

The Language of Business Law

Unit 7B/Higher

THE LANGUAGE OF BUSINESS LAW

INCORPORATED AND UNINCORPORATED BUSINESSES

Exercise 1

Lawyers often talk about the differences between incorporated businesses and unincorporated businesses. Look at each of the words and phrases in the blue box and decide if it is connected with:

- a incorporated businesses
- b unincorporated businesses

- | | |
|--|--|
| <input type="checkbox"/> legal entity | <input type="checkbox"/> member |
| <input type="checkbox"/> partnership | <input type="checkbox"/> limited liability partnership |
| <input type="checkbox"/> private limited company | <input type="checkbox"/> corporation tax |
| <input type="checkbox"/> share | <input type="checkbox"/> joint and several liability |
| <input type="checkbox"/> unlimited liability | <input type="checkbox"/> public limited company |
| <input type="checkbox"/> dividend | <input type="checkbox"/> limited liability |
| <input type="checkbox"/> partner | <input type="checkbox"/> sole trader |

Exercise 2

Look at the following list of five different business structures. Read what the people say below and match their businesses with the correct business structure.

- | | | | |
|---------------|---------------------------------|---------------------------|--------------------------|
| ● sole trader | ● limited liability partnership | ● private limited company | ● public limited company |
|---------------|---------------------------------|---------------------------|--------------------------|

a **Esther Jackson:** 'We set up our business together two years ago. I'm an accountant and Mark is a builder. We trade under the name of MH Property Services. Mark does all the building work while I deal with all the paperwork. Mark and I share all the profits. We didn't have to register the business anywhere, but we joined the local small builders' association. We took out a loan from the bank when we set up, to buy a van and any tools that Mark needed. The bank insisted on securing the loan on our house, but as we were confident about the future of the business, we decided to take this risk. We're doing quite well at the moment.'

This type of business is a _____

b **Harriet Higgins:** 'I own shares in Express Enterprises, which I bought two years ago through a stockbroker. Express Enterprises has just announced that it has made record profits this year. It has declared a dividend, which provides an excellent return on my investment. This dividend is to be distributed soon. All of the shareholders will be delighted that the price of shares has risen by 21 pence each since this announcement was made. Stockbrokers are reporting that a lot of people are interested in buying Express Enterprises's shares.'

This type of business is a _____

- c **Hassan Abdullani:** 'I own a specialist business consultancy and I employ two full-time employees. I have just completed the annual return for the last year of trading, providing details of the capital, the shareholders, address of the registered office and other information. My accountant is preparing the annual financial accounts. Business fluctuated last year, but I am optimistic that it will grow and provide a steady income.'

This type of business is a _____

- d **Elliot Solomon:** 'The four of us set up our accountancy business about 18 months ago. After considering the options, we decided on this type of business structure. Most new professional services are using this structure. There is less risk involved as we are only liable for the amount of money we contributed to the business. Tax was another consideration. We didn't want to pay corporation tax which is generally at a higher rate, so we opted for this. We each have to pay income tax on our share of the business profits.'

This type of business is a _____

- e **Suzanne Marshall:** 'I am a maths teacher. I used to work in a big school, but decided that I wanted to do private tutoring, specialising in helping children who find it difficult to understand maths. The business is very successful and I have a waiting list of parents who are interested in their children having lessons with me. I don't want a big business, I'm happy just doing the hours I want. I can be as flexible as I want. If I need more money, I just accept extra pupils. The business is easy to run and I'm not restricted by rules and regulations.'

This type of business is a _____

Collocation bank

- to **set up** a business
- to **declare** a dividend
- business **fluctuates**
- to **take** a risk
- to **distribute** a dividend
- to **consider** an option
- to make **record** profits
- a **return** on investment
- to **secure** a loan

Preposition bank

- to trade **under** a name
'The business is owned by Mr Fox, and trades **under** the name of "Foxgloves".'
- to insist **on** something
'I advised her to settle the case, but she insisted **on** taking legal action.'
- to be confident **about** something
'He took his law exams last week and he says that he is confident **about** the results.'
- to own shares **in** a company
'My uncle owns shares **in** Harlax plc and also in Janson plc.'
- to be interested **in** doing something
'I am interested **in** buying shares in Next Express plc.'
- a return **on** investment
'I own shares in a number of companies which provide me with a good return **on** my investment.'
- to decide **on** something
'Our lawyer advised us about the different business structures and we finally decided **on** a partnership.'
- to opt **for** something
'At first we wanted to set up a private limited company, but in the end we opted **for** a partnership.'
- to be restricted **by** something
'Companies are restricted **by** a lot of rules and regulations.'

Exercise 1

José Perez is a website designer. He is thinking about starting his own business and yesterday evening he went to a talk given by the local BusinessConnect office, which gives information to entrepreneurs. Look at José's notes and match the headings in the blue box with the correct summary in the notes.

- Setting up
- Management
- Tax
- Profits/losses
- Liability
- Capital
- Employing staff

Notes about being a sole trader

- a _____
It is very easy to start the business and you can begin to trade immediately. The owner does not need to register with anyone other than HM Revenue & Customs, which is the government department in the UK that collects tax.
- b _____
The owner is completely responsible for the business. If the business fails, the owner is fully responsible for all the business debts.
- c _____
If the business does well and makes money, that money belongs to the owner. But if the business does badly, the owner bears all the losses.
- d _____
The owner runs the business himself or herself and does not have a boss. You can pay other people to work for you if you start to get busy, but you will remain the boss.
- e _____
You must register with HM Revenue & Customs within three months of starting the business. If you make a profit you will have to pay part of it to the government.
- f _____
The owner's word is final. The owner has full control over how he or she runs the business.
- g _____
The owner uses his or her personal money, or borrows from friends or relatives. Banks can be reluctant to offer a loan to a new sole trader. You need a good business plan and the bank will want security over your personal assets to make sure you repay the loan.

