COUNCIL OF LEGAL EDUCATION

NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE

SECOND YEAR SUPPLEMENTARY EXAMINATIONS, 2010

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(WEDNESDAY, AUGUST 18, 2010)

Instructions to Students

(a) Time: **3 ½ hours**

(b) Answer **FIVE** questions, not more than **THREE** from any part.

(c) **Answer Part A and Part B on separate answer booklets.**

(d) In answering any question, a candidate may reply by reference to the law of any Commonwealth Caribbean territory, **but must state at the beginning of the answer the name of the relevant territory**.

(e) It is unnecessary to transcribe the questions you attempt.

(f) Answers should be written in ink.

(g) Calculators may be used.

PLEASE REMAIN SEATED UNTIL YOUR SCRIPT HAS BEEN COLLECTED.

PART A

LAW OFFICE MANAGEMENT AND TECHNOLOGY

QUESTION 1

(a) Identify five (5) types of risk to which a law firm is exposed and give examples of each.

(b) Summarise the common procedures and best practices of effective risk management and how they improve the performance of a law firm.

QUESTION 2

It is said that the best predictor of someone's performance is his or her motivation.

Choose a theory of motivation for the understanding of human behavior and utilize same to explain how you would seek to motivate people in a law firm to perform to the best of their abilities.

QUESTION 3

A careful business plan, while it does not guarantee success, can reduce the chances of failure.

Comment with reference to the critical components of a business plan.

QUESTION 4

Use a management tool of your choice to show how it can assist in understanding and improving a law firm's performance.

QUESTION 5

Outline the key issues and/or best practices in a law office with respect to **ANY ONE** of the following -

(a) characteristics of good teamwork; or

(b) the components of an effective compensation system; or

(c) (i) the advantages derived from good accounting practices; and

(ii) what monies must, need not, and must not be paid into a client's trust account?

PART B

ACCOUNTING

QUESTION 6

According to the Cash Book of Rolyns Development Limited the company has a debit balance of $380,000 on March 31, 2010, but this is not borne out by the bank statement for the same period which had a credit balance of $588,300. An investigation into the difference yields the following information:

(i) A standing order for a charitable subscription of $40,000 had been paid by the bank on March 29 but no entry had been made in the cash book.

(ii) A cheque paid for advertising on March 10 for $15,000 had been entered in the cash book as $51,000.

(iii) Cheques for $103,700 sent to creditors on March 30 were not paid by the bank until April 6.

(iv) Lodgements of $100,000 were made on March 31 but were not credited by the bank until April 1.

(v) On March 20 a cheque for $11,400 was received from a customer in settlement of an invoice for $12,000 and lodged in the bank. An entry of $12,000 had been made in the cash book.

(vi) Included with the March statement was a cheque for $1,800 received from Howard Williams a customer of Rolyns Development Limited. This cheque was marked NSF - Not Sufficient Funds. The credit entry on the bank statement has been reversed but the reversal has not been made in the cash book.

(vii) A cheque belonging to Rolons Limited was returned in the batch of returned cheques of Rolyns Development Limited. When the Accounting Clerk at Rolyns

Development Limited perused the bank statement it was discovered that the cheque amount of $6,000 was debited on the statement.

(viii) Bank charges of $3,000 were not entered in the cash book of Rolyns Development Limited.

(ix) Proceeds of a bank loan amounting to $220,000 were reflected in the bank statement for March but have not been recorded in the cash book.

Required:

(a) Prepare the Bank Reconciliation Statement at March 31, 2010.

(b) What are some of the factors which may give rise to the disagreement between the balance as per cash book and balance as per bank statement?

(c) What is the purpose of the bank reconciliation statement?

QUESTION 7

Victoria Aubergine has just graduated from Stanford University with an MBA in Finance. She has been employed by a leading retail house in the region as the Budget Analyst. Her first assignment is to prepare the budget for the second quarter of the year. The following Balance Sheet represents the assets, liabilities and equity as at March 31, 2010.

Fixed Assets	$M	$M
Land		60.00
Plant & Machinery at cost	75.00	
Less Accumulated Depreciation	30.00	
Net Book Value		45.00

		$M	$M
Motor Vehicles at Cost		60.00	
Less Accumulated Depreciation		18.00	
Net Book value			42.00
Total Fixed Assets			**147.00**
Current Assets			
Inventory		56.00	
Debtors		30.00	
Investments		200.00	
Cash at Bank		76.00	
		362.00	
Less Current Liabilities	$M		
Trade Accounts Payable	16.00		
Accrued admin expenses	8.00		
		24.00	
Net Current Assets			**338.00**
			485.00
Share Capital	200.00		
General Reserves	250.00		
Retained Earnings	31.00		
Total Equity	481.00		
Long- term Liabilities			
Mortgage	4.00		
			485.00

(a) The company has the following policy with respect to its customers. 70% of the sales in a given month is collected in that month and 30% in the following month. A 5% discount is granted on cash sales collections. The following sales were generated:

April	\$70.00M
May	\$74.00M
June	\$84.00M

(b) The following purchases are expected to be made -

April	\$56.00M
May	\$60.00M
June	\$52.00M

The company has successfully negotiated two months credit from its suppliers along with a 10% discount. The trade accounts payable is to be paid in May.

