

CASE STUDY MATERIALS

January 2014

Level 6

PRACTICE OF COMPANY & PARTNERSHIP LAW

Subject Code L6-16



CHARTERED INSTITUTE
OF LEGAL EXECUTIVES

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UNIT 16 – PRACTICE OF COMPANY & PARTNERSHIP LAW *

CASE STUDY MATERIALS

Information for Candidates on Using the Case Study Materials

- This document contains the case study materials for your examination.
- In the examination, you will be presented with a set of questions which will relate to the case study materials. You will be required to answer all the questions on the examination paper.
- You should familiarise yourself with the case study materials prior to the examination, taking time to consider the themes raised in the materials.
- You should take the opportunity to discuss the materials with your tutor/s either face to face or electronically.
- It is recommended that you consider the way in which your knowledge and understanding relates to the case study materials.

Instructions to Candidates Before the Examination

- You will be provided with a clean copy of the case study materials in the examination.
- You are **NOT** permitted to take your own copy of the case study materials or any other materials including notes or text books into the examination.
- In the examination, candidates must comply with the CILEx Examination Regulations.

Turn over

* 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**

ADVANCE INSTRUCTIONS TO CANDIDATES

You work in the Corporate Department of Kempstons LLP, Solicitors, The House, Bedford, MK42 7AB.

You arrive at work to find the following memo awaiting your attention:

KEMPSTONS LLP

INTERNAL MEMORANDUM

To: Trainee Lawyer
From: Louise Bailey
Date: (Today)
Matter: James Norton (various matters)

I need your assistance with this matter; I have a meeting with James Norton in the next few weeks and would like your assistance with the preparation.

James, by way of background, used to be a partner with this firm, working primarily on technology outsourcing. He left about three years ago, taking early retirement, to pursue numerous media-related interests outside of the firm with his son, who was completing his degree at the time. James has always been one for new gadgets and technology and was instrumental in the firm establishing a web presence. Although we have remained in touch via social networking sites, I haven't actually spoken to him since he left. James phoned yesterday to ask for a meeting about various matters; see the attached attendance note (**Document 1**). The documents referred to in the attendance note have since arrived from James (**Documents 2 and 3**) and I have also undertaken a company search (**Document 4**).

I have arranged a meeting with James to come and to see us - please brief yourself on the attached documents and prepare accordingly so that you may assist.

Louise

You find the following documents attached to the memo:

- DOCUMENT 1** Attendance Note (File of James Norton (various matters))
- DOCUMENT 2** Letter from Patrick Crocco, Managing Director of Vaughan Way Enterprises Limited (File of James Norton (various matters))
- DOCUMENT 3** A copy of the latest accounts for Vaughan Way Enterprises Limited, for the year ending 23 November 2013 (File of James Norton (various matters))
- DOCUMENT 4** Company Search Vaughan Way Enterprises Limited (File of James Norton (various matters))

ATTENDANCE NOTE

Date: (Today's date)

Client: James Norton

File No.: 00/TM/894/JZN

Matter: James Norton (various matters)

Telephone conversation with James Norton (JN); JN was calling to request a meeting in relation to a couple of potential business ventures.

Warneford Media Productions

This was a business venture JN had primarily got involved with upon retiring from the firm. JN explained that it was established as his son Richard was completing his university degree in Communication and Media Studies at the University of Kempston in 2011. Richard had established a close working relationship with a contemporary, Clive, while at university. Between them, they had produced a number of projects that were of such quality that they won a number of national media prizes and they found themselves being courted by media production companies.

Richard and Clive were approached in their final year at university by a media production company, Limehouse Outside Productions Limited, who had been contracted to provide live outside broadcasts during the London 2012 Olympics. Richard and Clive however would be required to purchase various items of kit; apparently this is sometimes standard for the type of work that Richard and Clive do. The only way that Richard and Clive could do this was to pool their resources. It was at this point that JN also got involved and provided additional financing.

It was agreed that JN and Richard would run the business and that Clive would not take any part in the running of the business, but instead he would focus on his media expertise. No other terms were discussed or agreed other than that JN and Richard would put £25,000 each into the business while Clive would contribute £50,000. The name 'Warneford media productions' apparently has been the trading name and relates to the road in Oxford where Richard and Clive lived while studying there.

Since the close of London 2012, problems have arisen. Clive has now decided that he wishes to involve himself in the running of the business. There is also disagreement over a number of issues. The first concerns the sharing of the profits of the business. Clive is demanding 50 per cent of the profits on the basis that he has invested 50 per cent of the capital. JN and Richard are arguing that this does not take account of the experience they bring to the business nor of the fact that they have been working full time for the business whilst Clive has not. The second issue concerns Clive's insistence that his younger brother, Julian, also becomes involved as well.

JN and Richard are extremely unhappy with this state of affairs and have decided that they would prefer to carry on the business on their own. JN has asked to discuss this when he comes in to meet us.

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Vaughan Way Enterprises Limited

This is a venture that JN is seriously considering investing in.

The company has been in business for five years and was established to exploit a niche in the back-office operations and IT systems required by the market for DVD rentals by post. It organises and operates the rental market for one of the smaller supermarket chains and hopes to finalise an outsourcing contract with a well known high street retailer in the next couple of months. Last year, Cynthia Henry joined the company; Cynthia previously worked for one of the big four accountancy firms in developing back office operations and has an excellent knowledge of the market and the market potential in general. With her assistance the company has managed to streamline its operations further, discharging a substantial portion of the debt the company was carrying.

JN met with Patrick Crocco, Managing Director of Vaughan Way Enterprises Limited, and has been persuaded that the time is right to take advantage of an opportunity in the market and to consider options for expansion. The technology outsourcing aspect of the company's current activities have been the main draw to JN and apparently Patrick Crocco is keen to engage JN on a more formal footing.

