

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE
SECOND YEAR SUPPLEMENTARY EXAMINATIONS, 2018

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(AUGUST 00, 2018)

Instructions to Students

- (a) Time: 3½ hours
- (b) Answer **FIVE** questions, but 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. Erasable pens are not allowed.
- (g) Calculators may be used and are provided.

PLEASE REMAIN SEATED UNTIL YOUR SCRIPT HAS BEEN COLLECTED.

PART A

LAW OFFICE MANAGEMENT AND TECHNOLOGY

QUESTION 1

Answer both (a) and (b)

Henry Simpson is the managing partner of Latham, Grant and Stone, a prominent full-service law firm in your jurisdiction. There are two matters relating to the practice on which, as managing partner, he is required to take the lead, and requires advice. They are as follows:

- (a) Recently, one of the associates gave a professional undertaking in respect of a conveyancing matter which was the cause of great disquiet. Ultimately the firm had had to find money out of its own resources to make up an amount which, by the terms of the letter issued, it had undertaken to pay.

The matter has thrown the risk posed by the giving of professional undertakings into the spotlight.

What approach would you advise Henry to take in respect of this aspect of the law practice, in order to manage the risk posed by the giving of professional undertakings by the firm?

- (b) Hazel Johnson had retained the firm to act for her in a claim filed in respect of a motor vehicle accident in which she was involved.

When Ms Johnson's case was taken on, the usual procedure of circulating a list of new clients and enquiring whether there was any conflict of interest was done, but no alarm was raised. Unfortunately, it turns out that there is a conflict, as a new attorney-at-law recruited by the firm in fact represents the claimant's insurance company. The insurance company is a client which he brought with him to Latham, Grant and Stone.

Again, the issue, though now resolved, has caused the firm to reconsider its approach to the conflict of interest risk to the practice.

What are the characteristics which the system, to be adopted by Henry to minimize the chances of a potential conflict being undetected by the firm, should display?

QUESTION 2

Donna Messina is an attorney-at-law. She practises mainly in the areas of conveyancing and probate, and has a limited commercial practice which includes company formations.

Her conveyancing and probate fees tend to be fixed, and are largely calculated as a percentage of the value of the transaction or the estate, as the case may be. However, some of these services as well as some commercial law matters are billed on a time-spent basis at her hourly rate. The fees for company formations are always fixed.

Donna tries to keep a record of her time for the matters billed on a time-spent basis. Her usual approach is to try and recall the time spent on the matter at the end of each day, though sometimes she forgets and has to do it the following day. When it is done, she places the record on the relevant file. The record is not detailed. The length of a phone call might be noted but not the subject of the call. Notations in relation to meetings are similarly devoid of information as to anything other than the length of the meeting. Donna does not believe it makes any sense to record time spent on matters for which the fees are fixed and does not do so.

Donna's standard bill simply indicates the nature of the matter and reads "for services rendered.....\$xxxxxxx". Bills are delivered every six weeks in respect of matters completed within the period. Clients constantly call with enquiries about the fees charged, and there is a time lapse of about two months between the rendering of each bill and payment by the client.

You were employed by Donna as an associate a year ago and have been observing the situation described above with some concern. You have decided to share your concern with her by way of a diplomatically worded memorandum.

Prepare a memorandum to Donna with respect to any improvements she could make to her approach to time recording and billing, in light of your understanding of best practice in these areas, being careful to explain why the changes suggested would inure to her benefit.

QUESTION 3

Jackie is a very young attorney-at-law who was called to the Bar in 2015. Since then, she has been working in the public service but plans to resign and to enter private practice as soon as possible.

Jackie has two options open to her in terms of a practice location. The first is an empty one-bedroom flat which forms an addition to a home owned and occupied by Jackie's parents. Jackie also lives there, and it is located in a mixed residential and commercial area of the capital.

Jackie's mother does not work. She is the chief caregiver for Jackie's small nieces and nephews. As such, she collects them from nursery school each day and keeps them with her at home until they are collected by their parents.

The second option is a shared office space with a family friend, Thomas, a land surveyor. Thomas has a lease of a floor of a small building downtown. He utilizes one of four offices on the floor as well as some of the open area outside those offices.

Advise Jackie of the factors she should consider in determining which, if any, of these locations is suitable for her practice.

QUESTION 4

Keisha and Kevin are six-year graduates of the Norman Manley Law School and have been in private practice, in partnership, for about four years. The last twelve months have been trying ones for the young partnership.

One of their elderly clients, Gwyneth Roberts, tripped on a leg of a table and fell outside the door to Keisha's office. She suffered an injury to her back and fractured bones in her foot, as a consequence. Between the cost of X-rays, treatment and specialist doctor's visits, the firm had to expend a substantial sum, which she seems to be content to take by way of compensation.

This incident was followed, a few months later, by a horrible slip-up by Kevin who missed a date for filing a claim. He had incorrectly identified when the limitation period started to run. Once again, the firm had had to pay a tidy sum to the client by way of a settlement of her claim for damages in connection with the matter.

Keisha and Kevin used to believe that insurance was something they could not afford but are now inclined to think that what they cannot afford is not having any insurance. They have therefore sought your advice on:

- (i) the types of insurance they should consider taking out which would likely have given them some protection from the losses suffered over the last twelve months; and
- (ii) the purpose of such insurance and the liability covered, including any limits to the events or circumstances typically covered by each type of insurance of which Keisha and Kevin ought to be aware.

Advise them.

QUESTION 5

Jonah graduated from law school two years ago, and is in the throes of preparing for examinations for a master of laws degree from an overseas university.

