

PROFESSIONAL FIRMS

ADVOCATES

They are firms which offers legal services to their clients at a consideration known as fees income.

- they operates under the principle of fiduciary duty (trustee duty)
- law firms/Advocates are entrusted with clients resources and hence cannot withdraw clients money unless authorized. they are only allowed to withdraw:
 - a) when remitting cash to the client.
 - b) Recovering professional fees under authority of the client.
 - c) Settling client bills with clients authority.

Accounts prepared when accounting for professional firms

1. Cash and Bank account.
2. Debtors and disbursement account.
3. Client account.

Disbursement → Refers to the amount paid by the professional firm on behalf of client with insufficient/debit balance in his account.

June 2011 Q2

Sabina and Hehima are partners in SH and Company Advocates. The trial balance extracted from their books of account as at 31 Dec 2009 was as follows:

	<u>sh000</u>	<u>sh000</u>
Capital		4140
Office Equipment	1840	
Fixtures and fittings	805	
Account payable		378
Client account		575
Work in progress	1483	
Client disbursement	759	
Bank - client	575	
- office	690	
Library books	644	
Accruals		253
Loan from bank		1450
	<u>6796</u>	<u>6796</u>

The following transaction were carried out by SH and Company Advocates during the year ended 31 Dec 2010.

1. Charged client sh 14,700,000 for services rendered during the year.
2. Received sh 1850,000 on behalf of clients.

3. Received sh 11,000,000 from clients in settlement of amount due for services rendered.
4. Used sh 1,500,000 to acquire a house for a client who had a credit balance of sh 800,000 with the firm.
5. Received sh 200,000 from clients in settlement of disbursement made on their behalf.
6. Purchased library books worth sh 366,000 paying cash and repaid sh 550,000 of the loan from bank.
7. Incurred the following expenses which were paid for in the year ended 31 Dec 2010

	<u>For office</u>	<u>for client</u>
	<u>sh 000</u>	<u>sh 000</u>
Rent	600	120
Salaries & wages	2850	150
Office provision	40	—

8. Incurred the following expenses which had not been paid for:

	<u>sh</u>
Legal fees	3400,000
Salaries & wages	1650,000
Rent	1720,000

9. Partners withdrew sh 1750,000 from the bank.
10. Withdrew sh 450,000 from clients account as professional fees.
11. Acquired office premises for 6500,000 and paid sh 3000,000 in cash. The balance was financed through a mortgage which attracts interest rate of 12% per annum. Assume the office premises were acquired on 1 January 2010.
12. Donated sh 2 million to charitable trust.
13. Represented clients whose work in progress as at 31 Dec 2010 was valued at sh 1,170,000. The WIP had not been invoiced to clients.
14. The firm provides for depreciation on non-current assets based on book values at the following rates:

<u>Non-current Asset</u>	<u>Rate %</u>
office equipment	10 %
Fixtures & furniture	15 %
library books	12.5 %
office premises	2.5 %

Required:

- a) prepare in columnar format:

i) client account.

ii) cash book.

- b) Income statement for the year ended 31 Dec 2010

- c) Statement of financial position as at 31 Dec 2010

(4 marks)

(5 marks)

(5 marks)

(6 marks)

Solution.

Cash book account

	office	client		office	client
Balance b/d	690	575	House	700	800
client A/c	-	1850	library books	366	-
Debtors	11400	-	loan repayment	550	-
Disbursement	300		Rent	600	120
Transfer	450		Salaries & wages	2450	150
			office provisions	410	-
			Drawings	1750	-
			Transfer	-	450
			office premises	3000	-
			Donation	2000	-
			Balance c/d.	1014	905
	12840	2425		12840	2425

Debtors & disbursement A/c

Balance b/d	759	Cash	11400
Fees income	14700	Cash	300
House	700	Client	450
		Bal c/d.	4009
	16159		16159

client account

Balance b/d	575	Bank	800
Bank	1850	Cash - Rent	120
		- Salaries	150
		Debtors	450
		Bal c/d.	905
			2425

b)

Sit and Company Advocate

Income statement for the year ended 31 Dec 2010

sh million.

Fees income	14700
add: WIP bal c/d	1170
less WIP bal b/d	(1483)
	14387

Expenses

Rent (600 + 1720)	2320
Salaries & wages (2450 + 1650)	4100
office provisions 410	410
legal fees	3400
Mortgage interest (12% x 3500)	420
Donation	2000
Depreciation: office equip 10% x 1840	184
Furniture & fitting 15% x 805	120.75
library books 12.5% x (644 + 366)	126.25
office premises 2.5% x 6500	162.5
	(13243.5)
	1143.5

c)

Slt and Company Advocate

Statement of financial position as at 31 Dec 2010

Assets	£1000
<u>Non-current Assets</u>	
Office Equipment (1840-184)	1656
Fixtures & furniture (805-120.75)	684.25
Library books (1010-126.25)	883.75
Office premises (6500-162.5)	6337.5
<u>current Assets</u>	
Work in progress	1170
Debtors & disbursement	4009
Bank - client	905
- office	1014
	<u>16659.5</u>

