



Law Society
of Scotland

**THE LAW SOCIETY OF SCOTLAND
EXAMINATIONS**

**ACCOUNTING
PAPER ONE**

Tuesday 13 August 2019

**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
13 August 2019
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Candidates must answer BOTH questions in Section A and THREE of the five questions in Section B.

SECTION A

Question 1

Roberts & Lewis have been in partnership as Solicitors for over ten years sharing profits equally. Accounts are drawn up as at 31 January each year. On 1 August 2018 they admitted as a partner their long serving assistant, Stevenson.

The following Trial Balance has been produced as at 31 January 2019:

	<u>Debit</u>	<u>Credit</u>
	£	£
Capital as at 31 January 2018 - Roberts		36,000
Capital as at 31 January 2018 - Lewis		36,000
Capital introduced - Stevenson		18,000
Current Accounts as at 31 January 2018 - Roberts		9,600
Current Accounts as at 31 January 2018 - Lewis		7,200
Drawings - Roberts	37,200	
Drawings - Lewis	32,400	
Drawings - Stevenson	13,200	
Property at Cost	72,000	
Fees Rendered		343,020
Staff Salaries	134,400	
Rates & insurance	28,320	
Posts & Telephone	17,580	
Heat, Light and Cleaning	4,608	
Printing & Stationery	9,408	
Motor & Travel Expenses	15,984	
Outlays Recoverable	10,440	
Fees Outstanding	52,464	
Work in Progress at 31 January 2018	77,880	
Furniture & Fittings at cost	19,200	
Office Equipment at cost	36,000	
Motor Vehicles at cost	38,400	
Furniture & Fittings - Accum dep'n at 31 January 2018		9,600
Office Equipment - Accum dep'n at 31 January 2018		14,400
Motor Vehicles - Accum dep'n at 31 January 2018		20,160
Bank Interest	12,552	
Balances due to Clients		331,200
Client Bank Accounts	340,440	
Firm's Bank Account		101,136
Sundry Creditors (including VAT & PAYE)	_____	<u>26,160</u>
	<u>952,476</u>	<u>952,476</u>

Additional Notes / ...

Question 1 (Continued)

Additional Notes

- 1 The revised partnership agreement after the introduction of Stevenson as a partner provided inter alia that profits would be shared 40% to Roberts; 40% to Lewis and 20% to Stevenson after each partner received a base salary of £14,400 per annum.
- 2 The property is to be revalued to £126,000 as at 1 August 2018, the increase shared equally by the two original partners.
- 3 Depreciation is to be provided as follows:

Fixtures & Fittings	10% straight line
Office Equipment	20% straight line
Motor Vehicles	25% of written down value
- 4 Work in progress was valued at 31 January 2019 at £85,680.
- 5 Prepaid insurance at 31 January 2019 was £5,160.
- 6 The partners have decided to write off £2,404 of fees outstanding and £2,781 outlays recoverable in respect of advertising paid on behalf of a client who has died without leaving funds.
- 7 The partners have also decided to set up a provision for bad debts of 5% of outstanding fees.
- 8 No provision has yet been made for accounting fees of £5,760.
- 9 No interest is payable on partners' capital or current accounts.

Required

From the foregoing Trial Balance and notes prepare a Profit and Loss Account for the year ended 31 January 2019, a Statement showing the Allocation of Profits and a Balance Sheet as at that date.

(50 marks)

Question 2

You have been asked by an exasperated sole trader client to reconcile the balance shown in his cash book with the balance in his bank statement at 31 March 2019 for him. He has not carried out this exercise for a few months. After due enquiry, you find the following:

	£	£
Balance per bank statement at 31 March 2019		19,650 (in funds)
Balance per cash book at 31 March 2019		1,404 (in funds)
Cheques presented to bank after 31 March 2019 but drawn by client before that date	2,000 8,524 10,660	
Standing order – first payment made by bank on 14 March 2019 but not entered in cash book until April 2019		150
Bank interest charged in March 2019 but not entered in cash book until April 2019		344
Monthly standing order paid twice in error by bank in February 2019. This error was not corrected by by the bank until early April 2019 and was not repeated in March 2019		944
Cheque from customer lodged in bank in February 2019 but dishonoured by customer's bank on 15 March 2019 and debited to bank statements		1,300
Error in cash book additions – bank lodged column in February 2019 was over-stated by £200		200

Required

Prepare a Bank Reconciliation Statement for your client as at 31 March 2019.

(14 marks)

END OF SECTION A

SECTION B

Answer any three of the five Questions in Section B.

Question 3

Four fundamental accounting concepts are assumed in the preparation of a company's financial statements.

Required

Name each of these concepts, give one example per concept and discuss why these concepts have been created by the Accounting profession.

(12 marks)

Question 4

The format and style of presentation of accounts for limited 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 5

Scottish Solicitors in practice are subject to the requirements of Rule B6: (Accounts, Accounts Certificates, Professional Practice & Guarantee Fund) of the Law Society of Scotland Practice Rules 2011 when dealing with clients' monies.

Required

What are the internal accounting 'checks and balances' a Solicitor holding client monies must undertake at least every month and why are they made?

Your answer should make reference to specific rules in Rule B6: (Accounts, Accounts Certificates, Professional Practice & Guarantee Fund) of the Law Society of Scotland Practice Rules 2011.

(12 marks)

Question 6

“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 7

Accounting as a profession often uses its own terminology.

Required

Explain what is meant by each of the following terms and discuss its significance.

- a) Operating profit before interest
- b) Intangible fixed assets
- c) Deferred taxation
- d) Net current assets

(12 marks)

END OF SECTION B

END OF QUESTION PAPER