Basic Book-keeping for Solicitors

recording dealings between a solicitor and his client

Richard Halberstadt

Sweet & Maxwell

Published in 1979 by
Sweet & Maxwell Ltd. of
11 New Fetter Lane, London
Set by CET Graphics of
High Wycombe, Bucks.

Printed in Great Britain by
Page Bros. (Norwich) Ltd.

ISBN 0 421 25510 2

Basic Book-keeping for Solicitors

recording dealings between a
solicitor and his client

AUSTRALIA
The Law Book Company Ltd.
Sydney : Melbourne : Brisbane

CANADA AND U.S.A.
The Carswell Company Ltd.
Agincourt, Ontario

INDIA
N. M. Tripathi Private Ltd.
Bombay
and
Eastern Law House Private Ltd.
Calcutta
M.P.P. House
Bangalore

ISRAEL
Steimatzky's Agency Ltd.
Jerusalem : Tel Aviv : Haifa

MALAYSIA : SINGAPORE : BRUNEI
Malayan Law Journal (Pte.) Ltd.
Singapore

NEW ZEALAND
Sweet & Maxwell (N.Z.) Ltd.
Wellington

PAKISTAN
Pakistan Law House

ACKNOWLEDGMENTS

I should like to thank all my colleagues who have helped me with the book and particularly Ray Dean, Dai Jones and Lesley Jones, for the comments and suggestions they made. I would also like to express my appreciation to the publishers for their assistance and patience. Nevertheless, my greatest thanks must go to my former students. Theirs was the inspiration for the book and they, albeit unknowingly, provided much of the material. However, they will be pleased to note that this time the mistakes, of which there are bound to be some if not many, are all mine.

TO THE READER

1. Before starting on this book it is essential that you have mastered the basic principles of double-entry.

You should at least be able to deal with the following transactions in an ordinary trader's business:

(a) dealings with cash and other assets;
(b) purchases, sales and returns of trading stock;
(c) recording expenses and income.

2. It is essential to do the exercises

This is not a book for reading and contemplation; instead, it is more of an exercise book. A good method of study would be:

(a) read a section through quickly;
(b) turn to the relevant exercises and do the first one, copying from the example in the text;
(c) check the answer and if correct, continue to the second exercise, etc.;
(d) after a few exercises, try the next one without copying from the text;
(e) when you have done all the exercises in that section, and not before, proceed to the next section.

3. Do all the exercises in numerical order

Do not leave any out. The exercises are graded throughout the book. It is very tempting to try and do the hardest one first but this must be resisted. Master each exercise or group of exercises before proceeding to the next one.

4. For convenience the standard rate of VAT has been taken as 10 per cent. throughout.

5. All the illustrations, examples and exercises are fictional. The characters chosen and the sums of money involved have merely been selected so as to provide meat for the accounts. I am well aware, for instance, that in many of the conveyancing examples, although the example involves payment of stamp duty, no stamp duty would normally have been payable or, if in an exceptional case it had been payable, it would not have been of the amount stated in the example. This, I hope, will not detract from the object of the exercise (and of this book) which is not to teach the details of conveyancing but rather how to make the basic double-entries in a solicitor's books of accounts.

6. This book is only concerned with the double-entries to record the dealings which take place between the solicitor and his client, it is not concerned with the normal office accounts, for which reference can be made to a basic book-keeping textbook, nor is it concerned in general with prime (or original) entries, which depend so much on individual office practice.

IMPORTANT

Have you read page ix?

CONTENTS

CHAPTER 1

INTRODUCTION

A. BASIC PRINCIPLES

1. A solicitor handles both his own business money (office money) and money belonging to his clients (clients' money). The Solicitors Accounts Rules 1975 (SAR) require him not only to keep the two sets of money physically separate, but also to record the entries separately in his books of account.

2. To achieve this, the solicitor needs two sets of books:
   (a) one set to record all dealings with clients' money—CLIENT ACCOUNT;
   (b) another set to record all the ordinary dealings in the running of his business (*e.g.* receipt of office money, paying rates, buying stationery)—OFFICE ACCOUNT.