Reading for this higher degree has postponed his admission to the Bar, as well as a decision on the way in which he will pursue his legal career. The question uppermost in his mind is whether he will "hang up his shingle" as a sole practitioner, or look for employment with a firm or the legal department of some private sector company.

He has further pondered what would be involved if he were to become a sole practitioner, including the bank accounts that he would need to open.

Advise Jonah on:

- (i) the factors he should take into account in deciding whether to “hang up his shingle” as a sole practitioner or take a job with a firm or company; and
- (ii) were he to set up a law practice, the type of bank accounts which he should open for the practice, giving reasons.

PART B
ACCOUNTING

QUESTION 6

The following trial balance was prepared for B. Brown at December 31, 2017:

	\$	\$
Opening Stock	750,000	
Purchases	3,750,000	
Carriage in	25,000	
Sales Return	150,000	
Insurance	100,000	
Rent	150,000	
Miscellaneous expenses	7,500	
Stationery	92,500	
Plant and machinery at cost	1,750,000	
Building	3,000,000	
Equipment	4,000,000	
Fixtures and fittings	2,500,000	
Motor vehicles	1,500,000	
Accounts receivable	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
Purchase returns		50,000
Capital		4,675,000
Discount received		50,000
Bad debt recovered		500,000
Accounts payable		4,000,000
	<u>27,275,000</u>	<u>27,275,000</u>

The following items are to be accounted for:

- (a) Stock at December 31, 2017 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 and 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, 2017:

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, 2017.
- (ii) Prepare the Statement of Financial Position as at December 31, 2017.

QUESTION 7

Brown and Smith operate a supermarket. The following information relates to the partnership for the year ended December 31, 2017:

	\$
Capital (Brown)	4,000,000
Capital (Smith)	4,500,000
Partnership Salaries	
Brown	150,000
Smith	200,000
Drawings	
Brown	125,000 (July 1, 2017)
Smith	325,000 (October 1, 2017)
Interest on Drawings	10% per annum
Interest on Capital	8% per annum

Profits 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, 2017

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

Brown and Smith made drawings on July 1, 2017 and October 1, 2017 respectively.

Required:

- (i) Prepare the Profit and Loss Appropriation account for the year ended December 31, 2017.
- (ii) Prepare the Current Account balances of Brown and Smith at December 31, 2017.

(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 June 2017 and the Bank Statement for that month for Abe Absolam are as follows:

2017	Dr	\$	2017	Cr	\$
June 1	Balance b/d	11,895	June 5	D. Blake	750
June 7	B. Green	790	June 12	J. Gray	2,165
June 16	A. Silver	465	June 16	B. Stephens	440
June 27	M. Brown	1,535	June 28	Orange Club	285
June 28	K. Black	<u>3,120</u>	June 30	Balance c/d	<u>14,165</u>
		17,805			17,805
July 1	Balance b/d	14,165			

Bank Statement

2017	Dr	Cr	Balance
	\$	\$	\$
June 1	Balance b/d		11,895
June 7	Cheque	790	12,685
June 8	D.Blake	750	11,935
June 16	Cheque	465	12,400
June 17	J.Gray	2,165	10,235
June 18	B.Stephens	440	9,795
June 27	Cheque	1,535	11,330
June 28	Standing Order	220	11,110
June 28	Johnson's trader's credit	450	11,560
June 30	Bank charges	350	11,210

The standing order reflected on the Bank Statement on June 28, 2017 relates to the payment of insurance premiums.

Required:

- (i) Update the Cash Book at June 30, 2017.
 - (ii) Prepare the Bank Reconciliation Statement as at June 30, 2017
 - (iii) What is the purpose of a bank reconciliation statement?
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QUESTION 9

Black Shoal Limited has employed Quante Adibe, who has just graduated from Richard Ivey School of Business with a MBA, as a Budget Analyst. Her first assignment is to prepare a cash budget for the quarter ending December 31, 2018. The following items are to be used to inform the preparation of the budget:

- (a) The following sales represent forecasted sales:

	\$
October	7,000,000
November	8,000,000
December	10,000,000

The company has the policy of allowing 80% of its sales as credit sales. The customers pay one month after the sale. Cash sales represent 20% of the total sales.

- (b) The company negotiates with its suppliers one month's credit on 70% of its purchases. The remainder represents cash purchases. The following purchases were made during the quarter:

	\$
October	3,800,000
November	4,400,000
December	5,600,000

- (c) Monthly overheads of \$800,000 are incurred, and included in this figure is depreciation of \$160,000. Overheads are paid on a monthly basis.

- (d) The directors have agreed to inject capital of \$38,000,000 in November.
- (e) The company has decided to pay dividends of \$500,000 to its shareholders in December.
- (f) As a part of the company's policy of fiscal prudence the company has decided to invest \$15,000,000 in Government Paper in December.
- (g) Monthly salaries of \$700,000 are paid when incurred.
- (h) The company expects to receive dividends of \$8,000,000 from Squirrel Holdings Limited in October.
- (i) The company purchased a motor vehicle in November costing \$800,000, and 50% of the cost is to be paid immediately and the remainder one month later.
- (j) Company profit tax of \$1,400,000 is to be paid in March, June, September and December.
- (k) The company plans to repay the balance on its loan with Financial Commercial Bank. The outstanding principal is \$3,000,000 and the interest accruing is \$200,000. It is expected that principal and interest will be repaid in November.
- (l) The balance of cash on October 1, 2018 is expected to be \$3,500,000.

Required:

Prepare a cash budget for the quarter ending December 31, 2018.

END OF PAPER