

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE
SECOND YEAR EXAMINATIONS 2023

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(THURSDAY, MAY 11, 2023)

Instructions to Students

- (a) Time: **3 ½ 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

Peter Pedro and Sandy Birch incorporated Full-service Engineering Limited, a professional engineering company, on April 1, 2023. The issued share capital consists of 6,000,000 ordinary shares. Peter Pedro subscribed for 60% and Sandy Birch for 40% of the issued shares at a price of \$1.00 each. The company rented a building in Fulton County and offered engineering services to the construction sector.

Marsha Jones, recently appointed company secretary, was employed on May 1, 2023 as Operations Manager at a salary of \$2,400,000 annually.

Peter was appointed Managing Director and CEO, and will be responsible for technical services and marketing. Sandy, as General Manager, will be responsible for Finance, Operations, Information Technology and Data Privacy.

Peter and Sandy are executive members of the board of directors. Lanique Richards, an attorney-at-law of many years standing, also joined the board as a non-executive director.

At the first meeting of the board of directors, on April 2, 2023, the following decisions were made:

1. The accounting year will run from April 1 to March 31.
2. The financial statements will be prepared and presented quarterly. The first quarter meeting is scheduled for June 30, 2023.
3. Directors' fees of \$30,000 per director to be paid monthly, and the company secretary, a recording fee of \$12,000 per meeting. Board meetings will be held monthly on the last Thursday of each month starting April 2023.
4. Each shareholder contributes their respective capital as agreed and extends a loan to the company of \$100,000 each on April 15, 2023 to facilitate the opening of the business bank account. It was agreed that the company would repay the principal amount of the loan and the interest accrued of \$8,000 on July 2, 2023.

The directors are of the view that the company may need additional cash in the form of a loan from the bank, given that the company is in its first year of operation, and the expenses are expected to run ahead of income. In preparation for the possible loan application, the company decided to prepare a budget for the first three months of operation and hired a consultant accountant.

The following information was provided to the Consultant Accountant for the budget preparation.

1. The bank account was opened with the loan amount of \$200,000 received from Directors Pedro and Sandy.
2. Both shareholders made the required capital injection, and the amounts were deposited to the company's bank account on April 20, 2023.
3. Professional fee income is projected to be \$7,000,000 monthly for the first three (3) months; customers will be given 30 days to pay. Thereafter, fee income is expected to increase to \$8,000,000 per month.
4. The company is also a commission agent for architectural software and anticipates that the monthly commission will be \$500,000 received in the month earned, starting April 2023.
5. Consultancy fee income is expected to be \$120,000 in the month of May 2023 and \$132,000 in the month of June 2023.
6. Projected monthly payments to be made in the month incurred:

- Utilities - \$200,000
- Salaries - \$700,000 (excluding Operations Manager)
- Payroll Taxes - \$100,000
- Office expenses - \$130,000
- Legal fees - \$210,000
- Rental expense - \$462,000
- Software licence fee - \$1, 250,000
- Advertising and PR - \$900,000

7. Planned asset purchases are as follows:
 - (i) Computers costing \$4,590,000; payment in cash in June 2023.
 - (ii) Office furniture in the amount of \$800,000; 50% deposit in April 2023 and the balance 30 days later.
 - (iii) Motor Vehicles costing \$5,500,000; 30% deposit due on placement of the order in April 2023, 20% 30 days later and the remaining balance due on delivery of the vehicles in June 2023.
 - (iv) Specialised equipment for \$2,100,000; payment in equal amount over the three-month period from April to June 2023.
8. Directors Peter and Sandy registered to attend a technical business conference for engineers in October 2023. Registration fees of \$164,000 each to be paid in the month of June 2023. Travel expenses of \$220,000 each will be paid in October 2023.
9. The directors' fees and recording fee are to be paid on the specified monthly due dates.
10. Payment of the Operations Manager's salary is to be made monthly.
11. Depreciation charges budgeted, amounted to \$289,000 in total for April, May and June 2023.
12. The company made a membership application to the Society of Engineers in June 2023. The required membership and application fee in the amount of \$280,000 is payable two months after the submission of the application.

Required:

Prepare a cash budget for the first three months of operation. Advise the directors whether the loan is required, and suggest a minimum amount. Assume an opening bank balance of \$200,000.

The Consultant Accountant prepared the following trial balance:

FULL-SERVICE ENGINEERING LIMITED
Trial Balance as at June 30, 2023

Capital		6,000,000
Cash in hand	200,000	
Short term loan		200,000
Bank overdraft		3,500,000
Commission income		1,500,000
Consultancy fee		252,000
Professional fee income		14,000,000
Salaries	3,000,000	
Utilities	600,000	
Office expenses	390,000	
Rental Expense	1,386,000	
Legal fees	630,000	
Directors' fees	270,000	
Recording fee	36,000	
Membership fee	280,000	
Licence fee	3,750,000	
Advertising and promotion	2,700,000	
computers	4,590,000	
Office furniture	800,000	
Motor vehicles	5,500,000	
Business conference expense	320,000	
Specialized equipment	1,000,000	
Short term payable		
	25,452,000	25,452,000
	25,452,000	25,452,000

1. Depreciation charge for the three-month period amounted to \$289,000

Required:

Prepare a Statement of Profit or Loss for the company for the Quarter ending June 30, 2023 from the data noted in the Trial Balance. (Do not prepare a Statement of Financial Position)

QUESTION 2

Yanique Campbell and Dominic Brown are attorneys-at-law in the law firm of Campbell and Brown. The firm is domiciled in the State of North Caribbean. Yanique is the managing partner,

and the firm specializes in commercial law. The firm employs two associate attorneys-at-law, three paralegal staff, a senior accounting clerk and four administrative staff.

