

**COUNCIL OF LEGAL EDUCATION  
NORMAN MANLEY LAW SCHOOL**

**LEGAL EDUCATION CERTIFICATE  
SECOND YEAR EXAMINATIONS, MAY 2022**

**LAW OFFICE MANAGEMENT ACCOUNTING AND TECHNOLOGY**

**MONDAY, MAY 23, 2022**

**Instructions to Students**

- (a) Duration: **24 hours**
- (b) Students shall enter their Examination ID Number **only**, not their names, on the cover page, the Academic Integrity Statement and on every separate page of the examination script.
- (c) The examination should be answered on letter-sized (8.5 x 11) paper only.
- (d) The examination should be submitted in Arial font 12 line spacing 1.5, **however, line spacing for tables/accounting reports are to be presented in accordance with accounting formats.**
- (e) Students should clearly indicate the names of any cases with the citation and legislative provision/s (section number and Act) on which they rely to support their arguments. Consider using italics and/or bold text to make references prominent. (For example, *Rylands v Fletcher* [1868] UK HL1; **s.69 Real Property Act**). Sufficient detail is required to allow the examiners to understand the source of law that is being cited.
- (f) Footnotes, endnotes and a bibliography are not to be used.

- (g) Where word limits have been given, the actual word counts must be included at the end of your answer. Students who have exceeded the word limits will be penalised.
- (h) Students shall number the pages of their examination script as follows: Page 1 of 12, Page 2 of 12, etc.
- (i) In answering any Part, a candidate may reply in accordance with the law of a Commonwealth Caribbean territory zoned for this school, **but must state at the beginning of the answer the name of the relevant territory.**
- (j) Each Student **must** ensure that their Anonymous ID in TWEN is changed to their four digit Examination ID Number, prior to submitting their examination script.
- (k) The examination script, with the cover page and Academic Integrity Statement saved in **ONE PDF DOCUMENT**, must be submitted in **ELECTRONIC** format via the **Year II MAY 2022 EXAMINATIONS, LAW OFFICE MANAGEMENT ACCOUNTING AND TECHNOLOGY DROP BOX on TWEN** by **Tuesday, May 24, 2022 NOT LATER THAN** 9:00 a.m. (Jamaica), 800 a.m. (Belize) and 10:00 a.m. (Eastern Caribbean).
- (l) To upload the examination script which has been saved as one pdf document which includes the cover page and Academic Integrity Statement, you must follow these steps:
- Go to ***www.lawschool.westlaw.com***.
  - Log in using your username and password credentials and select the **TWEN** button.
  - Click on the link for **“Assignments and Quizzes”** located on the left-hand side of the navigation screen.
  - Select the relevant examination and the examination drop box as follows:

- Year II students with Examination ID numbers between **2100 - 2181** must upload script, cover page and Academic Integrity Statement to folder titled “**Drop Box A Year II – 2100 - 2181**”.
  - Year II students with Examination ID numbers between **2182 - 2263** must upload script, cover page and Academic Integrity Statement to folder titled “**Drop Box B Year II – 2182 - 2263**”.
  - Year II students with Examination ID numbers between **2264 - 2345** must upload script, cover page and Academic Integrity Statement to folder titled “**Drop Box C Year II - 2264 - 2345**”.
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## **START EACH QUESTION ON A SEPARATE PAGE**

Peter Jones, Lesley Ernest and Mark Edwards are attorneys who practise in partnership in the law firm Jones, Ernest, Edwards. The firm is domiciled in the State of Caribbean. The firm has been in operation since 2004 and has a boutique practice in telecommunications, intellectual property and entertainment law. Peter Jones is the managing partner. The firm employs two associate attorneys, four administrative staff and a senior accountant. The financial year of the firm runs from January 1 to December 31.

### **Question 1**

The review of the financial performance of the firm was scheduled one month after the financial year end and the accountant was asked to present the following financial information for the year ended December 31, 2021.

1. The partnership appropriation account for the year ended December 31, 2021
2. The current accounts for all partners
3. Proof of the firm’s bank balances

A review of the general ledger and financial documents showed the following relevant data.