Collocation bank

- to **make** a profit
- to **bear** a loss
- **personal** assets
- **unlimited** liability
- to **run** a business
- to **repay** a loan
- to **make** money
- to **have** control

Preposition bank

- to register **with** someone
'I am going to register **with** the local association of small businesses.'
- to be responsible **for** something
'You are responsible **for** notifying us if you change your address.'
- to do something **within** a period of time
'I need to answer that letter **within** five days.'
- to have security **over** assets
'The bank has security **over** my house.'

- to borrow something **from** someone
'I had to borrow £100 **from** my Dad last week as I had no money to pay my rent.'
- to belong **to** someone
'The house belonged **to** my uncle before he died.'
- to have control **over** something
'He has full control **over** the banking arrangements of the business.'

Exercise 2

José Perez is talking about the advantages and disadvantages of being a sole trader. Using your knowledge of collocations and prepositions, correct the language below.

'I considered all the advantages and disadvantages when I (a) **created** my business and in the end I opted (b) **to** a type of business in which I am called a sole trader. It is easy to (c) **operate** and you don't need to register (d) **to** anyone except the tax authorities. As I am the sole owner, I am entitled (e) **for** all the profits that the business (f) **earns**, but if things go wrong, I (g) **take** all the losses. I have (h) **unrestricted** liability for the debts of the business, which means that my (i) **own** assets are at risk if I can't pay my creditors. I borrowed some money (j) **with** the bank, and they now have security (k) **for** my house.'

'I considered all the advantages and disadvantages when I (a) _____ up my business and in the end I opted (b) _____ a type of business in which I am called a sole trader. It is easy to (c) _____ and you don't need to register (d) _____ anyone except the tax authorities. As I am the sole owner, I am entitled (e) _____ all the profits that the business (f) _____, but if things go wrong, I (g) _____ all the losses. I have (h) _____ liability for the debts of the business, which means that my (i) _____ assets are at risk if I can't pay my creditors. I borrowed some money (j) _____ the bank, and they now have security (k) _____ my house.'

PARTNERSHIPS

Exercise 1

The Royal Chatsworth Bank has produced some Business Fact Sheets for its customers. The fact sheet about partnerships is on the next page. Fill the gaps in the text with the correct words or phrases from the box below.

- | | | | |
|---------------------|-------------|------------|----------------|
| ● joint and several | ● sleeping | ● profits | ● assets |
| ● self-employed | ● creditor | ● register | ● legal entity |
| ● resigns | ● dissolved | ● salaried | ● equity |



The Royal Chatsworth Bank

Business Fact Sheet – Partnerships

If two or more people wish to go into business together, a partnership offers a simple way to do so. Partners share the control, responsibility and finances of the business. You do not need to (a) _____ your partnership, except with the tax authorities. A partnership is not a (b) _____. It does not have its own legal personality. As a result, each partner is usually regarded as being (c) _____. Each partner will pay income tax on his or her share of the (d) _____ of the partnership.

A partnership often just consists of general partners. All of these partners have the authority to make decisions about the business. They share all the profits and have (e) _____ liability for any debts incurred by the business. This means that if the partnership does not pay what it owes to someone, that (f) _____ may demand payment from one or more of the partners. The partners' personal (g) _____ are said to be 'at risk'.

It is possible to have other types of partner. An (h) _____ partner contributes capital to the partnership and receives a share of the partnership profits in proportion to the amount of capital he or she has invested. These partners are involved in all decision-making. Another type of partner is a (i) _____ partner, who receives high remuneration for his or her services, but does not receive a share of the profits of the partnership. Finally, some people may contribute money to the partnership but they do not involve themselves in the day-to-day control of the business. They are often called (j) _____ partners or dormant partners.

There is no legal obligation to have a partnership agreement although this is recommended. It will help to avoid or resolve any disputes which may arise. If there is no partnership agreement, the dispute will be settled according to the Partnership Act 1890. However, the Partnership Act may provide a solution that the partners do not like. Also, if there is no partnership agreement, the partnership must be (k) _____ instantly if a partner ceases to be a partner, for example if he or she dies, (l) _____ or goes bankrupt. Again, this is probably not what the partners would like to happen.

Collocation bank

- | | | |
|------------------------------|-------------------------------|------------------------------------|
| ● to go into business | ● to incur a debt | ● to settle a dispute |
| ● a legal entity | ● to demand payment | ● to dissolve a partnership |
| ● to make a decision | ● to resolve a dispute | ● to go bankrupt |

Preposition bank

- | | |
|---|--|
| ● according to something
'All disputes are resolved according to the terms of your partnership agreement.' | ● to consist of something
'My diet consists of coffee and chocolate!' |
|---|--|

THE LANGUAGE OF DRAFTING

Francesca Rodd is a lawyer who specialises in partnerships. Two of her clients, Samantha Sully and Kate Mace, are setting up a beauty salon. Samantha and Kate have already met Francesca once to ask some questions about operating a business as a partnership. However, they have now decided to include a third partner, Angie Forrest, in the business. The addition of a new partner means that Francesca will have to think carefully when she defines the term 'partner' in the agreement.

All three partners have instructed Francesca that they would like new partners to be able to join them in future if the business is successful. This is another factor that Francesca will have to take into consideration when she defines the term 'partner' in the partnership agreement.

The clause that Francesca drafts must:

- a include all three current partners.
- b include any partner who may join the partnership in the future.
- c exclude any partner who leaves the partnership. This applies to any future partners as well as the three current partners.

