COUNCIL OF LEGAL EDUCATION

NORMAN MANLEY LAW SCHOOL

LEGAL EDUCATION CERTIFICATE

SECOND YEAR EXAMINATIONS, 2013

LAW OFFICE MANAGEMENT, ACCOUNTING AND TECHNOLOGY

(THURSDAY, MAY 23, 2013)

Instructions to Students

(a) Time: 3½ 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 black or dark blue ink.

(g) Calculators may be used.

PLEASE REMAIN SEATED UNTIL YOUR SCRIPT HAS BEEN COLLECTED.

PART A

LAW OFFICE MANAGEMENT AND TECHNOLOGY

QUESTION 1

Arnold, Bennie and Carlton propose to start a law practice in partnership. Apart from having some general idea as to the area of law in which each wishes to specialize, they do not really know where to begin. An acquaintance, who is a recent management studies graduate, has advised them that they should prepare a business plan. Arnold, Bennie and Carlton have a vague recollection of an assignment at law school on business plans but none of them really paid attention at the time and perhaps because they know very little about them, are inclined to consider such plans a waste of time. They have consulted you on the matter.

Advise Arnold, Bennie and Carlton on:

(i) the purpose(s) of a business plan and why it is advisable that they prepare one; and

(ii) the recommended content of the plan they should prepare.

QUESTION 2

You have been employed as an associate at a medium-sized law firm. The managing partner of the firm believes that associates should be involved in some way in the firm's administration and you have been appointed to the committee which oversees the recruitment of administrative staff. The firm is, in fact, in the throes of expansion, having decided to open an office in another town.

After attending two meetings of the committee, you are appalled at the haphazard and unmanaged way in which the committee is going about the matter of staffing the branch.

Prepare a memorandum to the chairman, Hilda Maitland, suggesting an overall approach to recruitment which reflects sound management practice and telling her why the committee should adopt the suggested approach.

QUESTION 3

Miss Jeremy, a spinster and a client of Denham, Silvera, Attorneys-at-law, reported to her neighbour, Doris, that their mutual church sister, Myrtle Baker, "seems to be divorcing her husband". Doris duly reported the news to her husband, John, who chastised her for being such a gossip and refused to entertain any argument on what he asserted, was no doubt a vile rumour, born of jealousy for the happy married life which Myrtle enjoys. However, Doris insisted that it was no rumour and that Miss Jeremy had got the information at the offices of her lawyer. It seems that Miss Jeremy had visited the offices of Denham; Silvera just the week before and at some point during the visit had come by the information.

John happens to be a friend of Basil Denham, one of the partners at Denham, Silvera and he mentions the matter to him one day at the lunch spot which they both frequent. Mr. Denham is understandably concerned and realises that he has never really addressed the matter of the breach of client confidence as a risk which is attendant on his practice, instead relying solely on his own professionalism and integrity.

If you were Basil Denham, what steps would you take to minimize the risk of a breach of client confidence occurring in the course of the firm's practice?

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Question 4

(a) Explain the circumstances in which it is advisable to issue a non-engagement letter and a disengagement letter.

(b) Outline the usual and recommended contents of non-engagement letters and disengagement letters.

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QUESTION 5

Jennifer, a recent law school graduate, is about to embark on a sole practice, largely in the areas of conveyancing and probate. Her financial circumstances do not allow her to rent or buy premises and so she wants to operate her law office at her home.

Advise Jennifer on:

(i) the types of bank account which she needs to open and why the ones you recommend are necessary and/or advisable; and

(ii) the law office management issues that arise from locating her practice at home and steps she will need to take to address them in order to fulfill her professional responsibilities and have a successful practice.

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PART B

ACCOUNTING

QUESTION 6

The following Trial Balance is presented for Amadeus Grocers at December 31, 2012

	$mn	$mn
Opening Stock	35.00	
Purchases	390.00	
Purchases returns		6.00
Discount allowed	5.00	
Sales Returns	2.00	
Wages and Salaries	45.00	
Interest expense	9.00	
Maintenance	25.00	
Bad debts	7.00	
Stationery	5.00	
Miscellaneous expenses	3.00	
Utilities	1.00	
Legal fees	19.00	
Insurance	1.00	
Drawings	134.00	
Land	100.00	
Buildings	600.00	
Plant and Machinery	90.00	

	$mn	$mn
Computer equipment	75.00	
Motor vehicles	40.00	
Trade receivables	100.00	
Short–term investments	280.00	
Cash at bank	18.00	
Cash in hand	1.00	
Rental income		14.00
Investment income		28.00
Discount received		2.00
Commission received		30.00
Sales		999.00
Provision for Bad Debts		2.00
Capital		695.00
Provision for Depreciation:		
Buildings		30.00
Plant and Machinery		45.00
Computer equipment		15.00
Motor Vehicles		8.00
Long-term loan		97.00
Trade payables		14.00
	1,985.00	1,985.00

The following additional information was also available at December 31, 2012:

(i) Stock at December 31, 2012 was $28.00mn

(ii) During the year the proprietor withdrew goods valued at $10.00mn from the business for his personal use.

(iii) The following sums are unpaid at December 31, 2012:

Wages and salaries	$4.00mn
Utilities	$2.00mn

(iv) Legal fees amounting to $5.00mn was prepaid at December 31, 2012.

(v) Amadeus Grocers has estimated that its provision for bad debts will be 10% of Trade Receivables as at December 31, 2012.

(vi) The following estimates relate to the life of the assets listed below. The company uses the straight line method of depreciation.

