

Sample Exam Paper

Question 1

Legal and disciplinary frameworks provide ALL of the following **EXCEPT** which ONE?

- A. An effective means of challenging serious wrong-doing
- B. Deterrents to bad practice through punishment and censure
- C. Means of controlling behaviour
- D. Financial compensation only to the affected parties

Question 2

Which of the following statement is **INCORRECT** regarding Financial Reporting Council (FRC)?

- A. It is the United Kingdom's independent regulator for corporate reporting and governance
- B. It must always seek to insure professional integrity of practicing accountants
- C. It aims at promoting confidence in corporate reporting and governance
- D. Professional Oversight Board and Audit Practices Board are part of FRC

Question 3

CIMA Code of Ethics takes what is called a 'framework-based' approach. What is the **INCORRECT** statement?

- A. It does not provide a list of 'you should not' commands to accountants
- B. It provides steps to identify, explain and solve ethical problems
- C. It helps accounting practitioners to deal with immediate practical problems
- D. Framework-based approach must be approved by the highest court in the country of the CIMA member registers the practice

Question 4

The following are four of 'the seven principles of public life' issued by the Committee of Standards in Public Life, and a brief explanation. Which explanation does **NOT** match with the principle?

- A. Integrity – holders of public office should not place themselves under any financial or other obligation.
- B. Objectivity – in carrying out public business, the holder of public office must ensure personal objectives behind public objectives
- C. Honesty - holders of public office have a duty to declare any private interests relating to their public duties
- D. Openness - holders of public office should be open as much as possible about all decisions and actions they take.

Question 5

What are the CORRECT statements?

- i. Clear ethical values set cultural tone of the company.
- ii. Self regulation is based upon trust.
- iii. The objective of ethics is detection and prevention.
- iv. CIMA Code of Ethics has got a framework-based approach

- A. i, ii and iii
- B. i, iii and iv
- C. ii, iii and iv
- D. i, ii and iv

Question 6

Knowledge, skills, diligent delivery, awareness of relevant issues etc are most related to which fundamental principal in CIMA Code of Ethics?

- A. Confidentiality
- B. Professional competence & due care
- C. Integrity
- D. Objectivity

Question 7

What are INCORRECT statements?

- i. The Audit Practices Board reviews the regulatory activities of the professional accounting bodies.
- ii. The Professional Oversight Board for Accountancy is part of the Financial Reporting Council.
- iii. 'The Seven Principles of Public Life' is applicable only to professional accountants.
- iv. The CIMA Code of Ethics includes reference to how a professional accountant can raise concern about unprofessional or unethical behaviour.

- A. i, ii and iv only
- B. ii, iii and iv only
- C. i, ii and iii only
- D. all of the statements

Question 8

What is INCORRECT?

- A. Professional accountants are always bound by the principle of confidentiality.
- B. Integrity denotes an attitude of personal and professional consistency in the way in which professional accountants act.

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- C. Professional accountants can be required by law to disclose confidential information about their clients.
- D. Professional accountants are required to be independent both of mind and in appearance.

Question 9

Which statement is INCORRECT regarding the CIMA Code of Ethics?

- A. It reflects the standards of CIMA expects of its members and students.
- B. It provides a basis for any complaints or cases under CIMA's disciplinary procedures.
- C. It is more in common with rules than guidance to provide basis for punishing members only.
- D. It sets out aspirations and standards of general behaviour, and attitude for the profession.

Question 10

Professional accountants are bound by the principle of confidentiality in all that they do unless:

- i. Disclosure is permitted by law and it authorised by client or the employer
- ii. There is a professional duty or right to disclose, when not prohibited by law
- iii. Disclosure is not required by law, but the employment contract requires to do so

Which statements are CORRECT?

- A. i and ii only
- B. i and iii only
- C. ii and iii only
- D. i, ii and iii only

Question 11

- i. The statutory duty takes priority, if the professional duty conflicts with the statutory duty of a professional accountant.
- ii. A professional accountant may break a contractual duty, if the employer instructs him or her to act in a professionally unacceptable way.

Which of the above statements are INCORRECT?

- A. i only
- B. ii only
- C. Both i and ii
- D. None of them

Question 12

Most of the organisations are producing value-based codes and building values into their corporate strategies, for all of the following reasons **EXCEPT which ONE?**

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- A. Corporate values are important for giving guidance to staff about what the expectations an employer has of them with regard to their behaviour.
- B. Corporate values are made mandatory under the statutory laws, and failure to comply amounts to legal breach.
- C. Corporate values seek to ensure a consistency of conduct across the entire organisation.
- D. Corporate values directly relate to organisation's risk management strategies and supports reputation and credibility.

