

Law Society of Hong Kong

Manual on Solicitors' Accounting (Effective on 1 July 2016)

**Executive Summary of the amendments to the Solicitors' Accounts Rules,
the Accountant's Report Rules, the Solicitors (Professional Indemnity) Rules,
the Solicitors' Practice Rules and the Foreign Lawyers Practice Rules**

The major amendments are as follows:

- (a) To reinforce the principles that must be observed by a solicitor in relation to his or her handling of client's money (for example, use a client's money for that client's matters only; keep proper accounting records to show accurately the position with regard to the money held for each client and each trust), a new rule will be added to list out the applicable principles.
- (b) The reference to "a bank" in the definition of "client account" will be clarified to refer to a bank located and licensed in Hong Kong. It removes any ambiguity as to whether a client account can be maintained with an overseas branch of a bank licensed in Hong Kong. A waiver provision will be added to allow the Council to grant a waiver on a prior written application.
- (c) Sometimes, a solicitor may receive a cheque or draft that includes partly client's money. Rule 5 provides that if the solicitor decides not to split the cheque or draft, he has to pay it into a client account.
Rule 5(b) will be amended to provide expressly what a solicitor has to do with the part of a payment that is not client money when he decides not to split the cheque or draft. Under the amendment, if the solicitor does not split the payment, he can pay the entire sum into the client account provided that he or she shall transfer all office money out of the client account within 14 days of receipt.
- (d) The existing Practice Direction J on payment of interest on a client account will be incorporated into the Rules with the amendment that a solicitor will only be required to account to a client the interest earned in accordance with the circumstances set out in the Practice Direction if the amount of interest accrued exceeds \$500.
- (e) Rule 7A allows different categories of people to authorise the drawing of money from a firm's client account. Those categories include, for instance, a certified public accountant (practising) who can be unrelated to the firm. Rule 7A will be amended to require the authorisation to be countersigned by a solicitor of the firm in whose name the client account is kept or by any solicitor, partner, consultant or foreign lawyer of the firm where the client account is kept in the name of the firm.
- (f) Rule 9(2) sets out the exceptions to the requirement that a solicitor shall pay client's money held or received by him into client account. One of the exceptions deals with the payment of an agreed fee.

Rule 9(2)(c) will be amended to clarify that for an agreed fee to be paid into office account, a bill in respect of the agreed fee has to have been delivered.

- (g) A new rule 9(2A) will be added to the situation whereby a payment received by a solicitor consists of costs and disbursements which may further be divided into disbursements that are incurred but not yet paid or anticipated but not yet incurred. The new section provides that payment for disbursements that are incurred but not yet paid should be placed in a client account. Alternatively, it can be deposited into the office account provided that settlement of the relevant disbursement is made not later than the fourth working day following receipt from the client failing which the payment should be made into the client account not later than the fifth working day following the receipt. Regarding payment for disbursements that are anticipated but not yet incurred, it should be placed in the client account.
- (h) Rule 10(5) will be amended to include reference to computerised system of book-keeping which has become a common form of book-keeping in law firms. Further, to address the concern of possible loss of data in a computerised accounting system, a new section 10(5A) will be inserted to impose a requirement for computer back-up capability.
- (i) Monthly profit and loss accounts will be added to the documents that the Council is empowered, under Rule 11, to require a solicitor to produce for inspection.

Each firm should decide for itself a solicitors' accounting system that best suits its need in order to comply with all requirements of solicitors' professional conduct. This manual does not override or detract from the need to comply fully with such requirements. This manual is intended to set out various good practices regarding solicitors' accounting. It is for guidance only. It does not take precedence over the statutory provisions on solicitors' accounting.

If there is a compelling obligation to act or cease to act, this will be indicated by the words "must" or "shall". The words "should" or "may" indicate a discretion.

Each solicitor shall ensure that he is familiar with all up-to-date rules and requirements relating to solicitors' accounting including but not limited to those provided in the following:

1. *Legal Practitioners Ordinance (Cap. 159)*
2. *Solicitors' Practice Rules*
3. *Solicitors' Accounts Rules*
4. *Practice Direction A 13 – Undertakings in Conveyancing Matter*
5. *Practice Direction K – Client Accounts*
6. *Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions*
7. *The Hong Kong Solicitors' Guide to Professional Conduct (Volume 1, 3rd Edition)*
8. *The Law Society's Circulars*
9. *Practice Direction P – Guidelines on Anti-Money Laundering and Terrorist Financing*

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1. SOLICITORS' ACCOUNTING

1.1 PRINCIPAL'S DUTY

Every principal of a firm is jointly and severally responsible for complying with all the rules and requirements relating to solicitors' accounting.

Each firm should maintain proper books of account. Day-to-day accounting work may be delegated to an accountant or staff who must have full knowledge of the solicitors' accounting requirements. It is the responsibility of the principal to supervise the work of the accountant or staff. A principal cannot escape responsibility for work carried out in the course of the practice by leaving it to the staff, however well qualified.

RELEVANT RULE(S):

Rule 9A of Solicitors' Accounts Rules

Paragraph 3 of Practice Direction K

Paragraphs 2(1) and 2(2), Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions

Commentary 3 to Principle 2.03 of The Hong Kong Solicitors' Guide to Professional Conduct (Volume 1, 2nd and 3rd Editions)

Rule 2 of Solicitors' Practice Rules

1.2 BOOKS OF ACCOUNT **

Books of account are proper records of all transactions including receipt, payment and transfer of both money held in the firm's client account and office account as well as trust money and money held by the firm under rule 9(2)(a) of the Solicitors' Accounts Rules, prepared by adopting the double-entry principle of bookkeeping system. The firm should make bookkeeping as part of its regular routine and keep its books of account accurate and up-to-date in an organized manner.

Such books of account are essential for compliance with the record keeping obligation under the Solicitors' Accounts Rules and are useful for providing an accurate picture of a firm's financial matters. If the principals of a firm are in doubt about how the books of account of the firm should be maintained, they should seek professional advice from an accountant or certified public accountant.

RELEVANT RULE(S):

Rule 10 of Solicitors' Accounts Rules

Paragraph 2, Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions

***** The term "Books of Account" in this Manual means "books and accounts" or "books of account" as mentioned in the Solicitors' Accounts Rules and "books of account" as mentioned in the Guidelines for Accounting Procedures and System of Appendix 5 to Practice Directions.***

1.3 PRESERVATION OF ACCOUNTING RECORDS

The firm should keep the following accounting records in Hong Kong:

- (a) books of account, monthly reconciliations, bills, bank statements and passbooks, for at least six years;
- (b) paid cheques and other authorities for the withdrawal of money from a client account, for at least two years;
- (c) other vouchers and internal expenditure authorisation documents relating directly to entries in the client account books, for at least two years.

