



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 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**

Law Training for Tomorrow Limited (LTT)

Question 1

Jacob Roberts has now reported that Peter Myddelton has been suffering with ill health and has consequently been neglecting his duties as a director of LTT. Peter failed to pay a number of suppliers associated with LTT's online course development projects. These creditors are now pressing LTT for payment and only yesterday LTT was served with statutory demands by two creditors for payment of £22,000 and £18,500 respectively. LTT may not have sufficient funds to settle all its current creditors' claims until some of the outstanding invoices that LTT has issued to its own clients have been settled.

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

Advise Jacob with regard to the following issues:

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

(14 marks)

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

(7 marks)

(Total: 21 marks)

Question 2

Jacob Roberts has now confirmed that Peter Myddelton will exit LTT and sell his shares in LTT, which have been valued at £300,000, representing a premium of £2 per share over their nominal value. The remaining members of LTT (including Clayton Financial Training Limited (CFT)) have stated that they do not wish to purchase Peter's shares. However, they are also reluctant to see any new investors join LTT. They would not object to LTT itself purchasing Peter's shares.

Advise Jacob with regard to the following issues:

- (a) whether LTT may purchase Peter's shares and, if so, how the purchase could be financed;

(10 marks)

- (b) the procedures that need to be followed in order for LTT to purchase Peter's shares.

(20 marks)

(Total: 30 marks)

Question 3

On Jacob's suggestion, Sean Bush has visited the freehold offices of Whiskin & Co Limited (Whiskin). Sean felt that the building would convert easily into an assessment centre for Clayton Financial Training Limited (CFT), and would be a good addition to CFT's property portfolio. LTT has confirmed that it has no interest in the building. Consequently, Sean has suggested to CFT that CFT should offer to purchase Whiskin's freehold office for £250,000.

Additionally, LTT has also agreed to loan Sean Bush £13,500 to meet his costs of relocating from Newcastle to be nearer LTT's head office.

Advise Sean with regard to the following issues:

(a) on any potential consequences of CFT acquiring from Whiskin the freehold office for £250,000;

(12 marks)

(b) the proposed loan from LTT to Sean.

(9 marks)

(Total: 21 marks)

Question 4

Jacob has advised that the relationship with Clayton Financial Training Limited (CFT) is to become ever closer. Accordingly, and to secure Sean's services, LTT has proposed to award Sean a fixed-term service contract of three years.

CFT in turn, and to assist LTT in developing a new suite of courses, has agreed to lend LTT £65,000 to be secured against its assets.

Advise LTT:

(a) with regard to the documents and formalities required to comply with the Companies Act 2006 in respect of the award of the proposed service contract;

(10 marks)

(b) on the tax implications for Sean in respect of any salary and any dividends received by him from LTT;

(6 marks)

(c) on the steps that LTT should take to accept the proposed loan from CFT and to provide the agreed security in respect of it.

(12 marks)

(Total: 28 marks)

End of Examination Paper

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