



**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 2025**

**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.
- 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 analyse:

- the types and the extent of a partner's authority to bind an unlimited partnership in contract; and
- whether a partner can incur any personal liability for contracts made on behalf of the partnership.

Include in your answer whether the partner can incur any personal liability in respect of contracts made:

- before that person joined as a partner; and
- after that person has left the partnership.

**(25 marks)**

2. (a) Explain the role and potential liabilities of a 'promoter' of a company, including the liabilities they may incur in relation to the company before it is formed, and how they may seek protection from such potential liabilities.

**(17 marks)**

(b) Explain what legal issues should be considered when choosing the name of a new company prior to incorporation.

**(8 marks)**

**(Total: 25 marks)**

3. Explain:

(a) how a shareholder can transfer their shares in a private limited company;

**(7 marks)**

(b) restrictions on share transfers that can be included in a company's articles and why such restrictions may be imposed;

**(6 marks)**

(c) how a person may become liable for insider dealing under the Criminal Justice Act 1993 and the possible penalties.

**(12 marks)**

**(Total: 25 marks)**

4. Explain how a liquidator may be appointed when a company becomes insolvent and the powers of such a liquidator, including those powers related to the avoidance of transactions entered into by the company being wound up.

**(25 marks)**

## SECTION B

Answer at least one question from this section.

### Question 1

Grace has been running a business as a sole trader for about two years. She trades as GRC Photography. She is a qualified photographer and works primarily as an events photographer (covering weddings, parties, small concerts and shows) in addition to working for individual clients (taking family portraits, for example). Her business has been very successful and she has established a wide client base through recommendations. A recent valuation has indicated that the business is worth about £320,000.

Grace has been looking into incorporating the business as a private limited company and taking on a couple of employees to help with contracts and to keep the accounts up to date. She has come to you for advice about, among other things, the process of incorporation. She is aware that certain documentation is required and that a company must have articles of association. Grace will be both a shareholder and a director of the company. She wants to continue trading as GRC Photography.

It is likely that Grace's cousin, Elliott, will become one of her employees. He will also provide some start-up investment capital and become a minority shareholder.

Advise Grace:

- (a) on the steps to be taken to incorporate the business; **(7 marks)**
  
- (b) on the nature and purpose of the articles of association and what powers she or Elliott would have to enforce the articles; **(12 marks)**
  
- (c) how her liability as a shareholder will compare to the liability of a sole trader. **(6 marks)**

**(Total: 25 marks)**

## Question 2

Dan's Cycle Shops Limited (DCS) was incorporated in 2016 with Model Articles for Private Companies, save that Model Article 14 was stated not to apply to DCS.

DCS has three directors, each of whom is also a shareholder. There is one additional shareholder, Tami Harmon. The company has an issued share capital of 225,000 fully paid ordinary £1 shares, of which Tami owns 90,000. DCS's latest accounts showed £600,000 in distributable profits and it has recently been valued at about £1.5 million.

DCS has been looking for external investment. The board of DCS has recently proposed issuing preference shares to a venture capital company. The board of DCS has also proposed an issue of additional ordinary shares to one of the current director/shareholders.

Tami Harmon does not agree with these proposals. However, since she lacks the votes to block them, she has decided she would like to withdraw from DCS by selling her shares. DCS has offered to buy back her shares for £140,000.

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

Explain to Tami the principle of capital maintenance and how the buy-back of Tami's shares should be undertaken to ensure it does not breach this principle.

**(25 marks)**

**Turn over**

### Question 3

Enviropaks Limited (Enviropaks) was incorporated in April 2015. It is based in Buckinghamshire and designs and produces eco-friendly packaging for the fashion accessories industry. It uses sustainably sourced raw materials. The company has unamended Model Articles for Private Companies.

In July 2015, Chesham Bank provided Enviropaks with an overdraft facility of £350,000. The bank took security for this facility in the form of a fixed charge over Enviropaks' freehold premises. The charge was properly registered. In addition, a local 'angel' investor, Agnes Fletcher, made an unsecured loan of £200,000 to Enviropaks in June 2015. Agnes is a long-standing client of your firm.

Enviropaks has just won a major new contract to supply its products to a luxury accessories producer overseas. It will need to expand its premises and its workforce slightly before it can commence this work so Enviropaks has approached Agnes Fletcher to ask if she would double the size of her loan to Enviropaks. Agnes has provisionally agreed to do so but wants to strengthen the protection of her investment. She has been given informal advice by a lawyer friend that she should seek a fixed charge over the company's book debts, with a floating charge over the remainder of the company's business undertaking. These charges would secure both her original loan and the proposed additional loan. She has now come to you for formal advice.

Advise Agnes:

- about the nature and implications for her of the proposed charges, including the appropriateness of the friend's advice; and
- how effectively the proposed charges will protect her interests.

**(25 marks)**

**Turn over**

#### Question 4

Eleanor's Ceramics Limited (ECL) is a company that manufactures a range of ceramic homeware, which it supplies to retail outlets across the south of England. It also has a small-scale online service. It has adopted unamended Model Articles for Private Companies. In its latest filed accounts, ECL's net asset value was £550,000. ECL has been a client of your firm for some time.

ECL is looking to expand its operations, due to a significant increase in business, and thus profits, over the last 18 months. As part of this expansion, ECL is proposing to appoint a new director, Ameer Khan, with the offer of a three-year fixed-term service contract.

In addition, ECL has been seeking larger premises. Ameer has proposed that once he has joined the board, ECL leases from him a suitable property he owns, for an initial premium payment of £60,000. The lease would be for 10 years at an annual rent of £15,000.

One of ECL's shareholders is Martha Page. Martha holds 11% of ECL's shares. She has never been formally appointed as a director but for the last four years she has regularly attended and participated in board meetings. She has 18 years' experience in the ceramics industry and has been able to provide invaluable advice to ECL, which has contributed to the increased profits.

Advise the ECL board on:

(a) the steps it needs to take to:

- appoint Ameer formally as a director;
- grant him the proposed service contract.

**(9 marks)**

(b) the legal and procedural implications of Ameer granting the lease to ECL;

**(8 marks)**

(c) whether Martha could be regarded as a director of ECL and if so the legal implications for her.

**(8 marks)**

**(Total: 25 marks)**

**End of the examination**

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