(1) Partnership salaries

Peter Jones	-	\$200,000
Lesley Ernest	-	\$130,000
Mark Edwards	-	\$100,000

(2) Current account balances at January 1, 2021

Peter Jones	-	\$60,000 (debit)
Lesley Ernest	-	\$40,000 (credit)
Mark Edwards	-	\$30,000 (credit)

(3) Profits and losses to be shared in the following ratios:

Peter Jones	-	50%
Lesley Ernest	-	30%
Mark Edwards	-	20%

(4) Capital contribution at the start of the firm:

Peter Jones	-	\$3,000,000
Lesley Ernest	-	\$2,000,000
Mark Edwards	-	\$1,000,000

(5) The drawings account showed the following amounts withdrawn by the partners during the year:

Peter Jones	-	\$160,000 on January 1, 2021
Lesley Ernest	-	\$120,000 on July 1, 2021
Mark Edwards	-	\$100,000 on March 1, 2021

(6) The partnership agreement provided for interest to be charged on drawings at the rate of 6% per annum and for the firm to pay interest on capital at the rate of 8% per annum.

- (7) It was also agreed that Lesley would be paid 5% commission on fees earned from business introduced by her to reflect her ability to get business. The fee income register showed that the value of the accounts introduced and managed by Lesley amounted to \$10,000,000 that earned fees of 6%.
- (8) The Statement of Profit or Loss showed a net profit for the year ended December 31, 2021 in the amount of \$1,200,000.

**Required:**

- (a) Prepare the partnership appropriation account for the year ended December 31, 2021.
- (b) Prepare the partners' current account for the year ended December 31, 2021.

A review of the bank balance showed a small debit balance in the amount of \$232,000. The firm is anxious to improve its poor cash position and has asked the accountant to produce a budget for the first quarter of 2023, using the following forecast in respect of the quarter:

- (i) Estimated fee income amounting to \$6,000,000 with 20% receivable in January and the balance split equally over the months of February and March.
- (ii) Investment income of \$60,000 in January, \$90,000 in February and \$190,000 in the month of March.
- (iii) Conference facilities rented out are expected to yield \$120,000 rental income in January, with a 10% increase expected in February and 15% on February's rental in March.
- (iv) The firm expects to receive commission income in the amount of \$20,000 per month for each of the months of January and February, and \$94,800 in March.
- (v) The planned cash payments for the first quarter of 2023 are as follows:
- Overheads of \$240,000 per month payable in the month incurred.

- Monthly salaries and wages of \$460,000 payable in each month incurred.
- Utilities of \$100,000 monthly payable as incurred.
- Drawings of \$170,000 by each partner to be made in March.
- Purchase of new computer equipment to be ordered in January for \$150,000, with a 50% deposit on placement of the order and the final payment one month later.
- Payment of licence fee in February in the amount of \$250,000.
- Payment of payroll taxes in January in the amount of \$180,000 and \$134,000 in February.
- Payment for CLPD training sessions are expected to be \$10,000 per person per session. Each partner will attend three (3) sessions, one each in January, February and March. The two associate attorneys will each attend two (2) sessions, one in January and one in March.
- Payment to graphic artist in the amount of \$220,000 in February.
- Payment of legal fees in the amount of \$300,000 in January.
- Purchase of a delivery vehicle for \$4,000,000 in February. A 30% deposit will be paid on placement of the order, 40% to be paid in March and the balance on delivery, which is expected in April.

**Required:**

- (c) Prepare a cash budget for the second quarter of 2023. Assume the opening balance to be \$232,000.
- (d) Briefly advise if the cash position has improved and, if not, suggest two actions that could be taken to improve the budgeted cash balance. **(30 words)**

**Question 2**

The sum of \$200,000, anticipated to be paid to a graphic artist in February 2023, is in connection with the proposed adoption of a firm logo. The matter of the logo is being contemplated in the context of a review of the firm's branding. This review also involves

a proposed change of the firm name and an assessment of its current domain name. The proposed new name is IPTECHLaw HQ. The firm's current domain name is juris-70482-global.net.

The managing partner, Peter Jones, is preparing to attend a meeting of the partnership to consider all these branding-related matters. He has asked you to assist by sending him a memorandum containing advice on:

- (i) the arguments for and against changing the name of the firm;
- (ii) whether the name chosen is a suitable one for the firm, and the arguments for and against this choice;
- (iii) whether having a logo is a worthwhile investment, giving reasons, as well as the style of logo they should consider adopting, with arguments to support your choice; and
- (iv) whether the current domain name is suitable, giving reasons.

