

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE
SECOND YEAR SPECIAL SUPPLEMENTARY EXAMINATIONS, OCTOBER 2014

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(FRIDAY, OCTOBER 3, 2014)

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 black or dark blue ink.
- (g) Calculators may be used and are provided.

PLEASE REMAIN SEATED UNTIL YOUR SCRIPT HAS BEEN COLLECTED.

PART A

QUESTION 1

You are a newly hired associate in the chambers of Joe Black, Attorney-at-Law. Mr. Black has a civil litigation practice dealing primarily with employment, negligence and personal injury matters and debt collection.

Upon being asked to see a new client in relation to a work-related injury, you have asked Mr. Black's secretary for his standard client engagement letter only to be told that there is none. Mr. Black has only ever made a note on the front of any new file of the nature of the matter and the client's instructions, told them verbally what it will cost and issued a receipt for payments as they come in. Naturally, you are somewhat horrified at this very casual approach to the matter.

Prepare a memorandum to Mr. Black in which you propose the introduction of a standard form engagement letter, indicating:

- (i) the desirable contents of such a letter;
 - (ii) how it should be used; and
 - (iii) the benefits to the law practice of using it.
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QUESTION 2

Jennifer Jones has a busy practice as a family, conveyancing and probate practitioner. Her family matters are billed per hour on a time-spent basis, although there are occasions when she may agree a flat fee with a client. Her conveyancing and probate fees by and large represent a

percentage of the value of the transaction or estate, as the case may be, but some services are offered from time to time by applying her hourly rate on a time-spent basis.

Jennifer generally tries to keep a record of her time for those matters which are billed on an hourly basis. She usually makes a notation at the end of each day and fastens it into the file, along with the other documents, though sometimes two or three days will pass before she makes this notation. Typical notes tend not to be detailed and so for example, they might read “Telephone call with client - 5 minutes” or “Meeting – 1 hour”. Jennifer does not record the time she spends on any matter or any aspect of a matter for which she is charging a flat fee.

Jennifer’s standard bill simply indicates the nature of the matter and reads “For services rendered.....\$xxxxxx.” Bills are sent out every two months in respect of fully completed matters. Clients are always calling to make enquiries about the fees charged in bills they have received and there is an average time lapse of about two months between the rendering of the bill and payment by the client.

Comment on Jennifer’s approach to time recording and billing in light of what you understand to be best practice in respect of both activities, indicating any changes you would suggest that she make and giving reasons for suggesting those changes.

QUESTION 3

Philmore Bennett is a practitioner in a rural town in your jurisdiction. There are very few attorneys-at-law in the area and, consequently, he has a very general and diverse practice, doing both court and chamber work of all types. He keeps a diary in which he notes his court dates and appointments but appears to have little else in the way of a reminder system for his

practice. It is very much a “hit or miss” situation in his office and whereas when the practice was smaller, his excellent memory served him fairly well, these days matters have begun to slip through the cracks and it is now critical that he institute a follow-up system.

Philmore’s office is also overflowing with files. None of the files for completed matters have been disposed of since he started practising 15 years ago as he is inclined to keep everything “just in case”.

Advise Philmore as to:

- (i) the general characteristics which are desirable in a follow-up system for his law practice; and
- (ii) the approach which he should take in respect of the closing and retention of completed files.

QUESTION 4

Michelle Maynard has for some time been in-house counsel at a local bank during which time she has gained considerable experience in banking transactions and general commercial practice. Michelle plans to leave the bank to set up a private practice in the city. Her prospective clientele includes her former employer and other banking and commercial enterprises.

Michelle’s friend, Margaret Henry, is also striking out on her own to set up a niche family law practice, having spent some years in a law firm as a member of the firm’s litigation department.

Advise both Michelle and Margaret on the legal and other factors which they should take into account in choosing names for their respective practices.

QUESTION 5

Answer both (a) and (b)

- (a) Jeremy Johnson is the managing partner in a small firm. There are two other partners in the firm which employs two associates, a legal clerk and a few other office staffers. The legal clerk is very experienced in conveyancing matters and often does much of the work on them with very little supervision. The firm's law practice covers the broad spectrum of legal matters.

Recently, unknown to the partners, one of their associates gave an undertaking in respect of a conveyancing matter which was not fulfilled due, in part, to the associate being on leave when the time for fulfillment had arrived. In addition, however, when the recipient complained to Jeremy about the breach and checks were made, sufficient money was not in hand and the firm had to pay the deficit from the partnership account.

The incident has heightened the firm's awareness of the risks associated with the giving of professional undertakings. The partners wish to take steps to mitigate the risks and minimize the likelihood of this particular situation, and any other unwelcome one in relation to undertakings, arising again.

Advise Jeremy on the steps the firm may take in this regard.

(b) Kenneth Thomas, Attorney-at-Law, is setting up office on his own for the first time. Advise Kenneth on how the physical layout of his chambers can assist him in the fulfillment of the duty of confidentiality which he owes to his clients.

PART B

ACCOUNTING

QUESTION 6

The following trial balance was prepared for B. Brown at December 31, 2013

	\$	\$
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	4,625,000	
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 and 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	<u> </u>	<u>4,000,000</u>
	27,275,000	27,275,000

The following items are to be accounted for:

(a) Stock at December 31, 2013 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, 2013:

Utilities	\$6,250
Rent	\$12,000

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

Required:

(i) Prepare the Statement of Comprehensive Income for the year ended December 31, 2013.

(ii) Prepare the Statement of Financial Position as at December 31, 2013.

QUESTION 7

Brown and Smith operate a supermarket. The following information relates to the partnership for the year ended December 31, 2013

	\$	
Capital (Brown)		4,000,000
Capital (Smith)		4,500,000
Partnership Salaries		
Brown		150,000
Smith		200,000
Drawings		
Brown		125,000 (July 1, 2013)
Smith		325,000 (October 1, 2013)

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, 2013

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

Brown and Smith made drawings on July 1, 2013 and October 1, 2013 respectively

Required:

(i) Prepare the Profit and Loss appropriation account for the year ended December 31, 2013.

- (ii) Prepare the Current Account balances of Brown and Smith at December 31, 2013.
- (iii) Why would a partnership charge interest on the funds withdrawn from the partnership by the partners?

QUESTION 8

The bank columns in the cash book for February 2014 and the bank statement for that month for B. Chisholm are as follows:

2014	Dr	\$	2014	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
Feb 27	M.Brown	1,535	Feb 28	Orange Club	285
Feb 28	K.Black	<u>3,120</u>	Feb 28	Balance c/d	<u>14,165</u>
		17,805			17,805
Mar 1	Balance b/d	14,165			

Bank Statement

2014	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, 2014 relates to the payment of insurance premiums.

Required:

- (i) Update the cash book.
- (ii) Prepare the Bank Reconciliation as at February 28, 2014.
- (iii) What is the purpose of the bank reconciliation statement?

QUESTION 9

Mandara Limited has employed Kathryn Jenkins 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, 2015. 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 September.
- (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, 2015 is expected to be \$2,400,000.

Required:

- (i)** Prepare a cash budget for the quarter ending September 30, 2015.
- (ii)** What comments could be made about the cash flows as outlined above.

END OF PAPER