

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE
SECOND YEAR EXAMINATIONS, 2012

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(THURSDAY, MAY 24, 2012)

Instructions to Students

- (a) Time: 3½ 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

Effectively managing people is challenging in the best of times; to do so in a recessionary economic environment is more daunting.

Explain briefly:

- (a) why managing people in a law office presents challenges;
 - (b) key best human resource management practices which can facilitate high standards of service and professionalism; and
 - (c) how such practices may have to be modified in a recession and strategies to minimize adverse effects on the firm.
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QUESTION 2

T. Payne is a senior attorney-at-law in his 70's. The bulk of his practice is civil and criminal litigation although he does some commercial work as well. T. Payne is in Court almost daily and his desk does not receive the required attention.

Pinky Powderpuff is his faithful paralegal of many years experience. While T. Payne is in Court she runs the office including all non-contentious legal work. Although she tries to enter receipts and payments from her paper documents into Microsoft Excel she is unable to keep the accounts up to date as required.

T. Payne uses his personal credit cards to pay various sums on behalf of clients and the office. Pinky has the laborious task of identifying the amounts due from clients and refunding T. Payne each month from the clients' trust account. Sometimes she is not sure to which client the disbursements are to be charged. On occasion, T. Payne has overpaid clients because he has not refunded himself in respect of advances he has made on behalf of clients using his credit cards.

T. Payne periodically instructs Pinky as to the amounts that she can transfer for fees from the clients' trust account to the office account on behalf of clients. On occasion, clients have given cash to T. Payne at court. Pinky is therefore not sure that what she records accurately reflects the total paid by clients.

T. Payne also periodically transfers sums in excess of one million dollars (\$1,000,000.00) to an interest bearing account at a merchant bank for periods ranging from thirty (30) to ninety (90) days depending on the sums required for clients' business. At the end of the year, T. Payne has to pay an accountant substantial fees to regularize the accounts.

Pinky's niece, Meticulous Jacas, is a final year student at law school. Pinky arranges for her to do her in-service training with T. Payne. After a month at T. Payne's office, Meticulous believes she recognizes the weaknesses in T. Payne's disorganized approach to his record keeping. She knows from her Law Office Management & Accounting course that certain procedures with respect to the proper operation of clients' trust accounts are mandatory.

- (a) Outline these mandatory procedures.
- (b) What measures can Meticulous suggest to T. Payne to enhance his compliance with these procedures?

QUESTION 3

Being learned in the law is a necessary but not sufficient condition of success for the 21st century lawyer; knowledge of the principles and best practices of law office management and their sustained application increases the odds of success.

- (a) Outline the key principles and best practices which contribute to effective law firm management.
 - (b) Comment briefly on why the application of these principles and best practices are not without difficulty.
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QUESTION 4

- (a) The term 'salaried partner' is a misnomer. Explain briefly the legal position of such a partner.
 - (b) Outline the indicia which may be utilized in the determination of whether someone is a partner in a law firm, referring to any relevant case law.
 - (c) Describe the professional qualities that partners should seek to exemplify and practice.
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QUESTION 5

Jeffrey Drake is a financial consultant and close associate of the President of Banana Republic. The President has complete trust and confidence in Jeffrey's abilities and appoints him as Chairman of a number of important state corporations. In this capacity, Jeffrey has to deal with the award of contracts worth billions of dollars. Jeffrey's attorney is Precious Lovelace, a senior practitioner who has represented Jeffrey for many years.

Precious has incorporated numerous corporations for Jeffrey including offshore companies in tax haven territories which issue bearer share certificates to protect the identity of shareholders.

On a number of occasions Precious has, pursuant to Jeffrey's instructions, sued several individuals and companies who owed Jeffrey and companies associated with Jeffrey various sums for diverse reasons. These proceedings ostensibly related to sums owed for management consultancies, loans, sale of goods among others. The sums included debts in US currency the equivalent of which amounted to several million dollars in local currency.