3. THESE TWO SETS OF BOOKS MUST BE KEPT COMPLETELY INDEPENDENT.
   (a) For every DEBIT in OFFICE ACCOUNT there must be a corresponding CREDIT in OFFICE ACCOUNT and vice versa.
   (b) For every DEBIT in CLIENT ACCOUNT there must be a corresponding CREDIT in CLIENT ACCOUNT and vice versa.

The classic error is to debit CLIENT ACCOUNT and to credit OFFICE ACCOUNT or vice versa.

4. There are four basic sets of entries:
   (a) Receipt of clients' money.
   (b) Receipt of office money.
   (c) Payment of clients' money.
   (d) Payment of office money.

5. To record these a solicitor needs:
   (a) Two Cash Accounts—one for OFFICE ACCOUNT and one for CLIENT ACCOUNT.
   (b) Two personal accounts in respect of each client—one for OFFICE ACCOUNT and one for CLIENT ACCOUNT.

6. Receipt of clients' money
   DEBIT Cash Account—CLIENT ACCOUNT
   CREDIT ledger account of client—CLIENT ACCOUNT

Example
Receive £60 clients' money from A. B. Client.

OFFICE A/C BOOKS				CLIENT A/C BOOKS			
Cash		A. B. Client		Cash		A. B. Client	
				60–			60–

7. Receipt of office money
DEBIT Cash Account—OFFICE ACCOUNT
CREDIT ledger account of client—OFFICE ACCOUNT

Example
Receive £30 office money from A. B. Client.

OFFICE A/C BOOKS				CLIENT A/C BOOKS.			
Cash		A. B. Client		Cash		A. B. Client	
30–			30–				

8. Payment of clients' money
CREDIT Cash Account—CLIENT ACCOUNT
DEBIT ledger account of client—CLIENT ACCOUNT

Example
Pay £50 clients' money to A. B. Client.

OFFICE A/C BOOKS				CLIENT A/C BOOKS			
Cash		A. B. Client		Cash		A. B. Client	
					50–	50–	

9. Payment of office money
CREDIT Cash Account—OFFICE ACCOUNT
DEBIT ledger account of client—OFFICE ACCOUNT

Example
Pay £40 office money to A. B. Client.

OFFICE A/C BOOKS				CLIENT A/C BOOKS			
Cash		A. B. Client		Cash		A. B. Client	
	40–	40–					

10. *Exercises*
Show all necessary entries.

(1) (a) Receive £30 clients' money from Adam.
(b) Pay £20 clients' money to Adam.

(2) (a) Pay £1,000 office money to Bill.
(b) Receive £800 office money from Bill.

(3) (a) Receive £70 clients' money from Chris.
(b) Pay £50 money to Chris.
(c) Pay £400 office money to Chris.
(d) Receive £30 office money from Chris.

B. THE BOOKS OF DOUBLE-ENTRY

11. **Cash Books (CB)**
(a) The Clients' Cash Book—to record dealings with clients' money.
(b) The Office Cash Book—to record dealings with business money.

12. **Petty Cash Book (PCB)**
Only one petty cash book is needed, namely that to record dealings with office petty cash. Clients' money is not dealt with through the petty cash but, in general, immediately it is received it must be paid into the bank and consequently withdrawals of clients' money are made by cheque.

The layout of the Petty Cash Book is often similar to that of a sole trader with analysis columns on the right hand page.

Receipts	Date	Details	Vo No	Payments	Postages	Fares	Sundries	VAT	Ledger A/C
£ p				£ p					Fo Amount £ p

13. **Clients' Ledgers (CL)**
(a) Clients' Ledger—CLIENT ACCOUNT
(b) Clients' Ledger—OFFICE ACCOUNT

14. **Nominal Ledger (NL)**
This contains all the other accounts other than those the solicitor wishes to keep private. However, none of these accounts will involve a dealing with clients' money and therefore only one Nominal Ledger is needed, namely that in OFFICE ACCOUNT. THERE IS NO NOMINAL LEDGER IN CLIENT ACCOUNT.