The term "reconciliations" as stated in sub-paragraph (a) above shall include documents required for preparation of reconciliation statements. Either hard or soft copies of the accounting records will suffice for the aforesaid purpose.

It is good practice for the firm to keep all books of account and supporting documents for at least 6 years.

RELEVANT RULE(S):

Rules 10(1), 10(6) and 10(6A) of Solicitors' Accounts Rules

Paragraph 5(6), Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions

Paragraph 4 of Practice Direction K

Rule 5B of Solicitors' Practice Rules

1.4 ACCOUNTING RECORDS

Regardless of whether a manual or computerised accounting system is used, the books of account (with related supporting documents), which a solicitor should keep, should consist of (but are not limited to) the following:

- (a) client receipts;
- (b) payment vouchers;
- (c) clients' cash book;
- (d) transfer vouchers;
- (e) clients' ledgers – it would be good practice, subject to its own accounting software, to include both clients' column and office column of the clients' ledgers with corresponding ledgers where double entries that were made;
- (f) client account(s) reconciliation statement(s);
- (g) bills register;

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- (h) central records or central registers in respect of (1) accounts held for clients' money, or trust money, which are not client accounts (rule 9(2)(a) of Solicitors' Accounts Rules), (2) joint accounts and (3) clients' own accounts (rule 9(2)(a) of the Solicitors' Accounts Rules);
- (i) other registers for disbursements recoverable from clients; and
- (j) office ledgers (including but not limited to those parts recording receipt, transfer and payment of the office money, relating to client matters).

Further details of items (a) to (j) above will be set out in sub-paragraphs below.

For each accounting entry made to the books of account, clear supporting documents showing details of such entry (e.g. the purpose for which the money is received, transferred or paid, transaction date, amount, payee, etc.) should be attached to the relevant accounting records in order to trace and verify the transactions. Such supporting documents include but are not limited to the following:

- (a) bank records (or copy of the relevant part thereof), e.g., bank passbook, bank statements of both client accounts and office accounts, credit advices and debit advices;
- (b) duplicate copy of bills issued to clients;
- (c) documents for payment (or copy of the relevant part thereof), e.g. Counsel's fee notes, invoices from third parties, agreements for sale and purchase, client's written instructions; and
- (d) copies of cheques, telegraphic transfer forms, authorisations for the withdrawal of money from a client account, other vouchers and internal expenditure authorisation documents.

It would be good practice to include a column, "Reference" in the clients' ledgers showing a reference to the corresponding double entry ledger for audit purposes.

RELEVANT RULE(S):

Rules 7A, 9(2)(a), 10(1) and 10(3) of Solicitors' Accounts Rules

Paragraph 5(2), Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions

2 WRITING UP BOOKS OF ACCOUNT

2.1 CLIENT RECEIPTS

2.1.1 Form of receipt

When receiving money to be held in a client account by the firm, in the case of criminal matters, a client receipt should be issued and delivered to the client and in any other cases, it is also good practice to issue and deliver a client receipt to the client. Client receipts should be issued from a pre-printed book of receipt forms with consecutive numbers and the words "office copy" or "file copy" or "client copy" (as the case may be). If a computerised accounting system is used to produce a client receipt, such system should have controls to:

- (a) ensure that the receipts are issued in numerical order; and
- (b) prevent a receipt number from being used more than once.

The following headings and particulars should be shown on each receipt:

- (1) "CLIENT RECEIPT";
- (2) file number;
- (3) issue date;
- (4) client name;
- (5) file matter;
- (6) name of payer;
- (7) a brief description of the purpose for which the money is received;
- (8) the amount of money received in words and figures;
- (9) how the money is received, for example, in cash, by cheque, or by electronic funds transfer and in such case, the date of receipt of funds by the bank; and
- (10) signature of authorised person of the firm with the firm's chop imprinted.

Set out below is a sample of a client receipt:

ABC Solicitors	No.: CR-101
CLIENT RECEIPT (1)	
	File No: (2)
	Date: (3)
Client Name: (4) _____	
Re: (5) _____	
Received from (6)	
\$, being
\$, being
\$, being
\$, being
\$	} (7)
Total H.K. (8)	
By Cash	} ABC Solicitors
By Electronic fund transfer on (9)	
By Cheque No. _____ of _____ Bank (Note 1)	
By Cashier Order No. _____ of _____ Bank	
Note: 1. Where payment is made by cheque, this receipt will not be valid until the cheque has been cleared	
_____ Authorised Signature and the firm's chop (10)	

RELEVANT RULE(S):

Rule 5D(d) of Solicitors' Practice Rules

Paragraph 3, Guidelines for Accounting Procedures and System of Appendix 5 to Practice Directions.

2.1.2 Issue of client receipts

When money to be held by a firm is received by cash or by cheque, a client receipt should be issued immediately upon receipt of the cash or cheque. When preparing the client receipt, the firm should verify information set out therein with the relevant client and the bank in case of telegraphic transfer and direct deposit.

When funds are received for payment of different files, it is advisable to issue one client receipt for each file of the apportioned amount, rather than issuing one client receipt for the total amount, with appropriate cross reference to the other file(s) as the case may be.

A client receipt should be signed by an authorised person of the firm, not merely initialed, and with the firm's chop imprinted. It is good practice for the firm to deliver the client receipt to the client upon issuance thereof. Authorised person may be a person who is not a solicitor but has been authorised by the firm.

2.1.3 Receipts by electronic fund transfer

When money is deposited into the firm's client account by electronic fund transfer (e.g. telegraphic transfer, CHATS or direct deposit), a client receipt should be issued upon the solicitor verifying with the bank that such fund has been cleared. If such fund was received by the bank on a date other than the date upon which the bank's verification is obtained, such date of receipt of fund should be specified in the client receipt (*see item (9) in the sample client receipt above*).

2.1.4 Cancelled client receipt

If a client receipt is cancelled, receipts must be kept in the receipt book and marked "cancelled" with relevant reason stated.

2.2 PAYMENT INTO CLIENT ACCOUNT

2.2.1 Deposit without delay

Subject to rule 5 and subject to exceptions in rule 9 of the Solicitors' Accounts Rules, clients' money received by a solicitor or trust money (under rule 4(a) of the Solicitors' Accounts Rules which he is permitted and elects to pay into a client account) should be deposited into the firm's client account at a bank located and licensed in Hong Kong. Such deposit should be made either on the day of receipt or, when that is not reasonably practicable, on the next working day.

