



**THE LAW SOCIETY OF SCOTLAND
EXAMINATIONS**

**ACCOUNTING
PAPER ONE**

Tuesday 6 February 2018

**0900 – 1200
(Three Hours)**

Candidates should;

Answer **BOTH** Questions in Section A

And

Three of the **Five** Questions in Section B

**LAW SOCIETY OF SCOTLAND
EXAMINATIONS**

**ACCOUNTING – PAPER ONE
6 February 2018
(Three hours)**

Candidates must answer BOTH questions in Section A and THREE of the five questions in Section B.

SECTION A

Answer **both** questions in Section A

Question 1

Messrs Hop, Skip and Jump WS have been in partnership as solicitors for some years. Their accounting year ended on 30 November 2017. The following trial balance has been prepared by their cashier.

| | DEBIT £ | CREDIT £ |
|--|------------|-------------|
| Heritable Property - Cost | 49,500 | |
| Fixtures & Fittings - Cost | 33,000 | |
| Office Equipment - Cost | 55,500 | |
| Motor Vehicles | 50,000 | |
| Accumulated Depreciation – Fixtures & Fittings – 1 December 2016 | | 18,000 |
| Office Equipment – 1 December 2016 | | 37,500 |
| Motor Vehicles – 1 December 2016 | | 12,500 |
| Stationery Stock - 1 December 2016 | 2,400 | |
| Work in Progress - 1 December 2016 | 112,800 | |
| Bank | | 35,880 |
| Salaries | 251,485 | |
| Rates | 25,200 | |
| Heat & Light | 21,960 | |
| Posts & Stationery | 20,520 | |
| Telephone & Internet | 8,100 | |
| Motor Expenses | 7,200 | |
| Insurances | 5,100 | |
| Commissions Received | | 40,200 |
| Fees Received | | 519,600 |
| Fees Receivable - 1 December 2016 | 112,260 | |
| Expenses Recoverable from Clients - 30 November 2017 | 3,545 | |
| Creditors - 30 November 2017 | | 23,940 |
| Drawings | | |
| - Hop | 48,000 | |
| - Skip | 42,000 | |
| - Jump | 31,500 | |
| Capital Accounts | | |
| - Hop | | 95,160 |
| - Skip | | 54,570 |
| - Jump | | 42,720 |
| | 880,070 | 880,070 |
| | 880,070 | 880,070 |

Further information which has **not** been reflected in the above trial balance is as follows:

- 1 Partners share profits in the following manner – the first £72,000 is divided equally and the balance is split 45% : 30% and 25% to Hop, Skip and Jump respectively.
- 2 The partners have decided that their accounts should reflect the current value of their heritable property. A professional valuation of £205,500 has been obtained and the increment should be allocated as follows –

Hop - 45%, Skip – 30% and Jump – 25%.
- 3 Fees are recorded in the books as they are received but profits are to be based on fees earned. Fees receivable at 30 November 2017 amounted to £131,100. It is thought that £7,200 of these fees may not be recovered.
- 4 Work in progress representing work done for clients but not yet billed amounted to £145,110 at 30 November 2017. Stationery stock was estimated at £3,900 at 30 November 2017.
- 5 Fixed assets are depreciated as follows –

| | |
|---------------------|----------------------|
| Heritable Property | Nil |
| Motor Vehicles | 25% reducing balance |
| Fixtures & Fittings | 10% straight line |
| Office Equipment | 20% straight line |
- 6 Provision should be made for an accounting fee of £4,800. There are accruals of £1,290 for heat and light and £4,020 for telephone and internet. Insurances includes a prepayment of £1,200.

Required:

From the foregoing Trial Balance and notes, prepare the partnership Profit and Loss Account for the year ended 30 November 2017 and the Balance Sheet as at that date.

(50 marks)

Question 2

Veritas & Co is a two partner firm of solicitors practising in Edinburgh. On 15 December 2017 the Law Society's representatives conduct an inspection of the firm's books of accounts in terms of Rule B6.18.3 of the Law Society of Scotland Practice Rules 2011 and find as follows:-

- (a) In August 2017 one of the partners, James Black, acted for another of the partners, John Brown, in the granting of a Standard Security over his home.
- (b) In September 2017 the firm acted for the Executors of Michael Gold. As part of the winding up of the estate it paid confirmation dues of £500. The balance at credit of the Executry Account ledger card at the time when payment was made was £145.
- (c) In October 2017 the firm borrowed £50,000 from one of its clients, Moneyproviders Ltd, a company specialising in providing finance for small businesses.
- (d) The accounts for the six month period prior to 15 December 2017 indicate that reconciliations of general client cash book balances with client account bank statements and comparisons with listings of general client account credit balances took place on 4 occasions.
- (e) During November 2017 the firm held a sum of £500,000 for one of its clients, a property development company. It was somehow held for 20 days in the general client bank account until eventually remitted to the client.

Required:

Comment on each of these situations, making detailed reference as appropriate to Rule B6 (Accounts, Accounts Certificates, Professional Practice and Guarantee Fund) of the Law Society of Scotland Practice Rules 2011.

(14 marks)

END OF SECTION A

SECTION B

Answer any **three** questions of the **five** in Section B

Question 3

“Cash is the lifeblood of any business in any financial climate.”

Required:

Briefly discuss the relevance of the above statement to a Solicitor’s practice and outline some of the ways by which a firm of Solicitors may manage and control its cash flow.

(12 marks)

Question 4

A client intends approaching his bankers for funds to be used in expanding his business and has asked you to assist him in preparing his case.

Required:

What information is the bank likely to require and why?

(12 marks)

Question 5

For a long time, limited company financial statements have formed the basis for an initial assessment of a company.

Required:

Identify four separate user groups with an interest in limited company financial statements and which particular aspects are relevant to them.

(12 marks)

Question 6

The format and style of presentation of accounts for limited liability companies differ somewhat from those of sole traders and partnerships.

Required:

What items would you find in the accounts of a limited company that would not be found in the accounts of a sole trader or partnership? Briefly outline the meaning of these items.

(12 marks)

Question 7

At 31 December 2017 the cash book of Nova Scotia Ltd revealed a balance in funds of £10,120. The bank statement of the company's account, held with the Bank of Scotland, showed a favourable credit balance of £1,240 at the same date.

The following information is available:

- (1) Bank standing orders payable to Financeproviders Plc, totalling £4,800, have been omitted from the cash book.
- (2) The following are details of the last three bank lodgements made by the company during December 2017

| <u>Date in Cash Book</u> | <u>Date on Bank Statement</u> | <u>Amount</u> |
|--------------------------|-------------------------------|---------------|
| 27.12.17 | 29.12.17 | £3,450 |
| 28.12.17 | 1.1.18 | £3,052 |
| 29.12.17 | 2.1.18 | £8,520 |

- (3) Bank charges of £112 and interest of £248 charged by the bank in October 2017 have been omitted from the cash book.
- (4) In November 2017 there is an addition error of £48 in the cash book with the effect that the bank lodged figure has been understated by £48.
- (5) Cheques drawn on the dates indicated in payment of suppliers and entered in the cash book on the same dates had not been presented at the bank by 31 December 2017.

| | |
|----------|--------|
| 15.12.17 | £4,400 |
| 18.12.17 | £ 402 |
| 28.12.17 | £1,392 |
| 29.12.17 | £1,610 |

Required:

Prepare a Bank Reconciliation Statement reconciling the cash book and bank statement balances of Nova Scotia Ltd at 31 December 2017.

(12 marks)

END OF SECTION B

END OF QUESTION PAPER