15. **Private Ledger (PL)**
This contains any account that a solicitor wishes to keep private, *e.g.* his own Capital Account and his Drawings Account. These will not involve any dealings with clients' money and therefore only one Private Ledger is needed namely that in OFFICE ACCOUNT.

C. THE BOOKS OF ORIGINAL ENTRY

16. These are:
(a) the Cash Books
(b) the Petty Cash Book
(c) the Bills Delivered Book
(d) the Journal

17. When a solicitor sends a bill to his client charging him with costs, the Original Entry to record this can be made in a formal bills delivered book.[1] However, Rule 11(3) (SAR) provides that it is sufficient to maintain a file containing copies of all the bills which have been sent out. This is the most simple method to adopt. Using such a system, the Original Entry occurs when a copy bill is filed. Whether a formal book is maintained or simply a file of copy bills sent out, the record must distinguish between the profit costs and disbursements.

18. **The Journal**

This is the book of Original Entry used in respect of a transaction which does not originate in any other book of original entry, (*e.g.* writing off a bad debt). There needs to be one Journal for OFFICE ACCOUNT, and a second Journal for CLIENT ACCOUNT.

D. THE TWO-COLUMN BOOKS

19. Instead of having two Cash Books, one for CLIENT ACCOUNT and one for OFFICE ACCOUNT, it is possible to have a single Cash Book with two amounts' columns, one for CLIENT ACCOUNT and the other for OFFICE ACCOUNT.

Cash Book

Date	Details	FO	Office A/C	Client A/C	Date	Details	FO	Office A/C	Client A/C
			£ p	£ p				£ p	£ p

20. It is possible to do the same for the Clients' Ledger.

21. The sets of accounts—OFFICE and CLIENT—are still entirely independent. They are only presented side-by-side in the same book for convenience. Thus, still, for EVERY DEBIT IN OFFICE ACCOUNT THERE MUST BE A CREDIT IN OFFICE ACCOUNT, etc.

22. It is also possible to have a two-column Journal.

Date	Details	FO	OFFICE A/C DR	OFFICE A/C CR	CLIENT A/C DR	CLIENT A/C CR
			£ p	£ p	£ p	£ p

23. The rulings of the other books (Petty Cash Book, Nominal and Private Ledgers) remain unchanged.

[1] This can be regarded as the equivalent of a trader's Sales Day Book. A specimen ruling is set out in Appendix I.

CHAPTER 2

BASIC POSTINGS

A. RECEIPTS

1. The first thing is to decide whether the money received is office or clients' money (see *post*, p. 10).

2. Pay the cheque into the appropriate Bank Account.

3. DEBIT the appropriate Cash Book (or the appropriate column of the Cash Book). This constitutes the Original Entry as well as the first half of the double-entry.

4. CREDIT the ledger account of the client in the appropriate Clients' Ledger (or appropriate column of the Clients' Ledger).

Example (1) Receipt of clients' money
Receive £500 clients' money from Laurence.

Cash Book (CB)

Date	Details	Fo	Office A/C	Client A/C	Date	Details	Fo	Office A/C	Client A/C
	Laurence	CL2		500					

Laurence (CL2)

Date	Details	Fo	Office A/C	Client A/C	Date	Details	Fo	Office A/C	Client A/C
						Cash	CB		500

Example (2) Receipt of office money
Receive £40 office money from Barnaby.

Cash Book (CB)

Date	Details	Fo	Office A/C	Client A/C	Date	Details	Fo	Office A/C	Client A/C
	Barnaby	CL3	40						

Barnaby (CL3)

Date	Details	Fo	Office A/C	Client A/C	Date	Details	Fo	Office A/C	Client A/C
						Cash	CB	40	

5. If money is received for a client, not from the client himself but from a third person to hold on that client's behalf, the sum is credited direct to the ledger account of the client. DO NOT OPEN AN ACCOUNT FOR THE THIRD PERSON.

Example
Laurence is a plaintiff in action, which he has just won against Violet. He was awarded £600 damages, which you now receive from Violet to hold on Laurence's behalf.