RELEVANT RULE(S):

Rules 2, 3, 4, 9 and 15 of Solicitors' Accounts Rules

Paragraph 3(2), Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions

2.2.2 Money not in client account

When handling clients' money or trust money which are not held in client accounts according to rule 9(2)(a) or rule 4(a) of the Solicitors' Accounts Rules (as the case may be), it is good practice for the firm to follow the procedures applicable to money held in a client account and bookkeeping of a client account.

When dealing with cash transactions, members should have regard to the provisions of Practice Direction P and the FATF recommendations.

RELEVANT RULE(S):

Rules 4, 9(2)(a), 10(1)(a)(i), 10(3) and 10A of Solicitors' Accounts Rules

Paragraphs 3(1) and (2) and 5(2), Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions

Practice Direction P

2.2.3 Proper procedures

It is good practice to adopt the following procedures:

- (a) The firm should arrange money received from clients to be deposited with the bank at a regular time each day.
- (b) The firm should ensure that client receipts have been issued before arranging the related sums to be deposited with the bank.
- (c) The firm should compare the total amount received according to the client receipts issued and the total amount deposited with the bank as recorded by the bank deposits slips and electronic fund transfer records every day. Any discrepancy should be investigated and rectified without delay.
- (d) It is advisable to maintain a cheque clearance register. Sample entry is set out as follows:-

Cheque Clearance Register								
Cheque Received Date	File No.	Client Receipt No.	Client	Cheque Drawer	Issuing Bank	Amount (HK\$)	Clearance Date	Client Account
15/01/XX	1210	CR-101	Ms. Black	Ms. Black	HSBC	\$50,000	16/01/XX	BOC

RELEVANT RULE(S):

Rules 3 and 9A of Solicitors' Accounts Rules

2.3 DRAWINGS FROM CLIENT ACCOUNT

2.3.1 Authorised persons

The firm should establish clear procedures to ensure that all withdrawals from client accounts (including the withdrawal by internet banking) are properly authorised and in compliance with rule 7A of the Solicitors' Accounts Rules.

When authorising any withdrawal from client account, the authorised person should ensure that there is proper documentary evidence to support such withdrawal.

RELEVANT RULE(S):

Rules 7 and 7A of Solicitors' Accounts Rules

2.3.2 Ensure no debit balance

It is good practice that no withdrawal would be made unless:

- (a) the clients' ledger of that particular client for that specific matter indicates that there is sufficient fund; and
- (b) the bank has confirmed that such fund had been cleared as available fund.

RELEVANT RULE(S):

Rule 7 of Solicitors' Accounts Rules

2.3.3 Transfer of costs and disbursements from client account to office account

The firm should establish systems for the transfer of costs from client account to office account in settlement of their bills. It is good practice to follow procedure set out in sub-paragraph 2.3.5 below in this respect and make the relevant transfer within fourteen (14) days from the date of delivery of the bill or notification under the circumstances specified in rule 7(a)(iv) of the Solicitors' Accounts Rules.

The firm should be aware of the time limit imposed by rules 5(b) and 9(2A) of the Solicitors' Accounts Rules regarding receipt of payment which includes disbursements (*see sub-paragraphs 3.2 and 3.3 below*).

RELEVANT RULE(S):

Rules 5(b), 7(a)(iv), 9(2)(c) and 9(2A) of Solicitors' Accounts Rules

Paragraph 4(4), Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions

2.3.4 Unused client account cheques

Unused cheques should be kept securely to prevent unauthorised access. No blank cheque should be signed. Any cancelled or damaged cheque should be kept with the cheque books.

RELEVANT RULE(S):

Paragraph 5(7), Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions

2.3.5 Payment vouchers

It is good practice to record the details relating to each withdrawal (including transfer) from the client account and the related authorisation in a payment voucher signed by an authorised person of the firm, after reviewing related supporting documents.

The handling solicitor, accounting staff and the authorised person who handled the payment voucher should check the supporting documents relating to such payment and ensure that no debit balance will occur after such payment is made from that specific clients' ledger.

Copies of the payment voucher, supporting documents and related cheque(s) or bank payment document(s) should be kept in the file.

All the following information must be shown on a payment voucher:

- (1) payment voucher number (in consecutive numbers);
- (2) date of preparing the payment voucher;
- (3) file number;
- (4) client name;
- (5) name of the handling solicitors and staff, e.g. legal executive;
- (6) file matter;
- (7) name of the payee;
- (8) purpose of such payment;
- (9) date of payment;
- (10) client account from which the payment is drawn;
- (11) amount of withdrawal/transfer;
- (12) payment method including cheque and electronic fund transfer; in case of cheque payment, the cheque number should be recorded;

- (13) balance of that specific clients' ledger after payment;
- (14) signature of the accounting staff who process the payment voucher; and
- (15) signature of the authorised person of the firm.

Set out below is a sample of a payment voucher:

PAYMENT VOUCHER						NO. (1): PV-001																																	
						REQUISITION DATE (2): _____																																	
FILE NO. (3): _____		CLIENT NAME (4): _____		HANDLING SOLICITORS & STAFF: (5) _____																																			
MATTER (6): _____																																							
PAYEE (7)	PURPOSE (8)	PAYMENT DATE (9)	CLIENT ACCOUNT (10)	AMOUNT (11)	PAYMENT METHOD (12)	REMARKS																																	
<p>PURPOSE</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;">1. Courier</td> <td style="width: 33%;">12. Counsel Fee</td> <td style="width: 33%;">23. Certified Copying Charges</td> </tr> <tr> <td>2. Fax</td> <td>13. Further Deposit</td> <td>24. Land Searches Fees</td> </tr> <tr> <td>3. Photocopying</td> <td>14. Part Payment/Balance of Purchase Price</td> <td>25. Company Searches Fees</td> </tr> <tr> <td>4. Search Fee (others)</td> <td>15. Stakeholder Money</td> <td>26. B.R. Fee</td> </tr> <tr> <td>5. Travel Expenses</td> <td>16. Apportionment Account</td> <td>27. Annual License Fee</td> </tr> <tr> <td>6. Miscellaneous</td> <td>17. Deposit to Court/O.R./Others</td> <td>28. Enquiry Fee</td> </tr> <tr> <td>7. Stamp Duty</td> <td>18. Rental Deposit</td> <td>29. Bank Charges</td> </tr> <tr> <td>8. Registration Fee</td> <td>19. Principal & Interest/Redemption Money</td> <td>30. Trade Mark Fees</td> </tr> <tr> <td>9. Court Filing Fee</td> <td>20. Rent for _____ to _____</td> <td>31. Others: _____</td> </tr> <tr> <td>10. Company Filing Fee</td> <td>21. Paid Bill No. _____</td> <td></td> </tr> <tr> <td>11. Telephone</td> <td>22. _____ Instalment</td> <td></td> </tr> </table> <p>Clients' Ledger balance after payment: (13) _____</p>							1. Courier	12. Counsel Fee	23. Certified Copying Charges	2. Fax	13. Further Deposit	24. Land Searches Fees	3. Photocopying	14. Part Payment/Balance of Purchase Price	25. Company Searches Fees	4. Search Fee (others)	15. Stakeholder Money	26. B.R. Fee	5. Travel Expenses	16. Apportionment Account	27. Annual License Fee	6. Miscellaneous	17. Deposit to Court/O.R./Others	28. Enquiry Fee	7. Stamp Duty	18. Rental Deposit	29. Bank Charges	8. Registration Fee	19. Principal & Interest/Redemption Money	30. Trade Mark Fees	9. Court Filing Fee	20. Rent for _____ to _____	31. Others: _____	10. Company Filing Fee	21. Paid Bill No. _____		11. Telephone	22. _____ Instalment	
1. Courier	12. Counsel Fee	23. Certified Copying Charges																																					
2. Fax	13. Further Deposit	24. Land Searches Fees																																					
3. Photocopying	14. Part Payment/Balance of Purchase Price	25. Company Searches Fees																																					
4. Search Fee (others)	15. Stakeholder Money	26. B.R. Fee																																					
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7. Stamp Duty	18. Rental Deposit	29. Bank Charges																																					
8. Registration Fee	19. Principal & Interest/Redemption Money	30. Trade Mark Fees																																					
9. Court Filing Fee	20. Rent for _____ to _____	31. Others: _____																																					
10. Company Filing Fee	21. Paid Bill No. _____																																						
11. Telephone	22. _____ Instalment																																						
PROCESSED BY (14) _____ ACCOUNTS DEPARTMENT		APPROVED BY (15) _____ AUTHORISED PERSON Name:																																					

