

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE
SECOND YEAR SUPPLEMENTARY EXAMINATIONS, 2015

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(AUGUST 13, 2015)

Instructions to Students

- (a) Time: 3½ hours
- (b) Answer **FIVE** questions, but 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 black or dark blue ink.
- (g) Calculators may be used and are provided.

PLEASE REMAIN SEATED UNTIL YOUR SCRIPT HAS BEEN COLLECTED.

PART A

LAW OFFICE MANAGEMENT AND TECHNOLOGY

QUESTION 1

Gerald is a recent graduate of the National Law School. He has not had an offer of employment from any of the firms or companies to which he has applied, and accordingly, intends to set up a legal practice on his own.

Gerald has the option of working from his family home, which is occupied only by his mother, a nurse, and him. He is trying to work through the issues that he should consider and address if locating his practice at home and has come to you for advice on the matter.

Advise Gerald.

QUESTION 2

Garner and Croft is an old established firm in your jurisdiction. You have been fortunate enough to secure employment with the firm as an associate.

Although the older and more influential partners in the firm are very old-fashioned and practise in a very conservative way, the younger partners and the associates exhibit some impatience with this approach. Nowhere is it more contentious than in the area of promoting the firm within the jurisdiction.

The older partners completely reject any form of marketing, clinging to the “old wisdom” that the best advertisement for a law firm is a satisfied client. So far, the efforts of the younger set to sway them in discussions at meetings have been futile. They are becoming increasingly anxious that, if nothing is done, the firm will fade into oblivion, given the increasing

competition from new firms with no compunction about promoting themselves and their services.

Hubert Gordon, your supervising partner, and one of the younger partners in the firm, is preparing a paper to submit to the managing partner, for discussion at the next partners' meeting. He wants to include in the paper specific marketing strategies which the firm could use, which would be effective but would not breach the rules on advertising or detract from the dignity of the profession or the firm. He has asked for your help in identifying suitable strategies and wants a memorandum from you on the matter.

Prepare the memorandum to Mr. Gordon.

QUESTION 3

Himmens, Stoke and Associates is a small law firm in your jurisdiction. The firm has a specialist practice in civil litigation but also does some white-collar criminal litigation and conveyancing. You are an associate at the firm.

Henley Himmens, the managing partner, is on a drive to put the firm on a sound administrative footing. He has asked you to advise him on the key components of the systems which the law firm should implement to ensure that:

- (i) the firm does not find itself in breach of its duties with respect to avoiding conflicts of interest; and
- (ii) the risk of the firm suffering loss as a result of professional negligence is minimized.

Advise Henley Himmens.

QUESTION 4

You have started practice as a junior associate of Jacob Barnabas, a very senior attorney-at-law in your jurisdiction. From your review of a few of his files, you have noticed that the same letter appears on each one at the start of the matter. Mr. Barnabas' secretary refers to it as their "retainer letter".

The letter reads as follows,

"Dear _____,

Re: Your Matter

I refer to our meeting on [date] and acknowledge receipt of your cheque for the deposit on account of fees.

I look forward to being your counsel in this matter and to a mutually satisfactory relationship.

Yours faithfully,

Jacob Barnabas"

Write a memorandum to Mr. Barnabas making suggestions on how this letter might be improved and making a case for the inclusion of each suggestion made.

QUESTION 5

Masters, Minto and Minott is an old established law firm in your jurisdiction. After doing fairly well for many years, the firm has been struggling to earn revenue over the last two years. This is probably due, in part, to a general shortage of legal work but there seem to be other factors at play. The matter is of concern to the associates employed to the firm who believe that poor revenue management might be one such factor.

The associates have decided to raise the issue at the next meeting of partners and associates. One of them, Petunia Flowers, has asked you to assist her by identifying the areas in which improvement might be needed, if indeed poor revenue management does exist within the firm.

Prepare an email to Petunia:

- (i) identifying the areas in which improvement might be needed;
- (ii) giving your rationale for putting them forward as critical to the issue of revenue management; and
- (iii) indicating the correct approach which should have been taken in respect of each one

PART B
ACCOUNTING

QUESTION 6

The following Trial Balance is presented for Wessex Limited at June 30, 2015

	\$mn	\$mn
Opening stock	60.00	
Purchases	430.00	
Sales returns	15.00	
Carriage inwards	6.00	
Miscellaneous expenses	2.00	
Wages and salaries	50.00	
Insurance	28.00	
Carriage out	4.00	
Security expenses	9.00	
Utilities	20.00	
Stationery	4.00	
Discount allowed	6.00	
Bad debts	9.00	
Motor expenses	1.00	
Postage	1.00	
Interest expense	5.00	
Drawings	4.00	
Plant and machinery	155.00	

Motor vehicles	150.00	
Trade debtors	100.00	
Cash at bank	140.00	
Cash in hand	1.00	
Computer equipment	100.00	
Buildings	760.00	
Land	195.00	
Short-term investments	70.00	
Sales		995.00
Purchases returns		5.00
Investment income		12.00
Bad debt recovered		16.00
Provision for bad debts		15.00
Capital		902.00
Provision for Depreciation:		
Plant and machinery		62.00
Motor vehicles		30.00
Computer equipment		40.00
Buildings		57.00
Mortgage		125.00
Trade creditors	<u> </u>	<u>66.00</u>
	<u>2,325.00</u>	<u>2,325.00</u>

The following additional information was also available at June 30, 2015.

