



DCM LEVEL II

LAW GOVERNING CREDIT PRACTICE

TUESDAY: 22 May 2018.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

**QUESTION ONE**

- (a) (i) Define the term “charge”. (2 marks)
- (ii) Explain four ways through which a charge might be created. (8 marks)
- (b) Edwin Otemba intends to borrow Sh.800,000 from Kamaliza Bank Ltd. by using his piece of land as collateral.

**Required:**

- (i) Outline five terms that should be included in the loan agreement between Edwin Otemba and Kamaliza Bank Ltd. (5 marks)
- (ii) Identify five responsibilities of the borrower in the loan agreement in (b)(i) above. (5 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Describe three types of indemnities that might be incorporated in business contracts. (6 marks)
- (b) Explain four rights of the guarantor against the principal debtor. (8 marks)
- (c) Explain three differences between a “guarantee” and an “indemnity”. (6 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Discuss six essential features of bailment. (6 marks)
- (b) Explain two types of possessory liens. (4 marks)
- (c) List four ways of terminating a lien. (4 marks)
- (d) Summarise six distinguishing features between “bailment” and “pledge” contracts. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Describe two remedies that are available to the holder of a floating charge. (4 marks)
- (b) Explain five characteristics of corporate bonds. (10 marks)
- (c) A debenture trust deed is a document created by a company wherein trustees are appointed to protect the interest of debenture holders before they are offered for public distribution.

With reference to the above, highlight six duties of a debenture trustee.

(6 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) With reference to insolvency of companies:
- (i) Summarise six circumstances under which a company might be liquidated by the court. (6 marks)
  - (ii) Describe four powers of a liquidator that are exercisable without approval of the court. (8 marks)
- (b) Outline six circumstances under which the office of the official receiver becomes vacant. (6 marks)
- (Total: 20 marks)**

**QUESTION SIX**

- (a) In the context of bankruptcy proceedings:
- (i) Describe two parties who can apply to court for a person to be declared bankrupt. (4 marks)
  - (ii) Explain three consequences of a bankruptcy order. (6 marks)
- (b) One of the alternatives to bankruptcy for a debtor could be the no-asset procedure method.
- With reference to the above, describe five reasonable grounds upon which the official receiver shall admit a debtor to the no-asset procedure. (10 marks)
- (Total: 20 marks)**

**QUESTION SEVEN**

- (a) Summarise three advantages of using a debt collection service as a means of debt recovery. (6 marks)
- (b) (i) Explain three types of government bonds. (6 marks)
- (ii) Identify two persons who can invest in treasury bonds. (2 marks)
- (c) Explain three measures that investors in corporate bonds could take to reduce their risks. (6 marks)
- (Total: 20 marks)**
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