RELEVANT RULE(S):

Paragraph 4, Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions

2.3.6 Online banking

Online bank statement

It is advisable for a firm to use online banking facilities to obtain real time bank statement and keep track of current status of its accounts. This will assist the firm in preparing up-to-date books of account.

Withdrawal through online banking facilities

For transfer of funds between client accounts of the same bank, all procedures relating to withdrawals from client accounts as set out in sub-paragraph 2.3.5 above should be followed. In addition, the firm should have proper security control in respect of its password for accessing the online banking facilities and all online transactions should only be carried out with the approval of an authorised person of the firm.

2.4 CLIENTS' CASH BOOK

2.4.1 Types of clients' cash book

A solicitor should record details of receipts and payments (including transfer) of client's money held by the firm and money held in the firm's client accounts, for each account, either in one clients' cash book or in two separate books (with details of receipts recorded in clients' cash receipt book and details of payment recorded in clients' cash payment book).

In this manual, the term "clients' cash book" refers to both clients' cash receipt book and clients' cash payment book in case a firm uses two separate books. In the following examples, the clients' cash receipt book and clients' cash payment book will be used.

Full particulars of the receipt, transfer and payment of clients' money and money held in the firm's client accounts must be recorded in the clients' cash book(s) within three (3) working days of such receipt, transfer or payment. The working days include Saturday as it is not a general holiday.

RELEVANT RULE(S):

Rules 10(1) and (2) of Solicitors' Accounts Rules

It is good practice to:

- (a) have a separate clients' cash book for each client account; and
- (b) simultaneously or consecutively record all clients' cash book entries into the respective clients' ledgers on the same day.

2.4.2 Clients' cash receipt book

All information recorded on the client receipts or transfer vouchers should be recorded in the clients' cash receipt book of the related client account.

Set out below is a sample of a clients' cash receipt book:

BOC (client) – Account Number 345678						
Date (1)	File no.	Particulars (2)	Amount (3)	Receipt No. (4)	Total amount received (5)	Sums deposited in client account (6)
15/01/XX	1210	Received from Ms. Black Costs on account Matter: Mr. Black's probate	50,000	CR-101	HK\$ 50,000	HK\$ 50,000
15/01/XX	1109	Received from FGH company Balance of purchase price Land registration fee Search fee Matter: purchase of House C	1,001,570 1,100 100 1,002,770	CR-102	1,002,770	1,002,770
30/01/XX	1012	Received from Mr. CY Ho Settle bill no. 235 Court filing fee Matter: Matrimonial (FCMC 123 of 20XX)	4,500 750 5,250	CR-103	5,250	5,250
30/01/XX	1301	Received from Mr. FD Cheung Dr. H. Wong – Expert Fee (to be paid on 04/02/20XX) Matter: Personal Injury (DCPI Action No. 123 of 20XX)	15,000	CR-104	15,000	15,000
30/01/XX	1219	Received from Ms. Pink Counsel's fee Re: litigation (H.C. no. 25)	30,000	CR-105	30,000	30,000
31/01/XX (8)	1301	Mr. FD Cheung Dr. H. Wong – Expert Fee (to be paid on 04/02/XX) Dishonoured cheque – No. 5678 Matter: Personal Injury (DCPI Action No. 123 of 20XX)	(15,000)	CR-104	(15,000)	(15,000)
31/01/XX		Balance carried forward (7)			1,088,020	1,088,020

The following headings and particulars should be shown on the clients' cash receipt book:

- (1) Date – the date upon which that entry is made to the clients' cash receipt book.
- (2) Particulars – payer, purpose of such payment, file matter, etc. as shown on the client receipt.
- (3) Amount – in case funds are received for various payments of the same file, detailed breakdown of the received sum.
- (4) Receipt No. – as the money received should be recorded in the clients' cash receipt book immediately, the receipt numbers as recorded in this column should be in strict numerical order.
- (5) Total amount received – aggregate of the amount shown in the "Amount" column.
- (6) Sums deposited in client account – relevant supporting documents issued by banks (e.g. inward remittances advices and credit advices) should be kept with the clients' cash receipt book.
- (7) Balance carried forward – total sum of money received should be summed up monthly.
- (8) Dishonoured cheque reverse entry – in case of stop cheque or cancelled cheque, similar accounting entries can be made. See also further explanation set out in sub-paragraphs 2.4.5, 2.4.6 and 2.4.7.

2.4.3 Clients' cash payment book

All information recorded on payment vouchers or transfer vouchers should be recorded in the clients' cash payment book of the related client account.