Exercise 1

The three situations above that Francesca must cover in her clause are described in more detail below. Match the situations with the correct description.

- ☐ Any individual who used to be a partner of the business but who now stops being a partner for any reason at all. (1)
- ☐ All of the individuals who are parties to this agreement at the date of this agreement. (2)
- ☐ Any individual or individuals who join the partnership each starting from the particular date on which he/she adds his/her name to the schedule attached to this agreement. (3)

Exercise 2

Here are some words that Francesca will need to use when she drafts the clause that provides a definition of the term 'partner' in the partnership agreement. Match each word with the correct meaning.

- a **Respective** means...
...a document containing extra information that is attached to a contract. (1)
- b A **schedule** is...
...relevant, particular, the one thing in a group of things that refers to or belongs to a particular person. (2)
- c **Annexed** means...
...attached. (3)
- d **Context** means...
...at all. (4)
- e **Whatsoever** means...
...circumstances or situation. (5)

Exercise 3

Choose the correct word from the list in Exercise 2 to complete these sentences.

- a The specifications for the building work that your client will carry out are contained in the _____ attached to this contract.
- b The company will not pay any additional expenses _____, so you should be very careful not to spend more than the money that you have been given.
- c _____ to this draft contract is the list of assets that you are purchasing.
- d What is the full _____ of the dispute between the partners? I only have one person's story so I do not know the exact circumstances.
- e After the meeting both of the lawyers returned to their offices to discuss the new developments in the case with their _____ clients.

Exercise 4

Using the descriptions from Exercise 1 and the definitions in Exercise 2 to help you, complete the clause that Francesca drafts for the partnership agreement by putting the words from the blue box below in the correct place.

- hereto
- whatsoever
- former
- respective
- annexed
- hereof
- thereof

The 'Partners' means all the individuals who are parties (a) _____ at the date (b) _____ and shall include, from the (c) _____ dates upon which any other individuals by the addition of their names and addresses to the schedule (d) _____ hereto such other individual or individuals, and shall unless the context otherwise requires exclude any such individual being a (e) _____ partner of the business who shall have ceased for (f) _____ reason to be a partner (g) _____.

Exercise 5

Look at these clauses from the partnership agreement. They deal with when the partnership between the three partners will begin and how long the partnership will continue. Match the words and phrases that are highlighted in the clauses with the meanings below.

2. Commencement and Duration

- 2.1 **Subject to** the provisions for **retirement, resignation, expulsion** and **dissolution** hereinafter contained the Firm shall continue during the joint lives of the Partners and the **survivors** of them.
- 2.2 If any Partner **ceases** to be a partner **by reason of** his death or retirement or expulsion in accordance with the **provisions** of this agreement the Firm shall not **determine** as regards the surviving or continuing Partners.
- 2.3 The Partnership shall continue until terminated at the end of any Partnership Year by a **majority** of the Partners giving to all the other Partners not less than three months' written **notice** of their intention to do so.

- a Formal communication or warning that something is about to happen.
The word is _____
- b A situation where someone leaves a business partnership because the other partners force him or her to go.
The word is _____
- c To end or to terminate. This word also has another meaning in legal English, which is to 'decide'. When you see this word in an agreement you must be careful to be sure of which meaning the lawyer is using.
The word is _____
- d A word to describe the situation where someone stops working because he or she has reached a certain age. In many countries this is the age of 65.
The word is _____
- e The terms and conditions contained in a contract.
The word is _____
- f A formal way of saying 'because of'.
The word or phrase is _____
- g The situation where a partnership has been brought to an end so that it no longer exists.
The word is _____
- h A formal word meaning the start or the beginning of something.
The word is _____

- i A formal word meaning 'stops'.
The word is _____

- j The situation where someone leaves his or her job voluntarily. That person stops working by telling the employer, usually by letter, that he or she is leaving.
The word is _____

- k A formal way of saying 'considering what is written in' or 'except as stated in'. These words also have another meaning in legal English, which is 'depending on'. When you see these words in an agreement you must be careful to be sure of which meaning the lawyer is using.
The word is _____

- l A period of time. It has a definite beginning and a definite end.
The word is _____

- m Most of the people or things in a particular group. More than half of any particular group.
The word is _____

- n The remaining partners. The people who continue to be partners after one of the partners dies or leaves the partnership for any other reason.
The word is _____

Exercise 6

In the partnership agreement that Francesca Rodd is drafting, she has referred to the partnership as 'the Firm'. Samantha, Kate and Angie are the only three partners in the beauty salon. Read the clauses in Exercise 5 again and decide if the following statements are true or false.

- | | | |
|--|-------------------------------|--------------------------------|
| a Unless something happens that is stated in the clauses about retirement, resignation, expulsion and dissolution, the partnership will continue while Samantha, Kate and Angie are all alive. | <input type="checkbox"/> True | <input type="checkbox"/> False |
| b The word 'survivors' in clause 2.1 means the children of Samantha, Kate and Angie. | <input type="checkbox"/> True | <input type="checkbox"/> False |
| c If one partner dies, the partnership will end. | <input type="checkbox"/> True | <input type="checkbox"/> False |
| d If Kate does something wrong and is forced to leave the Firm, then Samantha and Angie will continue with the partnership. | <input type="checkbox"/> True | <input type="checkbox"/> False |
| e If one partner retires at the age of 60, the partnership will end. | <input type="checkbox"/> True | <input type="checkbox"/> False |
| f Kate and Angie can end the partnership by writing to Samantha, telling her three months in advance that they want to close the partnership at the end of the Partnership Year. | <input type="checkbox"/> True | <input type="checkbox"/> False |

Exercise 7

Here are two more clauses from the partnership agreement. Explain the meaning of each of the highlighted words. Make sure you check how the words are being used in these clauses. There is an example at the beginning (*).

