

COUNCIL OF LEGAL EDUCATION  
NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE  
SECOND YEAR EXAMINATIONS 2024

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(THURSDAY, MAY 16, 2024)

**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.

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

## PART A ACCOUNTING

### QUESTION 1

The business entities of Hardcell Tech and Software Plus are two family-owned businesses, owned by Henry Tai and Steven Phang, respectively. Both entities have been operating for many years as sole proprietorships. The families have decided to merge the two businesses hoping to benefit from synergies due to size and shared costs.

**Hardcell** Tech is a trading entity, a retailer of consumer goods, operating in the technology sector. The business specializes in buying and selling computers and computer accessories. It enjoys a 30% market share of the local technology space.

Software Plus provides information technology services in the digital sector specializing in software programmes, digital storage facilities, data security and data protection services. Software Plus enjoys a 40% market share of the IT services market space.

Following a series of meetings, Henry Tai and Steven Phang agreed to employ a consultant to provide advice on an appropriate structure for the combined entity and any issues they might need to consider. The finance **department** of each **business was** also asked to provide financial data for the year ending December 31, 2023.

The Consultant submitted his report and advised that the structure of the merged business could either take the form of a general partnership or be incorporated as a limited liability company. The Consultant also suggested some matters to be considered in dealing with family-owned businesses.

**Messrs** Tai and Phang decided on a partnership structure with the following terms and conditions:

1. The partnership will operate as Tai Phang & Co.
2. The current capital and all assets and liabilities **of each business** are to be transferred to the new partnership.
3. The partners will share profits and losses equally.

4. The undistributed profits in the individual business entities will be transferred to the partnership as opening current account credit balances for each partner.
5. Interest on drawings is to be charged at 10% annually.
6. Interest on capital will be paid at 8% annually.
7. Each **owner's current** salary is to be treated as **that partner's** salary in the new business structure.
8. The partnership will adopt a calendar reporting year from January to December.
9. Henry Tai will take on the role of managing partner with responsibility for sales and marketing. Steven Phang will be responsible for finance and operations.
10. For the first year of the partnership, they will maintain the value of the current salaries paid to them by the original businesses.

The Finance **departments** produced the following data:

<b>Financial information for the year ended 31 December 2023</b>		
	<b>Hardcell Tech</b>	<b>Software Plus</b>
<b><i>Income</i></b>		
Sales revenue	5,000,000	7,200,000
Commission income	300,000	
Rental income		220,000
<b><i>Liabilities and Capital</i></b>		
Profits brought forward- undistributed profits	600,000	380,000
Short term loan	280,000	-
Long term loan		800,000
Capital	1,500,000	1,700,000
Payables	270,000	275,000
	<b>7,950,000</b>	<b>10,575,000</b>
<b><i>Expenses</i></b>		
Utilities	50,000	120,000
Legal fees	80,000	190,000
Salaries and wages	300,000	750,000
Training expenses	70,000	223,000
Motor vehicle expenses	180,000	215,000
Overhead expenses	165,000	252,000
Business travel	100,000	330,000
Owners' salary	267,000	305,000
Cost of sales	678,000	-
<b><i>Other</i></b>		
Cash withdrawn by owners for personal use	140,000	110,000
<b><i>Assets</i></b>		
Building	3,000,000	4,500,000
Motor vehicles	1,200,000	2,000,000
Computer equipment	-	630,000
Recievables	500,000	530,000
Bank balances	320,000	420,000
Short term investment	900,000	-
	<b>7,950,000</b>	<b>10,575,000</b>

**Relevant notes to the preparation of the proforma financial statements:**

**Note 1:** The combined depreciation charge for the year 2023 is as follows:

- |                   |           |
|-------------------|-----------|
| 1. Building       | \$370,000 |
| 2. Computers      | \$210,000 |
| 3. Motor vehicles | \$482,000 |

**Note 2:** The salary amounts listed were paid to the owners during the year 2023.

**Note 3:** Mr. Tai advised that he paid \$100,000 from the business bank account of Hardcell Tech for a month-long holiday in Florida. He has asked the Consultant whether he can treat this as a business expense, since it enabled him to recover from the stresses of running his own business. Mr. Phang would like to view the projected financial performance of the new partnership venture by recasting the 2023 accounts.