- (i) Stock at June 30, 2015 was \$40.00mn.
- (ii) During the year the proprietor withdrew goods valued at \$18.00mn from the business for his personal use.
- (iii) The following sums are unpaid at June 30, 2015:

Salaries and Wages	\$2.00mn
Utilities	\$3.00mn
Security expenses	\$2.00mn
- (iv) Insurance amounting to \$14.00mn was prepaid at June 30, 2015.
- (v) Wessex Limited has estimated that its provision for bad debts will be 10% of trade debtors.
- (vi) The following estimates relate to the lives of the assets listed below: (The company uses the straight line method of depreciation)

Plant and machinery	5 years
Motor vehicles	5 years
Computer equipment	5 years
Buildings	40 years
- (vii) \$25.00mn of the outstanding mortgage balance is scheduled to be repaid in September 2015. The payment following that, is expected to be made in September 2016.

Required:

- (i) Prepare the Statement of Comprehensive Income for Wessex Limited for the year ended June 30, 2015.
- (ii) Prepare the Statement of Financial Position for Wessex Limited as at June 30, 2015.

QUESTION 7

The Cash Book of Phosphate Limited for the month of July is given below:

2015		\$mn	2015		\$mn
July 1	Bal b/d	5.00	July 6	Salaries a/c	4.00
July 8	Sales a/c	15.00	July 7	Repairs a/c	0.10
July 9	Rental Income a/c	2.00	July 8	Insurance a/c	1.90
July 15	Sales a/c	17.00	July 10	Wages a/c	2.00
July 22	Sales a/c	10.00	July 16	Audit fees a/c	1.50
July 29	Sales a/c	45.00	July 23	Legal fees a/c	1.50
July 30	Dividend Income a/c	10.00	July 31	Wages a/c	2.00
July 31	Sales a/c	<u>5.00</u>	July 31	Bal c/d	<u>96.00</u>
		<u>109.00</u>			<u>109.00</u>
August 1	Bal b/d	96.00			

Regional Commercial Bank

	DR	CR	Balance
	\$mn	\$mn	\$mn
July 1			5.00
July 6	4.00		1.00
July 7	0.10		0.90
July 8	1.90		(1.00)
July 8		15.00	14.00
July 9		2.00	16.00

The partners have agreed that interest should be charged on drawings at the rate of 10% per annum.

Capital:

Gordon	\$75.00mn
White	\$80.00mn
McGregor	\$30.00mn

The partners have agreed that interest is to be paid on capital at the rate of 15% per annum.

Partners' salaries:

Gordon	\$3.50mn
White	\$5.00mn
McGregor	\$3.00mn

The balances on the current accounts of the partners at July 1, 2014:

Gordon	\$5.30mn (Debit)
White	\$5.00mn (Debit)
McGregor	\$7.70mn (Debit)

The partnership agreement states that profits and losses should be shared in the ratio 40%:30%:30% for Gordon, White and McGregor respectively.

Required:

- (i) Prepare the Profit and Loss Appropriation Account for the year ended June 30, 2015.
- (ii) Prepare the Current Accounts for Gordon, White and McGregor as at June 30, 2015.

QUESTION 9

You are considering the possibility of acquiring shares in Presimmon Limited. The information given below has been extracted from the company's published accounts.

	2014	2013
	\$mn	\$mn
Sales	35.00	17.00
Cost of Sales	<u>24.50</u>	<u>13.60</u>
Gross Profit	10.50	3.40
Less:		
Selling and Distribution	2.50	0.50
Administration Overheads	<u>3.00</u>	<u>0.70</u>
Operating Profit	5.00	2.20
Net Interest expense	<u>1.50</u>	<u>1.00</u>
Profit before tax	3.50	1.20
Tax	<u>1.50</u>	<u>0.40</u>
Profit after tax	2.00	0.80

Presimmon Limited

Statements of Financial Position as at December 31, 2014 and 2013

	2014	2013
	\$mn	\$mn
<u>Non-Current Assets</u>		
Land	350.00	350.00
Buildings	235.00	180.00
Less Provision for depreciation	<u>85.00</u>	<u>65.00</u>
Net Book Value	150.00	115.00
Plant & machinery	150.00	130.00
Less Provision for depreciation	<u>65.00</u>	<u>32.00</u>
Net Book Value	85.00	98.00
Equipment	78.00	58.00
Less Provision for depreciation	<u>23.00</u>	<u>11.60</u>
Net Book Value	55.00	46.40
Motor vehicles	20.00	17.00
Less Provision for depreciation	<u>12.00</u>	<u>6.00</u>
Net Book Value	8.00	11.00
Total Non-Current Assets	648.00	620.40
<u>Current Assets</u>		
Inventory	40.00	38.00
Trade receivables	15.00	10.00
Less Provision for bad debts	<u>6.00</u>	<u>3.00</u>
Net Trade receivables	9.00	7.00

	2014	2013
	\$mn	\$mn
Short-term investments	25.00	16.00
Cash at bank	12.00	10.00
Cash in hand	<u>2.00</u>	<u>1.50</u>
Total Current Assets	88.00	72.50
Less Current Liabilities		
Trade payables	40.00	32.50
Current portion of Long-term loan	<u>12.00</u>	<u>14.00</u>
Total Current Liabilities	52.00	46.50
Net Current Assets	36.00	26.00
Non-Current Assets and Net Current Assets	684.00	646.40
Share Capital	340.00	340.00
Reserves	219.00	219.00
Retained Profit	<u>16.20</u>	<u>16.00</u>
Total Shareholders equity	575.20	575.00
Non-Current Liabilities		
Long-term Loan	<u>108.80</u>	<u>71.40</u>
	684.00	646.40

Required:

- (i) Calculate the following ratios for Presimmon Limited for 2013 and 2014
 - (a) gross profit-to-sales ratio
 - (b) net profit-to-sales ratio
 - (c) asset turnover
 - (d) return on assets
 - (e) return on equity

- (ii) What comments can be made about the financial health of Presimmon Limited?

END OF PAPER