6. Profits and losses

The Partners shall share the Profit for each Partnership Year and (*) **bear** any loss for any Partnership Year in the (a) **proportions** specified opposite their names in column 2 of Schedule 1 hereto.

7. Drawings

Unless otherwise (b) **determined** by the Partners each Partner shall be (c) **entitled** to (d) **draw** from the Partnership Account on account of his share of the Profit for each Partnership Year the (e) **aggregate** monthly sum stated opposite her name in column 3 of Schedule 1 hereto.

Example: To **bear** a loss means to carry a loss. You will have to pay for that loss.

a **Proportions** means _____

b **Determined** means _____

c **Entitled to** means _____

d To **draw** means _____

e **Aggregate** means _____

THE REGISTER OF LETTER WRITING**Exercise 1**

Francesca has written the letter on the opposite page to her clients, enclosing the partnership agreement that she has drafted for them. The words that have been underlined are too informal. Replace these words with a more appropriate phrase. There is an example at the beginning (*).

(*) your instructions

a _____

b _____

c _____

d _____

e _____

f _____

g _____

h _____

Hedgsons LLP

1 High Street
Chatsworth
CH1 6GT

Samantha Sully, Kate Mace and Angie Forrest
14 Kitstone Avenue
Chatsworth
CH1 6GT

15 March 20XX

My ref: FR 44

Dear Ms Sully, Ms Mace and Ms Forrest

Partnership agreement for Revitalise beauty salon

I have drawn up a partnership agreement in accordance with (*) what you told me.

You are all (a) giving an amount of £5,000 to the business. I have provided in clause 8 of the agreement that you will receive interest on this sum at the rate of 5% each year. You will (b) all have any gains and losses equally. Similarly, you will be equally (c) responsible for the costs of running the business and for paying the (d) amounts of money that the partnership owes if there are insufficient funds in the partnership account.

Clause 7 provides that each of you will be able to (e) take £500 a month from the partnership account for your personal use, which represents a prepayment of your share of the profits over the accounting period. If at the end of the accounting period any of you has had more than your share of the profits, then you have to repay the excess amount immediately.

Clause 9 specifies the earliest possible (f) time for leaving the partnership for age reasons is 60. Clause 12 sets out the grounds for (g) forcing a partner to go out of the partnership, either because they have done something wrong or for some other reason. Finally, clause 15 says what will happen when you want to (h) finish the partnership.

I look forward to seeing you next Wednesday morning at 10 o'clock when I can answer any questions that you may have and we can finalise the agreement.

Yours sincerely

Francesca Rodd

Francesca Rodd

COMPANIES

Exercise 1

Sandra Hobson is a law student at the University of Chatsworth. She has just attended a lecture on company law. Here are her notes about private limited companies and public limited companies. Read Sandra's notes and find the words or phrases in the notes that match each of the meanings on the next page.

My notes – company lecture

Private limited and public limited companies

The governing legislation is Companies Act 2006.

All companies are registered at Companies House, which is the central registry of companies in the UK.

Companies are incorporated businesses.

A company is a legal entity. It has its own legal personality.

Companies must disclose certain information. Each year, every company must file its financial accounts and Annual Return at Companies House. The financial accounts include a balance sheet and a profit and loss account, and must usually be accompanied by a directors' report and an auditors' report. The Annual Return contains up-to-date information about that company.

The owners of a company are known as the members, or shareholders.

Shareholders have limited liability. They will not be liable for the company debts with their own assets.

Companies pay corporation tax; employees pay income tax.

Companies must follow lots of rules and regulations.

Every company has a memorandum and articles of association.

The business of a company is run by the directors.

The shareholders may receive a dividend if the company makes a profit.

Private limited company

The name of a private limited company must end with the word 'Limited' or the abbreviation 'Ltd'.

A private limited company must have a minimum of one director. Some private limited companies choose to appoint a company secretary but this is not a requirement. It is possible (and common) to have a single-member company, with only one shareholder. No minimum share capital is required to set up a private limited company.

The agreement of existing shareholders is needed to issue new shares or buy or sell existing shares.

Public limited company

The name of a public limited company must end with the abbreviation 'plc'.

A public limited company must have a minimum of two directors and a company secretary.

It is not possible to have a single-member public limited company.

A public limited company can be a listed company or unlisted. If listed, the company shares can be bought or sold on the Stock Exchange or Alternative Investment Market (AIM), often through a stockbroker. A stockbroker deals in shares.

A minimum of £50,000 share capital is currently required to start a public limited company.

a These are businesses which have been formally set up and registered as companies.

Answer: _____

b This is something that exists in the eyes of the law. It is a legal 'being', and can be a person or a company.

Answer: _____

c This means 'to make public', to tell someone, or to reveal.

Answer: _____

d This is another name for the shareholders of the company.

Answer: _____

e This means that the shareholders will not lose more than their investment in the company. They will have to pay any amount that they still owe to the company for their shares, but no more.

Answer: _____

f This is the name of the tax that a company has to pay.

Answer: _____

g This is the name of the tax that individuals must pay when they earn money.

Answer: _____

h These are the people who are responsible for the day-to-day management and running of the company.

Answer: _____

i This is a payment of a company's profits to the shareholders of the company.

Answer: _____

j This is the person who must make sure that all the statutory regulations regarding a company are followed.

Answer: _____

k This is a company that has just one shareholder.

Answer: _____

l This is the amount of money that represents the value of a company's shares.