**Required:**

Prepare the memorandum to Mr. Jones covering the relevant matters set out at (i)-(iv) above. The body of your memorandum must not exceed **1000 words**.

**Question 3**

The sum of \$300,000, anticipated to be paid as legal fees in January 2023, relates to a claim filed in court against the firm by a former client, Donald Drew, for negligence and breach of contract.

Mr. Drew had approached the firm for representation in a claim by him against Camden Chemicals Limited (Camden). From the outset, it had been recognised that the applicable limitation period was only some ten months away. An associate at the firm had decided to accept the retainer and, with some difficulty, had taken detailed instructions from Mr. Drew over time.

Eight months after the file was opened, and before any claim had been filed on Mr. Drew's behalf, it was discovered that the firm had acted for Camden a few years earlier. As a consequence, it became privy to certain details of Camden's operations which were relevant to the case that Mr. Drew now wished to make out against the company.

Initially, it was felt that the possession of that information by the firm did not pose an obstacle to the present representation of Mr. Drew. After several discussions by the associate with one or other of the partners, however, the conclusion was that there was a conflict of interest that prohibited the firm from acting in the matter. Mr. Drew was advised of the problem and was referred to a rival firm.

Regrettably, by the time he consulted them, the applicable limitation period had expired, and the claim could no longer be made against Camden. Consequently, he has filed a claim for compensation against the firm and has also lodged a complaint against the associate with the disciplinary body in the jurisdiction.

No existing policies or procedures of the firm were breached in the handling of the matter. The managing partner, Peter Jones, recognises that this simply indicates that proper follow-up and conflict checking systems need to be put in place. As managing partner, it is his responsibility to ensure that this is done.

He has asked you to assist by sending him another memorandum setting out the characteristics that should be exhibited and any procedures that should be incorporated in any follow-up system and any conflict checking system that the firm implements.

### **Required**


Prepare the memorandum requested. The body of your memorandum must not exceed **1000 words**.



**Question 4**

The managing partner requested from the accountant an explanation for the difference in the bank balances as shown by the bank statement and the bank account in the general ledger.

The bank statement for the month of December 2021 showed a credit balance of \$376,000, however, the bank account in the ledger showed a debit balance of \$232,000.

 <b>LIBERTY COMMERCIAL BANK</b> 52 Business District Lane			<b>BANK STATEMENT</b> Jones Ernest Edwards 32 Long Street		
<b>Statement Period 01/12/21 - 31/12/21</b>					
Date	Description	Cheque Number	Debit	Credit	Baalnce
01-Dec	Opening balance				420,000.00
01-Dec	Little Joes	525	36,000.00		384,000.00
02-Dec	Deposit			60,000.00	444,000.00
03-Dec	M Fold	526	40,000.00		404,000.00
15-Dec	L Ross	527	120,000.00		284,000.00
25-Dec	G Baker	529	80,000.00		204,000.00
29-Dec	Deposit			180,000.00	384,000.00
29-Dec	Standing charges		48,000.00		336,000.00
29-Dec	Wire transfer			52,000.00	388,000.00
31-Dec	Bank charges		12,000.00		376,000.00
Opening balance		Debits & Credits Total Amount		Cheques and Debits Total Amount	
\$420,000		\$292,000.00		\$336,000	
				Current Balance	
				\$376,000	

DR			BANK ACCOUNT			CR		
<i>Date</i>	<i>Particulars</i>	<i>Amount</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount</i>			
2021			2021					
01-Dec	Balance b/wd	420,000.00	01-Dec	Little Joes	36,000.00			
02-Dec	Fees receipt	60,000.00	02-Dec	M. Fold	40,000.00			
04-Dec	Rental receipt	45,000.00	15-Dec	L. Ross	120,000.00			
22-Dec	Commission receipt	180,000.00	22-Dec	G. Baker	80,000.00			
30-Dec	Fees receipt	220,000.00	23-Dec	D. Parks	87,000.00			
			25-Dec	Office Supplies Ltd	330,000.00			
			31-Dec	Balance c/d	232,000.00			
		<u>925,000.00</u>						<u>925,000.00</u>
2022								
01-Jan	Balance b/d	232,000.00						

### Required

- (i) Update the ledger bank account and prepare the bank reconciliation statement as at December 31, 2021.

