

**TRIMESTER 1, 2015**

**ACC704 - Companies & Securities Law**

**Assessment 2**

**Research Assignment:** 30%

**Length:** 2500 ± 10% words

**Due Date:** Week 10 – 5pm Friday 29 May 2015

**Submission:** Electronic submission – Word .doc or .docx to be uploaded to Turnitin plus hard copy submission to Lecturer with Turnitin Originality Report attached.

The board of directors of LP Pty Ltd (LP) is made up of six individuals (Andy, Brian, Chris, David, Evan and Faith) all with differing degrees of education and experience. Andy manages the company's day-to-day operations. LP is a company that makes children's costumes. Given the downturn in the economy and entry of new companies into the market, competition is becoming increasingly difficult. The directors feel that it would be prudent to restructure its operations to reduce costs so as to become more competitive. Andy also thinks that LP should move to larger premises in a different area. Without consulting the other directors, he starts looking for new premises and he decides the first place he inspects is perfect, although the price is more than LP can comfortably afford. Andy does not think this will be a problem, because there is no competition nearby and he expects that profits will recover immediately. Andy calls a board meeting and tells the other directors that moving will solve all the company's problems and that this property he has seen is absolutely perfect for LP. He says they will have to act quickly as there is another interested purchaser. Andy does not tell the other directors that he only looked at this one property. He is so enthusiastic that the other directors agree to the proposal even though the other directors are doubtful, feeling that they are being rushed into making a decision without being given time to consider other alternatives. The other directors agree to Andy's proposal without really understanding the financial implications. LP purchases the new premises. During this time, the board of directors also appoint a business operations consultant to suggest the best way to organise the different departments and operations in the company. After a few weeks, the operations consultant prepares the report and submits it to the board of directors of LP for review. Three of the directors (Andy, Brian and Chris) read the consultant's report and support it completely. These three directors have a business background and business degrees from Sydney University. The two other directors (David and Evan) do not read the report but adopt it on the advice of the first three directors. These two directors have no formal education past High School and have no business background. The last director (Faith) reads the report and realises that it is poorly prepared, full of spelling mistakes and makes ridiculous recommendations like: 'LP should consider organising its operations in alphabetical order because it's more pretty that way'. This director does not support the adoption of the consultant's report. After the move to the larger premises and the changes are adopted, LP unsurprisingly becomes more dysfunctional, loses lots of money and eventually has to be wound up. Advise on the liability of the directors in relation to the reorganisation and purchase decisions taken.