Answer: _____

Collocation bank

- to **disclose** information
- to **issue** shares
- to **list** a company

Preposition bank

- to have the agreement **of** someone
'We have the agreement **of** our shareholders to enter into this contract.'
- to do something **through** someone
'I am buying some shares in Hatford plc **through** a stockbroker.'
- to file a document **at** a place
'You need to file your statement **at** the court office.'
- to end **with** something
'The name of a public limited company always ends **with** plc.'

INCORPORATING A COMPANY

Exercise 1

Peter Craig and his friend want to set up a new business. They have found a website called www.CoTypes.co.uk, which provides information about the different types of company that exist in the UK. Peter has printed off the following information about private limited companies. Complete the gaps in the text by using the correct word or phrase from the box below.

- | | | | |
|---------------|-----------------|---------------------------|-----------------------------|
| ● subscribers | ● incurred | ● registered office | ● memorandum of association |
| ● objects | ● off-the-shelf | ● articles of association | ● liability |
| ● incorporate | ● entity | | |
| ● sole | ● compliance | | |

www.CoTypes.co.uk/ltd

Private limited companies

All private limited companies are registered at Companies House. A private limited company must have a minimum of one shareholder. It must also have at least one director, but since 6 April 2008 there has been no need for it to appoint a company secretary. If there is only one director then this (a) _____ director can also be the company secretary, if one is appointed. Directors run the company and the company secretary is responsible for administering the company and ensuring that certain statutory information about the company is available to shareholders, members of the public and official bodies.

Limited (b) _____ protects the owners of a limited company from personal loss as the company is a separate legal (c) _____. A private limited company has its own profits and debts. In other words, any debts (d) _____ are the company's debts and not those of the owners.

Forming a company

You can buy an (e) _____ company from a company formation agent. This is a company that has already been set up, but it has never traded. Alternatively you can (f) _____ a company yourself. In this case, you need to submit the following documents, together with the registration fee to Companies House:

- Memorandum of association
- Articles of association
- Form IN01 (Forms 10 and 12 for companies incorporated before 1 October 2009)

The (g) _____ contains the names of the first shareholders of the company, known as the (h) _____. For companies incorporated on or after 1 October 2009 this form is now a very simple document. However, for companies incorporated before that date it also stated the company's name, its share capital, the situation of the (i) _____ and what the company would do, in other words the purpose of the company. Lawyers call that the (j) '_____ of the company and this was often just a short clause stating that the purpose of the company was 'to carry on business as a general commercial company'.

The (k) _____ set out the rules for running the company's internal affairs, including such things as procedures for holding company meetings, directors' duties and procedures for selling company shares.

Form IN01 gives details of the first directors, any company secretary, the intended address of the registered office, details of the share capital, as well as a statement of (l) _____ with all the legal requirements relating to the incorporation of a company.

Preposition bank

- | | |
|--|--|
| ● to protect someone from something
'A patent will protect your invention from being copied.' | ● to have at least a number
'We need at least £20,000 to finance the project.' |
| ● to have a number of something
'We need a minimum of 12 people to attend this course.' | ● to make something available to someone
'I promise that I will make this information available to anyone who asks for it.' |
| ● the object of something
'What is the object of your meeting?' | ● to submit something to someone
'You must submit these documents to the tax office by 31 January.' |

LISTENING

Exercise 1

Peter Craig and his friend decided to set up a private limited company in August 2009. Peter went to see a solicitor called Greg Harrison, who specialises in company law. Listen to their conversation. It is about completing one of the forms which is needed in order to incorporate the new company. Answer the following questions.

- What is the name of the company? _____
- What is the address of the registered office? _____
- Is Mr Craig using an agent? _____
- What is Mr Craig's telephone number? _____
- Does Mr Craig have a DX number? _____
- What is the name of the company secretary? _____
- What is the address of the company secretary? _____
- Is the company secretary a Miss, Ms or Mrs? _____
- Complete the following details about the two directors of the company:


	Director's details	Director's details
Full name, including title		
Address		
Date of birth		
Nationality		
Occupation		
Director of other companies?	Yes/No	Yes/No

PAPERWORK

Exercise 1

Using the details that you have from the Listening Exercise, complete Form 10 below.

10



Companies House
for the account

Please complete in typescript, or in bold black capitals.
CHWP000

Notes on completion appear on final page

First directors and secretary and intended situation of registered office

Company Name in full

Proposed Registered Office
(PO Box numbers only, are not acceptable)

Post town

County / Region

Postcode

If the memorandum is delivered by an agent for the subscriber(s) of the memorandum mark the box opposite and give the agent's name and address.

Agent's Name

Address

Post town

County / Region

Postcode

Number of continuation sheets attached

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record.

Tel

DX number

DX exchange

Companies House receipt barcode
This form has been provided free of charge by Companies House

v 10/03

When you have completed and signed the form please send it to the Registrar of Companies at:
Companies House, Crown Way, Cardiff, CF14 3UZ DX 33050 Cardiff
for companies registered in England and Wales
or
Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB
for companies registered in Scotland DX 235 Edinburgh
or LP - 4 Edinburgh 2

Company Secretary (see notes 1-5)

Company name

NAME *Style / Title *Honours etc

* Voluntary details

Forename(s)

Surname

Previous forename(s)

Previous surname(s)

Address **

Post town

County / Region

Postcode

Country

I consent to act as secretary of the company named on page 1

Consent signature

Date

Directors (see notes 1-5)
Please list directors in alphabetical order

NAME *Style / Title *Honours etc

Forename(s)

Surname

Previous forename(s)

Previous surname(s)

Address **

Post town

County / Region

Postcode

Country

Date of birth

Day Month Year

Nationality

Business occupation

Other directorships

I consent to act as director of the company named on page 1

Consent signature

Date

Directors (see notes 1-5)
Please list directors in alphabetical order

NAME *Style / Title *Honours etc

* Voluntary details

Forename(s)

Surname

Previous forename(s)

Previous surname(s)

Address **

Post town

County / Region

Postcode

Country

Date of birth

Day Month Year

Nationality

Business occupation

Other directorships

I consent to act as director of the company named on page 1

Consent signature

Date

This section must be signed by either an agent on behalf of all subscribers or the subscribers (i.e. those who signed as members on the memorandum of association).

