COUNCIL OF LEGAL EDUCATION

NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE

SECOND-YEAR SUPPLEMENTARY EXAMINATIONS, 2004

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(TUESDAY, AUGUST 3, 2004)

Instructions to Students

(a) Time: **3 ½ hours**

(b) Answer **FIVE** questions, not more than **THREE** questions 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 concept and functions of management and show how the Porter Five Forces Model can be used to enhance the competitive advantage of a law firm.

QUESTION 2

Outline –

(a) the concept and elements of a clients' trust account and its proper operation;

(b) the best practices an attorney should follow with respect to fees for professional services rendered.

QUESTION 3

Show how a business plan can enhance the prospects of a start up law firm.

QUESTION 4

Outline –

(a) how Mazlow's Theory of Needs or Herzberg's Two Factor Theory is relevant to operation of a law practice;

(b) the skills and characteristics which make for a rounded professional person.

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QUESTION 5

How can a law firm harness developments in information technology and electronic commerce to deliver higher quality lower cost professional services?

PART B

ACCOUNTING

QUESTION 6

According to the Cash Book of Telfer Limited the company has a debit balance of $190,000 on June 30,2004, but this is not borne out by the Bank Statement for the same period which reflected a credit balance of $303,150. An investigation into the difference yields the following information:

(i) a standing order of $20,000 had been paid by the bank on June 30 but no entry had been made in the cash book;

(ii) a cheque paid for advertising on June 25 for $14,000 had been entered in the cash book as $41,000;

(iii) cheques for $51,850 sent to creditors on June 30 were not paid by the bank until July 6;

(iv) lodgements of $50,000 were made on June 30 but were not credited by the bank until July 1;

(v) on June 20 a cheque for $5,700 was received from a customer in settlement of an invoice for $6,000 and lodged in the bank. An entry of $6,000 had been made in the cash book;

(vi) included with the June statement was a cheque for $900 received from Tavel Awinkle a customer of Telfer Limited. This cheque was marked NSF- Not Sufficient Funds. The credit entry on the bank statement has been reversed but the reversal has not been made in the cash book;

(vii) a cheque belonging to Serafin Limited in the amount of $3,000 was returned in the batch of returned cheques of Telfer Limited. When the Accounting Clerk at Telfer Limited perused the bank statement it was discovered that the cheque amount of $3,000 was debited on the statement;

(viii) bank charges of $1,500 were not entered in the cash book of Telfer Limited;

(ix) proceeds of a bank loan amounting to $110,000 were reflected in the bank statement for June but have not been recorded in the cash book.

Required:

(a) Prepare the Bank Reconciliation Statement at June 30,2004;

(b) What are some of the factors which may give rise to the disagreement between the balance as per cash book and balance as per bank statement?

(c) What is the purpose of the bank reconciliation?

QUESTION 7

Pilin Leon has just graduated from Pennsylvania University with an MBA in Finance. She has been employed by a leading retail house in the region as the Budget Analyst. Her first assignment is to prepare the budget for the last quarter of the year.

The following Balance Sheet represents the assets, liabilities and equity as at September 30,2004.

Fixed Assets	**\$M**	**\$M**
Land		30.00
Plant & Machinery at cost	37.50	
Less Accumulated Depreciation	15.00	
Net Book Value		22.50
Motor Vehicles at Cost	30.00	
Less Accumulated Depreciation	9.00	
Net Book value		21.00
Total Fixed Assets		**73.50**
Current Assets		
Inventory	28.00	
Debtors	15.00	
Investments	100.00	
Cash at Bank	38.00	
	181.00	

Less Current Liabilities	$M		
Trade Accounts Payable	8.00		
Accrued Admin. Expenses	4.00		
		12.00	
Net Current Assets			**169.00**
			242.50

Share Capital	100.00		
General Reserves	125.00		
Retained Earnings	15.50		
Total Equity	240.50		
Long- term Liabilities			
Mortgage	2.00		
			242.50

(a) The company has the following policy with respect to its customers. 80% of the sales in a given month is collected in that month. A 10% discount is granted on these collections. The remaining 20% is collected in the following month. The following sales were generated -

October	$140.00M
November	$300.00M
December	$200.00M

(b) The following purchases are expected to be made –

October	$120.00M
November	$240.00M
December	$180.00M

The company has successfully negotiated two months credit from its suppliers along with a 10% discount. The trade accounts payable is to be paid in November.

(c) It is expected that the directors of the company will inject capital of $300.00M in the business in October.

