



## THE CHARTERED INSTITUTE OF LEGAL EXECUTIVES

### UNIT 16 – PRACTICE OF COMPANY & PARTNERSHIP LAW \*

**Time allowed: 3 hours plus 15 minutes reading time**

#### Instructions to Candidates

- You have been provided with a clean copy of the case study materials for you to use in this examination.
- You have **FIFTEEN** minutes to read through this question paper and the case study materials before the start of the examination.
- **It is strongly recommended that you use the reading time to read the question paper fully.** However, you may make notes on the paper or in your answer booklet during this time if you wish.
- **All questions are compulsory. You must answer ALL the questions.**
- Write in full sentences – a yes or no answer will earn no marks.
- **Candidates may use in the examination their own unmarked copy of the designated statute book: Blackstone's Statutes on Company Law 2013-14, 17<sup>th</sup> edition, Derek French, Oxford University Press, 2013.**
- Candidates must comply with the CILEX Examination Regulations.
- Full reasoning must be shown in answers. Statutory authorities, decided cases and examples should be used where appropriate.

#### Information for Candidates

- The mark allocation for each question and part question is given and you are advised to take this into account in planning your work.
- Write in blue or black ink or ballpoint pen.
- Attention should be paid to clear, neat handwriting and tidy alterations.
- Complete all rough work in your answer booklet. Cross through any work you do not want marked.

**Do not turn over this page until instructed by the Invigilator.**

\* This unit is a component of the following CILEX qualifications: **LEVEL 6 CERTIFICATE IN LAW, LEVEL 6 PROFESSIONAL HIGHER DIPLOMA IN LAW AND PRACTICE** and the **LEVEL 6 DIPLOMA IN LEGAL**

### Question 1

James Norton has confirmed that he and his son, Richard, no longer remain in business with Clive. Accordingly, they are looking to dissolve business as quickly as possible.

Advise James Norton with regard to the following issues:

- (a) the nature of the business enterprise he and Richard have entered into with Clive, and James' potential liabilities for the debts and/or obligations created by others while he remains a party to this business enterprise.

***(10 marks)***

- (b)
  - (i) whether the business enterprise may be dissolved and the subsequent steps that must be taken on dissolution; and
  - (ii) how the debts are to be settled, including protecting him from further liability towards third parties.

***(10 marks)***

***(Total: 20 marks)***

## Question 2

Patrick Crocco has now provided further details on the equity investment made by the current shareholders, by a private equity house, Hancock Private Equity ('Hancock'), and by James Norton. The total additional investment will be as follows:

Investor	Additional shareholding to be acquired
Patrick Crocco	50,000 ordinary shares of £1 each 100,000 preference shares of £1 each
Julie Crocco	40,000 ordinary shares of £1 each
Cynthia Henry	10,000 ordinary shares of £1 each
Hancock Private Equity	150,000 ordinary shares of £1 each 200,000 preference shares of £1 each
James Norton	50,000 ordinary shares of £1 each

As part of the investment, the existing shareholders will be paying up any outstanding sums due on their existing shareholdings.

The preference shares will have a nominal value of £1, be non-voting, cumulative, with a limit on the amount that can be received in a distribution but will pay a cumulative fixed dividend of 3.4%. The preference shares will be purchased for £1.50 each. The ordinary shares will be purchased for £1 each.

Advise Vaughan Way Enterprises Limited ('VWE') with regard to:

- (a) the necessary permissions required in order to allot the additional ordinary and preference shares as set out above;
- (b) the documents and procedural formalities which will be required to comply with the Companies Act 2006 in respect of such allotment of ordinary and preference shares.

**(10 marks)**

**(15 marks)**

**(Total: 25 marks)**

*Turn over*

### Question 3

James has confirmed that he will be appointed a director of Vaughn Enterprises Limited ('VWE') and will be awarded a fixed-term service contract for a minimum period of five years.

Advise James Norton with regard to the following issues:

- (a) The documents and formalities required to comply with the Companies Act 2006 in respect of his appointment and to award his service contract.

**(15 marks)**

- (b) The tax implications for:

- (i) VWE in respect of any dividends that the directors might declare;
- (ii) James in respect of any salary and any dividends received by him from VWE;
- (iii) James if he were to gift his shares in VWE to Richard, his son, within the next few years.

**(15 marks)**

**(Total: 30 marks)**

### Question 4

Paradiso Media Integration Limited ('PMI') has received an offer to buy its freehold property (worth £290,000) for £220,000 from a local property developer, who has heard that PMI is in difficulties. The directors of PMI are contemplating accepting the offer in order to pay off Bedford Bank plc and the loan owed to Essex Bank plc.

In addition, two of the directors, Ben Steel and Adam Walton, believe that it should be possible to relocate the company and its business to a small leasehold office about a mile away from its present office. This, however, will increase overheads because the rental payments will be higher than the interest charges saved by paying off company borrowing through the sale of the freehold property. They intend to continue to allow the company to trade as long as necessary, or until orders pick up.

Advise Ben Steel and Adam Walton with regard to:

- (a) the consequences of accepting the offer of £220,000 for the sale of the freehold property.

**(8 marks)**

- (b) any personal risks they could face in the event that they decide to continue to trade from new premises in the anticipation that trade picks up.

**(17 marks)**

**(Total: 25 marks)**

**End of Examination Paper**

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