



THE CHARTERED INSTITUTE OF LEGAL EXECUTIVES

UNIT 16 – THE PRACTICE OF COMPANY AND 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 this question paper fully.** However, you may make notes on this question 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 2017-18, 21st edition, Derek French, Oxford University Press, 2017.**
- 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 PRACTICE**

Jolly Little Books

Question 1

James Spackman (JS) has confirmed that he no longer wishes to remain in business with Angela and Katherine Fairborn. Accordingly, all three are looking to dissolve the business as quickly as possible.

Advise James with regard to the following issues:

- (a) the nature of the business enterprise he has entered into with Angela and Katherine, and his potential liability for the debts of the business created by Angela or Katherine while he remains a party to this business enterprise;

(8 marks)

- (b) (i) whether the business enterprise may be dissolved and any subsequent steps that must be taken if dissolution is possible;

- (ii) how the debts would be settled and assets distributed, including protecting him from future liability towards third parties.

(12 marks)

(Total: 20 marks)

Greenstead Publishing House Limited ('Greenstead')

Question 2

James Spackman (JS) has now confirmed that he will be investing in Greenstead. Moreover, provided that James's and Gay's proposed initiatives to exploit Greenstead's titles to the television market meet certain formal targets, James will then be appointed a director of Greenstead and awarded a fixed-term service contract for a minimum period of three years.

Advise James with regard to the following issues:

- (a) what documents and procedural formalities will be required in order to comply with the Companies Act 2006 and Greenstead's articles in respect of his appointment as a director, including the award of his service contract;

(15 marks)

- (b) how he could be removed as a director and how he might be protected from removal as a director.

(10 marks)

(Total: 25 marks)

Turn over

Question 3

Stuart Greenstead has now provided further details on the equity investment to be made by the current shareholders, a small television production company – Children Fun Factory Productions Limited ('CFFP') – and James Spackman (JS). The total additional investment will be as follows:

Investor	Additional shareholding to be acquired
Stuart Greenstead	50,000 ordinary shares of £1 each
Elizabeth Greenstead	40,000 ordinary shares of £1 each
Gay Greenstead	10,000 ordinary shares of £1 each 100,000 preference shares of £1 each
James Spackman	50,000 ordinary shares of £1 each
Children Fun Factory Productions Limited	150,000 ordinary shares of £1 each 200,000 preference shares of £1 each

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

The preference shares will have a nominal value of £1, will be non-voting, will be cumulative, with a limit on the amount that can be received in a distribution, but will pay a cumulative fixed dividend of 2.5%. The preference shares will be purchased for £1.50 each. The ordinary shares will be purchased for £1 each.

Advise Greenstead with regard to:

- (a) the necessary shareholder resolutions required in order to allot the additional ordinary and preference shares as set out above, and why;

(10 marks)

- (b) the documents and procedural formalities that will be required in order to comply with the Companies Act 2006 and Greenstead's articles in respect of such allotment of ordinary and preference shares.

(15 marks)

(Total: 25 marks)

Question 4

As part of James Spackman's (JS) discussions with Stuart Greenstead, Stuart confirmed that Greenstead recently received a statutory demand for non-payment of multiple invoices with a supplier. The statutory demand is for a total of £15,000. Stuart has explained that both he and Gay thought that the other had dealt with the invoices concerned and had arranged payment. Stuart has spoken to the particular supplier and assured it that payment will be made before the end of the week.

James is now concerned that he does not fully understand his potential liability for debts of the company once he is appointed a director, nor the likely tax treatment of his investment in Greenstead.

Advise James with regard to:

- (a) the liability of the directors to contribute to the assets of Greenstead, in the event that Greenstead is unable to pay its trade creditors;
(15 marks)

- (b) the tax implications for James:
 - (i) in respect of any salary and any dividends received by him from Greenstead;

 - (ii) if he were to gift his shares in Greenstead to Alice, his adult niece, within the next few years.

(15 marks)
(Total: 30 marks)

End of Examination Paper

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