

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE
SECOND-YEAR EXAMINATIONS, 2005

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(FRIDAY, MAY 27, 2005)

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

Outline the essentials of good management and how they can facilitate the successful operation of a law practice.

QUESTION 2

Johnnie Too-Good is a qualified attorney-at-law and an accountant. He is the Managing Partner of Courage, Prudence, & Too-Good (CPTG), Attorneys-at-Law.

Sureshot Syndicate is the developer of a casino and gaming complex named 'Forbidden City' to be sited at Royal Island. The principals of Sureshot are close friends of Johnnie Too-Good.

Courage, Prudence, & Too-Good are part of a professional team retained by Sureshot to prepare an initial public offering of shares to raise US\$100M financing for the complex.

Johnnie Too-Good prepares, *inter alia*, the documents to incorporate the investment company, a prospectus and consultancy agreements between the principals and the investment company. He also provides advice and assistance of a corporate nature and, given his knowledge and experience, participates in the preparation of the projected earnings of the project.

Johnnie Too-Good renders invoices to Sureshot on behalf of Courage, Prudence, & Too-Good in respect of professional services rendered which although substantial are not exorbitant.

Half way through the project, one of Sureshot's principals, Lady Carrywade, is arrested by Interpol for drug smuggling and money laundering. Sureshot's project collapses. Forensic audits revealed that the projections of earnings were falsified to deceive investors and that the consultancy agreements were used as a cover by the principals of Sureshot to siphon off millions of dollars from the sums raised by the share offer.

Courage, Prudence, & Too-Good and Johnnie Too-Good are joined as defendants in litigation by shareholders who have lost their investments. Johnnie Too-Good is alleged to have knowingly assisted in fraudulent and/or negligent misrepresentations relating to the project and that Courage, Prudence, & Too-Good is vicariously liable for Johnnie Too-Good's conduct.

Johnnie Too-Good strenuously denies any wrongdoing, but before the trial, suffers a heart attack and is placed on a life support machine. Courage, Prudence, & Too-Good's other partners protest their total innocence of the allegations and contend they ought not to be held responsible for the alleged dishonest acts of Johnnie Too-Good.

Advise Courage, Prudence, & Too-Good as to whether they are liable to compensate the shareholders, making reference to any relevant legal principles or case law.

QUESTION 3

Answer either (a) or (b)

- (a) Outline the McKinsey 7 S and SWOT models and show how they can contribute to the competitive advantage of a law firm.
- (b) 'The opposite of satisfaction is not dissatisfaction, but no satisfaction. Similarly, the opposite of dissatisfaction is no dissatisfaction.' Frederick Herzberg et al – The Motivation to Work (1959).

Outline:

- (i) the rationale of the above statement in the context of Herzberg's Motivation-Hygiene Theory; and
 - (ii) the best practices or guidelines to managing people so as to improve the quality and value of their work.
-

QUESTION 4

Summarize:

- (a) how the law attempts to make attorneys-at-law accountable to clients for the handling of clients' funds;
- (b) the best practices or aids with respect to financial management which contribute to well-run law offices.

QUESTION 5

You are the partner of a law firm charged with the responsibility of developing the firm's policies with respect to:

- (a) appraisals of attorneys-at-law and other staff;
- (b) fees for professional services rendered;
- (c) procurement of computerized accounting software.

Outline the criteria and considerations which should inform your approach.

PART B

ACCOUNTING

QUESTION 6

Ball and Kell operate a Gift Shop on the Hip Strip in Western Jamaica. The following information relates to the partnership for the year ended December 31, 2004.

	\$
Capital (Ball)	8,000,000
Capital (Kell)	9,000,000
Partnership Salaries	
Ball	300,000
Kell	400,000
Drawings	
Ball	250,000 (July 1, 2004)
Kell	650,000 (October 1, 2004)

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 \$18,275,000

Current Account balances at January 1, 2004

Ball \$850,000 (Debit)

Kell \$620,000 (Credit)

Ball and Kell made drawings on July 1, 2004 and October 1, 2004 respectively.

Required:

- (i) Prepare the Profit and Loss appropriation account for the year ended December 31, 2004.
- (ii) Prepare the Current Account balances of Ball and Kell at December 31, 2004.
- (iii) Why would a partnership charge interest on the funds withdrawn from the partnership by the partners?
- (iv) List the accounting content of a partnership agreement.