(d) The company is expected to pay off the outstanding mortgage in December

(e) The directors have agreed to the purchase of a residence for the Executive Chairman for $50.00M in "The Hamptons". This is to be paid for in November.

(f) It is expected that the official residence of the Managing Director will be refurbished and landscaped at a cost of $45.00M. The refurbishing exercise is expected to take five months and is scheduled to begin in December. In that month 90% of the proposed cost of refurbishing is to be disbursed to Interior Decorators Incorporated. The remainder will be paid when the job has been satisfactorily completed.

(g) The company has retained the services of the legal firm Walters, Jones and Theoc and have agreed to pay a retainer of $30.00M in November.

(h) The company is to receive interest income of $1.00M quarterly on its investment in Government paper in December, March, June and September.

(i) The company is to receive commissions of $15.00M in the following manner –

October	$6.25M
November	$5.00M
December	$3.75M

(j) The directors plan to declare dividends of $17.50M in October and pay it in November. In addition the directors have agreed to transfer $5.00M from the profit and loss appropriation account to the general reserves of the company in January.

(k) Administrative expenses are $5.00M monthly and are paid one month after being incurred. This figure includes monthly depreciation of $1.00M.

Required:

(a) Prepare a cash budget for the quarter ending December 31, 2004;

(b) What are some of the strengths and weaknesses highlighted in the information used to prepare the budget?

(c) What are some of the limitations of cash budgeting?

QUESTION 8

McKain and Stone own a Beauty Spa and Salon. The first financial year ended on June 30, 2004.

The following balances were taken from the books on that date –

Capital	$3,000,000 McKain	(July 1, 2003)
Capital	$2,400,000 Stone	(July 1, 2003)

Partnership salaries:

McKain	$450,000
Stone	$300,000

Drawings:

McKain	$64,300
Stone	$67,000

Current Account Balance at July 1, 2003

McKain	$50,000 (Debit)
Stone	$62,500 (Credit)

The partnership's net profit for the year was $1,642,000

Interest on capital is to be allowed at 10% per year.

Profit and losses are to be shared equally.

Required:

(a) From the information above prepare the firm's appropriation account and the partners' current accounts for year ended June 30,2004;

(b) In partnership accounts what is the purpose of preparing:

(i) a profit and loss account?

(ii) a profit and loss appropriation account?

(c) Why in many partnerships are current accounts prepared as well as capital accounts?

(d) What do the debit and credit balances in the current accounts of McKain and Stone respectively at July 1, 2003 mean?

(e) In partnership accounts why is:

  (i) interest allowed on capital;

  (ii) interest charged on drawings.

QUESTION 9

The following trial balance relates to Beverly North at June 30,2004

	$M	$M
Wages & Salaries	14.50	
Insurance expenses	0.45	
Discount allowed	0.50	
Utilities	0.75	
Office expenses	0.50	
Bad debts	0.45	
General expenses	1.25	
Stationery & Printing	1.50	
Travelling expenses	2.50	
Entertainment	2.00	
Interest expenses	6.00	
Purchases	176.285	
Opening Stock	125.00	
Sales returns	2.50	
Land & Buildings at cost	350.00	
Plant & Machinery at cost	75.00	
Computer equipment at cost	20.00	
Motor Vehicles at cost	6.00	

Debtors	450.00	
Short- term investments	50.00	
Cash at Bank	4.50	
Cash in hand	0.015	
Sales		497.50
Investment Income		5.00
Discount Received		2.50
Commission Received		4.00
Rental Income		0.50
Provision for depreciation:		
Buildings		90.00
Plant & Machinery		22.50
Computer equipment		4.00
Motor Vehicles		1.20
Trade Accounts Payable		125.00
Short- term loan		75.00
Capital		499.50
Provision for bad debts		3.00
Drawings	40.00	
	1329.70	**1329.70**

(i) The closing stock is $75.00M.

(ii) Mr. Jones withdrew goods valued at $1.285M for his personal use.

(iii) The following amounts were owing at June 30, 2004 wages and salaries $0.50M and office expenses $0.50M.

(iv) Investment income receivable amounts to $2.50M.

(v) Prepaid insurance at June 30, 2004 is $0.15M

(vi) Provision for bad debts represents 1% of debtors.

(vii) Beverly North uses the straight-line method of depreciation.

Asset	**life of asset**
Building	15 years
Plant & Machinery	5 years
Computer equipment	5 years
Motor Vehicles	5 years

Land is valued at $50.00M.

Required:

(a) Prepare the Trading and Profit & Loss Account for Beverly North for year ended June 30, 2004.

(b) A Balance Sheet as at June 30, 2004