Signed		Date	
Signed		Date	
Signed		Date	
Signed		Date	
Signed		Date	
Signed		Date	
Signed		Date	

continued

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Exercise 2

Peter Craig asks his solicitor, Greg Harrison, to draft the Memorandum of Association of the new company. The memorandum appears below. Fill each gap in the memorandum with the correct word or phrase from the blue box.

- objects
- liability
- share capital
- registered office
- subscribers
- name

The Companies Acts 1985-89
Private Company Limited by Shares
Memorandum of Association
of
Outback Adventures Ltd

1. The company's (a) _____ is Outback Adventures Ltd.
2. The company's (b) _____ is to be situated in England and Wales.
3. The (c) _____ of the company are to carry on business as a general commercial company.
4. The (d) _____ of the members is limited.
5. The company's (e) _____ is £100,000 divided into 100,000 ordinary shares of £1.00 each.
6. We, being the (f) _____ to this Memorandum of Association, wish to be formed into a company pursuant to this Memorandum and we agree to take the number of shares shown opposite our respective names:

Names and addresses of subscribers	Number of shares taken by each subscriber
Peter Craig 15 London Road Oxton Hapshire OX5 4HJ	Ten thousand shares
Shane Bradman 87 Hunts Roads Oxton Hapshire OX2 6GP	Ten thousand shares
Total shares taken	Twenty thousand shares
Dated	14/08/20XX

Exercise 3

Greg Harrison acted for another client, Raj Patel, in the incorporation of a new company. This company was incorporated before 1 October 2009. Using the memorandum in Exercise 3 as a model, draft the Memorandum of Association for Raj Patel's new company. Here are the details that must be included in your memorandum.

Client details:

Raj Patel
2 Cherryholt Road
Chatsworth
CH3 6GH

Company details:

RP Computer Services Ltd
Capital: £100,000.
Nominal value of each share is £1
Issued: 25,000
RP to be sole shareholder

The Companies Acts 1985-89
Private Company Limited by Shares
Memorandum of Association
of

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

Name and address of subscriber	Number of shares taken by the subscriber
_____	_____
_____	_____
_____	_____
_____	_____
Total shares taken	_____
Dated	_____

SHARES AND SHARE CAPITAL

Exercise 1

Kerry Bingham is a trainee lawyer. She is doing her training contract with Taylor Wallis. She is currently in the company law department of the firm and Greg Harrison is her supervisor. Greg is explaining the concepts of shares and share capital to her.

'Clients often ask about the different share capital values that there are. It's quite difficult to explain, especially if the clients are from another country where they don't have the same sort of capital values. First, let's just go through the different share values. The **market value** of a share is the amount that a share is worth when it is sold on the open market. It is usually the amount a buyer pays for the share. That value fluctuates, meaning it varies, depending on how well the company is performing. The **nominal value** of the share stays constant – it is fixed for each company. The nominal value is the minimum price at which a share can be sold when it is first issued. The most common nominal value for a share in the UK is £1. Now, let's say a company is performing very well, and I want to buy some shares. I pay £6 for each share. So the market value is £6 and the nominal value is £1. That leaves a difference of £5 and we call that the **premium**.

Now let's look at share capital values. In the UK, any company incorporated before 1 October 2009 had to decide on the amount of its **authorised share capital**. This referred to the quantity and nominal value of shares that a company was allowed to issue.

This figure appeared in a company's memorandum of association. For a company incorporated on or after 1 October 2009 there is no longer any requirement for it to have an authorised share capital.

A company's **issued share capital** refers to the quantity and value of shares actually issued to shareholders. Issued means 'given out'. Another word is 'allotted'. The issued share capital is sometimes also called the **nominal share capital**, as it refers to the total nominal value of the shares that have been issued and not their market value. Before it can start to trade, a public limited company must have allotted shares to the nominal value of £50,000. The shareholders of the company do not have to pay for the total amount of their shares at the time they receive them, but in a public limited company they must pay for at least a quarter of the nominal value of all their shares at that time. In addition, they have to pay any premium on the share.

Going back to my example, if a share with a nominal value of £1 is sold for £6 then the premium is £5. This premium must be paid to the company together with a minimum of a quarter of the nominal value of each share. So, £5 plus £0.25 makes a total payment of £5.25.'

Look at the following information and answer the questions below.

Highgrave plc was incorporated in April 2009. Its memorandum states:

'The company's share capital is £300,000 divided into 300,000 ordinary shares of £1.00 each'

The company's balance sheet says:

Share capital 200,000

Share premium account 160,000

- What is the authorised share value of the company? _____
- What is the nominal value of each share? _____
- What is the issued share capital? _____
- How much more share capital can the company issue if it wants? _____
- What is the total amount of the premiums that have been received by the company? _____
- Assume that all the shareholders paid the same amount for their shares. Was the premium on each share 8p, 80p, £1 or £1.60? _____

LIMITED LIABILITY PARTNERSHIPS

Exercise 1

Francesca Rodd is writing a short explanation of limited liability partnerships. Her law firm is going to put this information on its website. Read the text and answer the questions that follow using a full sentence.

Limited Liability Partnerships

Limited Liability Partnerships (LLPs) were first introduced in the UK in April 2001. This has become a popular way of structuring a business. This is especially true of professional practices, such as accountancy firms and law firms.

