COUNCIL OF LEGAL EDUCATION

NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE

SECOND-YEAR SUPPLEMENTARY EXAMINATIONS, 2006

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(AUGUST 2006)

Instructions to Students

(a) Time: **3 ½ hours**

(b) Answer **THREE** questions from Part A and **TWO** from Part B.

(c) **Answer Part A and Part B on a 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

Outline:

(a) The concept and elements of risk management;

(b) The procedures and best practices which facilitates effective risk management within a law firm.

QUESTION 2

Identify and discuss:

(a) The essentials and common mistakes of business plans;

(b) The relevance of a well crafted business plan to the success of a law firm.

QUESTION 3

Summarize the criteria and considerations which should be taken into account in:

(a) Designing a compensation policy for a law firm;

(b) Appraising both professional and non-professional staff in a law firm.

QUESTION 4

Proudfoot, Probity and Weasel, a law firm, operates a mixed practice which includes litigation ad a broad range of commercial work. John Weasel is the senior litigation partner. Alice Tenderhook is the senior commercial as well as managing partner. The third partner of the firm, Josephine Fox, is on three years study leave as stated on the firm's letter head. Gloria Gemstone is the long serving office manager and an authorized signatory on the firm's bank accounts.

The firm has recently been assessed by the tax authorities for arrears of taxes exceeding $10 million dollars. This compromises shortfalls on statutory deductions which Ms. Gemstone had failed to remit when due, penalties and interest. The authorities are insisting that at lest 50% of the assessment must be paid within thirty (30) days before it will consider any arrangements to pay otherwise there will be no concessions at all and legal action will be taken.

Alice is beside herself. The 50% payment of $5 million is not part of the firm's projected cash flow and any additional bank loans are out of the question. The firm has carriage of sale for Corkscrew Developers Ltd. with respect to its 'Dreamland' townhouse project and Alice is the supervising partner. Certificates of completion have been issued for the units and she anticipates payment of the balance purchase price and costs within six weeks in exchange for title. Completion of these sales will result in the firm earning substantial fees which will enable it to pay the 50% arrears demanded by the authorities.

Alice, in anticipation of the inflows from the Dreamland project, instructs Gloria to identify those clients' accounts to the value of $5 million on which work has been done but not yet billed as well as any other clients' accounts whose funds will not require payout for at least six weeks. Gloria's research shows a split of approximately half to the former and half to the latter categories of clients.

Gloria debits the respective client ledgers for fees for work done and in particular Corkscrew's account 'fees due and forthcoming in respect of balance purchase price and costs owing on Dreamland units". Both Alice and Gloria sign a cheque on the firm's client trust account for the sum of $5 million payable to the tax authorities.

John is aware of the assessment and that Alice has managed to ensure compliance but is engaged in a difficult libel case and does not concern himself with the details. In any event he defers to Alice and Gloria in such situations as they always seem to pull a rabbit out of the hat.

Before expiry of the six weeks poor quality cement caused cracking to the structures of some of the Dreamland townhouses. The attorneys for the majority of the purchasers refuse to pay over the balances until all defects are remedied and inspected again. This will take several months. The inflows Alice was anticipating to cover the funds drawn from the client's trust account are no longer immediately forthcoming.

Mary Shylock, a client of the firm, is unable to obtain prompt payment of funds due to her plus interest on her deposit with the firm. She lodges a complaint with Bar Council with respect to the firm's handling of its trust funds and files suit for the sums due to her. By the time of the hearing, Mary is repaid the majority of her principal but no interest. The court claim is still pending.

Advise Proudfoot, Probity and Weasel of the legal principles and facts which should guide the disciplinary committee of the bar Council and the court in a proper consideration of the complaint and claim against the firm making reference to any relevant case law and the likely outcome.

QUESTION 5

Outline:

(a) The concept of partnership and the essential terms of a partnership agreement for a law firm;

(b) The qualities which identify a role mode professional person.