Question 13

'How much recycling of waste and paper undertaken by an organisation?' relates to which one of the following?

- A. Corporate governance of an organisation
- B. Corporate values of an organisation
- C. Social responsibility of an organisation
- D. Corporate policy towards sustainability

Question 14

All the following are sources of values that give rise to ethical dilemmas **EXCEPT which ONE?**

- A. Society, through the legislative process
- B. Individuals, through their personal values
- C. Organisations, through codes of ethics for their staff to follow
- D. Courts, through higher judicial precedents

Question 15

Rex, a CIMA Member, is facing with the following ethical dilemma.

Rex's wife has just got a job as managing director with a great remuneration package of a successful organisation, which also happens to be one of his biggest clients.

Which statement is CORRECT?

- A. Rex should prevent his wife from taking up this job, as it appears unethical.
- B. By working through the CIMA Code of Ethics, Rex will find guidance how to deal with this ethical dilemma.
- C. There is no ethical dilemma, as Rex and his wife are independent entities as far as their jobs are concerned.
- D. Rex should immediately notify his client that he intends to terminate his service if it recruits his wife to avoid ethical conflict.

Question 16

All of the following are the Fundamental Principles of CIMA Code of Ethics professional accountants are supposed to call upon to resolve ethical conflicts, **EXCEPT which ONE?**

- A. Integrity

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- B. Effect
- C. Transparency
- D. Fairness

Question 17

When a professional accountant faces choices which amounts to conflict or breach, he / she should always:

- i. Think objectively, and take his / her preferences out of the equation
 - ii. Act professionally, and seek guidance from the CIMA Code of Practice and CIMA
 - iii. Reflect on the situation, and continue to learn and develop
- A. Only i and ii are correct
 - B. Only ii and iii are correct
 - C. Only i and iii are correct
 - D. Only i, ii and iii are correct

Question 18

The system by which companies are directed and controlled is called:

- A. Corporate regulations
- B. Corporate governance
- C. Corporate administration
- D. Corporate compliance

Question 19

Which of the following is suggesting that one person should not occupy the role of Chairman and Chief Executive of a public listed company.

- A. The Hampel Committee Report 1998
- B. The Cadbury Committee Report 1992
- C. The Greenbury Committee Report 1995
- D. The Smith Report on Audit Committees 2003

Question 20

According to the Cadbury Committee Report 1992 independent non-executive directors should be appointed to the board of listed UK companies.

This is to ensure:

- A. It is cheaper to recruit non-executive directors than executive directors
- B. Non-executive directors are more experienced than executive directors
- C. Non-executive directors are perceived to be more independent than executive directors
- D. It is more difficult to remove non-executive directors from the board than executive directors

Question 21

Which of the following are represented at board level in the United Kingdom?

- A. Both shareholders and employees
- B. Both shareholders and creditors
- C. Shareholders only
- D. Employees only

Question 22

- i. A company director could act in breach of the duty of care, and yet could still comply with the principles of corporate governance.
- ii. A professional accountant acting as a company director has got a strict duty of care towards the shareholders.

Which of the following is CORRECT in relation to the above statements?

- A. i only
- B. ii only
- C. i and ii
- D. None of them.

Question 23

The all-executive board:

- A. Is only found in the UK public companies
- B. Is commonly found in private companies in Germany
- C. Has no company secretary
- D. Is comprised of directors, all of whom have managerial roles

Question 24

The UK Corporate Governance Code is a 'comply or explain' code.

- i. The UK Corporate Governance Code is not contained in any statute.
- ii. Companies may opt ignore the recommendations of the Code, as long as it explains.

Which of the following is CORRECT in relation to the above statements?

- A. i only
- B. ii only
- C. Both i and ii
- D. None of them

Question 25

Which of the following types of committee are not recommended by the UK best practices?

- A. Nominations Committee and Audit Committee

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- B. Nominations Committee and Remuneration Committee
- C. Remuneration Committee and Audit Committee
- D. Planning Committee and Strategic Committee

Question 26

Which ONE of the following is the superior source of English law?

- A. A precedent established by the Supreme Court.
- B. A provision in an Act of Parliament.
- C. A government pronouncement.
- D. A Statutory Instrument.

Question 27

Which ONE of the following is the highest court in England?

- A. The Court of Appeal
- B. The Supreme Court
- C. The High Court.
- D. The Crown Court

Question 28

Which ONE of the following statements is correct?

- A. The aim of the criminal law is to regulate behaviour within society by the threat of punishment.
- B. The aim of the criminal law is to punish offenders.
- C. The aim of the criminal law is to provide a means whereby injured persons may obtain compensation.
- D. The aim of the criminal law is to ensure that the will of the majority is imposed upon the minority.