Setting up an LLP involves a similar process to that of setting up a limited company. LLPs are registered at Companies House and the requirements of disclosing information and filing annual returns and accounts are similar to those for companies. The name of the partnership must end with LLP. In the same way that a company has a separate legal personality, so does an LLP. It may sue and be sued in the name of the LLP. The partners of an LLP have the advantage of limited liability, which protects their personal assets. However, an LLP is not taxed as a limited company but as a partnership. Also, an LLP is a more flexible structure than a company, with fewer rules and regulations to comply with.

The partners of an LLP are called members. At least two of those members are chosen to be 'designated members', which are the equivalent of the directors of a company. The 'rules' of the partnership are contained in an agreement, decided by the members.

We can help you decide if an LLP is the right form of business structure for you and prepare the necessary formation and internal documents.

For more information and legal advice on Limited Liability Partnerships, call Francesca Rodd on 08451 2536478 or email her at frodd@hedgsons.co.uk

- When did it become possible to set up a limited liability partnership in the UK?

- Which professions like to use this particular structure for their business?

- What documents do limited liability partnerships have to send to Companies House each year?

- How does someone know that a business is a limited liability partnership?

- How is an LLP taxed?

- How many designated members must a limited liability partnership have?

THE LANGUAGE OF DRAFTING

Exercise 1

Francesca Rodd is acting for some new clients who wish to set up a limited liability partnership. Francesca has drawn up a deed of partnership. The clause below deals with setting up the limited liability partnership. Fill each gap in the clause with the correct preposition from the blue box.

• under • at • with • to • in • of

2. Incorporation

2.1 The Members shall complete and deliver (a) _____ Companies House all such documents and pay all such fees as shall be necessary to lead to the incorporation (b) _____ the LLP (c) _____ accordance (d) _____ the Limited Liability Partnerships Act 2000.

2.2 The certificate of registration of the LLP issued (e) _____ the Limited Liability Partnerships Act 2000 shall be kept (f) _____ the Registered Office.

Exercise 2

Look at the words and phrases in the blue box. Match them with the correct meanings below. You will need these words and phrases to complete the next exercise.

<input type="checkbox"/> ratify (1)	<input type="checkbox"/> take effect (4)	<input type="checkbox"/> benefit (7)
<input type="checkbox"/> prior (2)	<input type="checkbox"/> determine (5)	<input type="checkbox"/> consent (8)
<input type="checkbox"/> subsist (3)	<input type="checkbox"/> indemnify (6)	<input type="checkbox"/> In the event that (9)

a if	d start to operate	g before
b decide	e officially approve	h continue to exist
c good	f pay for any damage suffered	i permission

Exercise 3

Read the clause below. It deals with when the business will begin and how long it will continue. Fill each gap in the clause with the correct word or phrase from the blue box in Exercise 2.

3. Commencement and duration

- 3.1 The the provisions of this Agreement shall (a) _____ on the Commencement Date.
- 3.2 The LLP shall carry on the Business and/or carry on such other or additional trade profession or business as the Members shall from time to time (b) _____.
- 3.3 The LLP shall (c) _____ until wound up in accordance with the provisions of the Limited Liability Partnerships Act 2000.
- 3.4 (d) _____ any Member may be personally liable under any contract entered into by him (e) _____ to the incorporation of the LLP which was for the (f) _____ of the LLP and with the express or implied (g) _____ of the other Members then the LLP shall on incorporation be deemed to (h) _____ that contract and shall (i) _____ that Member from and against all claims, liabilities and costs in connection with it.

Exercise 4

Read the clauses in Exercise 1 and Exercise 3 again and decide if each of the following statements are true or false.

- a It does not cost anything to register a limited liability partnership. ☐ True ☐ False
- b When a new limited liability partnership is set up, it receives a certificate of registration from Companies House. ☐ True ☐ False
- c The members can change the type of business that the limited liability partnership carries out, if they wish. ☐ True ☐ False
- d To end a limited liability partnership, the terms of the relevant statute must be followed. ☐ True ☐ False
- e Clause 3.4 aims to protect the partners from any liability that they may have arising from certain contracts that they signed before the limited liability partnership was officially created. ☐ True ☐ False

USING YOUR KNOWLEDGE

Collocation review

Complete these sentences with a collocation that you have seen.

- a I've _____ all the options available to me and decided to go ahead and start the business.
- b The shareholders were pleased when Gernee plc _____ a dividend, as last year they received nothing.
- c Harrow & Trot plc has just announced that although business _____ following the changes in interest rates, annual profits were up by 11% last year.
- d If the business does badly, I may lose my house as I have _____ liability for all of the debts of the business.
- e We will not _____ information about you to any third parties without your permission.
- f If you do not have a partnership agreement, any disputes will be _____ according to a statute from 1890.
- g I wasn't able to pay my creditors and had no choice but to _____ bankrupt.
- h The company _____ shares to three new members.
- i I've always wanted to own a business, but was a bit worried about it. Two years ago I decided to _____ a risk and start a nursing agency. I'm pleased to say it's doing well.
- j We had a fantastic year last year – we made _____ profits.

Vocabulary review

Complete these sentences with a word that you have seen.

- a We are afraid that your behaviour gives us no choice other than to _____ you from the partnership.
- b I have decided to _____ all my money in a new company called TenBase plc.
- c When a new company is set up, it receives a _____ of incorporation from Companies House.
- d The authorised share capital is £100,000 divided into 100,000 shares with a _____ value of £1 each.
- e Partners have joint and _____ liability for the partnership debts.
- f Their solicitor advised them on the procedure that it is necessary to follow in order to _____ a new company.
- g Another expression meaning a legal person is a legal _____.
- h Each partner is allowed to take out some money from the partnership account each month for his or her personal use. This is called his or her _____.

