

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE
SECOND YEAR EXAMINATIONS, 2011

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(THURSDAY, MAY 26, 2011)

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

'Lawyers are good at practicing law but not good at managing the business of law.'

Comment on this statement and outline the important management best practices which distinguish a well run law firm.

QUESTION 2

David Conscience is a senior advocate practising at the criminal and civil bar and well reputed. He has no love for commercial work but knows it can be financially rewarding. He has groomed his spoilt niece, Delilah Hugup, to oversee that side of the practice and admitted her to partnership just over a year ago. He is satisfied with her technical ability and implicitly trusts her.

Recently David has been stricken with, and is valiantly fighting, colon cancer. His response to chemotherapy is positive but his treatment requires long absences from the office. To facilitate business, David changes the bank mandate from both his and Delilah's signatures to either of them to sign on all the firm's bank accounts.

David knows that Delilah is a fashion diva but has no idea what she spends on her outfits. He does not know that she has a weakness for gaming machines and spends a lot of

money on this. She lives beyond her means. To feed her lifestyle, Delilah, in David's absence, makes unauthorized withdrawals from the firm's client trust account.

The firm's accountant is Susceptible Sampson. He is a secret admirer of Delilah. He is alarmed at Delilah's withdrawals from the client's trust account without the accompanying documentation to justify same. He requests her to desist from the practice. Her response is to seduce Susceptible and to persuade him to create fictitious entries to cover up the withdrawals.

During his absence, David drew his normal modest salary, did not examine the firm's bank statements, did not discuss the firm's business with Delilah and trusted her to ensure same was handled properly.

Six months later when the firm's accounts are almost depleted Delilah dumps Susceptible and flees to the USA. Susceptible confesses all to David. David mortgages his house to pay back the firm's clients. He refuses to pay the debts owed by Delilah to the gaming club at which she gambled. A report is made to the disciplinary body which regulates the conduct of attorneys. David is charged with breaches of the rules relating to the operation of client trust accounts and unauthorized withdrawals of client funds.

- (i) What is a client's trust account?
- (ii) In what circumstances may withdrawals be made from a client's trust account?
- (iii) Advise David on his legal position with reference to any statutory provisions and relevant decided cases.

QUESTION 3

'Professional success depends on teamwork. Achieving effective teamwork is not easy. It is not simply forming talented people into groups and calling them teams. It is far more than this'.

Identify the stages of team development, the characteristics of effective teamwork and how such teamwork affects the performance of a law firm.

QUESTION 4

ANSWER BOTH (A) AND (B)

- (a) (i) What is 'criminal property' pursuant to money laundering legislation?
- (ii) What conduct constitutes money laundering?
- (iv) List three practical implications of money laundering legislation for attorneys.
- (b) Wily Fox is a street smart businessman who has grown a substantial business empire spanning export of winter vegetables, a guesthouse, a supermarket, a cambio and motor vehicle sales and service.

Pursuant to surveillance by the financial investigation division Wily is charged with breaches of the Customs Act, the money laundering legislation and the Income Tax Act for tax evasion and money laundering.

Wily retains Gwen Nicely to defend him and pays her \$250,000.00 on account of her fees. Gwen attends Court to represent Wily on several occasions for mention dates. She bills him \$100,000.00 for legal fees and transfers same from the client's trust account to the office account. The trial date has been set to commence shortly.

Two days later, Gwen is served with a Court Order freezing Wily's assets. The financial investigation division maintains that the balance of \$150,000 standing to Wily's credit in the clients trust account is frozen pursuant to the Court Order.

- (i) Is the financial investigation division's position correct? Give reason(s) for your answer.

 - (ii) Would your answer to (i) be different if service of the Court Order was effected prior to the transfer of funds from the client's trust account to the office account.
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QUESTION 5

'You cannot manage others effectively unless you can manage yourself.'

- (i) Outline what makes up one's self concept;
 - (ii) Identify the influences on one's self concept;
 - (iii) What personal qualities and characteristics are good predictors of professional success; and
 - (iv) Identify five critical steps to personal change.
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PART B
ACCOUNTING

QUESTION 6

The following Trial Balance is presented for Xanta Limited at March 31, 2011:

	\$mn	\$mn
Opening Stock	45.00	
Purchases	630.00	
Sales Returns	23.00	
Carriage Inwards	7.00	
Miscellaneous expenses	2.00	
Wages and Salaries	65.00	
Insurance	20.00	
Carriage out	9.00	
Rent	12.00	
Utilities	10.00	
Stationery	4.00	
Discount Allowed	6.00	
Bad debts	9.25	
Motor expenses	1.00	
Postage	1.00	
Interest expense	0.25	
Drawings	4.50	
Plant and Machinery	95.00	
Motor Vehicles	12.00	
Furniture and Fittings	32.00	
Trade Debtors	58.00	

	\$mn	\$mn
Cash at Bank	72.00	
Cash in Hand	1.00	
Computer Equipment	75.00	
Buildings	680.00	
Land	600.00	
Short –term investments	62.00	
Sales		1,358.00
Purchases Returns		4.00
Investment Income		22.00
Discount Received		5.00
Provision for Bad Debts		7.00
Rental Income		28.00
Capital		969.30
Provision for Depreciation:		
Plant and Machinery		19.00
Motor Vehicles		4.80
Furniture and Fittings		6.40
Computer Equipment		25.00
Buildings		51.00
Loan		1.50
Trade Creditors	<u> </u>	<u>35.00</u>
	<u>2,536.00</u>	<u>2,536.00</u>

The following additional information was also available at March 31, 2011:

- (i) Stock at March 31, 2011 was \$42.00mn
- (ii) During the year the proprietor withdrew goods valued at \$10.00mn from the business for his personal use.

