

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE
SECOND YEAR SUPPLEMENTARY EXAMINATIONS 2023

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY
(FRIDAY, AUGUST 04, 2023)

Instructions to Students

- (a) Time: 3½ hours
- (b) Answer **ALL** questions.
- (c) Answer Part A and Part B on separate answer booklets.
- (d) In answering any question, 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.**
- (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
ACCOUNTING

QUESTION 1

Lester Keys and Shirley Letts decided to operate a partnership under the partnership name Keys & Letts, Attorneys-at-Law.

The partners hired an accountant and provided the following information for the first year of business.

The partnership agreed a Financial Year of April to March each year.

Budget for the 12-month period

Planned Cash Inflows Year 1

Fee Income	12,000,000
Commission Income	6,000,000
Rental Income	2,400,000
Initial Capital Injection	
Lester Keys	4,800,000
Shirley Lets	3,200,000
Investment Income	600,000

Planned Expenditure & Estimated Charges

Non-Current Asset	\$
Motor Van acquisition	3, 600,000
Office Furniture	700,000
Office Equipment	800,000
Library materials	600,000
Expenses	
Stationery	120,000
Utilities	360 000
General	
Overheads	120,000
Training	180,000
Rental of premises	1,464,000
Salaries & payroll emoluments	8,300,000
Other Payments	
Estimated Taxes	2,490,000
Investment JKL Merchant Bank	1,680,000
Depreciation Charges	1,530,000
Projected Drawings (Annual Amount)	
Lester Keys	200,000
Shirley Letts	130,000

To facilitate the opening of the bank account for the partnership, the partners have agreed to deposit \$10,000 each, which will be repaid at the end of the first year.

Required:

Using the projected numbers in the annual budget, prepare a budget for the first three months of year 1 taking into consideration the following timelines.

- (1) The Partners' capital was paid in the month of April.
 - (2) 50% Commission Income was received in the first three months in equal amounts.
 - (3) Rental Income is expected to be paid on the 1st of each month.
 - (4) 40% Investment Income will be received in the 3rd month of this budget period.
 - (5) The motor van and furniture were purchased in May and paid for 50% in May and 50% in the following month.
 - (6) The office equipment and library materials were purchased in June for cash.
 - All expenses accrue evenly over the 12-month period and paid as incurred.
 - The payroll taxes are to be paid in the month following the month in which salaries are paid.
 - \$750,000 of the projected investment will be made in May.
 - The drawings by the partners are expected to be taken in equal monthly instalments.
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QUESTION 2

- (1) At the end of the first year, Keys & Letts, Attorneys-at-Law made a net profit of \$900,000.
- (2) It was agreed that salaries to partners were:
 - (i) Lester Keys \$50,000
 - (ii) Shirley Letts \$40,000
- (3) Interest on capital to be paid at the rate of 10% per annum.
- (4) Interest on drawings to be charged at the rate of 8% per annum. The drawings were taken as follows:
 - Lester Keys in July
 - Shirley Letts in October
- (5) The Partnership Agreement provided for profits and losses to be shared in the ratio of 60:40 between Lester Keys and Shirley Letts respectively.

Required:

- (a) Prepare Partnership appropriation and current account for each partner.
The partners, having reviewed the firm's cash position expressed some concerns on its viability.

Following a strategic retreat, the accountant provided the extract of the financial statements of two partnership entities. Both firms provided professional services and have been operating for three years.

The partners are looking to maximize their income and have asked for an evaluation of the two entities noted below.

	BRAGGS & BROWN PARTNERSHIP		LUCAS AND LAKE PARTNERSHIP	
	STATEMENT OF PROFIT OR LOSS YEAR ENDED 31 DECEMBER 2022		STATEMENT OF PROFIT OR LOSS YEAR ENDED 31 DECEMBER 2022	
Fee Income		2,000,000.00		2,700,000.00
Investment Income		740,000.00		240,000.00
		<u>2,740,000.00</u>		<u>2,940,000.00</u>
Less expenses				
Staff emoluments	800,000.00		970,000.00	
Software fee	200,000.00		400,000.00	
Maintenance fee	370,000.00		320,000.00	
Interest expense	120,000.00		650,000.00	
Miscellaneous overheads	600,000.00		260,000.00	
Total expenses		<u>2,090,000.00</u>		<u>2,600,000.00</u>
Net Profit		650,000.00		340,000.00
	BRAGGS & BROWN SOFP EXTRACT		LUCAS AND LAKE SOFP EXTRACT	
NON CURRENT ASSETS				
Land and Building		2,000,000.00		3,200,000.00
Plant and Machinery		720,000.00		630,000.00
Motor vehicles		1,250,000.00		1,050,000.00
		<u>3,970,000.00</u>		<u>4,880,000.00</u>
CURRENT ASSETS				
Receivables	800,000.00		1,600,000.00	
Short Term Investment	970,000.00		900,000.00	
Cash and cash at bank	400,000.00	2,170,000.00	200,000.00	2,700,000.00
TOTAL ASSETS		<u>6,140,000.00</u>		<u>7,580,000.00</u>
EQUITY AND LIABILITIES				
Partnership capital		4,500,000.00		3,600,000.00
Partners current account		370,000.00		370,000.00
		<u>4,870,000.00</u>		<u>3,970,000.00</u>
NON CURRENT LIABILITIES				
Long term loan		500,000.00		2,900,000.00
CURRENT LIABILITIES				
Payables	600,000.00		710,000.00	
Short term loan	170,000.00	770,000.00	-	710,000.00
		<u>6,140,000.00</u>		<u>7,580,000.00</u>

Required:

- (b) Calculate for each entity
 - (i) Gross profit margin
 - (ii) Net profit margin
 - (iii) Current ratio
 - (iv) Gearing ratio

 - (c) Evaluate the financial performance of both entities using the ratios you have just calculated.
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PART B

LAW OFFICE MANAGEMENT AND TECHNOLOGY

(This Part must be answered on a new answer booklet and titled Part B)

QUESTION 3

Hughes and Barnett is a relatively new full-service law firm in your jurisdiction, having been established some ten years ago. You are an associate attorney-at-law at the firm and Kara Miller is its managing partner and your supervisor.

Ms. Miller has noticed that the office is looking cluttered and untidy. Files are being left in areas not intended for such use, and it is no longer the pristine law office that it was when they started the firm. Ms. Miller asked the office administrator to investigate and let her know why this was happening, despite the firm having a dedicated file room.

The administrator has reported that, in fact, the cabinets in the file room are full. It appears that all the files ever handled by the firm continue to be stored there, whether the matters have been completed (or the firm is no longer acting for other reasons) or the matters are still in progress. Consequently, rather than place the excess files in the file room, attorneys and staff are choosing to place them near to their work areas.

Having looked at the files in the file room herself, Ms. Miller has determined that the firm needs a system for closing files and storing closed files.

In addition, Ms. Miller has also been receiving complaints from disgruntled clients about a variety of things. Most relate to misunderstandings about the services they expected to receive from the firm, as well as disputes related to fees. She has looked at the engagement letters on the relevant files and is not entirely satisfied with what she sees. She thinks it is time to issue some guidance to both partners and associates on the content of engagement letters.

To assist her in the process of addressing both issues, Ms. Miller has asked you to send her a memorandum:

- (i) outlining a suitable approach to the closure of paper files and the storage of closed paper files; and
- (ii) describing the subject matter that should be covered by a well-drafted engagement letter.

Prepare the memorandum to Ms. Miller as requested.

END OF PAPER