Set out below is a sample of a clients' cash payment book:

BOC (client) – Account Number 345678						
Date (1)	File no.	Particulars (2)	Amount (3)	Payment Voucher No. (4)	Total Amount paid (5)	Sums withdrawn from client account (6)
02/01/XX	1158	Mr. Big & Co. Counsel's fee Cheque # 5656 Matter: Consultation on Basic Law	3,000	PV-011	HK\$ 3,000	HK\$ 3,000
15/01/XX	1109	FGH Company – HKSAR Land registration fee Cheque # 5657 Matter: purchase of House C	1,100	PV-012	1,100	1,100
26/01/XX	1168	Mr. Yellow Being professional fees (Bill # 1111) – Transfer to BOC office account Cheque #5658 Matter: Immigration to Canada	1,500	PV-013	1,500	1,500
27/01/XX (8)	1249	Chak Cheung Manufacturing Limited Mediator Fee – Mr. Wong Tai Man Unpresented cheque # 3712 dated 27/07/XX-1 (over 6 months) Matter: Disputes on trademarks	(20,000)	PV-002	(20,000)	(20,000)
30/01/XX	1268	Mr. White Stakeholder Money (T/T) TT Charges Interest on stakeholder money Cheque # 5659 Re: Sale of Flat C, Seaview Building	1,500,000 105 5,441 1,505,546	PV-014	1,505,546	1,505,546
31/01/XX		Balance carried forward (7)			1,491,146	1,491,146

The following headings and particulars should be shown on the clients' cash payment book:

- (1) Date – the date upon which that entry is made to the clients' cash payment book.
- (2) Particulars – payee, purpose of such payment, related cheque / bank transfer reference, file matter, etc. as shown on the payment vouchers.

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- (3) Amount – in case various payments are made for the same file, detailed breakdown of such payments.
- (4) Payment Voucher No. – after processing the payment voucher and making the payment (issuing cheque or requesting for the transfer), the relevant entry should be made to the clients' cash payment book immediately.
- (5) Total Amount Paid – aggregate of the amount shown in the “Amount” column.
- (6) Sums withdrawn from client account – supporting documents relating to such payment (e.g., approved application for funds transfer (T/T form), copies cheques and debit advice) should be kept with the clients' cash payment book.
- (7) Balance carried forward – the total sum of the money withdrawn should be summed up monthly.
- (8) Unpresented cheque reverse entry – see also further explanation set out in sub-paragraph 2.7.3 below.

2.4.4 Preparing the clients' cash book with the monthly balance

At the end of each month, the closing balance of the clients' cash book should be prepared so that total sum remained in the related account can be ascertained and client account reconciliation statement can be made monthly.

According to the sample clients' cash receipt book and clients' cash payment book above, the monthly closing balance (HK\$1,480,830) of the clients' cash book as at 31/01/XX is calculated as follows:

BOC (client) – Account Number 345678		
Date	Particulars	HK\$
31/12/XX	Balance as at 31/12/XX	1,883,956
	Plus : Receipts for Jan XX	<u>1,088,020</u>
		2,971,976
31/01/XX	Less: Payment for Jan XX	<u>(1,491,146)</u>
	CASH BOOK BALANCE 31/01/XX	<u>1,480,830</u>

RELEVANT RULE(S):

Rule 10A of Solicitors' Accounts Rules

2.4.5 Received cheque dishonoured

When a cheque received from a client was dishonoured, the relevant client receipt should not be cancelled. The following method should be adopted for recording this type of transaction:

- (a) Keep bank's notification of dishonoured cheque in the related file.
- (b) Make respective reverse entry to the clients' cash receipt book and the respective clients' ledger (i.e. negative sum to cancel out the related entry) and specify that the cheque was dishonoured (*see item (8) of clients' cash receipt book sample above*).

RELEVANT RULE(S):

Rules 10(1)(a) and 10(2) of Solicitors' Accounts Rules

2.4.6 Cancelled client account cheques

As long as the cheque issued by the firm has not been delivered to the bank for clearance, it can be cancelled and it is good practice to follow the procedures below:

- (a) The cheque should be stapled to the cheque book and marked "Cancelled" with reason stated thereon. A copy of the cancelled cheque should be kept in related file.
- (b) Copy payment voucher kept in the file should be marked "Cancelled" with reason stated thereon.
- (c) Make respective reverse entry to the clients' cash payment book and the respective clients' ledger (i.e. negative sum to cancel out the related entry). Specify that the cheque was cancelled and state the reason therein.

RELEVANT RULE(S):

Rules 10(1)(a) and 10(2) of Solicitors' Accounts Rules

2.4.7 Stop cheque payment

In case a cheque issued by the firm which had been submitted to the bank for clearance needed to be cancelled, it is good practice to adopt the following procedure:

- (a) Contact the bank to place a stop payment order.
- (b) Contact the person or firm to whom the cheque has been issued and inform him/them about the problem.
- (c) Make respective reverse entry to the clients' cash payment book and the respective clients' ledger (i.e. negative sum to cancel out the related entry). Specify that the cheque was cancelled and state the reason therein.

RELEVANT RULE(S):

Rules 10(1)(a) and 10(2) of Solicitors' Accounts Rules

Principle 13.03, The Hong Kong Solicitors' Guide to Professional Guide (Volume 1, 2nd and 3rd Editions)

2.5 TRANSFER OF MONEY IN CLIENT ACCOUNTS

2.5.1 Transfer of money between client accounts opened with different banks

When there is transfer of money between client accounts or accounts holding clients' money opened with different banks, the procedures, requirements and rules set out in sub-paragraphs 2.1 and 2.3 above should be followed.

2.5.2 Transfer of money between client accounts or accounts holding clients' money opened with the same bank, and transfer of money between different clients' ledgers but held under the same client account or account holding clients' money

It is good practice to have the authorised person of the firm to approve the following transfers:

- (a) Transfer of money between client accounts opened with the same bank.
- (b) Transfer of money between different clients' ledgers but held under the same client account.

It is also good practice to record details relating to each transfer (including files involved, amount, reason for such transfer and authorisation) in a transfer voucher and the supporting documents should be reviewed when processing the voucher. Copies of the transfer voucher, supporting documents and documents evidencing such transfer should be kept in related files.

Set out below is a sample of a transfer voucher (for situation (b)):

TRANSFER VOUCHER				NO. (1): <u>TV-900</u>	
HANDLING SOLICITORS & STAFF:				REQUISITION DATE (2): 23/01/XX	
REASON TO EFFECT TRANSFER (3):				Transfer costs on account for the same client as per Mr. White's instructions by email dated 22/01/XX (email enclosed)	
FILE NO.	CLIENT NAME	MATTERS	RELEVANT CLIENT ACCOUNT (4):	TRANSFER AMOUNT FROM	TRANSFER AMOUNT TO
1276	Mr. White	Translation of M & A.	BOC Client #1		HK\$1,500
1268	Mr. White	Sale of Flat C, Seaview Building	BOC Client #1	HK\$1,500	
PROCESSED BY (5) _____ ACCOUNTS DEPARTMENT			APPROVED BY (6) _____ AUTHORISED PERSON Name:		

All the following information must be shown on a transfer voucher:

- (1) Transfer voucher number (in consecutive numbers);
- (2) Date of preparing the transfer voucher;
- (3) Reason for such transfer – supporting document should be provided;
- (4) Client accounts affected by such transfer;
- (5) signature of the accounting staff who processed the transfer voucher; and
- (6) signature of the authorised person of the firm.