Question 29

Which one of the following is not in the five categories of action recognised as the “Five Pillars of Islam”?

- A. Permissible
- B. Reprehensible
- C. Meritorious
- D. Tolerated

Question 30

In China, more than 800,000 mediation committees function in rural and urban areas. Which one of the following correctly identifies by percentage the extent to which these committees deal with civil disputes?

- A. Over 90%

- B. Over 80%
- C. Over 70%
- D. Over 60%

Question 31

Which of the following is an influence that has contributed to the development of the legal system in Denmark?

- A. Roman Law
- B. English constitutional theory
- C. German jurisprudence
- D. The Code Civile from France

Question 32

Which one of the following areas of law is not codified in France?

- A. Contract Law
- B. Employment Law
- C. Company Law
- D. Tort

Question 33

Which of the following is correct?

- i. A contract is entered into voluntarily whereas criminal offences are imposed by the state.
 - ii. A tort is entered into voluntarily whereas criminal offences are imposed by the state.
 - iii. A contract is entered into voluntarily whereas a tort is imposed by the state.
- A. i only.
 - B. ii only.
 - C. i and iii only.
 - D. ii and iii only.

Question 34

Tee Ltd placed some computers in its shop window with a notice which read:
“Special offer. Internet-ready computers for sale at £400.”

Which of the following is correct?

- i. The notice amounts to an invitation to treat.
 - ii. When Anne called in to the shop and offered £350 for one of the computers, she had made a counter offer.
 - iii. Tee Ltd is obliged to sell a computer to anyone who can pay the price.
- A. i and ii only.
 - B. i only.

- C. i, ii and iii.
- D. ii only.

Question 35

Which of the following is INCORRECT?

- i. Legal title cannot pass on a contract induced by misrepresentation.
 - ii. Misrepresentation renders a contract voidable.
 - iii. A victim of negligent misrepresentation may seek rescission and damages.
- A. i only.
 - B. ii only.
 - C. i and iii only.
 - D. ii and iii only.

Question 36

Which of the following statements is correct?

- i. If an agreement is stated to be “binding in honour only”, the parties have decided that the agreement should not have contractual force.
 - ii. If an agreement is not in writing, the parties are presumed to have intended that it should not be legally enforceable.
- A. i only.
 - B. ii only.
 - C. Neither i nor ii.
 - D. Both i and ii.

Question 37

Which **ONE** of the following statements is incorrect?

- A. Payment by the debtor of less than the full amount of the debt will satisfy the whole debt at common law, if paid early at the request of the debtor.
- B. Payment by a third party of less than the full amount of the debt will discharge the whole debt at common law.
- C. Payment of less than the full amount of the debt will discharge the whole debt at common law, if agreed to by the creditor.
- D. Payment of less than the full amount of the debt will discharge the whole debt at common law, if extra consideration is provided by the debtor.

Question 38

Which of the following examples of performance amounts to good consideration?

- i. The performance of an existing duty under the general law.
 - ii. The performance of an existing contract in return for a promise by a third party.
 - iii. The performance of an act, followed by a promise to pay for that act.
- A. i only.
B. ii only.
C. i and ii only.
D. iii only.

Question 39

Jack was induced to enter into a contract with Karl by Karl's negligent misrepresentation. Which of the following is CORRECT?

- i. Jack has a remedy against Karl in the tort of negligence.
 - ii. Jack has a remedy against Karl under the Misrepresentation Act 1967.
 - iii. Jack has a remedy against Karl in the tort of deceit.
- A. i only.
B. i and ii only.
C. ii and iii only.
D. i, ii and iii.

Question 40

The vast majority of contracts are "simple". What is the meaning of the word "simple" in this context?

- A. The terms of the contract are set out in writing.
B. The contract does not need to be in any particular form to be binding.
C. The contract contains fewer than ten provisions.
D. The contract is not supported by consideration.

Question 41

Which **ONE** of the following is correct?

- A. A contract is frustrated when something happens after it has been entered into, which is not fault of either party and which renders the contract more difficult to perform.
B. A contract is frustrated when a party expressly agrees to manufacture and supply goods and then discovers that they will be far more expensive to produce than he thought at the time of the contract.

- C. A contract is frustrated when something happens after it has been entered into, which is not fault of either party and which renders the contract impossible to perform.
- D. A contract is frustrated if it is impossible to perform at the time that it is made through no fault of either party.

Question 42

Exe Ltd was under contract to deliver goods by road to London for Wye Ltd for £2,000. After part of the journey was completed, the delivery vehicle broke down and Wye Ltd was forced to arrange for Zed Ltd to complete the delivery. If there are no provisions in the contract to deal with this situation, which of the following is correct?

