



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

**Unit 16 – The Practice of Company and Partnership Law**

**Question paper**

**June 2022**

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

**Instructions and information**

- It is recommended that you take **fifteen** 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.
- You must answer **all** questions.
- 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 use your own printed copy of the pre-release case study materials, as long as the materials are not annotated in any way. Alternatively, you can access the electronic version of the pre-release case study materials available in the examination.
- You are allowed to make notes on your scrap paper during the examination.
- You can use your own unmarked copy of the following designated statute book – ***Blackstone's Statutes on Company Law 2021-2022, 25th edition, Derek French, Oxford University Press, 2021.***
- You must comply with the CILEX Exam Regulations – Online Exams at Accredited Centres/CILEX Exam Regulations – Online Exams with Remote Invigilation.

**Turn over**

## Answer ALL questions

### Question 1

Reference: Question relates to **Documents 1 and 2** of the case study materials.

Chloe Butler has decided that she will incorporate her business. She will make use of Shelf Co X062022X Limited (the 'Company') and transfer the business to it. You will assist with making appropriate changes. Sona Mehta and Nathan Mahendra will become directors, along with Chloe who has proposed the Company's name be changed to 'Butler's Bedding Limited'. Each director will enter into a service agreement with the Company, initially for a term of 18 months. They anticipate receiving annual salaries in the region of £40,000. Chloe also wishes to prepare the annual accounts to 31 March each year. The current directors of the shelf company will step down.

Chloe will transfer the business to the Company in exchange for 30,000 ordinary shares of £1 each. She and Sona will also be transferred the subscriber shares, taking one each. The precise levels of additional investment that Nathan and Sona will make into the Company have however yet to be finalised.

Advise Chloe on:

(a) the steps to be taken, and documents required, in relation to:

- the proposed change of name of the Company
- the changes to the directors and the award of the new service contracts
- amending the Company's accounting reference date to 31 March
- the transfer of the Butler's Bedding business to the Company.

**(20 marks)**

(b) how the Company will be taxed on its profits, compared to how Chloe would have been previously taxed on the profits of the Butler's Bedding's business prior to its transfer to the Company.

**(8 marks)**

**(Total: 28 marks)**

## Question 2

Reference: Question relates to **Documents 1 and 2** of the case study materials and the facts set out above in Question 1.

Assume Butler's Bedding Limited ('BBL') was duly set up three months ago. Chloe has decided she would like to gift 10,000 of her shares in BBL to her daughter, Bryony, who will then become a member of BBL. The other directors, Nathan and Sona, are happy with this. However, the board has indicated that it wishes to place restrictions on future transfers of shares to outsiders and is seeking advice on this.

In addition, a private equity firm, Triumph Investments, has provisionally agreed to invest in BBL, which will issue 20,000 new ordinary £1 shares to Triumph as consideration.

Advise Chloe on:

- (a) the procedure to be followed for the transfer of the shares to Bryony and for the registration of that transfer  

**(8 marks)**
  - (b) an appropriate type of restriction on transfer of shares and how it should be set up  

**(6 marks)**
  - (c) the legal and procedural requirements for the allotment of the new ordinary shares to Triumph.  

**(12 marks)**
- (Total: 26 marks)**

**Turn over**

### Question 3

Reference: Question relates to **Document 3** of the case study materials.

Sona is keen to take up the offer of involvement with Westcote Interiors. She has agreed with Chloe that she, Sona, will invest capital and will split her time between Butler's Bedding Limited and Westcote Interiors, spending three days a week with the former and two with the latter.

Federica and Grace have agreed in principle that Sona can buy out Max's share in the business and that Sona will receive a 10% share in net profits. Federica and Grace will share the remainder between them. They have also agreed that entering into a written agreement to formalise the arrangements would be sensible. Max has apparently agreed to the buy-out proposal.

It should be noted that the issues with Max's expensive purchases are yet to be resolved.

Advise Sona Mehta on the following issues:

- (a) the nature of the business enterprise that she is considering joining **(7 marks)**
  
- (b) her potential liabilities for debts and/or obligations created by others in relation to her involvement with Westcote Interiors, including:
  - (i) if her name is added to the website before she formally joins, and
  - (ii) any liabilities incurred by the business as a result of Max's expensive purchases**(10 marks)**
  
- (c) why it is preferable to enter into a written agreement as suggested above, and any particular provisions you would include with reference to the facts. **(6 marks)**

**(Total: 23 marks)**

#### Question 4

Reference: Question relates to **Documents 4 and 5** of the case study materials.

Enrico confirms that Hoxton Frozen Foods Ltd ('HFF') is to obtain additional finance at the end of this month from Maria's father, Leonardo, in the form of a short-term loan of £50,000. The interest rate will be 2% per annum and the expectation is that the loan will be repaid within five years. The loan will be secured with a floating charge against HFF's business undertaking.

The financial position of HFF has not improved greatly since Enrico emailed. HFF did however manage to sell off a couple of vehicles for £15,000, although these were worth nearer to £35,000.

Advise the board:

(a) on the steps to be taken by all relevant parties in relation to the loan from Leonardo and the granting of the floating charge to him

**(8 marks)**

(b) if the company were to be put into insolvent liquidation in three months' time, on the potential action a liquidator could take in relation to:

- the grant of the floating charge to Cotton Bank plc
- the grant of the floating charge to Leonardo and
- the sale of the vehicles.

**(15 marks)**

**(Total: 23 marks)**

**End of the examination**

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