three B

Distinguish between “Private Limited Company” and “Public Limited Company”. (4 marks)

QUESTION 7

December 2023 Question One A and B

a) Explain the concept of legal personality in the context of corporate entities. (4 marks)

(b) Examine THREE classifications of companies on the basis of liability. (6 marks)

QUESTION 8

August 2023 Question Six B

Discuss THREE advantages and THREE disadvantages of the principle of legal personality. (12 marks)

QUESTION 9

April 2023 Question One A (i)

A group of four graduates have decided to form a small business firm to deal in import and export trade. You have been appointed as a member of the technical committee to help in registering the firm as a limited liability company. Explain to the committee the matters below:

(i) The FIVE legal characteristics of the entity that will be registered. (5 marks)

QUESTION 10

April 2023 Question One B and C

b) With respect to the nature and classification of companies, distinguish between a registered company and a:

(i) Statutory corporation. (1 mark)

(ii) Partnership. (4 marks)

c) Outline FIVE instances under common law where the veil of incorporation may be lifted. (5 marks)

PART B

SUGGESTED ANSWERS
TO
PAST PAPER QUESTIONS

TOPIC 1

NATURE AND CLASSIFICATION OF COMPANIES

QUESTION 1

August 2025 Question One A

Limitations of a private limited company

1. **Limited Capital Raising Ability**: Private limited companies cannot sell shares to the public, which restricts their ability to raise large amounts of capital compared to public companies.
2. **Restrictions on Share Transfer**: Shares in a private limited company are not freely transferable. Shareholders often need approval from other members before selling their shares, limiting liquidity.
3. **Compliance and Regulatory Burden**: Even though it's private, the company must adhere to legal and regulatory requirements such as filing annual returns, maintaining statutory records, and undergoing audits, which can be costly and time-consuming.
4. **Limited Growth Potential**: Due to restrictions on the number of shareholders (usually capped at 50, depending on jurisdiction) and fundraising options, private limited companies may face limits in scaling operations compared to larger public companies.

QUESTION 2

April 2025 Question One A

Possible challenges about the form of business he intends to operate

1. He has to provide all the capital
2. In case of losses he will bear it all alone
3. He will have to work for long hours to increase profits and this in the long run affects his health
4. There is no scope in sharing ideas for the improvement of the business

QUESTION 3

December 2024 Question One A and B

a) Characteristics that define the legal framework within which companies operate in Kenya

In Kenya, the legal framework governing companies is shaped by various laws, regulations, and institutional structures. Here are four key characteristics that define this framework:

1. **Incorporation and Registration**: Companies must adhere to the Companies Act (2015), which details registration procedures, including documentation requirements and minimum share capital. The Registrar of Companies oversees this process.
2. **Corporate Governance**: There is a strong emphasis on governance standards, outlining the roles of directors and shareholder rights. The Companies Act establishes guidelines for board activities, and listed companies follow additional regulations from the Capital Markets Authority.
3. **Shareholder Rights Protection**: The framework protects shareholders' rights to participate in decisions, access financial information, and seek legal recourse in cases of unfair treatment, particularly for minority shareholders.
4. **Regulatory Oversight**: Multiple regulatory bodies, such as the Registrar of Companies and the Capital Markets Authority, monitor compliance with laws, enforce penalties for violations, and ensure adherence to tax, environmental, and employee rights regulations.

b) Difference between Holding Company and Subsidiary Company

A holding company is a corporation or entity that owns a controlling interest in one or more other companies, known as subsidiaries

A subsidiary company is a separate legal entity that is controlled by another company, known as the parent or holding company.

Difference between Holding Company and Subsidiary Company

Basis	Holding Company	Subsidiary Company
Ownership	A holding company is an entity that owns a significant portion of the shares or voting rights in other companies. It typically holds controlling interest (usually more than 50%) in its subsidiaries.	A subsidiary company is a separate legal entity that is controlled by another company, known as the parent or holding company. The parent company holds the majority of voting rights or shares in the subsidiary.
Control	A holding company exercises control over its subsidiaries through ownership of their voting stock or through contractual agreements.	Subsidiaries operate autonomously to some extent but are ultimately subject to the control and influence of the parent company.
Management	It may provide strategic direction and governance oversight but typically does not involve itself in the day-to-day management of its subsidiaries.	They have their own management teams and operational structures, but major decisions may require approval from the parent company.

Business Operations	Holding Companies do not engage in the operational activities of their subsidiaries. Instead, they primarily focus on holding and managing investments in other businesses.	Subsidiaries are independent legal entities that engage in operational activities within their respective industries. They may have their own products, services, customers, and revenue streams.
Financial Reports	Holding Companies typically consolidate the financial statements of their subsidiaries into their own financial reports. This consolidation provides a comprehensive view of the overall group's financial performance.	Subsidiary Companies maintain their own financial records and produce separate financial statements. However, these financial statements may be consolidated into the financial reports of the parent company.
Liability	Holding Companies are generally not liable for the debts and obligations of their subsidiaries. Each subsidiary maintains its own legal and financial independence.	Subsidiaries have limited liability, meaning their obligations are generally separate from those of the parent company.

QUESTION 4

August 2024 Question One A and B

a) **Explanation of the term "body corporate"**

A body corporate is a legal term that refers to a company or corporation that has been legally formed. It is a separate legal entity from its owners (shareholders or members). This means that the company can sue and be sued in its own name, own property, enter into contracts, and incur debts independently of its owners.

b) Possibilities of the court lifting the veil of incorporation

The veil of incorporation is a legal principle that separates the company from its shareholders. However, there are circumstances where courts may "lift the veil" and hold the shareholders personally liable for the company's debts. Here are three potential grounds that the creditors might argue in their case against Pizza World Enterprises Ltd.'s directors:

1. **Fraudulent Trading:** This occurs when a company carries on business with the intention of defrauding creditors. If the directors knowingly used company funds for personal expenses while the company was insolvent or knew it would become insolvent, this could be considered fraudulent trading. The directors could be held personally liable for the company's debts.
2. **Agency or Alter Ego Doctrine:** This doctrine holds that if a corporation is so dominated by its shareholders that it has no separate existence, the corporation's acts