- A. Exe Ltd is entitled to part of the delivery fee.
- B. Exe Ltd is entitled to nothing.
- C. Exe Ltd is entitled to a reasonable sum for the work done.
- D. Exe Ltd is entitled to the full £2,000.

Question 43

Which **ONE** of the following remedies is NOT available for a breach of a contract to provide personal services?

- A. Damages.
- B. A decree of specific performance.
- C. An injunction.
- D. An action for the price.

Question 44

Which **ONE** of the following does NOT discharge a contract?

- A. Precise performance of all the contractual obligations.
- B. A subsequent event causing the contract to be impossible to perform.
- C. Breach of contractual term which is classified as a warranty
- D. The agreement of the parties, contained in a deed, to the effect that the contract should be discharged.

Question 45

In the event of a breach of contract, what is the purpose of damages?

- i. To punish the contract breaker.
 - ii. To compensate the innocent party.
 - iii. To put the innocent party in the same position as if the contract had been carried out correctly.
- A. i only.
 - B. ii and iii only.
 - C. iii only.
 - D. i, ii and iii.

Question 46

Tee Ltd has contracted to use Vee Ltd's "Grand Hotel" for a business conference. Which of the following would be regarded as a valid reason for Vee Ltd for the unavailability of the hotel on the agreed date under the law of frustration?

- i. The hotel was closed due to flood damage.
 - ii. The hotel was double booked.
 - iii. The hotel manager had arranged to have the hotel redecorated. The decorators had failed to complete the work by the agreed date.
- A. i only.
B. iii only.
C. ii and iii only.
D. i, ii and iii.

Question 47

Which **ONE** of the following is not an equitable remedy?

- A. Damages.
- B. Specific performance.
- C. Rescission.
- D. Injunction.

Question 48

Which of the following statements is/are correct?

- i. An employer is vicariously liable for the torts of employees committed in the course of their employment.
 - ii. An employer is vicariously liable for the torts of independent contractors, if they were committed whilst carrying out work for the employer.
- A. i only.
B. ii only.
C. Both i and ii.
D. Neither i nor ii.

Question 49

Which of the following statements suggests that John is an independent contractor in relation to the work he carries out for Zed Ltd?

- i. He is required to provide his own tools.
 - ii. He is required to carry out his work personally and is not free to send a substitute.
 - iii. He is paid in full without any deduction of income tax.
- A. i and ii only.

- B. ii and iii only.
- C. i and iii only.
- D. i, (ii) and iii.

Question 50

In relation to a claim for wrongful dismissal, which of the following statements is CORRECT?

- i. Only employees below the normal retiring age may claim.
 - ii. There is frequently no limit on the amount of compensation that a tribunal can award.
 - iii. Claims must be made within 3 months of the dismissal.
- A. i only.
 - B. ii only.
 - C. iii only.
 - D. None of them

Question 51

An employer must provide an employee with a written statement of particulars of the employment:

- A. Within one month of the employment commencing.
- B. As soon after the commencement of employment as possible.
- C. Within two months of the employment commencing.
- D. Within a reasonable time of the employment commencing.

Question 52

Which of the following statement is INCORRECT?

- A. There is a general duty on every employer under the Health and Safety at Work Act 1974 to ensure, so far as is reasonably practicable, the health, safety and welfare at work of all his employees.
- B. The Employers Liability Commission is responsible for the enforcement of the Health and Safety at Work Act and related legislation
- C. In terms of the Management of Health and Safety at Work Regulations, employers are required to carry out a hazard analysis of their business operation.
- D. Employers should check that potential employees are legally entitled to work and remain in the UK

Question 53

Which one of the following is an employer today always bound to do?

- A. Give a testimonial to an employee who asks for one when he or she wishes to leave.
- B. Insure himself against possible occupational safety liabilities to employees.
- C. Pay wages to an employee during absence for illness.
- D. Prohibit smoking indoors.

Question 54

Which of the following duties does an employer owe?

- i. To always provide a reasonably safe system of work.
 - ii. To pay fines imposed for breach of the Management of Health and Safety at Work Regulations 1999.
 - iii. To insure against possible civil liability to employees.
- A. i and ii only
B. i, iii and iv only
C. ii, iii and iv only
D. All of them

Question 55

Which of the followings is not the aim of the Health and Safety at Work Act 1974?

- A. To integrate and extend the law on health and safety at all places of work
B. To prevent employers requiring employees to retire at 65
C. To make detailed regulations to be enforced by sanctions of criminal law
D. To provide effective means of shaping the policy and regulations

Question 56

Quentin was employed by Bee Ltd as its senior design consultant. Quentin contracted with Bee Ltd that when his employment with the company ceased, he would not act in competition with it or solicit its customers.

