

Fundamentals Level – Skills Module

# Corporate and Business Law (Global)

Tuesday 7 June 2011

**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

# Paper F4 (GLO)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

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

- 1 In relation to a common law legal system, explain and distinguish between civil and criminal law, providing a statutory example of each category, and identify the different courts that deal with each category of law. (10 marks)**
- 2 In the context of the UNCITRAL Model Law on International Commercial Arbitration explain:**
- (a) the procedures for appointing the members of an arbitration panel; (4 marks)
  - (b) the grounds for challenging the appointment of an arbitrator; (2 marks)
  - (c) the procedure to be followed by the arbitration panel in reaching its decision. (4 marks)
- (10 marks)**
- 3 In relation to the formation of a contract in the context of the UN Convention for the International Sale of Goods, explain:**
- (a) the meaning of an offer; (5 marks)
  - (b) the circumstances under which an offer may be terminated. (5 marks)
- (10 marks)**
- 4 In relation to the formation of a company explain:**
- (a) the role and duties of promoters, and how they are regulated; (5 marks)
  - (b) a pre-incorporation contract, and its legal consequences. (5 marks)
- (10 marks)**
- 5 With regard to payment for shares in the context of capital maintenance, explain the meaning and legal effect of the following:**
- (a) issuing shares at a premium; (5 marks)
  - (b) issuing shares at a discount. (5 marks)
- (10 marks)**
- 6 In relation to company regulation explain:**
- (a) the concept of 'corporate governance'; (3 marks)
  - (b) the role of either:
    - (i) the Organisation for Economic Co-operation and Development Principles of Corporate Governance; or
    - (ii) the United Kingdom Corporate Governance Code. (3 marks)
  - (c) the role of non-executive directors in the context of corporate governance. (4 marks)
- (10 marks)**

**7 In relation to international business transactions explain:**

**(a) the meaning of a bill of lading;** (5 marks)

**(b) the function of the bill of lading in relation to the passage of risk in the context of the UN Convention for the International Sale of Goods.** (5 marks)

**(10 marks)**

**8** Az is an international metals broker with clients all round the world.

In January he entered into three contracts:

- (a) the first, to supply Brad with 1,000 tonnes of aluminium;
- (b) the second, to supply Chad with 1,000 tonnes of copper;
- (c) the third, to supply Dan with 1,000 tonnes of tin.

Although Az had immediate access to the metals from his extensive reserves, delivery on all three contracts was to take place on 1 May. However, as he wanted to reduce his exposure to such a large inventory of metals Az decided to supply the metals to the three other parties earlier than the contract date; 1 March rather than 1 May.

Because Az's inventory of aluminium was only 1,000 tonnes that is what he sent to Brad.

However, as he had larger inventory of copper and tin, he decided to send an additional 500 tonnes to both Chad and Dan, over and above their agreed amounts.

At the end of February, after Az had despatched the metals, the international metals market suffered a severe upheaval, with the price of copper falling by 50% and the price of tin increasing by the same percentage. The price of aluminium remained constant.

**Required:**

**Advise Brad, Chad and Dan as to their rights under the UN Convention for the International Sale of Goods.**

**(10 marks)**

**9** Goal Ltd is a property development company. Before its incorporation 12 months ago, its business was carried out by Hope, as a sole trader. On the formation of Goal Ltd, Hope expanded the business by asking three of his business contacts to supply additional capital in return for which they, together with Hope, became its directors. Although never formally appointed, Hope took the role and title of chief executive and the other directors left the day-to-day running of the business to him and were happy simply to receive feedback from him at board meetings.

Six months ago Hope entered into a contract, on Goal Ltd's behalf, with Ima, to produce plans for the redevelopment of a particular site that it hoped to acquire. However, Goal Ltd did not acquire the site and due to its current precarious financial position and their fear of potential losses, the board of directors has refused to pay Ima, claiming that Hope did not have the necessary authority to enter into the contract with her.

**Required:**

**Analyse the situation with regard to the authority of Hope to make contracts on behalf of Goal Ltd, and in particular advise the board of directors if the company is liable on the contract with Ima.**

**(10 marks)**

**10** On the advice of his accountant, Mat registered a private limited company to conduct his small manufacturing business in January 2010. One of the reasons for establishing the company was to avoid liability for potential losses. The initial shareholders of the company were Mat, his wife Mary and her father Norm, who each took 1,000 shares in the company, each with a nominal value of \$1. The accountant explained that they did not have to pay the full nominal value of the shares at once, so they each paid only 25 cents per share taken, with the result that they still owed the company a further 75 cents per share, to be paid at a later date.

When the company was established it became apparent that it needed to borrow money from a bank to finance an expansion in production. To that end Oop bank plc lent the company \$20,000 secured by a fixed charge against the land Mat had previously transferred to the company, with an additional personal guarantee from Mat for any debts owed by the company to the bank.

Unfortunately the business has not proved successful and Mat and the other shareholders have decided that it is better to liquidate the company rather than run up any more debts. The current situation is that the company's land is worth \$20,000 and it has further assets to the value of \$7,750, but it has debts to business creditors (payables) of \$10,000 and owes the bank a further \$10,000 on its bank overdraft.

**Required:**

**Explain the rights of the various creditors (payables) and the potential liability of Mat, Mary and Norm. (The actual costs of winding up may be ignored.)**

**(10 marks)**

**End of Question Paper**