



**THE LAW SOCIETY OF SCOTLAND
EXAMINATIONS**

**ACCOUNTING
PAPER ONE**

Tuesday 7 August 2018

**0900 – 1200
(Three Hours)**

Candidates should

Answer **BOTH** Questions in Section A

And

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

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SECTION A

Answer **both** questions in Section A

QUESTION 1

Arthur, Conan & Doyle have been in partnership as solicitors and estate agents for many years sharing profits and losses equally after charging interest of 5% per annum on their fixed capital accounts and partners' salaries of £36,000, £27,000 and £27,000 respectively.

The trial balance extracted from the firm's books at 31 May 2018, the end of the firm's financial year, was as follows:

	Debit £	Credit £
Capital Account, 1 June 2017 – Arthur		66,000
Capital Account, 1 June 2017 – Conan		60,000
Capital Account, 1 June 2017 – Doyle		54,000
Current Account, 31 May 2018 – Arthur		11,100
Current Account, 31 May 2018 – Conan		6,000
Current Account, 31 May 2018 – Doyle		3,000
Heritable Property, at cost	180,000	
Office Furniture, Fittings & Equipment, at cost	60,000	
Motor Cars, at cost	63,000	
Aggregate Depreciation at 1 June 2017 –		
Office Furniture, Fittings & Equipment		18,000
Motor Cars		25,200
Fees Rendered		373,800
Work in Progress, 1 June 2017	22,200	
Staff Salaries	188,400	
Rates & Insurance	8,100	
Repairs & Maintenance	3,600	
Heat & Light	5,400	
Printing & Stationery	10,800	
Postages & Telephone	12,900	
Office Expenses	8,400	
Motor Car Expenses	11,700	
Trade Creditors		8,400
Cash in hand	600	
Firm's Bank Current Account	25,800	
Clients' Bank Current Account	73,500	
Clients' Bank Deposit Accounts	54,900	
Sums due by Clients	20,700	
Sums due to Clients		124,500
	750,000	750,000

[Please turn over]

The partners' current account balances at 31 May 2018 above were after debiting the agreed partners' salaries which the partners drew out in cash during the year.

The following information has not yet been reflected in the above trial balance:

- 1 At 31 May 2018 –
 - (i) work in progress was valued at £24,600
 - (ii) stock of stationery was valued at £1,200
 - (iii) prepaid insurance premiums amounted to £600
 - (iv) telephone charges due were £1,500
 - (v) there were accrued office expenses of £600
- 2 Depreciation is to be written off office furniture, fittings and equipment at 10% of original cost each year and off motor cars at 20% of original cost each year.

Required:

- (a) Prepare the firm's Profit & Loss Account and Balance Sheet for its financial year ended 31 May 2018.

(35 marks)

- (b) Arthur, aged 66, retired from the partnership on 31 May 2018 and the partners agreed that, in order to ascertain the correct amount due to him on his retiral, unrecorded goodwill be valued at £45,000, the heritable property be revalued at £210,000 and the office furniture, fittings and equipment be revalued at £42,000.

Arthur was prepared to leave £120,000 of the amount due to him on retiral as a loan to the new firm repayable by equal quarterly instalments, with interest, over the next four years provided he could take over the firm's car used by him at its book value of £9,600 and received an immediate cash payment of an amount which together with the value of the car taken over would reduce the amount due to him by the new firm to the £120,000 mentioned.

The continuing partners have agreed to this.

Conan and Doyle will share residual profits and losses equally after Arthur's retiral.

You are required to ascertain the amount of the required cash payment and draw up the first Balance Sheet of the new firm, Conan & Doyle, as at 1 June 2018.

(15 marks)

(Question Total 50 marks)

[Please turn over]

QUESTION 2

Practising Solicitors in Scotland who handle clients' monies are governed by the terms of Rule B6 (Accounts, Accounts Certificates, Professional Practice & Guarantee Fund) of the Law Society of Scotland Practice Rules 2011 (as amended).

Required:

- (a) What is the purpose of the aforementioned Rule B6?
- (b) What are the requirements to earn interest for clients?
- (c) How is compliance monitored by the Law Society of Scotland?

Detailed reference should be made to the above Rule B6 as appropriate.

(14 marks)

END OF SECTION A

SECTION B

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

QUESTION 3

The following information relates to Castello Ltd for the month of April 2018.

Cash book bank extract for April 2018

Date	Details	Bank	Date	Details	Bank
April 1	Opening balance	40,000			
April 2	Sales	4,000	April 1	Chq 393	12,000
April 5	Sales	24,000	April 14	Chq 394	8,404
April 12	Sales	20,000	April 16	Direct Debit	4,000
April 18	Sales	20,000	April 16	Chq 395	2,100
April 24	Sales	28,000	April 20	Sales	3,000
April 29	Sales	20,000	April 24	Chq 396	4,200
			April 30	Closing balance	122,296
		_____			_____
		156,000			156,000
		_____			_____
May 1	Opening balance	122,296			

Bank statement extract for April 2018

Date	Description	Payments	Receipts	Balance
April 1	Opening balance			40,000
April 4	Paid in		4,000	44,000
April 6	Paid in		24,000	
April 6	Cheque 393	12,000		56,000
April 16	Direct Debit	4,000		
April 16	Paid in		20,000	72,000
April 18	Bank charges	244		71,756
April 19	Cheque 395	3,000		68,756
April 20	Paid in		20,000	88,756
April 23	Cheque 394	8,040		80,716
April 25	Paid in		3,000	83,716
April 27	Paid in		28,000	111,716
April 30	Closing balance			111,716

Required:

Prepare a statement reconciling the cash book balance of Castello Ltd at 30 April 2018 with the bank balance at that date.

(12 marks)

QUESTION 4

When setting up in business it is important to form the correct trading entity. This often involves a choice between incorporating a limited company or trading as a sole trader or in partnership.

Required:

Outline the commercial and tax considerations involved in making this choice.

(12 marks)

QUESTION 5

Several fundamental accounting concepts underpin the preparation of business accounts.

Required:

By reference to the relevant fundamental accounting concept(s), explain the reason for making the following adjustments in business accounts:

- a) Providing for potential future unpaid trade debtors
- b) Depreciation of Fixed Assets
- c) Unsold stocks of goods at the end of an accounting period
- d) Disclosure of accounting policies

(12 marks)

QUESTION 6

As a newly appointed partner within a leading legal practice, you have been asked to present a paper on:

“Financial management and control as it affects the business of law”.

Required:

Explain the controls and management practices which you would expect to see in a well-run legal practice.

(12 marks)

[Please turn over]

QUESTION 7

A friend has recently been given shares in a listed limited company. She has received the latest financial report and accounts and has asked you the following questions:

- i. Why does the profit and loss account cover *the year to* 31 May 2018, while the balance sheet is *as at* 31 May 2018?
- ii. What are fixed assets and why do they have depreciation deducted from them?
- iii. What is share capital?
- iv. What are reserves?
- v. Why does the balance sheet balance?
- vi. To what extent does the balance sheet value my investment?

Required:

Briefly answer the foregoing questions for your friend.

(12 marks)

END OF SECTION B

END OF QUESTION PAPER