



THE CHARTERED INSTITUTE OF LEGAL EXECUTIVES

UNIT 16 – THE 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 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 2016-2017, 20th edition, Derek French, Oxford University Press 2016.**
- 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**

Question 1

Vastone Cycles

Paul Vastone has now confirmed that he no longer wishes to remain in business with Gemma Burton, as he feels it has not been a successful relationship. Accordingly, he is looking to dissolve the business as quickly as possible.

Advise Paul with regard to the following issues:

- (a) the nature of the business enterprise he has entered into with Gemma, and Paul's potential liabilities for any debts and/or obligations created by Gemma whilst he remains a party to this business enterprise.

(13 marks)

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

(10 marks)

(Total: 23 marks)

The Stop Over Limited

Question 2

Paul Vastone has further confirmed that his involvement in The Stop Over with the Spencer family will be a formal investment in The Stop Over Limited ('TSOL'). Paul will be appointed a director of TSOL and will be awarded a fixed term service contract for a minimum period of three years.

Advise Paul with regard to the following issues:

- (a) what documents and formalities will be required to comply with the Companies Act 2006, 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)

Question 3

Paul Vastone has confirmed that the only asset held by TSOL is The Stop Over café building. TSOL's most recent audited accounts show it has net assets of £85,000. Following his appointment as a director of TSOL, Paul will transfer assets (equipment worth approximately £20,000) in exchange for 20,000 fully paid ordinary shares of £1 each in TSOL.

Advise Paul with regard to the following issues:

- (a) the transfer by Paul of his assets to TSOL.

(15 marks)

- (b) the tax implications for Paul:

- (i) in respect of any salary and any dividends received by him from TSOL;

- (ii) if he were to gift his shares in TSOL to George, his adult son, within the next few years.

(15 marks)

(Total: 30 marks)

Turn over

Question 4

Following discussions with Andrew Spencer, it transpires that Tony Spencer has been suffering with ill-health and has consequently been neglecting his duties both in the day-to-day running of the Spencer Café and in relation to TSOL. Unbeknown to the other directors of TSOL, Tony failed to pay a number of suppliers of materials used to renovate The Stop Over. These creditors are now pressing TSOL for payment and only yesterday TSOL was served with statutory demands by two of them for payment of £6,000 and £10,500 respectively. TSOL may not have sufficient funds to settle all its current creditors' claims. Andrew has called an emergency meeting of the Board of TSOL to discuss the consequences of failing to pay outstanding invoices.

In addition, Tony's personal finances are in a precarious state and his personal creditors are pressing for payment of debts.

Advise TSOL with regard to the following issues:

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

(14 marks)

- (b) the effect on Tony's position as a director if he were made bankrupt.

(8 marks)

(Total: 22 marks)

End of Examination Paper