Capital and liabilities

Capital	4140
add: profit	1143.5
less: drawings (1750)	
	<u>3533.5</u>

Non-current liabilities

Mortgage	3500
loan from bank 1450-550	900

current liabilities

client account	905
Accruals	253
Accrued expenses (3400 + 1650 + 1720)	6770
Mortgage interest payable	420
Account payable	378
	<u>16659.5</u>

NOV 2018 Q 56

d)

DD Associate

Statement of Comprehensive Income for the year ended 30 Sep 2018

Income	£1000
Cost charged to client - civil cases	4250
Criminal cases	2450
Oaths	260
Conveyance fees	340
preparation of will	200
add: WIP bal old	705
less: WIP bal bid	(1104)
	<u>7101</u>
<u>Expenses</u>	
General office expenses	(255)
Salaries to office staff	(2160)
Rent and Rates	(1800)
Postage and telephone	(546)

printing and stationery
Depreciation 20% x 1350
Bad debt written off
profit

(1050)
(270)
(165)
855

ii) DD Associate.
Statement of comp financial position as at 30 Sep 2018

Assets	sh000
<u>Non-current Assets</u>	
Furniture, fitting and library books (1350-270)	1080
<u>current Assets</u>	
Cases in progress	705
Disbursement on behalf of client	360
Account Receivable (2440-165)	2275
Cash at bank - Client Account	744
- office	1671
	<u>6835</u>
<u>Capital and liabilities</u>	
Capital bal bck	6220
add: profit	855
less: Drawings	<u>(1800)</u>
	5275
<u>current liabilities</u>	
client account	744
Account payable	816
	<u>6835</u>

Assign May 2015 Q 2C

MEDICAL PRACTICE

On Jan 2018, two doctors, Sharon and Wilkster entered into partnership to run a medical practice. They each contributed initial capital of sh 2 million and were to share profit and losses equally. The following is a summary of the receipt and payment account of the medical practice for the year ended 31 Dec 2018

<u>Receipt</u>	<u>sh000</u>	<u>payment</u>	<u>sh000</u>
Fees from Services rendered	17460	Rent	1200
Loan from bank (10%)	5000	Salaries	3000
Capital Contribution: Sharon	2000	Subscription to medical society	400
: Wilkster	2000	Medical books	1200
Bank interest	20	X-ray and other Equipments	4000
		Medicines and Consumables	3000
Cash at bank	7980	Repair & maintenance	300
Made as follows: at bank 4800		office furnitures	600
in hand 180		Drawings: Sharon	3200
fixed deposit 3000		Wilkster	1600

Additional Information

1. The medical practice expected to receive sh 600,000 from insurance compensation for medical services rendered to the clients.
2. Salaries of medical assistance included sh 700,000 paid in advance while repairs and maintenance cost sh 60,000 had not been paid.
3. Rent had been paid for the period of 15 months upto 31 March 2019.
4. Depreciation on assets was to be provided for as follows:
 - a) Medical books 5% p.a on cost
 - b) X-ray and other equipments 20% p.a on cost
 - c) office furniture's 25% p.a on cost
5. As at 31 Dec 2018, creditors for medicines and consumable amounted to sh 1.5 million while sh 100,000 worth of medicine was still in stock.
6. Interest on bank loan still owed as at 31 Dec 2011.

Required:

- a) Income statement for the year ended 31 Dec 2018 (10 marks)
- b) Balance sheet as at 31 Dec 2018 (10 marks)

Solution.

a) Sharon and Wilkister
Income statement for the year ended 31 Dec 2018

<u>Incomes</u>	
Fees from services rendered	54000
Bank interest	17460
Income receivable from insurance	20
	600
<u>Expenses</u>	
Rent = $1200 \times \frac{12}{15}$	(960)
Salaries 3000 - 700	(2300)
Subscription to medical society	(400)
Repair and maintenance (300+60)	(360)
Medicine & consumables used (3000+1500-100)	(4400)
Depreciation - Medical books $5\% \times 1200$	(60)
X ray Equipments $20\% \times 4000$	(800)
office furniture's $25\% \times 600$	(150)
Interest on bank = $(10\% \times 5000)$	(500)
<u>Profit</u>	<u>8150</u>
Profit sharing: Sharon : $8150 \times \frac{1}{2} = 4075$	
Wilkister: $8150 \times \frac{1}{2} = 4075$	(8150)
	<u>0</u>

b) Sharon and Wilkister
Statement of financial position as at 31 Dec 2018

<u>Assets</u>	
<u>Non-current Assets</u>	<u>sh4000</u>
Medical books (1200 - 60)	1140
X-ray Equipment (4000 - 800)	3200
office furniture's (600 - 150)	450

Current Assets

Cash and bank	7980
Medicine & consumable	100
Receivable from insurance	600
Prepayment: Rent (1200 - 960)	240
! Seelands	700

14 400

Capital and liabilities

Sharon $2000 + 4075 - 3200$	2875
Willister $2000 + 4075 - 1600$	4475
<u>Non-current liabilities</u>	
Loan from bank	5000

Current liabilities

Accrued Repair & maintenance exp	60
Loan interest accrued	500
Creditors	1500
	<u>14 400</u>

prepared by John Mark

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