

COUNCIL OF LEGAL EDUCATION  
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE  
SECOND YEAR SUPPLEMENTARY EXAMINATIONS, 2016

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(AUGUST ,2016)

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.
- (g) Calculators may be used and are provided.

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**PLEASE REMAIN SEATED UNTIL YOUR SCRIPT HAS BEEN COLLECTED.**

## **PART A**

### **LAW OFFICE MANAGEMENT AND TECHNOLOGY**

#### **QUESTION 1**

You are making a presentation, at a continuing legal professional development seminar, on the features of a file management system for the law office.

Prepare an outline of those sections of your presentation concerning:

- (i) the opening of client files, making sure to include the contents of any standard form which you would utilize in the process; and
  - (ii) the storage of client files.
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#### **QUESTION 2**

Halley and Kelly have been dreaming about practising law in partnership with each other since the first year of their law degree programme. On graduation from law school, they returned to the government jobs they had prior to commencing their legal studies, and continued to make their plans.

They now believe that they have honed in on their practice niche as well as their target market. Their plans will require some external financing and a casual conversation with Halley's father, a middle manager at a local commercial bank, ended with him strongly advising them to prepare a business plan before approaching any financial institution for assistance. They are balking somewhat at the idea of preparing one, but he is quite insistent.

Halley and Kelly are meeting with you for coffee and to discuss the matter. Prepare notes on what you will tell them:

- (i) to persuade them of the value of preparing a business plan; and
- (ii) concerning the recommended content of such a plan.

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### **QUESTION 3**

Missing a limitation period can spell disaster in a law practice, as indeed can an undetected conflict of interest. Jack Sprat and Olive Oyl, attorneys-at-law and partners in the firm of Sprat and Oyl, were recently painfully reminded of these truths.

Last week, the final date for filing a claim in GoldyLochs's personal injury claim passed, unnoticed by Sprat and his assistant, without the claim having been filed. On the same day that this was discovered, Oyl received a strong letter from Dominion Company Limited, a client for which she is acting in the sale of certain business assets. In the letter, the company expressed their alarm and displeasure at information received by them concerning a matter in which Sprat is engaged. In fact, Sprat is acting on behalf of National Bank which is seeking an order for the sale of some of those said assets to satisfy debts owed to the bank by Dominion.

You are an associate attorney-at-law employed to the firm.

Prepare a memorandum to Mr Sprat and Miss Oyl:

- (i) suggesting systems which could be implemented to mitigate the risks presented by missing limitation periods and other critical dates, as well as conflict of interest situations; and
- (ii) setting out the characteristics which these systems should have in order to be considered satisfactory.

#### **QUESTION 4**

On three occasions last year, the firm for which you work was forced to settle with clients for mistakes made by partners or members of staff in the handling of their legal affairs. These mistakes resulted in the clients suffering financial loss.

In addition to other measures which it is taking to address this situation, the firm is contemplating procuring professional indemnity insurance.

Keith Grant, the partner to whom you are assigned, has been given the task of briefing the other partners on the matter and he has asked you for assistance.

Prepare a memorandum to Mr Grant, setting out the salient features of this type of insurance cover, including:

- (i) the acts (or omissions) for which coverage is provided, including whose acts (or omissions) are covered;
  - (ii) the ways in which amounts payable on claims are determined and in which any limit is set on such payments; and
  - (iii) the extensions of cover which, though not usual, may be negotiated with the insurance company, and which the firm may wish to consider.
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#### **QUESTION 5**

Helena, Jolene and Krisann graduated from law school three years ago, and now propose to “strike out” on their own from their respective places of employment. They are in the midst of preparing themselves for private practice as a firm and, as a part of that preparation, are looking at what needs to be done from a human resource management perspective.

You are Jolene’s friend and she has asked you to remind her of the approach they should take in respect of the following:

- (i) planning their human resource requirements;
- (ii) determining job descriptions for posts; and
- (iii) assessing and selecting staff members.

Prepare an email message to Jolene, setting out the information required.

