.

CILEX Level 6 Single Subject Certificate/CILEX Level 6 Professional Higher Diploma in Law and Practice/CILEX Level 6 Graduate Fast-Track Diploma

Unit 1 – Company and Partnership Law

Question paper

January 2026

Time allowed: 3 hours and 15 minutes (includes 15 minutes reading time)

Instructions and information

- It is recommended that you take **15** minutes to read through this question paper before you start answering the questions. However, if you wish to, you may start answering the questions immediately.
- There are **two** sections in this question paper — Section A and Section B. Each section has four questions.
- You must answer **four** of the eight questions — at least **one** question must be from **Section A** and at least **one** question must be from **Section B**.
- This question paper is out of 100 marks.
- The marks for each question are shown — use this as a guide as to how much time to spend on each question.
- Write in full sentences — a yes or no answer will earn no marks.
- Full reasoning must be shown in your answers.
- Statutory authorities, decided cases and examples should be used where appropriate.
- You are allowed to make notes on your scrap paper during the examination.
- A basic calculator is provided should you require the use of one.
- You can use your own unmarked copy of the following designated statute book – ***Blackstone's Statutes on Company Law, 28th edition, Derek French, Oxford University Press, 2024.***
- You must comply with the CILEX Exam Regulations – Online Exams at Accredited Centres/CILEX Exam Regulations – Online Exams with Remote Invigilation.

Turn over

SECTION A
Answer at least one question from this section

1. Critically assess the differences, including the respective advantages and disadvantages for the individual planning to set up and manage a business, between running ait as:

   - a private limited company;
   - an unlimited partnership;
   - a sole trader.

(25 marks)

2.

   a) Critically analyse the scope of a partner's authority to bind an unlimited partnership in contract and tort.

(17 marks)

   b) Explain whether a person can be liable for a partnership's debts that were incurred after that person ceased to be a partner in the partnership and how the person may protect themselves from any such liability.

(8 marks)

(Total: 25 marks)

3. Advise on:

   a) the extent to which company directors' authority to allot shares is restricted under the Companies Act 2006;

(15 marks)

   b) the respective responsibilities of the transferor and transferee in the process of a share transfer, and the restrictions on share transfers that a company's articles may impose.

(10 marks)

(Total: 25 marks)

4. Critically assess the potential consequences for a limited company's directors if the company continues to trade even though its liabilities exceed its assets.

(25 marks)

SECTION B

Answer at least one question from this section

Question 1

Rhea Larmer is the owner of a business that provides domestic window cleaning, installation and maintenance services. The business 'Larmer WindowCare', is popular and busy. Rhea employs six others in various roles, including two drivers and an administrative assistant. As the business has been so successful and is now recognised throughout the local community, Rhea needs to expand and has decided to incorporate the business through a private limited company which she is planning to call 'Larmer WindowCare Limited'.

Rhea will be the company's sole shareholder and, initially, its only director. In due course, one of the current employees will be appointed as a second director. The rest of the current workforce will be retained as employees of the company.

Rhea also needs to upgrade her software to cope with the increase in business. She has identified a suitable package but would prefer that the three-year licence for this is entered into by the company. The software company is offering an attractive price but this offer will expire before the company is incorporated. Rhea is keen to get the licence in place as soon as possible but is worried about signing the contract before the company exists.

Advise Rhea on:

- the possible consequences for her if she enters into the software licence agreement before the company is formed and the options available to her to protect herself if she does so; and
- the duties to which she will be subject as a director of the company.

(25 marks)

Turn over

Question 2

Style Print Services Limited (SPS) was incorporated in 2019. The company adopted the Model Articles for Private Companies but specifically excluded Model Article 14.

SPS has three directors, each of whom is also a shareholder. There is one additional shareholder, Carolyn Rogers. The company has an issued share capital of 450,000 fully paid ordinary £1 shares, of which Carolyn owns 90,000. The company's latest accounts showed £1,200,000 in distributable profits and SPS has recently been valued at about £3 million.

An outsider investor, Brake's Investment LLP, has recently expressed interest in investing in SPS, with the result that the board of SPS has proposed issuing new preference shares to Brake's Investment LLP in return for cash. SPS will also issue additional ordinary shares to one of the current director/shareholders of SPS.

Carolyn does not agree with these proposals but she lacks the votes to block them. She has consequently decided she would like to withdraw from SPS by selling her shares. SPS has offered to buy back her shares for £270,000.

Having studied company law a long time ago, Carolyn vaguely recollects that there are restrictions on a company buying its own shares, due to the principle of capital maintenance.

Explain to Carolyn:

(a) the principle of capital maintenance, giving examples of restrictions imposed on companies to ensure capital is maintained;

(9 marks)

(b) how the buy-back of Carolyn's shares should be undertaken to ensure it does not breach the principle explained in (a).

(16 marks)

(Total: 25 marks)

Question 3

Down to Earth Fabrics Ltd ('DEF') is a private limited company that was incorporated in May 2014. It is based in Cambridgeshire and designs and produces upholstery fabrics for the leisure industry and offices. It uses sustainably sourced materials, including recyclable materials, and in addition, has recently developed a small sideline business in vegan materials from which it produces fashion accessories.

The company has adopted unamended Model Articles for Private Companies.

In June 2015, DEF was provided with an overdraft facility by the Huntingdon Bank. The bank took security for this facility in the form of a fixed charge over DEF's freehold premises and registered it appropriately. In addition, a local investor, Sean Willis, made an unsecured loan of £180,000 to DEF in May 2012.

DEF has just won a major new contract to supply its fabrics to a luxury car manufacturer. It will need to expand its premises before it can commence this work. DEF has approached Sean Willis to ask if he will increase his loan by £200,000. Sean has provisionally agreed to do so but, having taken professional advice from you, wants to take some sort of security over the company's assets. Your firm has suggested that Sean seeks a fixed charge over the company's book debts, with a floating charge over the remainder of the company's undertaking. These would secure both Sean's original loan and the proposed additional loan.

Advise Sean on the nature and implications of the proposed charges.

(25 marks)

Turn over

Question 4

Fab Furniture Limited (FFL) is a company that manufactures garden furniture and games including tables, chairs, paddling pools and giant Jenga-style games, using a range of sustainable and recycled materials. It has adopted unamended Model Articles for Private Companies. In its latest filed accounts, FFL's net asset value was £650,000.

Kazia Holt holds 12% of FFL's ordinary shares but she has not yet been formally appointed as a director. She has ten years' previous experience in the furniture industry and has been able to provide invaluable advice to FFL. The FFL board, which currently consists of two directors, has now proposed formally appointing Kazia as a director and full-time employee of the company, with a three-year fixed term service contract. Kazia has accepted these proposals. The appointment and grant of the service contract will take place at the next board meeting in two weeks' time. The two current directors, George and Helen, are also FFL's other shareholders and they hold 52% and 36% of the ordinary shares respectively.

In addition, FFL's board is seeking new office premises. Kazia has proposed that the company leases from her a suitable property she owns, for an initial premium payment of £70,000. The lease would be for 10 years at an annual rent of £18,000. The FFL board and Kazia will be seeking separate legal advice on this but they aim to complete the transaction in about six weeks' time.

Advise the FFL board on:

(a) the steps it needs to take to:

- appoint Kazia formally as a director;
- grant her the proposed service contract.

(12 marks)

(b) the company law implications of Kazia granting the proposed lease to FFL.

(13 marks)

(Total: 25 marks)

End of Examination Paper