

Sample Paper 2007

LEGAL ENVIRONMENT

Level 4

Tuesday 5 June

Subject Code: 4503

Time allowed: **3 hours**

INSTRUCTIONS FOR CANDIDATES

- Answer 4 questions, one question from Section A and 2 questions from Section B and then one other question from either Section A or B
- All questions carry equal marks
- All answers must be clearly and correctly numbered but need not be in numerical order
- Write legibly using black or blue ink/ballpoint. Pencil may be used only for graphs, charts, diagrams etc
- Rough work (if any) must be crossed through
- If supplementary sheets are used, the candidate's number must be clearly shown and the sheet(s) securely attached to the answer book
- The use of standard English dictionaries is permitted. Candidates whose first language is not English may use a bilingual dictionary
- Candidates' answers should be supported by reference to statutes and case law.

SECTION A

Answer at least ONE question from this section.

QUESTION 1

- (a) The case of **Foss v Harbottle (1843)** confirms the normal position in law that a company operates on the basis of majority rule.

Explain and justify what this means.

(13 marks)

- (b) However, there are exceptions to the Rule in Foss v Harbottle, which gives protection to minority shareholders who are unfairly prejudiced by the actions of the company.

Outline the exceptions to the general rule.

(12 marks)

(Total 25 marks)

QUESTION 2

- (a) John, Joan and Gillian are partners who have successfully been running an expanding property development partnership. They wish to develop the business further by forming a company and raising capital.

Explain the process by which a company is formed.

(10 marks)

- (b) Describe and distinguish between the main types of shares that a limited company might issue.

(8 marks)

- (c) The partners would like to know the legal distinction as to how an incorporated company is distinct from its shareholders and directors.

Explain the legal significance of this distinction.

(7 marks)

(Total 25 marks)

QUESTION 3

(a) If a company is unable to pay its debts, what are the consequences? (12 marks)

(b) Boots & Shoes Ltd, a footwear retailer, has recently gone into liquidation. It has property assets worth £600,000, although £300,000 is owed on a mortgage. It has stocks of unsold consumer goods and other consumables, plus fixtures and fittings worth a total of £105,000. There is an overdraft of £45,000. Unpaid tax demands are £45,000. Wages of £38,000 have not been paid. In addition there are creditors and customer demands for goods and supplies at £100,000.

Explain the principle as to how, as a result of the liquidation, the assets will be distributed.

(13 marks)

(Total 25 marks)

SECTION B

QUESTION 4

(a) Explain the circumstances in which agreements have no intention to create legal relations. (6 marks)

(b) All contracts must be supported by consideration. Define what is meant by consideration in a contract? (6 marks)

(c) Explain with examples, the distinction between the rules "consideration need not be adequate" and "consideration must be sufficient". (13 marks)

(Total 25 marks)

QUESTION 5

(a) In what circumstances will a contract be discharged by frustration? (11 marks)

(b) What effect does the Law Reform (Frustrated Contracts) Act 1943 have on the parties? (6 marks)

(c) Brian has arranged for a dance troupe to appear at a number of concerts. What would be the legal position if, before the first concert is to take place:

(i) the concert hall was destroyed by fire (4 marks)

(ii) the leading dancer is sent to prison for assault (4 marks)

(Total 25 marks)

QUESTION 6

Negligence is a tort which involves a breach of a legal duty to take care which results in damage undesired by the defendant.

(a) Explain what is meant by duty of care. (10 marks)

(b) What standard of care is required for a breach of duty to occur? (10 marks)

(c) Tony works for Metals Ltd making casts with molten metal. He is issued with safety goggles but sometimes does not wear them as it slows up his work. He accidentally splashes his face with the molten metal causing serious damage to his eyes.

Advise Tony as to whether he has a claim in negligence. (5 marks)

(Total 25 marks)

QUESTION 7

(a) James, John, Jarvis and Bill, have over the last twelve months been working on designing games software whilst continuing their studies at University. They now have a number of potential orders and wish to make their business formal and have decided to form a partnership.

What are the principal benefits of forming a partnership? (7 marks)

(b) The relationship between the partners in terms of contracts and tort is one of agency.

Explain the implications of this and what this means. (5 marks)

(c) Explain the difference between implied and apparent authority within an agency relationship. (8 marks)

(d) Soon after the formation of the partnership John without permission placed an order for £20,000 of computer software equipment from Electronic Solutions Ltd. The equipment is of the wrong specification.

Is the partnership bound to this contract? (5 marks)

(Total 25 marks)

QUESTION 8

- (a) Distinguish between the role of the barrister and solicitor in the provision of court services. (10 marks)
- (b) Explain the jurisdiction of the various courts within the criminal process. (9 marks)
- (c) In which court would an individual bring a claim for:
- (i) Bankruptcy (2 marks)
 - (ii) Breach of contract (2 marks)
 - (iii) The adoption of a young child? (2 marks)

(Total 25 marks)

QUESTION 9

- (a) Discuss the extent to which statutory protection protects the buyer of goods from defective performance and exemption from liability. (16 marks)
- (b) David, an architect, recently purchased a new business computer from ABC Computers Ltd. A clause in the contract stated that 'in the event of the product proving defective in use, the supplier shall only be responsible for loss or damage up to the amount of the purchase price'. After a few weeks of using the computer, the whole system failed as a result of defective workmanship. David lost a large number of business records and drawings at a cost of £15,000 and is looking for compensation.
- Advise David on the enforceability of the clause.

(9 marks)

(Total 25 marks)