

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE
SECOND YEAR EXAMINATIONS, 2010

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(THURSDAY, JUNE 3, 2010)

(ORIGINALLY TIME-TABLED FOR THURSDAY, MAY 27, 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.
- (h) **Where the current date is relevant in answering any question, that date is to be treated as being the date for which this examination paper was originally time-tabled as shown above.**

PART A

LAW OFFICE MANAGEMENT AND TECHNOLOGY

QUESTION 1

Mr Senior, a senior attorney-at-law, attending a continuing legal education seminar engaged Ms Junior, a junior attorney-at-law, on the topic of marketing in the legal profession. Ms Junior sought to explain to Mr Senior that it is a common misconception amongst older attorneys-at-law that marketing means selling and promotion.

Mr Senior nodded to Ms Junior and said “Do your work well and that’s all the marketing you’ll need”. Ms Junior respectfully responded “Doing your work well is necessary but no longer sufficient to ensure success”. The discussion ends as they return to the seminar hall.

At the end of the proceedings Mr Senior mentions the discussion to the continuing education chair. She promptly requests Ms Junior to present a paper at the next seminar entitled ‘Basics of Marketing Management for Attorneys’.

Outline the salient points that you would expect to be in Ms Junior’s presentation.

QUESTION 2

The general approach of the legislature reflected in, and the courts’ interpretation of, those provisions of taxation law relating to deductions for expenses incurred wholly and

exclusively in earning income to determine taxable income, places an evidential burden on the taxpayer which is not easily satisfied.

Illustrate by reference to decided cases relating to claims by attorneys-at-law or law firms for deductions for travelling, meetings, clothing and entertainment.

QUESTION 3

Judicious management of human resources is at the heart of a well-run law firm and often one of its most daunting challenges.

- (i) Do you agree with this statement? Give reasons for your answer.
- (ii) Outline the key best practices for managing people in a law firm.

QUESTION 4

- (a) List the circumstances in which withdrawals from a client's trust account are permissible.
- (b) Ronald Goodfellow is a senior attorney-at-law. He recently invited his junior, Mary Nicely, whom he has been mentoring for some time, into partnership.

They practise as Goodfellow & Nicely. Ronald focuses on advocacy and Mary on commercial work.

Ronald decides to take an assignment which will require absence from the jurisdiction at varying times over an extended period. He reposes full trust and confidence in Mary. To facilitate the firm's business the firm's mandate with its bank is changed. The firm's mandate to the bank previously required both Ronald and Mary to sign. Either of them is now empowered to sign alone on the firm's bank accounts.

Mary's son Albert is an 'A' student and star athlete at Gumption High. He has recently been diagnosed with a rare intestinal disease. His doctors advise the disease is life-threatening and that unless he travels to the U.S.A. for surgery soon he may die.

Mary is beside herself and cannot sleep at night. She can scrape together from her life savings US\$25,000 of the US\$100,000 required to pay for the costs of Albert's surgery in the USA.

Mary expects that a sub-division, in respect of which Goodfellow & Nicely has carriage of sale, will be completed within four months. They have received professional undertakings from attorneys-at-law representing purchasers and financial institutions to pay the balance of purchase monies and costs of sale for the lots.

The vendor, John Cole, for whom the firm acts, is Mary's schoolmate. Mary believes that even if payout of the net proceeds is delayed, she will be able to provide a reasonable explanation. Without informing Ronald, she draws three cheques totaling US\$75,000 from the firm's client trust account over a period of

six weeks payable to Albert's grandmother Clarice, with instructions to pay same to Omega hospital in the USA. In doing so Mary believes that the firm's earnings from these and other matters over the next 6 months will enable her to repay the firm's client account and she will beg Ronald for time to repay his share of profits.

Whilst Mary is in the USA with Albert she is advised by her office that the sub-division has been the subject of a Registrar's caveat. Allegations of fraud have been made with respect to the parent title on which the application is based. This could set back completion for months if not years. Albert's operation is successful and she returns home. She immediately informs Ronald what has happened. Ronald's focus is the removal of the caveat which is obtained by court order. By that time some of the purchasers have cancelled their contracts and demanded the return of their monies with interest. The earnings Mary had anticipated never materialised. Mary of her own accord then informs the regulatory authority of her conduct. Her mother agrees to sell her house to repay the sums owed.

Complaints are brought against both Ronald and Mary arising from the whole affair. Advise both of their legal position making reference to any relevant statutory provisions and decided cases.

QUESTION 5

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

- (a) office sharing by attorneys-at-law; or
- (b) software selection and how technology can improve profitability and efficiency in a law office; or
- (c) the types of conflict of interest which may arise in a law office and how to properly manage same.