As part of his discussions with Patrick Crocco, a number of supplier and customer issues have arisen and JN is looking for advice in relation to any implications these may have on the company's business. One particular customer, Paradiso Media Integration Limited ('PMI') has apparently been very frank with Patrick Crocco, reporting that it had been making losses recently. Apparently one of the directors of PMI, Ben Steel, has said that several trade creditors are pressing PMI for payment and in the last five days it has been served with statutory demands by two of them. PMI apparently does not have sufficient funds to settle these demands.

PMI's non-preferential unsecured creditors are owed about £180,000 and they would receive very little in the event that the company goes into liquidation, but this has not stopped PMI placing further orders with its own suppliers. To tide the company over, while they have cash flow problems, the company's bank, Bedford Bank plc, lent the company £220,000, approximately 18 months ago. This was secured by a fixed charge over the freehold office premises. The company borrowed a further £20,000 from Essex Bank plc six months ago; this was not secured by any charge.

JN said that he would explain further the details of this issue and his potential involvement when we meet and would forward a copy letter and management accounts (which are currently with JN's accountants for review) in the interim.

Time in attendance: 5 units.

Turn over

DOCUMENT 2

Vaughan Way Enterprises Limited

Thomas Moore Buildings
Wapping, London E1W 3FX

[November 2013]

James Norton
19 Prospect Place
Wapping
London
E1W 2SX

Dear James

Business Expansion

I refer to our telephone conversation this morning.

Thank you for your agreement to become involved further with the company and advise further on its expansion plans - one of the immediate concerns of the board of directors is to determine how best to finance the expansion. As explained, we are currently in discussions with a number of Private Equity houses and we expect at least one to invest, but this will require the existing shareholders to invest further.

We now feel that Vaughan Way Enterprises Limited must take advantage of the opportunity that the market presents, which really means that we need to consider options for expansion. With your expertise and sector knowledge I am confident of our future success.

I attach a copy of the company's last accounts made up to 23 November 2013, which have not yet been filed at Companies House. I look forward to meeting you again next month to formalise your introduction into the company's operations.

Yours sincerely

Patrick Crocco

Managing Director

DOCUMENT 3

Vaughan Way Enterprises Limited
Profit & loss account for the year ending
23 November 2013

	£
Turnover	11,300,000
Cost of sales	<u>6,280,000</u>
Gross Profit	5,020,000
Administrative costs	<u>1,190,000</u>
	3,830,000
Income from associated undertakings	<u>-</u>
Operating Profit	3,830,000
Extraordinary items	<u>-</u>
Profit On Ordinary Activities	3,830,000
Interest payable	<u>29,000</u>
Profit On Ordinary Activities Before Tax	3,801,000
Taxation	<u>874,230</u>
Profit For Year	2,926,770
Dividends	<u>2,380,770</u>
Retained Profit For The Year	<u>546,000</u>

Vaughan Way Enterprises Limited
Balance sheet as at
23 November 2013

	£
Fixed Assets	
Tangible assets	<u>495,000</u>
	495,000
Current Assets	
Stocks	24,000
Debtors	95,000
Cash at bank	<u>305,000</u>
	424,000
Creditors due within 1 year	
Trade creditors	42,000
Other creditors	<u>16,000</u>
	(58,000)
Net Current Assets	366,000
Total Assets less Current Liabilities	861,000
Creditors due after 1 year	<u>(274,000)</u>
Net Assets	<u>587,000</u>
Capital & Reserves	
Paid up share capital (50,000 ord £1 shares)	25,000
Profit & loss account	<u>562,000</u>
	<u>587,000</u>

DOCUMENT 4

VAUGHAN WAY ENTERPRISES LIMITED Company Search

Name of Company		Vaughan Way Enterprises Limited		
Company Number		9934875		
Company Type		Private company limited by shares		
Date of Incorporation		11 April 2008		
Previous Names		None		
Registered Office		Thomas Moore Buildings, Wapping, London E1W 3FX		
Date of Last Annual Return		N/A		
Accounting Reference Date		30 September		
Accounts		Last filed	Next due for period to	Overdue
		N/A	23 November 2013	N/A
Current Directors and Secretary		Directors		Secretary
		Patrick Crocco Julie Crocco Cynthia Henry		Julie Crocco
Share Capital		Issued	Class	Amount paid up
		£50,000	Ordinary £1	£0.50 per share
Shareholders		Name	Class	No. of shares
		Patrick Crocco	Ordinary £1	20,000
		Julie Crocco	Ordinary £1	20,000
		Cynthia Henry	Ordinary £1	10,000
Undischarged Mortgages or Charges				
Chargee	Date of charge	Amount Secured	Description of Charge (including assets secured and whether there is a negative pledge)	
Cotton Bank Plc registered on 31 May 2008, £450,000			Fixed and floating charge in favour of Cotton Bank Plc registered on Unit 2, Vaughan Way, Wapping, London	
Memorandum of Association				
Standard, unamended				
Articles of Association				
Model Articles for private companies limited by shares			Amended January 2012 for inclusion of Special Article restricting member transfer of shares to family trust set up for the benefit of the	

family, a member of the family, or a member of the family of the deceased, provided that by the will the beneficiary has no pecuniary or beneficial interest will disqualify the beneficiary from being a member of the family of the deceased.

	(Include copies)

family, a member of the family, or a member of the family of the deceased, provided that by the will the decedent has not manifested a beneficial interest will disqualify the member of the family of the deceased or member.

	(Include copies)

End of Case Study Materials

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