After Quentin left Bee Ltd, he registered a company called Cee Ltd, which immediately began working in competition with Bee Ltd and soliciting its customers. Bee Ltd complained to Quentin about this conduct, but Quentin stated that as the work was being undertaken by Cee Ltd, a separate legal entity, he had not acted in breach of the agreement with Bee Ltd.

Which **ONE** of the following is correct?

- A. Quentin is correct and cannot be said to be in breach of the agreement with Bee Ltd.
B. If the court finds that Cee Ltd was set up by Quentin to avoid the agreement with Bee Ltd, it will “lift the corporate veil” and enforce Quentin’s contract with Bee Ltd against Quentin and Cee Ltd.
C. Cee Ltd will be bound by the agreement because a company is always liable for the actions of its shareholders.
D. The agreement between Bee Ltd and Quentin is of no legal effect as it attempts to regulate Quentin’s activities after he has left Bee Ltd’s employment.

Question 57

Which **ONE** of the following is CORRECT?

- A. The shares of all public limited companies are quoted on the Stock Exchange.
B. The company secretary of a public limited company must be qualified.
C. A private limited company must have at least two shareholders.

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- D. A public limited company cannot trade until it has paid-up share capital of at least £50,000.

Question 58

Which **ONE** of the following statements in relation to partnership law is incorrect?

- A. In England, a partnership has no existence separate from the partners.
- B. Each partner can bind the firm in contract if acting in the ordinary course of business.
- C. Partners are not liable for debts contracted before they became partners.
- D. To be binding, a partnership agreement must be in writing.

Question 59

Which **ONE** of the following statements is incorrect?

- A. A private company limited by shares must have at least one director.
- B. A public company limited by shares must have at least two directors.
- C. A private company must have authorised share capital of at least £30,000.
- D. A public company must have an authorised share capital of at least £50,000.

Question 60

Which **ONE** of the following statements is incorrect?

- A. The Articles of Association form a contract between the shareholders and the board.
- B. The Articles of Association form a contract between the shareholders and the company.
- C. The Articles of Association form a contract between each shareholder and the other shareholders.
- D. The Articles of Association are only contractual in respect of ordinary membership rights.

Question 61

A business has been registered under the name "The Mark Jones Partnership Co Ltd". What type of business organisation must this be?

- A. A partnership.
- B. A private limited company.
- C. A public limited company.
- D. Any of the above as this is a business name.

Question 62

Which of the following is correct?

- i. Purchasing a "shelf company" enables business to commence more quickly.
- ii. It is generally cheaper to purchase a "shelf company" than to arrange for a solicitor or accountant to register a new company.

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- iii. Incorporating a company by registration enables the company's documents to be drafted to the particular needs of the incorporators.
- A. i and ii only.
B. ii and iii only.
C. i and iii only.
D. i, ii and iii.

Question 63

Immediately before XY Ltd was placed in insolvent liquidation, Alex, the company's sole director, arranged for the company to make an early repayment of an unsecured loan of £15,000 which he had provided to the company.

Which **ONE** of the following is correct?

- A. The repayment may amount to a "preference", and Alex may be required to hand back the £15,000 to XY Ltd.
B. Alex may be fined.
C. The repayment of the loan is valid so long as Alex was acting in good faith.
D. XY Ltd and Alex may be guilty of fraud.

Question 64

Which **ONE** of the following statements is correct in relation to companies limited by shares?

- A. All new shares issued must be offered to the existing members first.
B. All new shares issued for cash must be offered to the existing members first in the case of a public company only.
C. All new shares must be offered to the existing members first in the case of a private company.
D. All shares issued for cash must be offered to the existing members first.

Question 65

The articles of association of Dee Ltd, a property development company, states that the company has power to borrow in furtherance of its objects and that the directors have authority to borrow up to £200,000. The board has resolved to purchase a piece of land for £300,000. The Midwest Bank plc has agreed to make a loan of £250,000 to Dee Ltd to acquire the land.

Which **ONE** of the following is correct?

- A. The loan is void as Dee Ltd has acted ultra vires.
B. As the directors have exceeded their authority, the bank cannot enforce the loan against Dee Ltd.
C. As the directors have resolved to obtain the loan, the transaction is lawful.
D. The loan is ultra vires the directors who will be personally liable for any loss caused to the company unless their actions are ratified by the shareholders.

Question 66

Which **ONE** of the following correctly describes the “maintenance of capital” principle?

- A. A company cannot use its share capital which must be set aside as a fund for creditors.
- B. In general, a company can use its share capital for any reason whatsoever, as long as it ensures that there is sufficient remaining to meet the company’s debts.
- C. In general, a company must use its capital for the purposes of the company and cannot return it to its members.
- D. A company cannot use its share capital and may only return it to its members with the permission of the court.