The firm would like to purchase a computer for \$300,000 and the managing partner is of the view that there are sufficient funds to cover the purchase, as the bank statement is showing a balance of \$376,000.

- (ii) Briefly advise if there are sufficient funds to cover the purchase, giving reasons.

**(40 words)**

## QUESTION 5

### Published Financial Statements

	<b>Richmond Book Traders Ltd</b>		<b>Safe Space Finance House Ltd</b>	
	Statement of Profit or Loss		Statement of Profit or Loss	
	For the year ended 30 April 2022		For the year ended 30 April 2022	
<b>Revenue</b>				
Sales		13,000,000.00		16,000,000.00
less Cost of sales		(7,800,000.00)		(9,750,000.00)
Gross Profit		5,200,000.00		6,250,000.00
<b>Less expenses</b>				
Wages and salaries	850,000.00		1,200,000.00	
Utilities	230,000.00		300,000.00	
Professional fees	145,000.00		1,500,000.00	
Interest expense	15,000.00		80,000.00	
Software licence fee	140,000.00		310,000.00	
Legal fees	728,000.00		940,000.00	
Maintenance expense	502,000.00		120,000.00	
Directors' remuneration	1,870,000.00		550,000.00	
Audit fees	370,000.00		500,000.00	
Depreciation expense	220,000.00		110,000.00	
Total Expenses		5,070,000.00		5,610,000.00
Net Profit before tax		130,000.00		640,000.00
Less corporation tax		(32,500.00)		(160,000.00)
Net profit after tax		97,500.00		480,000.00
<b>Statement of Financial Position</b>				
<b>As at 30 April 2022</b>			<b>As at 30 April 2022</b>	
<b>Non- Current Assets</b>				
Land and building		6,000,000.00		7,000,000.00
Equipment		3,000,000.00		3,000,000.00
Furniture and fixtures		3,320,000.00		1,400,000.00
Motor vehicles		5,000,000.00		4,000,000.00
		17,320,000.00		15,400,000.00
<b>Current Assets</b>				
Inventories	1,300,000.00		-	
Trade receivables	80,000.00		4,000,000.00	
Cash	140,000.00		2,350,000.00	
Cash at bank	260,000.00	1,780,000.00	3,145,000.00	9,495,000.00
<b>Total Assets</b>		<b>19,100,000.00</b>		<b>24,895,000.00</b>
<b>Equity and liabilities</b>				
Share capital [\$1.00]		5,000,000.00		6,000,000.00
General reserve		3,865,000.00		2,674,000.00
Retained earnings	3,000,000.00		4,000,000.00	
Net profit for the year	97,500.00	3,097,500.00	480,000.00	4,480,000.00
		11,962,500.00		13,154,000.00
<b>Non Current Liabilities</b>				
5 year 10% loan		5,500,000.00	10 year 8% loan	7,000,000.00
<b>Current Liabilities</b>				
Short term loan	270,000.00		4,000,000.00	
Trade payables	1,320,000.00		-	
Interest payable	15,000.00		581,000.00	
Taxation payable	32,500.00	1,637,500.00	160,000.00	4,741,000.00
		19,100,000.00		24,895,000.00

Lesley has recently inherited \$2,000,000 and has been investigating the possibility of buying shares as an investment. Initially, she is looking to maximise her income. She is also desirous of ensuring that the company has sufficient liquidity to make dividend payments.

She has researched two companies and has provided the above information based on the latest financial statement for the year ended April 30, 2022.

**Required:**

- (a) Calculate for each entity:
- (i) Gross profit margin
  - (ii) Net profit margin
  - (iii) Current ratio
  - (iv) Earnings per share
  - (v) Gearing ratio
- (b) Evaluate the financial position of both entities using the ratios you have just calculated [**500 words**].
- (c) Suggest two ways in which Richmond Book Traders Ltd. could improve:
- (i) profitability; and
  - (ii) cash ratio

The company uses the following formula to calculate the cash ratio

$$\left[ \frac{\text{Cash balance + bank balance}}{\text{Current Liabilities}} \right]$$

Lesley plans to purchase:

- (i) 500,000 shares in Richmond Book Traders Ltd.
- (ii) 200,000 shares in Safe Space Finance House Ltd.

- d) Calculate the dividend Lesley would expect to receive should each entity decide to declare a dividend of 6 cents per share and 20 cents per share respectively.

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**END OF PAPER**