

COUNCIL OF LEGAL EDUCATION
NORMAN MANLEY LAW SCHOOL
LEGAL EDUCATION CERTIFICATE
SECOND YEAR EXAMINATIONS, 2001

OFFICE MANAGEMENT AND ACCOUNTING

(FRIDAY, MAY 25, 2001)

Instructions to Students

- (a) Time: 3½ hours
- (b) Answer **FIVE** questions, not more than **THREE** questions from any part.
- (c) Answer Part A and Part B on separate answer booklets.
- (d) In answering any question, a student 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) Calculators may be used.

PLEASE REMAIN SEATED UNTIL YOUR SCRIPT HAS BEEN COLLECTED.

PART A**OFFICE MANAGEMENT****QUESTION 1**

"Lawyers provide a service which is bought and sold like any other commodity."

Discuss the above statement and indicate the factors consumers take into account in making choices regarding the provision of legal services.

QUESTION 2

"For all concerned hourly charges always represent 'fair and reasonable fees'."

Comment on this statement and explain how you would go about setting hourly rates for a very junior practitioner and also for pre-eminent counsel.

QUESTION 3

In the context of the accounting rules explain the obligation of an attorney-at-law:

- (a) in respect of money paid to him or her for services to be rendered in the future; and

- (b) money paid to the attorney-at-law which is to be paid over as a deposit on the purchase of a property 60 days after the receipt thereof.
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QUESTION 4

Identify:

- (a) the elements of a client's trust account;
- (b) what monies must be and must not be lodged to such an account;
- (c) the circumstances in which it is permissible to draw monies from such an account;
- (d) the rationale or purpose of such an account.
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QUESTION 5

Devon Underhand, a wily businessman, has just left his third wife, Dulcie Straightlace, who has sworn that she will take him to court for every cent he owns. Devon pays Mr. James Batchelor, a well-known divorce attorney-at-law, a retainer of \$10,000 to act for him in the event that Dulcie sues him. True to her word Dulcie files a multi-million dollar suit against Devon. Mr. Batchelor agrees to represent Devon at the trial. About three months prior to trial Devon pays him

a deposit of \$250,000 on account of trial fees. He pays this amount into his client's account, a non-interest bearing current account.

Shortly before trial Ms. Allison Charmer, who works with Mr. Batchelor as junior counsel and who was intimately involved in the preparation of Devon's defence resigns and accepts an offer to work with Mr. Rupert Sternface, counsel for Dulcie. Mr. Sternface assures Mr. Batchelor that Ms. Charmer will not have anything to do with the case but Devon insists that his defence will be seriously prejudiced unless Dulcie obtains alternate legal representation.

- (a) What type of retainer is the \$10,000 paid to Mr. Batchelor? Is he entitled to treat it as his money? If so, when?
- (b) Can Devon, who watches every cent like a hawk, claim interest from Mr. Batchelor on the deposit of \$250,000?
- (c) Can Devon prevent Mr. Sternface from representing Dulcie? If so, justify your answers by reference to any relevant legal principles.

PART B

ACCOUNTING

QUESTION 6

The following information relates to Green Parrot Ltd., a small merchandise business. The budgeted sales, all on credit, are expected to be as follows:

May	\$ 65,000
June	\$ 95,000
July	\$105,000
August	\$ 85,000

Analysis of the records show that debtors settle in the following patterns:

- 70% in the month of sale
- 25% in the following month
- 5% are bad debts

All purchases are for Cash and the budgeted purchases are:

June	\$65,000
July	\$80,000
August	\$85,000

Wages are \$8,000 per month and overheads are \$17,000 per month (including \$4,000 for depreciation) settled monthly. Taxes of \$20,500 has to be paid in July and the organization will receive a loan repayment of \$12,500 in August.

Required:

Prepare a Cash Budget for the quarter ending August 31 given that the Cash Balance on August 31 is expected to be \$19,750.