From the **Financial Information** for Hardcell Tech and Software Plus for the year 2023, prepare:

- (a) a statement of profit and loss and appropriation account for the year ending December 31, 2023, together with a statement of financial position at that date; and
- (b) a brief note to Henry Tai on the treatment of the holiday expense, and treat **with it** accordingly in the financial statements (See Note 3).

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**QUESTION 2**

The new partnership commenced operation on January 1, 2024, and the partnership received its first bank statement from Prudential Bank for the month of January, showing a credit balance of \$992,603. On comparison with the in-house bank account, it was noted that **the month-end** debit balance was \$285,000.

<b>BANKACCOUNT - CASHBOOKDATA</b>			
Opening bank balance	740,000		
<b>Deposits made during the month</b>		<b>Payments made during the month</b>	
		Star Brown & Associates	230,000
James Lake	85,000	High Power Company	63,000
Cash sales	135,000	Little Joy Co Limited	154,000
Lenny Blake	230,000	BKJ credit card payment	35,000
Interest income - JBP Bank	122,000	Inland Revenue - Licence fee	280,000
Dividend Income	306,000	Furniture RUs	571,000
		Balance c/d - closing balance	285,000
	<u>1,618,000</u>		<u>1,618,000</u>
Balance b/d	285,000		
<b>PRUDENTIAL BANK LIMITED</b>			
<b>TAI PHANG &amp; CO</b>			
<b>10 Old Street</b>			
<b>Kingstone Town</b>			
<b>BANK STATEMENT DETAILS FOR THE MONTH</b>			
Opening balance	<b>740,000</b>	Opening bank statement balance	740,000
<b>Deposits and other additions</b>		Total deposit and additions	779,400
Counter deposits	85,000	Total subtractions and deduction	(526,797)
Counter deposits	135,000	<b>Closing bank statement balance</b>	<b>992,603</b>
Online transfer - LBlake	230,000		
Inter bank transfer	122,000		
Wire transfer - Jay Brown	206,000		
Interest earned	1,400		
<b>Total deposits and other additions</b>	<b>779,400</b>		
<b>Withdrawals and subtractions</b>			
Star Brown & Associates	230,000		
High Power Company	63,000		
Little Joy Co Limited	154,000		
BKJ credit card payment	35,000		
Insurance payment - direct debit	23,000		
Wire fees	147		
Service fees	1,650		
Ready Cable - online payment	20,000		
<b>Total withdrawals and other subtractions</b>	<b>526,797</b>		
<i>The above amounts have all occurred in the month of January. You need not enter specific dates</i>			

Part A

- (a) Starting with the debit balance of \$285,000, bring the cash book (in-house bank account) **up-to-date** and balance the bank account to give an adjusted bank balance.
- (b) Prepare the bank reconciliation statement as at January 31, 2024.

PART B

- (c) Prepare the cash budget for the months of January, February, and March 2024, using the estimated information provided below.

<b>Budgeted Cash Inflows</b>	
Cash sales	2,010,000
Credit sales	10,600,000
Commission Income	300,000
Additional capital to be introduced	600,000
Interest income	222,000
	<u>13,732,000</u>
<b>Budgeted Expenses</b>	
Utilities	360,000
Legal fees	452,000
Salaries and wages	1,110,000
Partners' drawings	290,000
Overheads	1,050,000
Taxation payments	750,000
Travelling expenses	1,700,000
Delivery vehicle	2,200,000
New furniture	2,900,000
Loan interest	240,000
Computer equipment	1,200,000
Depreciation expense	820,000
Marketing and advertising	1,200,000
	<u>14,272,000</u>

Other relevant information for the budget preparation:

- 1. The bank balance in the amount of \$740,000 represents the opening balance for the **year 2024**.