Cash Book (CB)

			Office A/C	Client A/C				Office A/C	Client A/C
	Laurence. From Violet. Damages.	CL2		600–					

Laurence (CL2)

			Office A/C	Client A/C				Office A/C	Client A/C
						Cash. From Violet. Damages.	CB		600–

B. PAYMENTS

Payments by Cheque

6. The first thing is to decide whether to make the payment out of office or clients' money.
   (a) Consider whether the payment is authorised by Rule 7 (SAR).
   (b) Consider whether sufficient clients' money is held for that particular client (see *post* p. 8).

7. Draw a cheque on the appropriate Bank Account. If the cheque is drawn on the Clients' Bank Account remember Rule 11 (7) (SAR).

8. CREDIT the appropriate Cash Book (or column). This constitutes the Original Entry as well as the first half of the double-entry.

9. DEBIT the ledger account of the client in the appropriate Clients' Ledger (or column).

Example (1) Payment of clients' money
You hold £500 clients' money on behalf of Laurence. Pay £100 on his behalf; it is authorised by Rule 7 (SAR).

Cash Book (CB)

			Office A/C	Client A/C				Office A/C	Client A/C
						Laurence	CL2		100

Laurence (CL2)

			Office A/C	Client A/C				Office A/C	Client A/C
	Cash	CB		100		Balance	b/d		500

Example (2) Payment of office money
Pay £6 on behalf of Barnaby; you hold no clients' money.

Cash Book (CB)

			Office A/C	Client A/C				Office A/C	Client A/C
						Barnaby	CL3	6	

Barnaby (CL3)

			Office A/C	Client A/C				Office A/C	Client A/C
	Cash	CB	6						

10. If the money is paid out not to the client himself but to a third person on the client's behalf, the sum is debited on the ledger account of the client. DO NOT OPEN AN ACCOUNT FOR THAT THIRD PERSON.

Example
Pay counsel £80, out of office money, on behalf of A. B. Client.

Cash Book (CB)

			Office A/C	Client A/C				Office A/C	Client A/C
						A. B. Client Counsel.	CL1	80	

A. B. Client (CL1)

			Office A/C	Client A/C				Office A/C	Client A/C
	Cash Counsel.	CB	80						

11. *Exercises*
Show Cash Book and Clients' Ledger.
(1) You act for Alpha. Receive £800 clients' money. Pay £300. Pay £400. Pay £2. Use clients' money.
(2) You act for Beta. Pay £6. Pay £700. Pay £45. Use office money. Receive £300 office money.

(3) You act for Omega. Receive £38 clients' money. Pay £20 and £18 (use clients' money). Pay £16 office money. Receive £9 office money.

Payments out of Petty Cash

12. Office money is used (see *ante*, p. 3).

13. Draw a Petty Cash Voucher to obtain the money.

14. CREDIT the Petty Cash Book. This also constitutes the Original Entry.

15. DEBIT the ledger account of the client–OFFICE ACCOUNT.

Example
Pay £5 petty cash on behalf of A. B. Client.

Petty Cash Book (PCB)

Receipts	Date	Details	Vo. No.	Payments
		A. B. Client		5

A. B. Client (CL1)

			Office A/C	Client A/C				Office A/C	Client A/C
	P. Cash	PCB	5						

16. *Exercises*
Show all entries.
(1) Pay £4 petty cash on behalf of Alpha. Pay £3.20 petty cash on behalf of Beta. Pay £4.60 petty cash on behalf of Gamma.
(2) You act for Delta. Pay £6 petty cash. Receive £18, clients' money. Pay £1.70 petty cash.

C. BALANCES–CLIENT ACCOUNT

17. There is an important proviso to Rule 7 (SAR), the effect of which is that a solicitor must not spend on a client's behalf more clients' money than is held at that time for that particular client.

18. *Example*
(a) Receive £50 from A. B. Client.

Cash Book (CB)

			Office A/C	Client A/C				Office A/C	Client A/C
	A. B. Client	CL1		50					