Question 67

Which **ONE** of the following statements is correct?

- A. A floating charge has priority over a fixed charge.
- B. The preferential creditors take priority over fixed charge holders.
- C. A fixed charge has priority over a floating charge.
- D. Unsecured creditors take priority over floating charge holders

Question 68

Which of the following are **INCORRECT**?

- i. The first directors are appointed by a resolution of the members at the company’s first Annual General Meeting.
 - ii. A director is a person who occupies the position of director by whatever name he or she is called.
 - iii. A shadow director is a person in accordance with whose directions or instructions the directors of the company are accustomed to act.
- A. i only.
 - B. i and ii only.
 - C. ii and iii only.
 - D. i, ii and iii.

Question 69

Which of the following is correct?

- i. Directors may vote themselves such salary payments as they think fit, irrespective of anything in the company's Articles of Association.
 - ii. Directors are only entitled to be paid for their services if the constitution of the company so provides.
 - iii. Directors must be paid a salary.
- A.** i only.
B. ii only.
C. i and ii only.
D. iii only.

Question 70

Which of the following can enforce the fiduciary duties owed by a director?

- i. The majority shareholders.
 - ii. The company.
 - iii. Individual directors.
- A.** i and ii only.
B. ii only.
C. ii and iii only.
D. iii only.

Question 71

Which of the following would be regarded as an issue of shares for an improper purpose?

- i. An issue of shares in return for a non-cash consideration.
 - ii. An issue of shares to enable the directors to maintain control of the board.
 - iii. An issue of shares to prevent a take-over bid.
- A.** i only.
B. i and ii only.
C. ii and iii only.
D. iii only.

Question 72

Section 994 of the Companies Act 2006 empowers the court to grant a remedy in the event of a company's affairs being conducted in a manner "... unfairly prejudicial to the interests of its members...".

Who may petition for an order under this Section?

- i. Any member.
 - ii. The holders of at least 10% of the company's issued share capital.
 - iii. The directors.
-
- A. i only.
 - B. i and ii only.
 - C. ii and iii only.
 - D. iii only.

Question 73

The authorised share capital of Wye Ltd is £250,000 divided into 250,000 ordinary £1 shares. The asset value of each share is £2. Angela and Brian are the only shareholders. Each has taken 50,000 shares and each has, so far, paid £10,000. Which ONE of the following statements is correct?

- A. The issued share capital of Wye Ltd is £250,000, and the paid up capital is £20,000.
- B. The issued share capital of Wye Ltd is £100,000, and the paid up capital is £20,000.
- C. The issued share capital of Wye Ltd is £250,000, and the paid up capital is £100,000.
- D. The issued share capital of Wye Ltd is £20,000, and the paid up capital is £20,000.

Question 74

Jack has acted in breach of his fiduciary duty as a director of JK Ltd. If the breach does not amount to fraud on the minority, which ONE of the following is correct?

- A. The breach cannot be ratified by the shareholders.
- B. The breach may be ratified by a written or ordinary resolution.
- C. The breach may be ratified by a provision in the company's Memorandum of Association.
- D. The breach may be ratified by a resolution of the board of directors.

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C05 – Answers

Question	Answer	Question	Answer
1	D	40	B
2	B	41	C
3	D	42	B
4	B	43	B
5	D	44	C
6	B	45	B
7	C	46	A
8	A	47	A
9	C	48	A
10	A	49	C
11	D	50	D
12	B	51	C
13	C	52	B
14	D	53	B
15	B	54	D
16	A	55	B
17	D	56	B
18	B	57	B
19	A	58	D
20	C	59	C
21	C	60	A
22	A	61	B
23	D	62	D
24	C	63	A
25	D	64	D
26	B	65	D
27	B	66	C
28	A	67	C
29	D	68	A
30	A	69	B
31	C	70	B
32	D	71	C
33	C	72	A
34	B	73	B
35	A	74	B
36	A		
37	C		
38	B		
39	B		

C05 – Explanations

Note: the cases are cited in explanations to show the source of the law, and the students are not expected to remember the names of the cases for the C05 real assessment.