In most cases the debtors were pursued to judgment and arrangements were made to pay the judgment debts including all legal costs over a period of several months. The judgment debts were paid by way of Managers' cheques and on a number of occasions by substantial sums of cash. The sums were lodged to Precious' client trust account (CTA) and were subsequently, on Jeffrey's instructions, sent by wire transfer to the bank accounts of the offshore companies. Precious' legal fees to Jeffrey's firms were reasonable and reflected market rates.

Unknown to Precious, her bankers, pursuant to their obligation to make suspicious transaction reports, had notified the authorities of the lodgements to Precious' CTA over time and had obtained consent to send the wire transfers to the offshore accounts as instructed by Jeffrey.

Investigations by the authorities revealed that the debts collected by Precious were sham debts created for the purpose of 'washing' bribes paid by contractors to obtain contracts from state corporations chaired by Jeffrey. Some of the offshore accounts to which Precious sent wire transfers of funds are discovered to be vehicles to receive 'donations' to the President's political party. A scandal ensues.

Precious is arrested and charged with several breaches of the Banana Republic's Proceeds of Crime Act (equivalent to the Jamaican POCA legislation). These include engaging in transactions involving criminal property and converting and transferring criminal property from the jurisdiction.

- (a) Advise Precious as to her legal position with respect to the charges.
- (b) Would your answer be the same if she had an agreement with Jeffrey that in addition to her legal fees she was to receive a commission of 5% of the sums remitted to the offshore accounts?
- (c) What practical measures can Precious take to seek to reduce the likelihood of recurrence of such an incident?

PART B
ACCOUNTING

QUESTION 6

The bank column of the cash book of Covington Limited revealed the following information for the month of March 2012.

		Bank A/c			
		\$			\$
March 1	Bal b/d	385,000	March 4	Repairs a/c	125,000
March 5	Sales a/c	950,000	March 6	Salaries a/c	480,000
March 8	Sales a/c	890,000	March 9	Security a/c	130,000
March 12	Sales a/c	990,000	March 13	Salaries a/c	480,000
March 18	Sales a/c	885,000	March 19	Insurance a/c	300,000
March 24	Sales a/c	700,000	March 20	Salaries a/c	500,000
March 30	Sales a/c	800,000	March 22	Stationery a/c	100,000
March 31	Sales a/c	900,000	March 27	Salaries a/c	500,000
March 31	Rent a/c	400,000	March 30	Legal fees a/c	250,000
		_____	March 31	Bal c/d	<u>4,035,000</u>
		<u>6,900,000</u>			<u>6,900,000</u>
April 1	Bal b/d	4,035,000			

The bank statement from Allied Commercial Bank reflected the following transactions for the month of March 2012:

	Debit \$	Credit \$	Balance \$
March 1			385,000
March 4	125,000		260,000
March 5		950,000	1,210,000
March 6	480,000		730,000
March 8		890,000	1,620,000
March 9	130,000		1,490,000
March 12		990,000	2,480,000
March 13	480,000		2,000,000
March 18		885,000	2,885,000
March 19	300,000		2,585,000
March 20	500,000		2,085,000
March 22	100,000		1,985,000
March 24		700,000	2,685,000
March 27	500,000		2,185,000
March 30		450,000	2,635,000
March 31	5,000		2,630,000

The sum of \$450,000 credited on the bank statement on March 30 represents a receipt for credit sales directly lodged by Dana Simmonds to the company's bank account.

The transaction recorded on the bank statement on March 31 represents bank charges for the month of March.

Required:

- (a) Update the bank column of the cash book for the month of March 2012.
- (b) Prepare the Bank Reconciliation Statement for the month ended March 31, 2012.

QUESTION 7

Info Processing Company provides database management services. It uses state-of-the-art equipment and employs five information specialists. Each specialist works an average of 160 hours a month and earns \$8.50 per hour. This direct labour cost is paid in the month in which it is incurred. Info Processing's controller has compiled the following information:

	Actual data for 20x6		Forecasted Data for 20x7		
	November	December	January	February	March
	\$	\$	\$	\$	\$
Sales	25,000	35,000	25,000	20,000	40,000
Selling and Administrative Expenses	12,000	13,000	12,000	11,000	12,500
Operating Expenses	2,500	3,500	2,500	2,500	4,000
Processing Overheads	3,200	3,500	3,000	2,500	3,500

60% of the sales are cash sales collected during the month of sales. 30% are collected in the first month following sales and 10% are collected in the second month following sales. Operating expenses are paid in the month that they are incurred. Selling and administrative expenses and processing overheads are paid in the month following that in which they are incurred.