RELEVANT RULE(S):

Paragraph 4(5), Guidelines for Accounting Procedures and Systems of Appendix 5 to Practice Directions

2.6 CLIENTS' LEDGERS

2.6.1 What is a clients' ledger

Clients' ledger should provide complete, accurate and up-to-date records of receipt, transfer and payment of money held by the firm for each client in respect of each matter.

Relevant entries should be made to the related clients' ledger within three (3) working days after the date of receipt, transfer or payment. It is good practice to make relevant entries to the related clients' ledger immediately after corresponding entries had been made to the clients' cash book.

A separate clients' ledger should be opened for each matter for the same client. Further, in case the firm acts for different parties of a transaction, a separate clients' ledger should be opened for each party.

Set out below are samples of clients' ledgers:

Client:	FGH Company 343 Queens Road, Central	File no. 1109				
Matter:	Purchase of House C					
Date (1)	Particulars (2)	Amount (3)	Reference (4)	Dr.	Cr.	Balance (5)
		HK\$		HK\$	HK\$	HK\$
15/01/XX	Balance of purchase price Land registration fee Search fee	1,001,570 1,100 <u>100</u> 1,002,770	CR-102		1,002,770	1,002,770
15/01/XX	HKSAR Land registration fee Cheque #5657	1,100	PV-012	1,100		1,001,670
31/01/XX	Balance as at 31/01/XX (6)					1,001,670

Client:	Chak Cheung Manufacturing Limited	File no. 1249				
Matter:	Disputes on trademarks					
Date (1)	Particulars (2)	Amount (3)	Reference (4)	Dr.	Cr.	Balance (5)
		HK\$		HK\$	HK\$	HK\$
01/01/XX	Balance brought forward					29,168
27/01/XX	Mediator Fee – Mr. Wong Tai Man Unpresented cheque # 3712 dated 27/07/XX-1 (7)	20,000	PV-002		20,000	49,168
31/01/XX	Balance as at 31/01/XX (6)					49,168

Client:	Mr. White	File no. 1268				
Matter:	Sale of Flat C, Seaview Building					
Date (1)	Particulars (2)	Amount (3)	Reference (4)	Dr.	Cr.	Balance (5)
		HK\$		HK\$	HK\$	HK\$
01/01/XX	Balance brought forward					2,407,046
23/01/XX	Transfer costs on account to the same client (File no. 1276) with client's instructions by email dated 22/01/XX	1,500	TV-900	1,500		2,405,546
30/01/XX	Stakeholder Money (T/T) TT Charges Interest on stakeholder money	1,500,000 105 5,441 <u>1,505,546</u>	PV-014	1,505,546		900,000
31/01/XX	Balance as at 31/01/XX (6)					900,000

Client:	Mr. White	File no. 1276				
Matter:	Translation of M & A					
Date (1)	Particulars (2)	Amount (3)	Reference (4)	Dr.	Cr.	Balance (5)
		HK\$		HK\$	HK\$	HK\$
23/01/XX	Transfer costs on account from the same client (File no. 1268) with client's instructions by email dated 22/01/XX	1,500	TV-900		1,500	1,500
31/01/XX	Balance as at 31/01/XX (6)					1,500

The following headings and particulars should be shown on the clients' ledger:

- (1) Date – the date upon which that entry is made to the relevant clients' ledger.
- (2) Particulars – purpose of such payment, reason for such transfer, related cheque/bank transfer reference, etc. as shown on the client receipt, payment voucher or transfer voucher.
- (3) Amount – in case various payments are made for the same file, detailed breakdown of such received sums or payments.
- (4) Reference – the client receipt number, payment voucher number or transfer voucher number.
- (5) Balance – the up-to-date amount of funds held on behalf of the client in respect of that particular matter should be recorded after a new entry is made. Individual clients' ledger must not have a debit balance. However, if a debit balance occurs, the letters "DR" should be marked in the balance column and the solicitor must deposit funds to the client account for that individual clients' ledger in order to restore that clients' ledger to a nil, or credit balance.
- (6) Balance as at 31/01/XX – the amount of fund held on behalf of the client in respect of that particular matter during the last day of the month should be calculated for preparing the monthly client account reconciliation statement.
- (7) Unpresented cheque reverse entry – see also further explanation set out in sub-paragraph 2.7.3 below.

RELEVANT RULE(S):

Rules 9A, 10(1) and 10(2) of Solicitors' Accounts Rules

2.6.2 Referring to the clients' ledger before drawing a client cheque

Before drawing a client cheque, a firm must ensure that the relevant client account has sufficient funds. It is good practice that the handling solicitor should be satisfied that there are sufficient funds held in the clients' ledger for that particular purpose. Funds received for a specific purpose should not be used for any other purpose unless with client's instructions, preferably in writing, to confirm such use.

2.7 CLIENT ACCOUNT RECONCILIATION

2.7.1 Preparing reconciliation statements

The firm should ensure that reconciliation statement for all client accounts and accounts holding clients' money (in operation) are prepared monthly. Such reconciliation statement will be referred to as "client account reconciliation statement" in this Manual.

The client account reconciliation statement should show clearly the financial status of the related accounts, clients' cash books and clients' ledgers as at the last day of previous month. Usually the client account reconciliation statement will be prepared shortly after the firm has received bank statements of the related accounts of the previous month.

In order to prepare the client account reconciliation statement, the firm should also prepare the following:

- (a) an up-to-date master list of all client accounts and accounts holding clients' money (in operation or closed) setting out name of banks, bank account numbers, opening and closing date of the bank accounts and the authorised signatories;
- (b) a list showing balance of all clients' ledgers; and
- (c) a list showing balance of all clients' cash books.

The reconciliation statement must show the causes for:

- (a) difference between the balance of each of such accounts as shown on bank statement and the respective clients' cash book; and
- (b) difference between the total balances of all clients' cash books and the total balances of all clients' ledgers.