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**PART B**  
**ACCOUNTING**

**QUESTION 6**

The following Trial Balance is presented for a sole proprietor trading as Xanta at March 31, 2016:

|                        | \$mn   | \$mn |
|------------------------|--------|------|
| Opening Stock          | 45.00  |      |
| Purchases              | 630.00 |      |
| Sales Return           | 23.00  |      |
| Carriage inwards       | 7.00   |      |
| Miscellaneous expenses | 2.00   |      |
| Wages and salaries     | 65.00  |      |
| Insurance              | 20.00  |      |
| Carriage out           | 9.00   |      |
| Rent                   | 12.00  |      |
| Utilities              | 10.00  |      |
| Stationery             | 4.00   |      |
| Discount allowed       | 6.00   |      |
| Bad debts              | 9.25   |      |
| Motor expenses         | 1.00   |      |
| Postage                | 1.00   |      |
| Interest expense       | 0.25   |      |

|                         | \$mn   | \$mn     |
|-------------------------|--------|----------|
| Drawings                | 4.50   |          |
| Plant and machinery     | 95.00  |          |
| Motor vehicles          | 12.00  |          |
| Furniture and fittings  | 32.00  |          |
| Trade debtors           | 58.00  |          |
| Cash at bank            | 72.00  |          |
| Cash in hand            | 1.00   |          |
| Computer equipment      | 75.00  |          |
| Buildings               | 680.00 |          |
| Land                    | 600.00 |          |
| Short-term investments  | 62.00  |          |
| Sales                   |        | 1,358.00 |
| Purchase returns        |        | 4.00     |
| Investment income       |        | 22.00    |
| Discount received       |        | 5.00     |
| Provision for bad debts |        | 7.00     |
| Rental income           |        | 28.00    |
| Capital                 |        | 969.30   |

**Provision for depreciation:**

|                        |                 |                 |
|------------------------|-----------------|-----------------|
| Plant and machinery    |                 | 19.00           |
| Motor vehicles         |                 | 4.80            |
| Furniture and fittings |                 | 6.40            |
| Computer equipment     |                 | 25.00           |
| Buildings              |                 | 51.00           |
| Loan                   |                 | 1.50            |
| Trade creditors        |                 | <u>35.00</u>    |
|                        | <u>2,536.00</u> | <u>2,536.00</u> |

The following additional information was also available at March 31, 2016:

- (i) Stock at March 31, 2016 was \$42.00mn.
- (ii) During the year the proprietor withdrew goods valued at \$10.00mn from the business for his personal use.
- (iii) The following sums are unpaid at March 31, 2016:

|            |          |
|------------|----------|
| Rent       | \$3.00mn |
| Utilities  | \$1.00mn |
| Stationery | \$0.50mn |
- (iv) Insurance amounting to \$7.00mn was prepaid at March 31, 2016.
- (v) Xanta has estimated that its provision for bad debts will be 10% of trade debtors.
- (vi) The following estimates relate to the lives of the assets listed below: (The proprietor uses the straight line method of depreciation).

|                     |         |
|---------------------|---------|
| Plant and machinery | 5 years |
| Motor vehicles      | 5 years |



|                        |          |
|------------------------|----------|
| Furniture and fittings | 5 years  |
| Computer equipment     | 3 years  |
| Buildings              | 40 years |

(vii) \$0.50mn of the outstanding loan balance is scheduled to be repaid in August 2016.

The payment following that is expected to be made in August 2017.

**Required:**

- (a) Prepare the Statement of Comprehensive Income for Xanta for the year ended March 31, 2016.
- (b) Prepare the Statement of Financial Position for Xanta as at March 31, 2016.

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**QUESTION 7**

The information given below relates to transactions recorded by Christus Limited in its bank account with Security Commercial Bank for the month of February 2016:

| <b>2016</b> |                 | <b>\$</b>        | <b>2016</b> |                      | <b>\$</b>        |
|-------------|-----------------|------------------|-------------|----------------------|------------------|
| Feb 1       | Balance b/d     | 650,000          | Feb 4       | Salaries a/c         | 100,000          |
| Feb 5       | Sales a/c       | 750,000          | Feb 6       | Repairs a/c          | 70,000           |
| Feb 9       | Rent a/c        | 250,000          | Feb 10      | Insurance a/c        | 35,000           |
| Feb 15      | Sales a/c       | 500,000          | Feb 20      | Salaries             | 100,000          |
| Feb 25      | Dividend Income | 325,000          | Feb 26      | Interest expense a/c | 95,000           |
| Feb 27      | Rent a/c        | 750,000          | Feb 28      | Utilities a/c        | 50,000           |
|             |                 | <hr/>            | Feb 28      | Balance c/d          | <u>2,775,000</u> |
|             |                 | <u>3,225,000</u> |             |                      | <u>3,225,000</u> |
| March 1     | Balance b/d     | 2,775,000        |             |                      |                  |

