

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE
SECOND-YEAR SUPPLEMENTARY EXAMINATIONS, 2005

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(WEDNESDAY, AUGUST 3, 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 Maslow's Theory of Needs and its relevance to a professional firm engaged in the practice of law.

QUESTION 2

- (a) Identify and briefly discuss the essential terms of a partnership agreement for a law firm.
 - (b) Compare and contrast the advantages and disadvantages of conducting business by way of partnership and incorporation pursuant to the Companies Act.
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QUESTION 3

- (a) Summarize the principles that should guide an attorney-at-law or law firm where a conflict of interest arises or may arise with respect to professional work undertaken or to be undertaken.

- (b) What is a client's trust account and what monies must, must not and need not be placed in such an account.

QUESTION 4

Discuss how either the Porter's Five Forces model or the McKinsey's 7S model can be used to facilitate the competitive advantage of a law office.

QUESTION 5

Outline Susskind's Legal Grid and its relevance to a 21st century law practice.

PART B

ACCOUNTING

QUESTION 6

The following trial balance was prepared for B. Brown at December 31, 2004:

	\$	\$
Opening Stock	750,000	
Purchases	3,750,000	
Carriage in	25,000	
Sales Returns	150,000	
Insurance	100,000	
Rent	150,000	
Miscellaneous expenses	7,500	
Stationery	92,500	
Plant & Machinery at cost	1,750,000	
Building	3,000,000	
Equipment	4,000,000	
Fixtures & Fittings	2,500,000	
Motor Vehicles	1,500,000	
Accounts Receivables	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
Purchases Returns		50,000
Capital		4,675,000
Discount Received		50,000
Bad debt recovered		500,000
Accounts Payable		<u>4,000,000</u>
	27,275,000	27,275,000

The following items are to be accounted for:

- (a) Stock at September 30, 2004 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, 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, 2004

Utilities	\$6,250
Rent	\$12,000

(f) Insurance amounting to \$10,000 has been prepaid.

Required:

(i) Prepare the Trading and Profit and Loss account for the year ended December 31, 2004.

(ii) Prepare the Balance Sheet as at December 31, 2004.

QUESTION 7

Brown and Smith operate a supermarket. The following information relates to the partnership for the year ended December 31, 2004:

	\$
Capital (Brown)	4,000,000
Capital (Smith)	4,500,000
Partnership Salaries	
Brown	150,000
Smith	200,000
Drawings	
Brown	125,000 (July 1, 2004)
Smith	325,000 (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 \$9,137,500

Current Account balances at January 1, 2004

Brown \$425,000 (Debit)

Smith \$310,000 (Credit)

Brown and Smith 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 Brown and Smith 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 8

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

2005	Dr	\$	2005	Cr	\$
Feb 1	Balance b/d	11,895	Feb 5	D. Blake	750
Feb 7	B. Green	790	Feb 12	J.Gray	2,165
Feb 16	A. Silver	465	Feb16	B. Stephens	440
Feb 27	M. Brown	1,535	Feb 28	Orange Club	285
Feb 28	K. Black	<u>3,120</u>	Feb 28	Balance c/d	<u>14,165</u>
		17,805			17,805
Mar 1	Balance b/d	14,165			

Bank Statement

2005		Dr	Cr	Balance
		\$	\$	\$
Feb 1	Balance b/d			11,895
Feb 7	Cheque		790	12,685
Feb 8	D. Blake	750		11,935
Feb 16	Cheque		465	12,400
Feb 17	J. Gray	2,165		10,235
Feb 18	B. Stephens	440		9,795
Feb 27	Cheque		1,535	11,330
Feb 28	Standing Order	220		11,110
Feb 28	Johnson's trader's credit		450	11,560
Feb 28	Bank charges	350		11,210

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 9

Mandara 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	3,000,000
August	4,000,000
September	6,000,000

The company has the policy of allowing 90% of its sales as credit sales. The customers pay 1 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	1,800,000
August	2,400,000
September	3,600,000

- (c) Monthly overheads of \$400,000 are incurred, included in this figure is depreciation of \$80,000. Overheads are paid on a monthly basis.
- (d) The directors have agreed to inject capital of \$26,000,000 in August.
- (e) The company has decided to pay dividends of \$1,000,000 to its shareholders in September.
- (f) As part of the company's policy of fiscal prudence the company has decided to invest \$13,000,000 in Government Paper in September.

- (g) Monthly salaries of \$500,000 are paid when incurred.
- (h) The company expects to receive dividends of \$3,000,000 from Oakton Holdings Limited in July.
- (i) The company purchased computer equipment in August costing \$600,000, 50% of the cost is to be paid immediately and the remainder one month later.
- (j) Company profit tax of \$2,400,000 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 \$5,000,000 and the interest accruing is \$100,000. 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 \$2,400,000.

Required:

- (i) Prepare a Cash Budget for the quarter ending September 30, 2005.
 - (ii) What comments could be made about the cash flows as outlined above.
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