Buildings	40 years
Plant and Machinery	6 years
Computer equipment	5 years
Motor Vehicles	5 years

(vii) $12.00mn of the outstanding long-term loan balance is scheduled to be repaid in September 2013. The payment following that is expected to be made in September 2014.

Required:

(i) Prepare the Statement of Comprehensive Income for Amadeus Grocers for the year ended December 31, 2012

(ii) Prepare the Statement of Financial Position for Amadeus Grocers as at December 31, 2012

QUESTION 7

The cash book of Vesuvius Limited for the month of July is given below:

2012		$mn	2012		$mn
July 1	Bal b/d	8.00	July 6	Salaries a/c	5.00
July 8	Sales a/c	25.00	July 7	Repairs a/c	0.20
July 9	Rental Income a/c	6.00	July 8	Insurance a/c	1.80
July 15	Sales a/c	19.00	July 10	Wages a/c	2.00
July 22	Sales a/c	14.00	July 16	Audit fees a/c	1.70
July 29	Sales a/c	65.00	July 23	Legal fees a/c	1.30
July 30	Dividend Income a/c	30.00	July 31	Wages a/c	6.00
July 31	Sales a/c	9.00	July 31	Bal c/d	158.00
		176.00			176.00
August 1	Bal b/d	158.00			

Consortium Commercial Bank

	DR	CR	Balance
	$mn	$mn	$mn
July 1			8.00
July 6	5.00		3.00
July 7	0.20		2.80
July 8	1.80		1.00
July 8		25.00	26.00
July 9		6.00	32.00
July 10	2.00		30.00

	$mn	**$mn**	**$mn**
July 15		19.00	49.00
July 16	1.70		47.30
July 23	1.30		46.00
July 30	7.00		39.00
July 31	1.00		38.00

The sum debited on the bank statement of Vesuvius Limited on July 30, represents an amount for charitable subscriptions.

The sum debited on the bank statement of the company on July 31 represents bank charges for the month of July.

Required:

(i) Prepare an updated bank account for Vesuvius Limited at July 31, 2012.

(ii) Prepare the Bank Reconciliation Statement for Vesuvius Limited at July 31, 2012.

(iii) What are some of the reasons for the differences between the cash book and the bank statement balances at the end of the month?

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QUESTION 8

The records of the partnership of Frost, Fisher and Ford revealed the following information for the year ended March 31, 2013:

Net Profit	$990.00mn
Drawings:	
Frost	$8.00mn
Fisher	$2.00mn
Ford	$4.00mn

The partners have agreed that interest should be charged on drawings at the rate of 10% per annum.

Capital:	
Frost	$95.00mn
Fisher	$90.00mn
Ford	$50.00mn

The partners have agreed that interest is to be paid on capital at the rate of 15% per annum.

Partners' Salaries:	
Frost	$9.50mn
Fisher	$8.00mn
Ford	$7.00mn

The balances on the current accounts of the partners at April 1, 2012

Frost	$7.30mn (Debit)
Fisher	$7.00mn (Debit)
Ford	$8.70mn (Debit)

The partnership agreement states that profits and losses should be shared in the ratio 40%, 30% and 30% for Frost, Fisher and Ford respectively.

Required:

(i) Prepare the Profit and Loss Appropriation Account for the year ended March 31, 2013

(ii) Prepare the Current Accounts for Frost, Fisher and Ford as at March 31, 2013.

QUESTION 9

Friendly Freddie is an independently owned major appliance and electronics discount chain with seven stores located in Banbridge. Rapid expansion has created the need for careful planning of cash requirements to ensure that the chain is able to replenish stock adequately and meet payment schedules to creditors. Fred Ferguson, founder of the chain, has established a banking relationship that provides a $200,000 line of credit to Friendly Freddie. The bank requires that a minimum balance of $8,200 be kept in the chain's chequing account at the end of each month. When the balance goes below $8,200, the bank automatically extends the line of credit in multiples of $1,000 so that the chequing account balance is at least $8,200 at month end.

Friendly Freddie attempts to borrow as little as possible and repays the loans quickly in multiples of $1,000 plus 2% monthly interest on the entire loan balance. Interest payments and any principal payments begin at the end of the month following the approval of the loan. The chain currently has no outstanding loans.

The following cash receipts and disbursements data apply to the fourth quarter of the current calendar year:

Estimated beginning cash balance	$8,800
Estimated cash sales:	
October	$14,000
November	$29,000
December	$44,000
Sales on account:	
July (actual)	$130,000
August (actual)	$104,000
September (actual)	$128,000
October (estimated)	$135,000
November (estimated)	$142,000
December (estimated)	$188,000

Projected cash collection of sales on account is estimated to be 70% in the month following the sale, 20% in the second month following the sale and 6% in the third month following the sale. The 4% beyond the third month following the sale is determined to be uncollectable. In addition the chain is scheduled to receive $13,000 cash on a note receivable in October.

All inventory purchases are made on account as the chain has excellent credit with all vendors because of a strong payment history. The following information regarding inventory purchases is available.

<u>Inventory Purchases</u>

September (actual)	$120,000
October (estimated)	$112,000
November (estimated)	$128,000
December (estimated)	95,000

Cash disbursements for inventory are made in the month following purchase using an average cash discount of 3% for timely payment. Monthly cash disbursements for operating expenses during October, November and December are estimated to be $38,000, $41,000 and $46,000 respectively.

Required:

(i) Prepare Friendly Freddie's cash budget for the quarter ending December 31

(ii) Define budgeting and explain its role in the management cycle.

END OF PAPER