QUESTION 7

The bank columns in the cash book for February 2005 and the bank statement for that month for C. Cole are as follows:

2005 Dr	\$	2005 Cr	\$
Feb 1 Balance b/d	23,790	Feb 5 D. Blake	1,500

Feb 7 B.Green	1,580	Feb 12 J.Gray	4,330
Feb 16 A.Silver	930	Feb 16 B.Stephens	880
Feb 27 M.Brown	3,070	Feb 28 Orange Club	570
Feb 28 K.Black	<u>6,240</u>	Feb 28 Balance c/d	<u>28,330</u>
	35,610		35,610
Mar 1 Balance b/d	28,330		

Bank Statement

2005	Dr	Cr	Balance
	\$	\$	\$
Feb 1 Balance b/d			23,790
Feb 7 Cheque		1,580	25,370
Feb 8 D.Blake	1,500		23,870
Feb 16 Cheque		930	24,800
Feb 17 J.Gray	4,330		20,470
Feb 18 B.Stephens	880		19,590
Feb 27 Cheque		3,070	22,660
Feb 28 Standing Order	440		22,220
Feb 28 Johnson's trader's credit		900	23,120
Feb 28 Bank charges	700		22,420

The standing order reflected on the Bank Statement on February 28, 2005 relates to the payment of insurance premiums.

Required:

- (i) Update the Cash Book.
- (ii) Prepare the Bank Reconciliation as at February 28, 2005
- (iii) What is the purpose of the bank reconciliation statement?

QUESTION 8

Affinity Limited has employed you. Your first assignment is to prepare a Cash Budget for the quarter ending September 30, 2005. 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 one 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	900,000
August	1,200,000
September	1,800,000

- (c) Monthly overheads of \$200,000 are incurred, included in this figure is 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) Salaries of \$250,000 are paid monthly.
- (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, 2005 is expected to be \$1,200,000.

Required:

Prepare a Cash Budget for the quarter ending September 30, 2005

QUESTION 9

The comparative Profit and Loss and Balance Sheet are outlined below for Astaphan Limited.

	2004	2003
	\$M	\$M
Sales	980.00	650.00
Less Cost of sales	<u>735.00</u>	<u>520.00</u>
Gross Profit	245.00	130.00
Less Expenses:		
Selling and Distribution	30.00	20.00
Administration	60.00	50.00
Interest	<u>8.00</u>	<u>6.00</u>
Net Profit before tax	147.00	54.00
Less Taxation	<u>49.00</u>	<u>18.00</u>
Net Profit after tax	98.00	36.00
Transfer to reserves	<u>40.00</u>	<u>16.00</u>
	58.00	20.00
Less Dividends	<u>15.00</u>	<u>5.00</u>
Retained Profits	43.00	15.00

Astaphan Limited
Balance Sheet
As at December 31, 2004

	2004	2003
	\$M	\$M
Net Fixed Assets	48.00	50.00
Current Assets		
Stock	98.00	52.00
Net trade debtors	172.00	48.00
Cash at Bank	63.00	60.00
Cash in hand	<u>2.00</u>	<u>1.00</u>
	335.00	161.00

Less Current Liabilities:

Net trade payables	60.00	30.00
Bank Overdraft	<u>34.00</u>	<u>17.00</u>
Net Current Assets	<u>241.00</u>	<u>114.00</u>
	289.00	164.00

	2004	2003
	\$M	\$M
Capital	169.00	127.00
Reserves	59.00	19.00
Retained Profits	<u>61.00</u>	<u>18.00</u>
	289.00	164.00

Closing Stock at December 31, 2002 is \$100M

Required:

- (a) Compute the following ratios for the years 2003 and 2004
 - (i) Gross Profit Margin
 - (ii) Net Profit Margin
 - (iii) Times Interest Earned
 - (iv) Current Ratio
 - (v) Acid Test Ratio
 - (vi) Stock Turnover
 - (vii) Fixed Asset Turnover

- (b) Group the ratios captioned above into the categories Liquidity, Activity and Profitability. What can be said about the performance of the company between the years 2003 and 2004?