

Fundamentals Level – Skills Module

Corporate and Business Law (Scots)

Monday 12 December 2011

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL TEN questions are compulsory and MUST be attempted.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F4 (SCT)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

ALL TEN questions are compulsory and MUST be attempted

- 1 In relation to the Scottish legal system explain the following sources of law:**
- (a) case law; (6 marks)
 - (b) legislation, including delegated legislation. (4 marks)
- (10 marks)**
- 2 In relation to the contents of a contract explain the following:**
- (a) express terms; (3 marks)
 - (b) implied terms; (3 marks)
 - (c) terms incorporated by reference. (4 marks)
- (10 marks)**
- 3 In relation to the law of negligence, explain the extent of a company auditor's duty of care; and to whom any such duty is owed.**
- (10 marks)**
- 4 Explain the meaning of the following terms with regard to the law of agency, providing specific examples within the context of company law:**
- (a) express authority; (3 marks)
 - (b) implied authority; (3 marks)
 - (c) ostensible/apparent authority. (4 marks)
- (10 marks)**
- 5 In relation to a company's shares:**
- (a) explain the following:
 - (i) the statement of capital and initial shareholdings; (4 marks)
 - (ii) the authorised minimum issued capital in a public company. (1 mark)
 - (b) explain and distinguish between ordinary shares and preference shares. (5 marks)
- (10 marks)**

- 6 In the context of corporate governance, explain and distinguish between:**
- (a) (i) **the chairman of a company's board of directors; and** (3 marks)
(ii) **a company's managing director/chief executive.** (2 marks)
- (b) (i) **non-executive directors; and** (2 marks)
(ii) **shadow directors.** (3 marks)
- (10 marks)**

- 7 In relation to employment law explain the meaning of redundancy and the rules that govern it.**
- (10 marks)**

8 Ade, a keen pottery collector, saw a notice for an auction of Bede pottery in the January edition of *Antiques News*. He travelled 300 kilometres to attend the auction in order to bid for a particularly rare example of Bede pottery, specifically mentioned in the lists of items to be auctioned. However, when he got to the auction site he found a notice outside, stating that the auction had been cancelled. Ade went into a nearby antique shop and saw an example of the type of pottery he had come to bid for. The price ticket stated that it was £500, but Ade said he was only willing to pay £350 for it. The shopkeeper, Chip, said he would sell it for £400 and as Ade said he would like time to think about it over lunch, Chip agreed not to sell it before Ade returned.

However, when Ade returned to buy the pottery, he found that Chip had already sold it to someone else, who had paid £450 for it.

Required:

In the context of contract law, advise Ade whether he can take action against:

- (a) **the auctioneers, for the expense of his travel to the auction; and**
- (b) **Chip, for not selling the pottery to him.**

(10 marks)

9 Doc, a supplier of building materials, entered into the following transactions:

- (a) An agreement to sell some goods to a longstanding friend, Ed. The contractual document, however, actually stated that the contract was made with Ed's company, Ed Ltd. Although the materials were delivered, they have not been paid for and Doc has learned that Ed Ltd has just gone into insolvent liquidation. (4 marks)
- (b) Doc had employed a salesman, Fitt, whose contract of employment contained a clause preventing him, Fitt, from approaching any of Doc's clients for a period of two years after he had left Doc's employment. Doc has found out that, on stopping working for him, Fitt has started working for a company, Gen Ltd, wholly owned by Fitt and his wife, and is approaching contacts he had made while working for Doc. (6 marks)

Required:

In the context of company law, advise Doc as to the legality and likely outcome of the above situations.

Notes:

- in (b) the legality of the restraint of trade clause in Fitt's contract of employment may be assumed; and
- the mark allocation is shown against each of the transactions above.

(10 marks)

10 Ian is an accountant and one of his clients is Jet, who runs an illegal operation as well as some other legitimate businesses. Jet approached Ian for advice as to how he should deal with the gains he makes from the illegal operation.

Ian suggested that, rather than try to use his existing legitimate businesses to disguise the source of the money, Jet should use his legally made money to buy the local football club, Kickers, with the intention of passing his gains from the illegal operation through its accounts.

Ian's reasoning was that as there was a lot of cash going through the football club on a weekly basis, and as there appeared to be very little control exercised over the finances of football clubs, it would be easy to mingle the illegal money with the football club's legitimate receipts.

Jet accepted the proposal, bought the club, appointed Ian as its finance director and together they passed the illegal money through the football club. Lol, the long-term team manager of Kickers, has noticed the increase in the club's income, but is concerned that the extra money is going to Jet as the owner, and not being used to finance the club.

Required:

Analyse the scenario from the perspective of the law relating to money laundering, advising Lol as to the legality of the above situation and what action can be taken against Ian and/or Jet.

(10 marks)

End of Question Paper