The review of the firm's financial performance was scheduled for January 15, 2023, following the close of the accounting year ending December 31, 2022. The accountant was asked to present the following information for the year ending December 31, 2022.

A review of the general ledger documents showed the following relevant data.

(1) Partnership salaries

Yanique Campbell	-	\$300,000
Dominic Brown	-	\$200,000

(2) Current account balances

Yanique Campbell	-	\$30,000 (debit)
Dominic Brown	-	\$50,000 (credit)

(3) Capital contributions

Yanique Campbell	-	\$4,000,000
Dominic Brown	-	\$3,000,000

(4) Drawings account

Yanique Campbell	-	\$240,000 – withdrawn on April 1, 2022
Dominic Brown	-	\$130,000 – withdrawn on January 1, 2022

The partnership agreement provided for the following:

- Interest is to be charged on drawings at the rate of 5% per annum.
- The firm will pay interest on capital at 7% per annum.
- Profit and losses are to be shared in the following ratios:

Yanique Campbell	-	60%
Dominic Brown	-	40%

The Statement of Profit or Loss for the year ended December 31, 2022, showed a net profit of \$800,000.

The managing partner received the bank statement for the month of December 2022, showing a balance of \$44,840.00. On checking the in-house ledger account, she noted that the bank balance showed \$56,660.00.

The managing partner asked that a reconciliation between the two balances be prepared for presentation at the upcoming partnership meeting, including an explanation of the differences.

LEDGER ACCOUNT					
BANK ACCOUNT					
DEC 01	Balance b/d	47,580.00	Dec 06	D Chilsom - 0025	3,000.00
Dec 06	Lodgement - B. Lewis	3,160.00	Dec 10	J Canda - 0026	8,660.00
Dec 16	Lodgement - Ann Gold	1,860.00	Dec 14	D Stappie - 0027	1,760.00
Dec 22	Lodgement - M. Kayon	6,140.00	Dec 31	Purple Bay Ltd - 0028	1,140.00
Dec 31	Lodgement - Karlet	12,480.00	Dec 31	Balance c/d	56,660.00
		<u>71,220.00</u>			<u>71,220.00</u>
Jan 01	Balance b/d	56,660.00			

UNION TRUST BANK					
BANK STATEMENT FOR MONTH OF DECEMBER 2022					
		DR	CR	Balance	
Dec 01	Balance at December 01			47,580	CR
Dec 06	Deposit		3,160	50,740	CR
Dec 07	Cheque - 0025	3,000		47,740	CR
Dec 16	Deposit		1,860	49,600	CR
Dec 17	Cheque - 0026	8,660		40,940	CR
Dec 18	Cheque - 0027	1,760		39,180	CR
Dec 23	Deposit		6,140	45,320	CR
Dec 28	Direct Debit	880		44,440	CR
Dec 29	In-coming wire		1,800	46,240	CR
Dec 31	Bank charges	1,400		44,840	CR

Notes relevant to bank account and bank statements.

1. The bank charges reflected on the bank statement on December 31, 2022 relate to the payment of insurance premiums.

2. The incoming wire relates to interest earned on the Firm's investment and deposited directly to the Firm's bank account by the Investment House.

Required

- (a) Prepare the partnership appropriation account for the year ended December 31, 2022.
- (b) Prepare the partners' current accounts for the year ended December 31, 2022.
- (c) Update the bank account in the ledger as at December 31, 2022.
- (d) Prepare a bank reconciliation statement as at December 31, 2022.
- (e) Briefly explain the reasons for the difference and why it is necessary to prepare bank reconciliation statements monthly.

PART B

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

Question 3

You are an associate attorney-at-law at the full-service law firm of Grant & King. Lester Grant, the Senior Partner of the firm, has been looking at several issues facing the firm. As you have worked closely with him on client matters for a few years, and he both trusts you and respects your views, he has mentioned some of them to you and even invited your thoughts on them.

One of these issues concerns conflict-of-interest checking at the firm. At present, the system consists of the circulation of an email to each attorney enquiring whether the firm can act in a matter, once a new client file has been opened in respect of it. Most times, those emails go unanswered, but the client's matter proceeds anyway.

Another issue concerns time recording. While the firm mandates time recording, only a couple of the associates are doing it. Mr. Grant recognizes that the reason for this might be that it was introduced without getting real acceptance or "buy-in" from everyone. He is planning to see if he can remedy that, as he recognizes how essential proper time recording is to the financial health of the firm.

The annual retreat of the partners is imminent, and Mr. Grant has decided to raise his concerns there. He wants you to help him with material for his proposed presentation on the kind of system they should implement to mitigate against the conflict-of-interest risk. He is also hoping to get support for time recording from the other partners and the associates with a presentation on that as well.

He has, therefore, requested that you prepare a memorandum to him setting out the following:

- (a) whether there is any merit in the firm's current approach to conflict-of-interest checking, giving reasons, as well as the characteristics that should apply to any conflict-of-interest checking system implemented by the firm; and
- (b) the rationale for every attorney-at-law in the firm doing time recording and the manner in which it should be done for it to be accurate and effective.

Prepare the memorandum to Mr. Grant as requested.

END OF PAPER