QUESTION 7

The following Trial Balance was extracted from the books of Horace Taylor, a Trader, on December 31, 1990:

	\$	\$
Capital		20,271
Drawings	2,148	
Debtors and Creditors	7,689	5,462
Purchases and Sales	62,101	81,742
Rent and Rates	880	
Lighting and Heating	246	
Salaries	8,268	
Bad Debts	247	
Provision for Bad Debts (31/12/89)		326
Stock at 31/12/89	9,274	
Insurance	172	
General Expenses	933	
Bank Balance	1,582	
Motor Vehicles at cost	8,000	
Provision for Motor Vehicle Depreciation		3,600
Proceeds from Sale of Motor Vehicle		250
Motor Expenses	861	
Freehold Premises at cost	10,000	
Rent Receivable		750
	<u>\$112,401</u>	<u>\$112,401</u>

The following matters are to be taken into account:

- Stock at December 31, 1990 = \$9,884
- Rates paid in advance at December 31, 1990 = \$40
- Rent Receivable December 31, 1990 = \$250
- Lighting and Heating due December 31, 1990 = \$85
- Provision for Bad Debts to be increased = \$388
- Depreciation has been considered and is to be charged on vehicles at the annual rate of 20% on cost.

- On January 1, 1990, a vehicle which had been purchased for \$1,000 was sold for \$250. Assume that all the vehicles were purchased at the same time.

Required:

Prepare the Trading and Profit and Loss Account for the year ended December 31, 1990 and the Balance Sheet at that date.

QUESTION 8

According to the Cash Book of Rex Ltd., the company has a credit balance at the Bank of \$380,000 on June 30, 1999, but this is not borne out by the Bank Statement of the same date. An investigation into the difference yields the following information:

- (i) A standing order for a charitable subscription of \$40,000 had been paid by the bank on June 29 but no entry had been made in the Cash Book.
- (ii) A cheque paid for advertising on June 10, for \$179,000 had been entered in the Cash Book as \$197,000.
- (iii) Cheques for \$1,037,000 sent to creditors on June 30 were not paid by the bank until July 6, 1999.
- (iv) Lodgments for \$1,680,000 were made on June 30 but were not credited by the Bank until July 1, 1999.

- (v) On June 20, a cheque for \$114,000 was received from a customer in full settlement of an invoice for \$120,000 and lodged in Bank. An entry for \$120,000 had been made in the Cash Book Bank column.

Required:

- (a) Prepare a statement reconciling the Cash Book Balance with the Bank Statement.
- (b) What figure should be shown in the Balance Sheet as Cash in Bank at June 30, 1999?

QUESTION 9

On January 1, 1995, Pleasure Ltd. began to operate lorries in connection with their business. Depreciation was provided at the rate of 20% per annum on their net book value at the commencement of each year. When a lorry was replaced, the trade-in price of the old lorry was deducted from the cost of the new lorry and the net amount was capitalised.

The Lorries Account appears in the book thus:

Lorries Account					
		\$		1995	\$
1995					
Jan. 1	Lorry # 1	1,000		Dec. 31	Depreciation 200
July 1	Lorry # 2	1,400		Dec. 31	Balance c/d 2,200
		\$2,400			\$2,400

1996			1996		
		\$			\$
Jan. 1	Balance b/d	2,200	Dec. 31	Depreciation	440
			Dec. 31	Balance c/d	1,760
		\$2,200			\$2,200
1997			1997		
		\$			\$
Jan. 1	Balance b/d	1,760	Dec. 31	Depreciation	352
April 1	Lorry # 3	800			
Oct. 1	Lorry # 4	600	Dec. 31	Balance c/d	2,808
		\$3,160			\$3,160
1998			1998		
		\$			\$
Jan. 1	Balance b/d	2,808			

Pleasure agreed that this method was misleading and that the account should be re-structured so as to provide depreciation at the rate of 20% per annum on cost from the date of purchase and also that a separate account should be opened for the provision for depreciation. You ascertained that the trade-in price for lorry # 1 when it was replaced by lorry # 3 was \$800 and that lorry # 2 which was replaced by lorry # 4 was \$500.

Required:

Draft the restructured Lorries Account and the Provision for Depreciation on Lorries Account on the agreed lines and also the Disposal Account for Lorries.