PART B
ACCOUNTING

QUESTION 6

The following trial balance was prepared for Sebastian Bach at March 31, 2010:

	\$	\$
Opening Stock	3,000,000	
Purchases	15,000,000	
Carriage in	100,000	
Sales Returns	600,000	
Insurance	400,000	
Rent	600,000	
Miscellaneous expenses	30,000	
Stationery	370,000	
Plant & Machinery at cost	7,000,000	
Building	12,000,000	

Equipment	16,000,000	
Fixtures & Fittings	10,000,000	
Motor Vehicles	6,000,000	
Accounts Receivable	18,000,000	
Short-term Investments	18,500,000	
Cash at Bank	20,000	
Cash in hand	4,000	
Drawings	150,000	
Utilities	300,000	
Salaries	1,000,000	
Carriage out	16,000	
Discount allowed	10,000	
Provision for bad debts		2,000,000
Provision for depreciation (Plant & Machinery)		2,800,000
Provision for depreciation (Buildings)		400,000
Provision for depreciation (Equipment)		6,400,000
Provision for depreciation (Fixtures and Fittings)		4,000,000
Provision for depreciation (Motor Vehicles)		2,400,000
Sales		54,000,000
Purchases Returns		200,000
Capital		18,700,000
Discount Received		200,000
Bad debt recovered		2,000,000
Accounts Payable		<u>16,000,000</u>
	<u>109,100,000</u>	<u>109,100,000</u>

The following items are to be accounted for-

- (a) Stock at March 31, 2010 is valued at \$3,000,000.
- (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 \$300,000 for his personal use.

(e) The following amounts are owing at March 31, 2010

Utilities	\$25,000
Rent	\$48,000

(f) Insurance amounting to \$40,000 has been prepaid.

Required:

- (i) Prepare the Trading and Profit and Loss account for the year ended March 31, 2010.
- (ii) Prepare the Balance Sheet as at March 31, 2010.
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QUESTION 7

Smith and South operate a curio shop in partnership. The following information relates to the partnership for the year ended December 31, 2009.

	\$
Capital (Smith)	16,000,000
Capital (South)	18,000,000
Partnership Salaries	

Smith	600,000
South	800,000
Drawings	
Smith	500,000 (July 1, 2009)
South	1,300,000 (October 1, 2009)
Interest on Drawings	10% per annum
Interest on Capital	8% per annum

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

The firm's net profit for the year was \$36,550,000

Current Account balances at January 1, 2009

Smith	\$1,700,000 (Debit)
South	\$1,240,000 (Credit)

Smith and South made drawings on July 1, 2009 and October 1, 2009 respectively.

Required:

- (i) Prepare the Profit and Loss appropriation account for the year ended December 31, 2009.
- (ii) Prepare the Current Account balances of Smith and South at December 31, 2009.
- (iii) List the accounting content of a partnership agreement.

QUESTION 8

The bank columns in the cash book for February 2010 and the bank statement for that month for S. Cusak are as follows:

2010	Dr	\$	2010	Cr	\$
Feb 1	Balance b/d	47,580	Feb 5	D. Blake	3,000

Feb 7	B. Green	3,160	Feb 12	J. Gray	8,660
Feb 16	A. Silver	1,860	Feb 16	B. Stephens	1,760
Feb 27	M. Brown	6,140	Feb 28	Orange Club	1,140
Feb 28	K. Black	<u>12,480</u>	Feb 28	Balance c/d	<u>56,660</u>
		<u>71,220</u>			<u>71,220</u>
Mar 1	Balance b/d	56,660			

Bank Statement

2010		Dr	Cr	Balance
		\$	\$	\$
Feb 1	Balance b/d			47,580
Feb 7	Cheque		3,160	50,740
Feb 8	D. Blake	3,000		47,740
Feb 16	Cheque		1,860	49,600
Feb 17	J. Gray	8,660		40,940
Feb 18	B. Stephens	1,760		39,180
Feb 27	Cheque		6,140	45,320
Feb 28	Standing Order	880		44,440
Feb 28	Johnson's trader's credit		1,800	46,240
Feb 28	Bank charges	1,400		44,840

The standing order reflected on the Bank Statement on February 28, 2010, relates to the payment of insurance premiums.

Required:

- (i) Update the cash book.
- (ii) Prepare the Bank Reconciliation Statement as at February 28, 2010.

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

QUESTION 9

Kinsale Limited has employed Astrid Herrera, who has just graduated from Wharton 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, 2010. The following items are to be used to inform the preparation of the budget.

(a) The following sales represent forecasted sales -

	\$
July	1,500,000
August	2,000,000
September	3,000,000

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 are to be made during the quarter:

	\$
July	900,000
August	1,200,000
September	1,800,000

(c) Monthly overheads of \$200,000 are incurred. This figure includes depreciation of \$40,000. Overheads are paid on a monthly basis.

(d) The directors have agreed to inject capital of \$13,000,000 in August.

- (e) The company has decided to pay dividends of \$500,000 to its shareholders in September.
- (f) As a part of the company's policy of fiscal prudence the company has decided to invest \$6,500,000 in Government Paper in September.
- (g) Monthly salaries of \$250,000 are paid when incurred.
- (h) The company expects to receive dividends of \$1,500,000 from Oakton Holdings Limited in July.
- (i) The company purchased computer equipment in August costing \$300,000, 50% of the cost is to be paid immediately and the remainder one month later.
- (j) Company profit tax of \$1,200,000 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 \$2,500,000 and the interest accruing is \$50,000. It is expected that principal and interest will be repaid in August.
- (l) The balance of cash on July 1, 2010 is expected to be \$1,200,000.

Required:

- (i) Prepare a cash budget for the quarter ending September 30, 2010.
 - (ii) What comments could be made about the cash flows as outlined above?
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