PART B

ACCOUNTING

QUESTION 6

The following trial balance was prepared for B. Brown at December 31, 2004

	$	$
Opening Stock	750,000	
Purchases	3,750,000	
Carriage In	25,000	
Sales Returns	150,000	
Insurance	100,000	
Rent	150,000	
Miscellaneous Expenses	7,500	
Stationery	92,500	
Plant & Machinery at Cost	1,750,000	
Building	3,000,000	
Equipment	4,000,000	

Fixtures & Fittings	2,500,000	
Motor Vehicles	1,500,000	
Accounts Receivables	4,500,000	
Short-term Investments	2,625,000	
Cash at Bank	5,000	
Cash in Hand	1,000	
Drawings	37,500	
Utilities	75,000	
Salaries	250,000	
Carriage Out	4,000	
Discount Allowed	2,500	
Provision for Bad Debts		500,000
Provision for Depreciation (Plant & Machinery		700,000
Provision for Depreciation (Buildings)		100,000
Provision for Depreciation (Equipment)		1,600,000
Provision for Depreciation (Fixtures & Fittings)		1,000,000
Provision for Depreciation (Motor Vehicles)		600,000
Sales		13,500,000
Purchases Returns		50,000
Capital		4,675,000
Discount Received		50,000
Bad Debt Recovered		500,000
Accounts payable		2,000,000
	25,275,00	**25,275,000**

The following items are to be accounted for:

(a) Stock at September 30, 2004 is valued at $750,000.

(b) Provision for bad debts is expected to be 10% of Accounts Receivable.

(c) The company uses the straight line method for depreciation the following rates are applicable:

Plant and Machinery	20%
Buildings	3%
Equipment	20%
Fixtures and Fittings	20%
Motor Vehicles	20%

(d) The proprietor withdrew goods valued at $75,000 for his personal use.

(e) The following amounts are owing at December 31, 2004

Utilities	$6,250
Rent	$12,000

(f) Insurance amounting to $10,000 has been prepaid.

Required:

(i) Prepare the Trading and Profit and Loss account for the year ended December 31, 2004.

(ii) Prepare the Balance Sheet as at December 31, 2004

QUESTION 7

Brown and Smith operate a supermarket. The following information relates to the partnership for the year ended December 31, 2004

	$
Capital (Brown)	4,000,000
Capital (Smith)	4,500,000
Partnership Salaries	
Brown	150,000
Smith	200,000
Drawings	
Brown	125,000 (July 1, 2004)
Smith	325,000 (October 1, 2004)

Interest on Drawings 10% per annum

Interest on Capital 8% per annum

Profit and losses are to be shared equally between the partners.

The firm's net profit for the year was $9,137,500

Current Account balances at January 1, 2004

Brown	$425,000 (Debit)
Smith	$310,000 (Credit)

Brown and Smith made drawings on July 1, 2004 and October 1, 2004 respectively.

Required:

(i) Prepare the Profit and Loss appropriation account for the year ended December 31, 2004.

(ii) Prepare the Current Account balances of Brown and Smith at December 31, 2004.

(iii) Why would a partnership charge interest on the funds withdrawn from the Partnership by the partners?

(iv) List the accounting content of a partnership agreement.

QUESTION 8

The bank columns in the cash book for February 2006 and the bank statement for that month for B. Chisholm are as follows:

2006	Dr	$	2006	Cr	$
Feb 1	Balance b/d	11,895	Feb 5	D. Blake	750
Feb 7	B.Green	790	Feb 12	J.Gray	2,165
Feb 16	A.Silver	465	Feb16	B.Stephens	440
Feb27	M.Brown	1,535	Feb 28	Orange Club	285
Feb 28	K.Black	3,120	Feb 28	Balance c/d	14,165
		17,805			17,805
Mar 1	Balance b/d	14,165			

Bank Statement

2006		**Dr**	**Cr**	**Balance**
		$	**$**	**$**
Feb 1	Balance b/d			11,895
Feb 7	Cheque		790	12,685

Feb 8	D.Blake	750		11,935
Feb 16	Cheque		465	12,400
Feb 17	J.Gray	2,165		10,235
Feb 18	B.Stephens	440		9,795
Feb 27	Cheque		1,535	11,330
Feb 28	Standing Order	220		11,110
Feb 28	Johnson's trader's credit		450	11,560
Feb 28	Bank charges	350		11,210

The standing order reflected on the Bank Statement on February 28, 2006 relates to the payment of insurance premiums.