1. (answer D) Legal and disciplinary framework do not necessary provide financial compensation. The fact that the wrongdoers have been fined or imprisoned following conviction for assault and fraud does not provide the victim with any compensation.
2. (answer B) The FRC does not insure professional integrity of practicing accountants. More information on FRC can be found at www.frc.org.uk
3. (answer D) The CIMA code of ethics does not require approval from the highest court as it is voluntary in nature where it is good or best practice to follow the guidelines.
4. (answer B) Public objectives should be placed before personal objectives.
5. (answer D) The incorrect statement is (iii). Legal and disciplinary frameworks' objective is detection and prevention. Ethics on the other hand reflects how profession ought to behave in the future and how its professionalism can be improved or maintained.
6. (answer B) Self explained
7. (answer C) Statement i is incorrect, as these matters now fall under the direct remit of the FRC Board and its Codes and Standards Committee, with the input and advice of the Audit and Assurance Council. Statement ii is incorrect, as the reform of the FRC the commitments of the former Professional Oversight Board now fall under the direct remit of the FRC and its Conduct Committee. Statement iii is incorrect, as these are supposed to be personally adopted and applied by all public servants and these may not be the only principles worldwide.
8. (answer A) The professional accountant is bound by the principle of confidentiality in all that they do unless required by law, professional right or duty to disclose.
9. (answer C) See question 5.
10. (answer A) See question 8. Confidentiality also extend after the end of a relationship between a professional accountant and a client or employer. The professional accountant may use prior experience but not prior information gained in a previous role.
11. (answer D) Self explained

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12. (answer B) Corporate Value is not mandatory under the statutory law and it is not legally binding.
13. (answer C) Social Responsibility refers to how an organisation manages its relationships in the wider community. The range of issues is broad and encompasses many aspects of the current political agenda. For instance: How 'green' is the organisation? Does the organisation support local community?
14. (answer D) The fourth set of value should be Professional value – from the professional body that the individual is a member of, often laid down in ethical codes. When a professional duty conflicts with statute, the law overrides it every time.
15. (answer B) Ethical conflicts involve unclear choices of what is right and wrong. Sometimes the choice could be what the least wrong course of action to take is. In such circumstances there is little an individual can do but to seek advice and trust their own instincts to make the correct choice.
16. (answer A) Integrity is one of the fundamental principles (together with objectivity, professional competence and due care, confidentiality and professional behaviour) but not the principles to resolve ethical conflict.
17. (answer D) Self explained
18. (answer B) Self explained
19. (answer A) Self explained
20. (answer C) Non executive directors are the custodians of the governance process. They are not involved in the day to day running of business but monitor the executive activity and contribute to the development of strategy. Although experience is crucial, independency is the key factor here.
21. (answer C) The function of the board is to manage the company. Board of directors must ensure that management decisions and decisions of shareholders are carried out. Therefore, they are representing shareholders. Employees are not represented although management decisions should take employees into consideration.
22. (answer A) Under tort of negligence, a director is subject to 'reasonable' duty of care (not 'strict' duty of care), which is governed by the test of foreseeability.
23. (answer D) See question 21.

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24. (answer C) The UK Corporate Governance Code is not a legal requirement. However the London Stock Exchange requires all listed companies to include in their annual report a statement of compliance or non-compliance with the code.
25. (answer D) The nomination committee, audit committee and remuneration committee were recommended by the Cadbury Committee Report 1992.
26. (answer B) The Westminster Parliament is the most superior institution in the UK, and therefore statutes (Acts of Parliament) is the most superior source of law (as a general rule)
27. (answer B) Self explained.
28. (answer A) Criminal law has 'punitive' approach, but its aim is to regulate the behaviour within the society. Civil law has 'compensatory' approach.
29. (answer D) The five pillars of Islam are obligatory, meritorious, permissible, reprehensible and forbidden.
30. (answer A) Self explained
31. (answer C) Self explained.
32. (answer D) Self explained.
33. (answer C) Self explained.
34. (answer B) The notice amounts to 'invitation to make an offer', which cannot be accepted / rejected.
35. (answer A) A contract induced by misrepresentation is voidable – the affected party has the discretion to go ahead with the contract (and claim compensation), in which case the legal title passes on. Alternatively, the affected party may rescind contract (equity law remedy).
36. (answer A)
Statement i: Correct, based on *Jones v. Vernons Pools Ltd*.
Statement ii: Incorrect, as (general rule) a contract can be validly entered into any form, and not necessarily in writing.
37. (answer C) Creditor's promise to accept less than full amount of the debt (and discharge the debtor from the full debt) must be supported by a *consideration*. If not, the creditor can claim the balance due on a later occasion (*Foakes v. Beer*).

38. (answer B)

Statement i: Incorrect, based on *Stilk v Myrick*.

Statement ii: Correct, based on *Pao on v. Lau Yiu Long*

Statement iii: Incorrect, based on *Roscorla v. Thomas* (past consideration)

39. (answer B)

Statement i: Correct, as it was 'negligent' misrepresentation.

Statement ii: Correct, as Misrepresentation Act of 1967 is the relevant state.

Statement iii: Incorrect, because remedy can be sought under tort of deceit if it were 'fraudulent misrepresentation'.

40. (answer B) Except in few specified circumstances, contracts can be entered into either expressly (orally or written) or impliedly by the conduct of the parties.

