

DO NOT REMOVE THE QUESTION PAPER FROM THE EXAMINATION HALL

UNIVERSITY OF LONDON

CENTRE FOR FINANCIAL AND MANAGEMENT STUDIES

MSc Examination

Postgraduate Diploma Examination

for External Students

91DFMC339

FINANCE AND FINANCIAL LAW

Legal Aspects of Corporate Finance

Specimen Examination

*This is a specimen examination paper designed to show you the type of examination you will have at the end of the year for **Legal Aspects of Corporate Finance**. The number of questions and the structure of the examination will be the same but the wording and the requirements of each question will be different. Best wishes for success on your final examination.*

The examination must be completed in **THREE** hours.

Answer **THREE** questions – *at least ONE* question from **Section A**. The remaining two questions can be chosen from **either** Section A **or** Section B.

The examiners give equal weight to each question; therefore, you are advised to distribute your time approximately equally between three questions.

PLEASE TURN OVER

Section A

Answer at least **ONE** question from this section.

1. Answer **BOTH** parts of this question.

Mark and Nick are planning to set up a company and are each going to invest £1,000 in it by way of share capital. Mark has the cash available to do this, but Nick does not. Mark therefore puts his money in first, the company then lends that same amount to Nick who is thus enabled to pay for his shares.

- a) Draw up a simple balance sheet for the company to show the position after Mark has contributed his capital, and again after Nick has contributed his capital. (Assume that there are no other transactions to account for.) Note that there is not necessarily fraud here and that the second balance sheet works perfectly well purely as an accounting exercise. *(30% of the marks)*
- b) What is the weakness of this scenario from the point of view of a creditor of the company? *(70% of the marks)*

2. Supastore plc has recently taken over Luckless Ltd, a small department store in London. It has discovered that the former directors of Luckless Ltd made some decisions and pursued policies which in the opinion of the directors of Supastore plc caused unnecessary loss to the company. The board of Supastore plc is now seeking legal advice on the following matters:

Kevin, the former managing director of Luckless Ltd, used the same supplier to supply the store's product ranges despite the fact that he could have purchased the same products more competitively elsewhere. He did this because the supplier was an old friend and he honestly believed that for that reason he would offer him the best deal.

Jane, the personnel director of Luckless Ltd, appointed Luke to employ casual staff in the store. Unknown to Jane, Luke had a criminal conviction for dishonesty and he had employed

as staff some old friends who stole from the company and had paid bribes to Luke.

Advise the board accordingly.

3. The objects clause of Lumpa plc restricts its activities to the production and sale of computers. Its articles provide that the board of directors will have the full management of the company, that every board meeting shall require a quorum of five directors, and that all purchase agreements for the company must be signed and approved by all members of the board of directors.

Felix, a sales director in Lumpa plc (and a non-executive director in six other companies), signed a contract (on behalf of Lumpa plc) with Kish-kash Ltd, a company owned by his wife, Therese. The contract provided that as part of an expansion of Lumpa plc's business into oil supplies, it will acquire from Kish-kash Ltd two oil pumps for £100,000 which will be installed in the main factory.

Felix brought the agreement for approval to a meeting of the board of directors. After a short presentation, the three directors present at the meeting approved the contract. Kish-kash Ltd supplied the pumps the next day. Unfortunately due to poor fit between the equipment ordered by Felix and the specification requirements of the Lumpa plc factory, a big explosion occurred which resulted in a major oil leak into the nearby river. The shareholders of Lumpa plc reacted with fury, refused to pay Kish-kash Ltd, and demanded, in the general meeting, to take the management of the company into their own hands. The board refused to let them and, in an attempt to satisfy the shareholders, sold the factory and distributed the proceeds as dividends.

Tom, a law-abiding citizen and minority shareholder in Lumpa plc, who is concerned about the effect of the explosion and the oil leak on the environment, approaches you for advice on a possible legal action against Felix and asks you to explain all the different legal issues arising from this case.

Detail your advice.

4. Oriental Interiors plc, registered in England & Wales, imports furniture and ornaments from China, Laos and Nepal for

resale in the UK, Spain and Portugal. Ostwald AG, registered in Germany, has a similar business, importing from China, Myanmar and Kazakhstan, but selling to Germany, Austria, Italy, the Netherlands and the UK. Ostwald now wishes to take over Oriental Interiors in order to expand its markets. Its CEO, Hans Müller, explains that a particular attraction of Oriental Interiors is that it has a licence from the Lao Government to import Hmong antique art and that such licences are very difficult to obtain.

Advise Ostwald on the various legal issues that will arise.

Section B

5. “The concepts of separate legal personality and limited liability are essential tools in Western business, and especially financial, life.”

Discuss.

6. “The formation of an English company is extremely simple, and this simplicity is very beneficial to business.”

Discuss.

7. “Directors’ duties are part of a broader system of rules which seek to provide an optimum framework of accountability and control. They are often divided into duties of loyalty and duties of care.”

Discuss.

8. “The classical method of assessing corporation tax is manifestly unfair; if corporations are to be taxed at all on their income, the input method is the only one which can be justified as reasonable.”

Discuss.

[END OF EXAMINATION]