The bank statement for Christus Limited from Security Commercial Bank for the month of February 2016 is given below:

|         | <b>Debit</b> | <b>Credit</b> | <b>Balance</b> |
|---------|--------------|---------------|----------------|
|         | <b>\$</b>    | <b>\$</b>     | <b>\$</b>      |
| Feb. 1  |              |               | 650,000        |
| Feb. 4  | 100,000      |               | 550,000        |
| Feb. 5  |              | 750,000       | 1,300,000      |
| Feb. 6  | 70,000       |               | 1,230,000      |
| Feb. 9  |              | 250,000       | 1,480,000      |
| Feb. 10 | 35,000       |               | 1,445,000      |
| Feb. 15 |              | 500,000       | 1,945,000      |
| Feb. 20 | 100,000      |               | 1,845,000      |
| Feb. 26 | 95,000       |               | 1,750,000      |
| Feb. 27 | 350,000      |               | 1,400,000      |
| Feb. 28 | 25,000       |               | 1,375,000      |

The transaction recorded in the bank statement on February 27 relates to a standing order for subscriptions to the Australian Law Journal. The amount has not yet been entered in the company's bank account.

The transaction recorded on the bank statement on February 28 relates to bank charges for the month of February.

**Required:**

- (i) Prepare the updated bank account at February 28, 2016.
  - (ii) Prepare the bank reconciliation as at February 28, 2016.
  - (iii) What is the purpose of the bank reconciliation statement?
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**QUESTION 8**

The financial records of the partnership of Mann, Phel and Philop reflect the following for the year ended December 31, 2015:

**Capital:**

|        |           |
|--------|-----------|
| Mann   | \$70.00mn |
| Phel   | \$85.00mn |
| Philop | \$30.00mn |

**Drawings:**

|        |           |
|--------|-----------|
| Mann   | \$10.00mn |
| Phel   | \$ 8.00mn |
| Philop | \$ 2.00mn |

**Partners' Salaries:**

|            |            |
|------------|------------|
| Mann       | \$ 5.00mn  |
| Phel       | \$12.00mn  |
| Philop     | \$ 4.00mn  |
| Net Profit | \$950.00mn |

Balance on January 1, 2015 in the Current Account:

|        |                   |
|--------|-------------------|
| Mann   | \$15.00mn (Debit) |
| Phel   | \$6.00mn (Debit)  |
| Philop | \$7.00mn (Debit)  |

The partners have agreed on the following:

- (i) that interest is to be paid at a rate of 10% per annum on capital;
- (ii) that interest is to be charged at 15% per annum on Drawings; and
- (iii) that profit or losses will be shared in the ratio 40% :30% :30%.

**Required:**

- (a) Prepare the Profit and Loss Appropriation Account for the year ended December 31, 2015.
- (b) Prepare the Current Accounts for the partners at December 31, 2015.

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**QUESTION 9**

The summarized comparative financial statements of Magdalene Limited are shown below:

|                    | 2015 |               | 2014 |               |
|--------------------|------|---------------|------|---------------|
|                    | \$mn | \$mn          | \$mn | \$mn          |
| Sales              |      | 980.00        |      | 750.00        |
| Cost of Goods Sold |      | <u>784.00</u> |      | <u>675.00</u> |
| Gross Profit:      |      | 196.00        |      | 75.00         |

Less:

|                             |              |              |              |
|-----------------------------|--------------|--------------|--------------|
| Administration<br>Overheads | 14.00        | 12.00        |              |
| Distribution<br>Overheads   | <u>20.00</u> | <u>16.00</u> |              |
|                             | <u>34.00</u> |              | <u>28.00</u> |
| Operating Profit            | 162.00       |              | 47.00        |
| Interest Income             | <u>4.00</u>  |              | <u>16.00</u> |
| Profit before tax           | 166.00       |              | 63.00        |
| Tax                         | <u>41.50</u> |              | <u>15.75</u> |
| Profit after Tax            | 124.50       |              | 47.25        |

**Magdalene Limited**

**Statements of Financial Position as at December 31, 2015 and 2014**

|  | <b>2015</b>   | <b>2014</b>   |
|--|---------------|---------------|
|  | <b>\$mn</b>   | <b>\$mn</b>   |
| Non-Current Assets                         | 582.00        | 253.00        |
| Current Assets                             | <u>218.00</u> | <u>147.00</u> |
| Total Assets                               | 800.00        | 400.00        |
| Liabilities and shareholders' equity       |               |               |
| Current Liabilities                        | 300.00        | 227.00        |
| Non-current liabilities                    | 145.00        | 80.00         |
| Shareholders' equity                       | <u>355.00</u> | <u>93.00</u>  |
| Total Liabilities and shareholders' equity | 800.00        | 400.00        |

**Required:**

- (i) Calculate the following ratios for Magdalene Limited for 2014 and 2015:
  - a. gross profit-to-sales ratio
  - b. net profit-to-sales ratio
  - c. asset turnover
  - d. return on assets
  - e. return on equity
  
- (ii) What comments can be made about the financial health of Magdalene Limited?

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**END OF PAPER**