41. (answer C) A contract is said to have discharged by frustration, when the circumstances make it 'totally impossible' to perform (not because it is more difficult than thought to be or more expensive). If a contract is impossible to perform 'at the time of the contract', the contract is void based on 'mistake' (option D).

42. (answer B) Only 'part' of the journey was completed, which cannot be considered as either 'comprehensive' performance or 'substantial' performance.

43. (answer B) A decree of specific performance (equitable remedy) is awarded at the discretion of courts, and not awarded in the following circumstances:

- Performance of personal services
- Courts is unable supervise the performance
- Damages is adequate
- Mutuality - one party is unable to seek this remedy against the other party (e.g. minor)

44. (answer C) In a breach of warranty, the affected party may claim damages but must go ahead with the contract (*Bettini v. Gye*)

45. (answer B)

Statement i: Incorrect, as punishments are available only in criminal cases, and not in civil cases such as breach of contract.

Statement ii: Correct, as damages may compensate the party in putting back to the pre-contractual position.

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Statement iii: Correct (self explained)

46. (answer A) See question 41.

47. (answer A) Damages are a common law remedy.

48. (answer A) Employers' vicarious liability is restricted only to employees. Liability of independent contractors are with themselves (or with their employers vicariously!)

49. (answer C) The 'economic reality test' is applicable in this question.

Statement i: using his own tools (independent contractor)

Statement ii: do the job himself only (employee)

Statement iii: paid gross (independent contractor)

50. (answer D)

Statement i: Incorrect, this is a requirement for unfair dismissal.

Statement ii: Incorrect, as employees sue (under wrongful dismissal) for the wages that could have been earned if proper notice were given.

Statement iii: Incorrect, as this is a requirement for unfair dismissal.

51. (answer C) A requirement of Employment Rights Act of 1996.

52. (answer B) The Health and safety Commission, acting through the Health and Safety Executive and its inspectorate, is responsible for this.

53. (answer B) A requirement of Employer's Liability (Compulsory Insurance) Act 1969.

54. (answer D) Self explained.

55. (answer B) Self explained.

56. (answer B) An example of 'common law' lifting of the veil of incorporation where members / directors are held liable for the obligations of the company.

57. (answer B) There are 'unlisted' public companies that are required to fulfil additional conditions to be quoted on the Stock Exchange (option A). A private company needs at least one director (option C). A public company can trade once it receives the Certificate of Compliance (Trading Certificate) once it has collected 25% of the issued share capital of £50,000 and 100% of the share premium (option D).

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58. (answer D) No formalities are required to form general partnerships, no documentation and no registration too (which is a marked difference between documentation and registration of companies)
59. (answer C) There is no minimum authorised share capital for a private company.
60. (answer A) According to Companies Act of 2006 (s.33), the Memorandum and Articles, when registered, form binding contract between company and its members and members themselves. As decided in *Eley v. Positive Life Assurance Co.*, the Memorandum and Articles do not bind the company with 'outsiders' such as directors, company solicitor, creditors etc (in a different capacity other than a member of the company).
61. (answer B) The name of a private company (limited by shares) must end with 'limited' or its abbreviation 'Ltd'.
62. (answer D) Self explained.
63. (answer A) All company directors are subject to 'fiduciary duty' to act in good faith and for the best interest of the company and not allow their personal interests to conflict with the interests of the company.
64. (answer D) According to Companies Act 2006 (s.561), all shares issued (by both private and public companies) for cash must first be offered pro-rata to existing shareholders (pre-emption rights) unless:
- New shares are issued for non-cash payment (e.g. takeover, for a land)
 - Company (private or public) has passed a special resolution to dis-apply s.561 of Companies Act 2006
 - The company articles expressly provide for the dis-application of s.561 of Companies Act 2006
 - The shareholders waive their pre-emption rights
65. (answer D) Self explained.
66. (answer C) Self explained.
67. (answer C) Self explained.

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68. (answer A) The first directors are those named as such in the statement which must be filed when the company is formed, and they will be automatically appointed as directors upon the incorporation of the company.
69. (answer B) A director is entitled to be paid only if he or she has a contractual right to payment (e.g. written service agreement). Subject to the company's articles the board has the power (as a part of its general powers of management) to award service contracts to directors and others.
70. (answer B) Self explained
71. (answer C) Self explained.
72. (answer A) Self explained.
73. (answer B)
- | | |
|---|------------|
| Issued share capital (50,000 shares X 2 X £1) | = £100,000 |
| Paid up share capital (£10,000 X 2) | = £20,000 |
74. (answer B) A director's act can only be ratified by the shareholders as long as it does not give rise to criminal liability on the part of directors.