The company has a bank loan of \$12,000 at a 12% annual interest rate. Interest is paid monthly and \$2,000 of the loan principal is due on February 28, 20x7. Income taxes of \$4,550 for calendar year 20x6 are due and payable on March 15, 20x7. It expects its cash balance on December 31, 20x6 to be \$13,840.

Required:

- (a) Prepare the cash budget for the quarter ending March 31, 20x7.

 - (b) What factors are essential to successful budget implementation?
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QUESTION 8

Bizet and Mascagni own a Beauty Spa and Salon. The first financial year ended on April 30, 2012.

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

Capital:

Bizet	\$3,000,000
Mascagni	\$2,400,000

Partnership Salaries:

Bizet	\$450,000
Mascagni	\$300,000

Drawings:

Bizet	\$64,300
Mascagni	\$67,000

Current Account Balances on May 1, 2011:

Bizet	\$50,000 (Debit)
Mascagni	\$62,500 (Credit)

The partnership's net profit for the year was \$1,642,000.

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

Profit and losses are to be shared equally.

Required:

- (a) From the information above prepare the partnership's Profit and Loss Appropriation Account for the year ended April 30, 2012.
- (b) Prepare the Current Account for Bizet and Mascagni at April 30, 2012.
- (c) What do the debit and credit balances in the current accounts of Bizet and Mascagni respectively on May 1, 2011 mean?
- (d) In partnership accounts why is:
 - (i) interest allowed on capital?
 - (ii) interest charged on drawings?

QUESTION 9

The following trial balance relates to Peggy Dowager at December 31, 2011.

	\$mn	\$mn
Wages & Salaries	14.500	
Insurance expenses	0.450	
Discount allowed	0.500	
Utilities	0.750	
Office expenses	0.500	
Bad debts	0.450	
	\$mn	\$mn
General expenses	1.250	
Stationery & Printing	1.500	
Travelling expenses	2.500	
Entertainment	2.000	
Interest expenses	6.000	
Purchases	176.285	
Opening Stock	125.000	
Sales returns	2.500	
Buildings at cost	300.000	
Plant & Machinery at cost	75.000	
Computer equipment at cost	20.000	
Motor Vehicles at cost	6.000	

Debtors	450.000
Short- term investments	50.000
Cash at Bank	4.500
Cash in hand	0.015

Sales	497.500
Investment Income	5.000
Discount Received	2.500
Commission Received	4.000
Rental Income	0.500

Provision for depreciation:

	\$mn	\$mn
Buildings		90.000
Plant & Machinery		22.500
Computer equipment		4.000
Motor Vehicles		1.200
Creditors		75.000
Short- term loan		75.000
Capital		499.500
Provision for bad debts		<u>3.000</u>
Drawings	<u>40.000</u>	
	<u>1279.700</u>	<u>1279.700</u>

- (i) The closing stock is \$75.000mn.
- (ii) Dowager withdrew goods valued at \$1.285mn for her personal use.
- (iii) The following amounts were owing at December 31, 2011:
 - Wages & salaries \$0.500mn.
 - Office expenses \$0.500mn.
- (iv) Investment income receivable amounts to \$2.500mn.
- (v) Prepaid insurance at December 31, 2011 is \$0.150mn.
- (vi) Provision for bad debts represents 1% of debtors.
- (vii) Peggy Dowager uses the straight line method of depreciation.

Asset	Life of Asset
Building	15 years
Plant & Machinery	5 years
Computer equipment	5 years
Motor Vehicles	5 years

Required:

- (a) Prepare the Statement of Comprehensive Income for Peggy Dowager for the year ended December 31, 2011.
- (b) Prepare the Statement of Financial Position as at December 31, 2011.

END OF PAPER