2. The new entity, Tai Phang & Co., is planning to seek an expansion loan from Bridge Bank Limited in the amount of \$500,000; \$200,000 to be received in February and \$300,000 in April 2024.
3. The credit sales will be received as follows: 30% in the month of February, 50% in the month of March and 20% in the month of April.
4. All expenses will be paid equally in the month incurred over the 3-month period.
5. Both partners will inject additional capital in 2024 of \$600,000 each, to be paid 50% in January and 50% in March.
6. Planned asset acquisition will be a new delivery vehicle in the amount of \$2,200,000 in the month of February, with a 30% deposit paid in February and the balance in March.
7. The new furniture will be purchased for cash in January.
8. The new computer equipment will be purchased for cash in February.
9. The commission income will be on a cash basis and will be received equally over the three-month period.
10. Interest income will be received in the month of February only.
11. Drawings will be taken in two **equal** parts in February and March 2024.

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## **PART B**

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

### **Question 3**

Nelly earned his Legal Education Certificate from the Norman Manley Law School in 2017. Shortly after graduating, Nelly was admitted to **practise** law in **your jurisdiction** but decided to pursue postgraduate studies in the United Kingdom for a few years. Nelly completed his studies in 2019 and spent the last few years working as a research fellow in the areas of business, technology, and artificial intelligence. Nelly has decided to return to his home country and set up a legal practice, but he is concerned that the legal landscape has changed a lot since he studied **Law Office Management, Accounting and Technology**.



Nelly has always kept in touch with his classmate Kelly, and they often spoke about working together soon. Kelly worked as an associate at a large firm between 2017-2020. During the pandemic, Kelly took some time off and quickly became a viral sensation on social media after she started doing short videos about robotics, artificial intelligence, and money management. Kelly has amassed a huge following on social media and thinks that her platform can be used to generate business for her as a lawyer and a robotics enthusiast.

Nelly told Kelly of his plans to return home, and she immediately agreed with the idea of setting up a legal practice together which they will brand as “The Law Firm of the Future”. Both Nelly and Kelly are in a dilemma because they cannot agree on a name. They both have very little money, despite their strong desire to **establish an office** in a luxurious new structure located along the ‘hip strip’ of the **capital**.

Kelly told her best friend, **Beyoncé**, about her plans with Nelly. **Beyoncé** operates a luxury hair studio on the outskirts of the **capital** in a mixed-use area with both residential and business spaces. Beyoncé has **told Kelly that she is** open to the idea of converting her luxury hair studio into two separate units so that she can share rental costs with another business. Beyoncé currently rents the space from her wealthy uncle and there is no formal lease agreement.

Kelly is excited at the prospect of working closer to Beyoncé and she thinks that this might be the best move for setting up a legal practice. Nelly, on the other hand, believes that it might be best to start the legal practice in his mother’s basement in an upscale community since this would attract a specific type of **clientele**. He also thinks that clients may not appreciate the smell of chemicals **from** the hair studio.

Both Nelly and Kelly have reached out to you for assistance with the following concerns and have asked you to prepare a brief memorandum to them addressing the following three areas:

(a) Nelly and Kelly have asked you to **identify** and discuss three factors that they should consider when it comes to naming their legal practice and three factors they should consider when it comes to selecting a practice location.

(b) Kelly’s social media presence caught the eye of executives at LawBot, **a business that**

offers robot-attorney services that can assist lawyers with preparation of legal documents, legal research and client care. LawBot has offered a one-year free trial to Kelly once she promotes the product on social media.

Advise Kelly and discuss two relevant factors that she should consider before engaging a robot attorney at the legal practice. (You are not required to advise Kelly of any issues arising under the professional ethics rules in your jurisdiction).

- (c) Both Nelly and Kelly have asked you to discuss two advantages and two disadvantages of using artificial intelligence software in their legal practice, other than the factors discussed at (b) above.

Prepare the memorandum to Nelly and Kelly as requested.

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**END OF PAPER**