- (iii) The following sums are unpaid at March 31, 2011:
- | | |
|------------|----------|
| Rent | \$3.00mn |
| Utilities | \$1.00mn |
| Stationery | \$0.50mn |
- (iv) Insurance amounting to \$7.00mn was prepaid at March 31, 2011.
- (v) Xanta 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
Furniture and Fittings	5 years
Computer Equipment	3 years
Buildings	40 years

- (vii) \$0.50mn of the outstanding loan balance is scheduled to be repaid in August 2011. The payment following that is expected to be made in August 2012.

Required:

- (i) Prepare the Statement of Comprehensive Income for Xanta Limited for the year ended March 31, 2011.
- (ii) Prepare the Statement of Financial Position for Xanta Limited as at March 31, 2011.
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QUESTION 7

The information given below relates to transactions recorded by Christus Limited in its bank account and by its bank, Security Commercial Bank, in the bank statement for the month of February 2011.

2011		\$	2011		\$
Feb 1	Balance b/d	650,000	Feb 4	Salaries a/c	100,000
Feb 5	Sales a/c	750,000	Feb 6	Repairs a/c	70,000
Feb 9	Rent a/c	250,000	Feb 10	Insurance a/c	35,000
Feb 15	Sales a/c	500,000	Feb 20	Salaries a/c	100,000
Feb 25	Dividend Income a/c	325,000	Feb 26	Interest expense a/c	95,000
Feb 27	Rent a/c	750,000	Feb 28	Utilities a/c	50,000
		3,225,000	Feb 28	Bal /c/d	<u>2,775,000</u>
					3,225,000
March 1	Balance b/d	2,775,000			

The bank statement for Security Commercial Bank for the month of February is given below:

	Debit	Credit	Balance
	\$	\$	\$
Feb. 1			650,000
Feb. 4	100,000		550,000
Feb. 5		750,000	1,300,000
Feb. 6	70,000		1,230,000
Feb. 9		250,000	1,480,000
Feb. 10	35,000		1,445,000
Feb. 15		500,000	1,945,000
Feb. 20	100,000		1,845,000

	Debit	Credit	Balance
	\$	\$	\$
Feb. 26	95,000		1,750,000
Feb. 27	350,000		1,400,000
Feb. 28	25,000		1,375,000

The transaction recorded in the bank statement on February 27 relates to a standing order for subscriptions to the Australian Law Journal. The amount has not yet been entered in the company's bank account.

The transaction recorded on the bank statement on February 28 relates to bank charges for the month of February.

Required:

- (i) Prepare the updated Bank Account at February 28, 2011.
- (ii) Prepare the bank reconciliation as at February 28, 2011.
- (iii) What is the purpose of the bank reconciliation statement?



QUESTION 8

The financial records of the partnership of Mann, Phel and Philop reflect the following for the year ended December 31, 2010:

Capital

Mann	\$70.00mn
Phel	\$85.00mn
Philop	\$30.00mn

Drawings

Mann	\$10.00mn
Phel	\$8.00mn
Philop	\$2.00mn

Partners' Salaries

Mann	\$5.00mn
Phel	\$12.00mn
Philop	\$4.00mn

Net Profit \$950.00mn

Balance on January 1, 2010 in the Current Accounts:

Mann	\$15.00mn (Debit)
Phel	\$6.00mn (Debit)
Philop	\$7.00mn (Debit)

The partners have agreed on the following:

- (a) that interest is to be paid at a rate of 10% per annum on capital;
- (b) that interest is to be charged at 15% per annum on drawings;
- (c) that profits or losses will be shared in the ratio 40% 30% 30%.

Required:

- (i) Prepare the Profit and Loss Appropriation Account for the year ended December 31, 2010.
- (ii) Prepare the Current Account for each partner at December 31, 2010.
- (iii) What is the purpose of charging interest on the drawings of the partners?
- (iv) What is the purpose of paying interest on the capital invested by the partners?

QUESTION 9

The summarized comparative financial statements of Magdalene Limited are shown below:

		2010		2009
	\$mn	\$mn	\$mn	\$mn
Sales		980.00		750.00
Cost of Goods Sold		<u>784.00</u>		<u>675.00</u>
Gross Profit		196.00		75.00
Less:				
Administration Overheads	14.00		12.00	
Distribution Overheads	<u>20.00</u>		<u>16.00</u>	
		<u>34.00</u>		<u>28.00</u>
Operating Profit		162.00		47.00
Interest Income		<u>4.00</u>		<u>16.00</u>
Profit before tax		166.00		63.00
Tax		<u>41.50</u>		<u>15.75</u>
Profit after tax		124.50		47.25

Magdalene Limited

Statements of Financial Position as at December 31, 2010 and 2009

	2010	2009
	\$mn	\$mn
Non-Current Assets	582.00	253.00
Current Assets	<u>218.00</u>	<u>147.00</u>
Total Assets	800.00	400.00

	2010	2009
Liabilities and shareholders' equity	\$mn	\$mn
Current Liabilities	300.00	227.00
Non-current liabilities	145.00	80.00
Shareholders' equity	<u>355.00</u>	<u>93.00</u>
Total Liabilities and shareholders' equity	800.00	400.00

Required:

- (i) Calculate the following ratios for Magdalene Limited for 2009 and 2010:
- (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 Magdalene Limited?
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