RELEVANT RULE(S):

Rule 10A of Solicitors' Accounts Rules

Paragraphs 5(3) and 5(4), Guidelines for Accounting Procedures and System of Appendix 5 to Practice Directions

Set out below is a sample of a client account reconciliation statement:

Bank name of the client account: Account no.: For the month ended: 31/01/XX	HSBC 234567		BOC 345678		Total																								
	HK\$	HK\$	HK\$	HK\$	HK\$																								
Balance as per bank statement		907,158		1,472,830	2,379,988																								
Less: Unpresented cheques					(6,258)																								
<table border="0"> <tr> <td>Cheque no.</td> <td>Issued date</td> <td>Present date</td> <td></td> <td></td> <td></td> </tr> <tr> <td>4955 (PV-110)</td> <td>29/01/XX</td> <td>01/02/XX</td> <td>(2,812)</td> <td></td> <td></td> </tr> <tr> <td>4956 (PV-111)</td> <td>31/01/XX</td> <td>03/02/XX</td> <td>(2,346)</td> <td>(5,158)</td> <td></td> </tr> <tr> <td>5657 (PV-112)</td> <td>15/01/XX</td> <td>03/02/XX</td> <td></td> <td></td> <td>(1,100)</td> </tr> </table>	Cheque no.	Issued date	Present date				4955 (PV-110)	29/01/XX	01/02/XX	(2,812)			4956 (PV-111)	31/01/XX	03/02/XX	(2,346)	(5,158)		5657 (PV-112)	15/01/XX	03/02/XX			(1,100)					
Cheque no.	Issued date	Present date																											
4955 (PV-110)	29/01/XX	01/02/XX	(2,812)																										
4956 (PV-111)	31/01/XX	03/02/XX	(2,346)	(5,158)																									
5657 (PV-112)	15/01/XX	03/02/XX			(1,100)																								
Less: Direct deposits					(29,150)																								
<p>Mr. Brian – received on 31/01/XX (client receipt: 109 issued on 02/02/XX)</p> <p>Miss Cat – received on 30/01/XX by Telegraphic transfers (client receipt: 110 issued on 02/02/XX)</p>				(26,150)																									
		(3,000)																											
Add: Outstanding deposits:					31,000																								
<p>Deposit received on:</p> <p>24/01/XX (deposited with (client receipt: 106) HSBC on 01/02/XX)</p> <p>31/01/XX (deposited with (client receipt: 105) BOC on 01/02/XX)</p>			1,000																										
				30,000																									
Add: Bank lodgement not shown on bank statement:					5,250																								
<p>Deposit received on:</p> <p>30/01/XX (Client (Cleared with Receipt: CR-103) BOC on 01/02/XX)</p>				5,250																									
Balance as per clients' cash book		900,000		1,480,830	2,380,830																								
Less: Balance as per list of clients' ledgers balances – Schedule 1 (see below)					2,380,830																								
Difference					0																								

List of clients' ledgers balances		Schedule 1	
as at 31/01/XX			
		Dr	Cr
1000	Noble Company – secretarial (BVI)		179
1010	Mr. Bee – warrants		4,262
1020	Ms. Wong – shareholding disputes		156,543
1012	Mr. CY Ho – matrimonial (FCMC 123 of 20XX)		46,813
1109	FGH Company – purchase of House C		1,001,670
1210	Ms. Black – Mr. John Robert Black – probate		61,000
1219	Ms. Pink – litigation (H.C. no. 25)		158,695
1249	Chak Cheung Manufacturing Limited – Disputes on trademarks		49,168
1268	Mr. White – sale of Flat C, Seaview Building		900,000
1276	Mr. White – translation of M & A.		1,500
			<u>2,379,830</u>
Add: File no. 9999 – Initial bank deposit of HSBC			1,000
		<u>0</u>	<u>2,380,830</u>

2.7.2 Notes for preparing client account reconciliation statement:

- (a) When preparing the client account reconciliation statement, information stated in the bank statement of client account and accounts holding clients' money should be checked against the related clients' cash book and clients' ledgers and in particular, the following points should be checked:
- (1) For each of such accounts, compare information stated in the bank statement and each entry made to the related clients' cash book to see if all receipt, transfer and payment of money held in such account have been recorded accurately and up-to-date;
 - (2) For each of such accounts, compare information stated in the bank statement with the records of issued cheques in the related clients' cash book to see if there is any unrepresented cheque;
 - (3) For each of such accounts, compare information stated in the bank statement and the client receipts record to see if there is (i) any money received by the firm which had not been deposited, (ii) any cheque deposited with the bank but had not been cleared and (iii) any direct deposit;
 - (4) Prepare reconciliation statement based on information deduced from (1) to (3) above;
 - (5) Reconciliation statement should reveal that (i) balance of each of such accounts coincides with the amount of money held in such accounts by the firm as per the respective clients' cash book and (ii) the total balances of all clients' cash books coincide with the total balance of all clients' ledgers.

- (b) The principal should, on opening a client account, give a written authority to the bank to debit all bank charges from the firm's office account. However, if bank charges are debited from the client account, the principal must promptly rectify the situation by depositing a sum equivalent to the debited amount into the client account.
- (c) The reconciliation statement should be reviewed by the firm's principal who should ensure that:
 - (1) all money required to be held in client accounts be deposited with the bank on the next working day;
 - (2) items in the bank statement of client accounts or accounts holding clients' money requiring adjustments (e.g. bank charges in case of client accounts, outstanding deposits) be rectified by the firm or the bank (whichever is appropriate) forthwith;
 - (3) relevant entries be made to the clients' cash book and the individual clients' ledger, on the next working day of discovery, to record items stated in the bank statement of client account or accounts holding clients' money but not yet recorded in the clients' cash book and the related clients' ledger (e.g. direct deposit, telegraphic transfers);
 - (4) investigation and appropriate action (including relevant entries be made to the clients' cash book and individual clients' ledger) be taken, e.g. unpresented cheque which is issued more than 6 months or money received but not yet deposited with the bank on the next working day (*see first item of Outstanding Deposits in the sample reconciliation statement above*);
 - (5) outstanding items as shown in previous month's reconciliation statement had been properly dealt with;
 - (6) investigation and appropriate action be taken forthwith regarding any debit balances stated in the list of clients' ledgers balances; and
 - (7) professional advice shall be sought from a certified public accountant (practising) if any of the aforesaid issues cannot be resolved within a reasonable time.

2.7.3 Unpresented cheques of client account or accounts holding clients' money

Issuance of a cheque from any of such accounts does not discharge the solicitor's obligation to account for client funds. When such cheque remains unpresented for more than two months, the firm should investigate the matter and take appropriate follow-up actions with the payee. In case such cheque remains unpresented for more than 6 months which by common practice of banks is considered to have rendered the cheque invalid, the firm should follow-up with the payee, cancel the cheque and make reverse entries to the clients' cash book and the respective clients' ledger (i.e. negative sum to cancel the related entry) and state that the cheque was unpresented for over 6 months. Please refer to sections "2.4.3 Clients' cash payment book" and "2.6 Clients' ledgers" for sample entries of unpresented cheque in client cash payment book and clients' ledger respectively.