Required:

(i) Update the cash book.

(ii) Prepare the Bank Reconciliation as at February 28, 2006.

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

QUESTION 9

Mandara Limited has employed Gisele Laronde who has just graduated from Mona School of Business with an MBA as a Budget Analyst. Her first assignment is to prepare a cash budget for the quarter ending September 30, 2007. The following items are to be used to inform the preparation of the budget.

(a) The following sales represent forecasted sales

	$
July	3,000,000

August	4,000,000
September	6,000,000

The company has the policy of allowing 90% of its sales as credit sales. The customers pay 1 month after the sale. 10% of the sales represent cash sales.

(b) The company negotiates with its suppliers two months credit on 40% of its purchases.

The remainder represents cash purchases. The following purchases were made during the quarter:

	$
July	1,800,000
August	2,400,000
September	3,600,000

(c) Monthly overheads of $400,000 are incurred, included in this figure is depreciation of $80,000. Overheads are paid on a monthly basis.

(d) The directors have agreed to inject capital of $26,000,000 in August.

(e) The company has decided to pay dividends of $1,000,000 to its shareholders in September.

(f) As a part of the company's policy of fiscal prudence the company has decided to invest $13,000,000 in Government Paper in September.

(g) Monthly salaries of $500,000 are paid when incurred.

(h) The company expects to receive dividends of $3,000,000 from Oakton Holdings Limited in July.

(i) The company purchased computer equipment in August costing $600,000, 50% of the cost is to be paid immediately and the remainder one month later.

(j) Company profit tax of $2,400,000 is to be paid in March, June, September and December.

(k) The company plans to repay the balance on its loan with Federated Commercial Bank. The outstanding principal is $5,000,000 and the interest accruing is $100,000. It is expected that principal and interest will be repaid in August.

(l) The balance of cash on July 1, 2007 is expected to be $2,400,000.

Required:

(i) Prepare a cash budget for the quarter ending September 30, 2007.

(ii) What comments could be made about the cash flows as outlined above.

QUESTION 10

The comparative Profit and Loss and Balance Sheet are outlined below for Astaphan Limited.

	2004	**2003**
	$M	$M
Sales	980.00	650.00
Less Cost of sales	735.00	520.00

Gross Profit	245.00	130.00
Less Expenses:		
Selling and Distribution	30.00	20.00
Administration	60.00	50.00
Interest	8.00	6.00
Net Profit before tax	147.00	54.00
Less Taxation	49.00	18.00
Net Profit after tax	98.00	36.00
Transfer to reserves	40.00	16.00
	58.00	20.00
Less Dividends	15.00	5.00
Retained Profits	43.00	15.00

Astaphan Limited

Balance Sheet

As at December 31, 2004

		2004		**2003**
	$M	**$M**	**$M**	**$M**
Net Fixed Assets		48.00		50.00
Current Assets				
Stock	98.00		52.00	
Net trade debtors	172.00		48.00	
Cash at Bank	63.00		60.00	
Cash in hand	2.00		1.00	
	335.00		161.00	
Less Current Liabilities:				
Net trade payables	60.00		30.00	

Bank Overdraft	34.00		17.00	
Net Current Assets		241.00		114.00
		289.00		**164.00**

	2004	2003
	$mn	**$mn**
Capital	169.00	
127.00		
Reserves	59.00	
19.00		
Retained Profits	61.00	
18.00		
	289.00	**164.00**

Closing Stock at December 31, 2002 is $100.00mn

Required:

Compute the following ratios for the years 2003 and 2004.

(i) Gross Profit Margin;

(ii) Net Profit Margin;

(iii) Times Interest Earned;

(iv) Current Ratio;

(v) Acid Test Ratio;

(vi) Stock Turnover;

(vii) Fixed Asset Turnover.