- i The first shareholders of a company are called the _____.
- j Every company incorporated before 1 October 2009 has an _____ clause in its memorandum of association, which states the purpose of the company.

Preposition review

Complete these sentences with the correct preposition.

- a I want to be a company lawyer as I am very interested _____ commercial and business law.
- b We are a limited liability partnership, which operates like a company but is taxed _____ a partnership.
- c You must submit an annual return and accounts _____ Companies House every year.
- d Our business name appears _____ the list of reputable estate agents.
- e We are a small business, consisting _____ four full-time employees and two part-time employees.
- f You must have _____ least £50,000 share capital to start a public limited company.
- g The object _____ this exercise is to make sure that you can remember the correct prepositions!
- h According _____ the partnership agreement, each partner is entitled to drawings of £500 each month.
- i I authorise you to make this information available _____ Mr Richard Jard.
- j The bank is willing to lend us some money, but it is insisting _____ a personal guarantee from each of us.

TOLES HIGHER EXAM PRACTICE

Exercise 1

Read the following clause. The missing words are in the list below. For each gap choose the word which best fits into the space from the options provided. Use each option only once. Write your answers in the box below. There is an example at the beginning (*).

FROM A PARTNERSHIP AGREEMENT

6. Profits, Losses and Salaries

- 6.1 (*) _____ to the following (1) _____ of this clause the Partners shall (2) _____ the profit for each Partnership Year and (3) _____ any loss for any Partnership Year in the proportions specified opposite their names in column 2 of Schedule 1 hereto.
- 6.2 There shall be paid in each year by way of gross (4) _____ salaries which shall be deemed to accrue from day to day and shall be paid (5) _____ such sums (if any) as are set out opposite the Partners' respective names in the Schedule 2 hereto.

- (AA) Subject (B) monthly (D) annual
(A) share (C) provisions (E) bear

(*) AA	(1)	(2)	(3)	(4)	(5)
--------	-----	-----	-----	-----	-----

Exercise 2

Read the following clause. The missing prepositions are in the list below. For each gap choose the preposition which best fits into the space from the options provided. Use each option only once. Write your answers in the box below. There is an example at the beginning (*).

FROM A LIMITED LIABILITY PARTNERSHIP AGREEMENT

10. Drawings

- 10.1 There shall be paid to each Member (*) _____ the Payment Date (1) _____ each Month the Drawings or such other sum as the Members may (2) _____ time to time agree (3) _____ respect either of all Members or such Members as may thus be determined.
- 10.2 Any further payments to be made to or on behalf of any Member and any assets to be transferred to or (4) _____ the benefit of any Member shall only be made, transferred or applied (5) _____ the consent of the Members.

- (AA) on (B) with (D) for
(A) from (C) of (E) in

(*) AA	(1)	(2)	(3)	(4)	(5)
--------	-----	-----	-----	-----	-----

Exercise 3

Read the text below and think of the word that best fits each space. Use only one word in each space. Write your answers below. There is an example at the beginning (*).

Companies

There are several different types of company in England, but the most common are the private limited company and the (*) _____ limited company. The name of a private limited company must end with 'Ltd' or 'limited' and a public limited company's name must end with 'plc', so you will always know what type of company it is just by looking at its name. A company is an (1) _____ business. This means that it has its own separate legal personality. Lawyers call it a legal (2) _____. Both types of company must be registered at Companies House. That is the central registry of companies. There are over 2.3 million registered companies in the UK. Every company has its own file at Companies House and anyone can look at the file to find out information about the company. You may like to visit the website of Companies House for more information. The web address is www.companieshouse.gov.uk.

The 'owners' of a company are called the (3) _____ or the shareholders. This means that they own shares in that company. A share is a part of the company's capital. A private company cannot offer shares in the company to members of the public, but a public limited company can do this.

A private limited company can have any number of shareholders. It is very common to have a private limited company with just one shareholder. In this case, the company is called a (4) _____-member company. A public limited company must have a (5) _____ of two shareholders, but usually has a lot more. Another big difference between the two types of company is the amount of share capital that the companies must have in order to incorporate and register them. Someone may register a private limited company with a very small amount of share capital, maybe only £1, but in order to register a public limited company it must have a substantial amount of share capital. This amount varies, but at the moment it is £50,000. The shareholders of a company have (6) _____ liability, in other words they will not lose any more than the nominal value of their shares.

When someone wants to incorporate a new company they must (7) _____ certain documents at Companies House. There are two very important documents that every company has. These are the (8) _____ of association and the articles of association. For companies incorporated on or after 1 October 2009 the first document is a short document which contains the names and signatures of the subscribers who are forming the company, together with their commitment to take at least one share each in the company. The articles of association set out the internal (9) _____ of the company.

There are a lot of statutory regulations that a company must (10) _____ with. The most recent legislation that governs companies in England and Wales is called the Companies Act 2006.

Example (*) public

(1)	(6)
(2)	(7)
(3)	(8)
(4)	(9)
(5)	(10)



Listening

Exercise 4

Listen to what Paul Evans says about setting up his business and answer the following questions.

1 Why did Paul Evans leave his previous job?

2 Paul calculated how long he could live without earning any money. How long did he decide?

3 What type of business structure did Paul choose to set up?

4 What did Paul consider buying from a company formation agent?

5 What is the name of Paul's company?

6 Who are the directors of the company?

7 Does the secretary of the company currently work as a lawyer?

8 Paul talks about two share capital values. One is the authorised share capital. What is the other?

9 Where is the registered office of Paul's company?

10 What did Paul receive from Companies House four months ago?
