

E-Mail to Candidate

From: Partner
Sent: Today's date
To: Candidate
Subject: Laurie Peters – Trading Difficulties

I need you to take my place at a short, but important, meeting this morning. Unfortunately, I have to deal with an urgent issue on another matter and so I need you to stand in for me to see a client in financial difficulties.

We have acted for Laurie Peters (LP) for several years. LP was previously a session musician but several years ago decided to start up a new business. LP is now a sole trader trading under the name "Vinyl Curtain" (VC). At the time the new business was set up, I did advise the client to think about incorporating but LP was most keen to avoid the "hassle" of having to file documents at Companies House and making accounts public.

VC is an independent music retailer specialising in vinyl and collectors' editions of classic rock and pop albums. VC has a high street shop in Earlsfield, South West London. As for many small retailers, business has been tough for the past few years. Many of the small shops on Earlsfield High Street have been boarded up and so passing custom has reduced. LP had hoped that the demise or difficulties of major retailers such as Zavvi and HMV might have worked to the advantage of VC, but there has been no discernible increase in trade. In fact, trade has continued to dwindle now that so many people shop over the internet.

LP will be here in 45 minutes and needs some advice on the following issues:

- LP has not paid one of VC's regular suppliers for its last delivery of records and CDs. The supplier is owed £4,200. The creditor, Classic Collections Ltd, is getting very impatient and has threatened to make LP bankrupt if it is not paid in full immediately. LP does not have access to this kind of sum and is already in danger of exceeding the overdraft limit agreed with the bank. Last year, LP asked for this to be increased but the bank refused.
- Unless there is a last minute surge in sales, LP will be unable to pay the next instalment of rent on the shop. LP has never been in arrears before and has not spoken to the landlord about the current difficulties.
- Three months ago, LP acquired a state of the art coffee machine, having got the idea from book retailers who provide free coffee to encourage customers to browse and get engrossed in a book making it more likely that they might purchase it. However, although LP has had plenty of takers for the free coffee, most people then leave without making a purchase. LP had agreed to purchase the coffee machine for £1,400 payable in 10 equal instalments. LP has not paid the last two instalments and has received a letter from the supplier stating that unless these are paid immediately, it will exercise its retention of title clause and repossess the machine.

However, my concern is that LP is focussing on the individual issues at the expense of the bigger picture. I think it is essential that LP face the fact that he/she may now be trading while insolvent. LP needs to be aware of the consequences of this for him/her personally and strongly advised to seek advice from an insolvency practitioner. I am afraid that he/she will not want to hear this so you need to think about how you present this.

LP is obviously feeling under pressure and has told me he/she can only spare 15 minutes to see us today. LP is expecting you to make a presentation about the issues so that these can be reflected upon afterwards.

Attached are some notes that I took whilst on the phone to LP yesterday.

Thanks

Partner

Note to Candidates

This exercise requires you to provide the client with oral advice regarding his/her situation and is not an interview with the client. If the client asks a question you should answer it as appropriate but do not expect to engage the client in conversation.

Notes from telephone call two days ago

Client:	Laurie Peters (LP) trading as "Vinyl Curtain"
Core business:	Record/CD sales through leasehold premises on Earlsfield High Street. LP runs the shop pretty much single handed although LP's girlfriend helps out now and again.
Other business:	LP still does occasional work as a session musician to make some extra cash.
Personal Assets:	LP rents a flat in Tooting with LP's girlfriend. They have a car worth approximately £800. They have no savings to speak of.
Business Assets:	As stated elsewhere, the premises are leasehold and the coffee machine is subject to a retention of title clause. The most valuable asset is the stock of records and CDs which have an estimated value of £35,000. The shop fittings were second hand when LP bought them and their value is negligible.
Bank:	LP has no secured loans but has an overdraft facility of £5,000 with Lloyds TSB. This limit has already been reached.
Other Liabilities:	In addition to the overdraft LP has credit card debts of approximately £2,000.
Client's concerns:	LP is passionate about the shop and wants to continue trading. However, LP is worried that this cannot happen unless it is possible to fight off Classic Collections Ltd.'s threat of bankruptcy.