(c) It is expected that the directors of the company will inject capital of \$186.00M in the business in April.

(d) The company is expected to pay off the outstanding mortgage in June.

(e) The directors have agreed to the purchase of a residence for the Managing Director for \$45.00M in Jacks Hill. This is to be paid for in May.

(f) It is expected that the official residence of the Managing Director will be refurbished and landscaped at a cost of \$25.00M. The refurbishing exercise is expected to take five months and is scheduled to begin in June. In that month 80% of the proposed cost of refurbishing is to be disbursed to Interior Decorators Incorporated. The remainder will be paid when the job has been satisfactorily completed.

(g) The company has retained the services of the legal firm Hercules McGregor & James and have agreed to pay a retainer of \$15.00M in April.

(h) The company is to receive interest income of \$5.00M quarterly on its investment in Government paper in December, March, June and September.

(i) The company is to receive commissions of \$30.00M in the following manner -

April	\$12.50M
May	\$10.00M

June $7.50M

(j) The directors plan to declare dividends of $35.00M in April and pay it in June. In addition the directors have agreed to transfer $10.00M from the profit and loss appropriation account to the general reserves of the company in July.

(k) The Government has approached the company about purchasing a Great House in an exclusive section of St Ann. The directors plan to purchase the property for $75.00M and have justified the acquisition of the property on the grounds that it is expected to increase shareholder value in the medium to long-term by capital gains derived from appreciation in the value of the property. The disbursement will take place in two tranches $15.00M in February 2011 and $60.00M in February 2012.

(l) Administrative expenses are $10.00M monthly and are paid one month after being incurred. This figure includes monthly depreciation of $2.00M.

Required:

(a) Prepare a cash budget for the quarter ending June 30, 2010.

(b) What are some of the strengths and weaknesses highlighted in the information used to prepare the budget?

(c) What are some of the limitations of cash budgeting?

<u>QUESTION 8</u>

Road and Street operate a food outlet in partnership. The first financial year ended on March 31, 2010.

The following balances were taken from the books on that date -

Capital	$6,000,000 Road
Capital	$4,800,000 Street

Partnership salaries:

Road	$900,000
Street	$600,000

Drawings:

Road	$128,600
Street	$134,000

Current Account Balance at April 1, 2009

Road	$100,000(Debit)
Street	$125,000(Credit)

The partnership's net profit for the year was $3,284,000.

Interest on capital is to be allowed at 10% per year.

Profits and losses are to be shared equally.

Required:

(a) From the information above prepare the firm's appropriation account and the partners' current accounts at March 31, 2010.

(b) What do the debit and credit balances in the current accounts of Road and Street respectively at April 1, 2009 mean?

(c) In partnership accounts why is -

(i) interest allowed on capital;

(ii) interest charged on drawings

QUESTION 9

The following trial balance relates to Osprey Jones at March 31, 2010 -

	$M	$M
Wages & Salaries	29.00	
Insurance expenses	0.90	
Discount allowed	1.00	
Utilities	1.50	
Office expenses	1.00	
Bad debts	0.90	
General expenses	2.50	
Stationery & Printing	3.00	
Travelling expenses	5.00	
Entertainment	4.00	
Interest expenses	12.00	
Purchases	352.57	
Opening Stock	250.00	
Sales returns	5.00	
Land & Buildings at cost	700.00	
Plant & Machinery at cost	150.00	
Computer equipment at cost	40.00	
Motor Vehicles at cost	12.00	
Debtors	900.00	
Short- term investments	100.00	
Cash at Bank	9.00	
Cash in hand	0.03	

	$M	$M
Sales		995.00
Investment Income		10.00
Discount Received		5.00
Commission Received		8.00
Rental Income		1.00
Provision for depreciation:		
Buildings		180.00
Plant & Machinery		45.00
Computer equipment		8.00
Motor Vehicles		2.40
Trade Accounts Payable		250.00
Short- term loan		150.00
Capital		999.00
Provision for bad debts		6.00
Drawings	80.00	
	2659.40	**2659.40**

(i) The closing stock is $150.00M.

(ii) Mr Jones withdrew goods valued at $2.57M for his personal use.

(iii) The following amounts were owing at March 31, 2010:

Wages and salaries	$1.00M
Office expenses	$1.00M

(iv) Investment income receivable amounts to $5.00M.

(v) Prepaid insurance at March 31, 2010 is $0.30M.

(vi) Provision for bad debts represents 1% of debtors.

(vii) Osprey Jones uses the straight line method of depreciation.

Asset	**life of asset**
Building	30 years

Plant & Machinery	10 years
Computer equipment	5 years
Motor Vehicles	5 years

Land is valued at $100.00M

Required:

(a) Prepare the Trading and Profit & Loss account for Osprey Jones for year ended March 31, 2010.

(b) A Balance Sheet as at March 31, 2010.