

Fundamentals Level – Skills Module

# Corporate and Business Law (Lesotho)

Monday 18 June 2012



**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

ALL TEN questions are compulsory and MUST be attempted.

**Do NOT open this paper until instructed by the supervisor.**

**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.**

**This question paper must not be removed from the examination hall.**

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants

**ACCA**



# Paper F4 (LSO)

**ALL TEN questions are compulsory and MUST be attempted**

- 1 In relation to the legal system of Lesotho, explain the main rules the courts use to interpret statutes.**

**(10 marks)**
- 2 In relation to the law of contract, discuss the concept of cession, including the circumstances when the consent of the debtor is required to validate cession.**

**(10 marks)**
- 3 Explain and distinguish between a contract of service and a contract for services.**

**(10 marks)**
- 4 Explain how an agency relationship can be established in the following ways:**

  - (a) by agreement; (3 marks)
  - (b) by ratification; and (3 marks)
  - (c) by holding out. (4 marks)

**(10 marks)**
- 5 In relation to a company's shares explain the following:**

  - (a) authorised capital; (3 marks)
  - (b) issued capital; (3 marks)
  - (c) paid-up capital; and (2 marks)
  - (d) the difference between nominal value and market value. (2 marks)

**(10 marks)**
- 6 In relation to company law, explain:**

  - (a) what is meant by the veil of incorporation of a company. (4 marks)
  - (b) the circumstances when a court will lift the veil of incorporation. (6 marks)

**(10 marks)**
- 7 In relation to company law, explain the concept of corporate governance.**

**(10 marks)**

- 8 Nana Laundry Ltd advertised in a national newspaper, inviting tender for a second-hand laundry machine. Maluti Equipment Ltd submitted a tender, which was accepted by Nana Laundry Ltd. Maluti Equipment Ltd agreed to supply a second-hand laundry machine for R300,000 and to deliver it by 1 April 2012. Due to some technical difficulties, Maluti Equipment Ltd failed to deliver the machine on time and it was only on 1 June 2012, that Nana Laundry Ltd received the machine.

Maluti Equipment Ltd admit they are in breach of contract.

**Required:**

**Explain the legal significance of:**

- (a) **Nana Laundry Ltd's advertisement.** (2 marks)
- (b) **Maluti Equipment Ltd's tender.** (2 marks)
- (c) Nana Laundry Ltd now claims damages from Maluti Equipment Ltd for the following:
  - (i) R60,000 for the loss of two months' business profits, and
  - (ii) R100,000 for the loss of profits on an army contract which was offered to Nana Laundry Ltd during the period 1 April 2012 to 1 June 2012.

**Required:**

**Advise Maluti Equipment Ltd as to their legal position with regard to the damages claimed by Nana Laundry Ltd.** (6 marks)

**(10 marks)**

- 9 Evergreen Ltd is a public limited company. Its shares are quoted both in Johannesburg and Botswana's stock exchanges. The company has not been doing well in recent years. As a result, shareholders have been given dividends of just 4% and this has made them unhappy. The share price too has dropped. One financial newspaper has reported that in spite of its poor performance, the company has large assets, which could be imaginatively used to turn it around. This report has prompted Maseru Breweries Ltd to try to take over Evergreen Ltd by purchasing shares from the market and by approaching individual shareholders. This has unnerved the directors of Evergreen Ltd. They held an emergency meeting in June 2010 to consider the strategies to prevent a possible takeover bid from Maseru Breweries Ltd.

The directors are considering the following strategies:

- (a) A generous dividend should be paid out to shareholders to induce them to continue to hold their shares and not sell them out. The difficulty is that the company does not have sufficient distributable profits and a generous dividend would have to come out of share capital. (2 marks)
- (b) To boost the market value of shares of Evergreen Ltd, Evergreen Ltd should obtain a large loan against the security of its large assets, and use this amount to buy shares of Evergreen Ltd through an intermediary. (3 marks)
- (c) Additional shares should be issued exclusively to the directors and some of their friends, and the articles of association amended so that each of these additional shares carry 10 votes each. (5 marks)

**Required:**

**Advise the directors on each proposed strategy.**

Note: The mark allocation is shown against each of the three strategies above.

**(10 marks)**

- 10** Sam, Peter and Frank formed a partnership four years ago to run an event management business. Sam provided R20,000, Peter R12,000 and Frank R8,000 to establish the business. The partnership was registered under the Partnership Proclamation 1957. The partnership deed provided that all profits and losses were to be divided in proportion to the capital contribution.

After 24 months Sam provided the partnership with a loan of R3,000 to augment the working capital. All partners agreed that the loan would be paid back from the profits of the business.

Unfortunately the business was not successful and the partners decided to publish a notice of dissolution of the partnership in the local newspaper as required by the Partnership Proclamation 1957. They did not want to risk running up any more losses. At the time of the publication of the notice, the partnership assets were worth R20,000. The partnership had borrowed R7,000 from a financial institution and none of the debt to Sam had ever been paid.

**Required:**

**Advise the partners on the financial aspects of the dissolution including the distribution of the assets.**

**(10 marks)**

**End of Question Paper**