2.7.4 Direct deposits and/or telegraphic transfers revealed in bank statement

If the bank statement of a client account or an account holding clients' money revealed deposit or telegraphic transfer by a client which was only known by the firm when it received the bank statement, upon identifying the client, the client receipt should be issued and relevant entries should be made to the clients' cash book and respective clients' ledger. Such direct deposit and telegraphic transfer will be an item recorded in the client account reconciliation statement.

2.7.5 Outstanding Deposits

Outstanding deposits in the client account reconciliation statement refer to money received by the firm on the last business day of each month which had not been deposited with the bank as at the last business day of that month. Client receipt had been issued in respect of such sum and relevant entries had been made to the client cash book and respective clients' ledger. Such outstanding deposits should also be reflected in the client account reconciliation statement.

RELEVANT RULE(S):

Rules 3, 4, 9A, 10 and 10A of Solicitors' Accounts Rules

2.7.6 Unidentified deposits

If unidentified funds are revealed in bank statement of a client account or an account holding clients' money, the firm should investigate the matter forthwith. Relevant entries should be made within 3 working days to the clients' cash book and the suspense account in the clients' ledgers or in case the clients' ledgers do not have a suspense account, a suspense account should be created for such purpose.

Such suspense account should only be used on a temporary basis and with good justification; for instance, when time is needed to establish the nature of the unidentified funds and the identity of the client.

Further dealings of any unclaimed balance in client accounts should follow the procedures set out in the Law Society's Circulars 09-733(SD) and 16-148(SG).

RELEVANT RULE(S):

Rules 1A and 10(2) of Solicitors' Accounts Rules

The Law Society's Circulars 09-733(SD) and 16-148(SG)

3. BILLS AND DISBURSEMENTS

3.1 BILLS

A solicitor must render a bill of costs within a reasonable time of concluding the matter to which the bill relates. In case of criminal matters, the bill should be delivered to the client promptly at the end of the case. The bill should contain sufficient information regarding the work undertaken and should distinguish between profit costs and disbursements.

It is good practice for a firm to maintain a system to record time spent by each file handler on work done for that particular file. Such information is useful for preparing bills, assessing cost recovery rate and controlling work in progress.

RELEVANT RULE(S):

Rule 5D(c) of Solicitors' Practice Rules

Rule 10(4) of Solicitors' Accounts Rules

Principle 4.09 and Commentary 2 to Principle 4.10 of The Hong Kong Solicitors' Guide to Professional Conduct (Volume 1, 2nd and 3rd Editions)

Set out below is a sample of a bill of costs:

ABC SOLICITORS 3/F, ABC Building, Hong Kong		
Bill No. 201X-0001 To: Ms. Elizabeth Black c/o FGH Enterprises Co. Ltd. 10/F, FGH Commercial Building, 343 Queens Road, Central		Date: 30/04/XX Our Ref: Bill-1210 Your Ref: FGN-ABC-100
		Page 1 of 2
Description	Amount (HK\$)	Amount (HK\$)
Re: Probate of Mr. John Robert Black ("Deceased") TO OUR PROFESSIONAL CHARGES for services rendered in connection with the above matter from 1st April 20XX through 30th April 20xx, including: <ul style="list-style-type: none"> a) Taking your instructions and reviewing various documents provided by you in relation to the Deceased's assets; b) Writing to various banks to obtain update bank statements; c) Attending opening of various deposit boxes and preparing inventory lists; d) Preparing your affidavit to apply for probate of the Deceased's will; e) Preparing your affidavit to verify schedule of assets and liabilities (for grant); f) Preparing Schedule of assets and liabilities of the Deceased; g) Preparing authorization letters to be given by you to various banks (i) to release all monies of the Deceased's bank accounts, properties kept in the Deceased's deposit boxes to our firm and (ii) to sell shares held in the Deceased's securities account and release the sale proceeds to our firm; h) Preparing deed of family arrangement; i) Preparing assent and attending to execution, adjudication, stamping and registration thereof; and 		

ABC SOLICITORS																							
3/F, ABC Building, Hong Kong																							
Bill No. 201X-0001 To: Ms. Elizabeth Black c/o FGH Enterprises Co. Ltd. 10/F, FGH Commercial Building, 343 Queens Road, Central		Date: 30/04/XX Our Ref: Bill-1210 Your Ref: FGN-ABC-100																					
		Page 2 of 2																					
<p>i) Attending to incidental telephone calls, general care and incidental attendances not specifically set out herein.</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-left: 40px;"> <thead> <tr> <th style="width: 30%;">Fee Earner</th> <th style="width: 20%;">Hourly rate (HK\$)</th> <th style="width: 20%;">Time spent (hours)</th> <th style="width: 30%;">Total amount (HK\$)</th> </tr> </thead> <tbody> <tr> <td>Mr. A. Cheng</td> <td style="text-align: right;">5,000</td> <td style="text-align: right;">10</td> <td style="text-align: right;">50,000</td> </tr> <tr> <td>Mr. B. Chan</td> <td style="text-align: right;">3,000</td> <td style="text-align: right;">10</td> <td style="text-align: right;">30,000</td> </tr> <tr> <td>Ms. C. Wong</td> <td style="text-align: right;">1,500</td> <td style="text-align: right;">20</td> <td style="text-align: right;">30,000</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">Total</td> <td style="text-align: right;">110,000</td> </tr> </tbody> </table>				Fee Earner	Hourly rate (HK\$)	Time spent (hours)	Total amount (HK\$)	Mr. A. Cheng	5,000	10	50,000	Mr. B. Chan	3,000	10	30,000	Ms. C. Wong	1,500	20	30,000			Total	110,000
Fee Earner	Hourly rate (HK\$)	Time spent (hours)	Total amount (HK\$)																				
Mr. A. Cheng	5,000	10	50,000																				
Mr. B. Chan	3,000	10	30,000																				
Ms. C. Wong	1,500	20	30,000																				
		Total	110,000																				
k) Photocopying (200 pages x HK\$3)		600																					
l) Travelling expenses		300																					
Our charges			110,900																				
Disbursements																							
1) Land registration fee		450																					
2) Adjudication fee and stamp duty		120																					
3) Land search fee		270																					
Total disbursements			840																				
Total:			111,740																				
LESS: Costs on account			61,000																				
Balance payable:			50,740																				

3.2 DISBURSEMENTS

Under rule 2 of the Solicitors' Accounts Rules, the term "disbursements" means any sum spent or to be spent by a solicitor on behalf of the client or trust.

For accounting purpose, disbursements incurred for a particular file will be recorded in the office column in the clients' ledgers for that particular client (*see sample of clients' ledgers on section "samples of the clients' ledgers and accounting journals" of this Manual*). The total balances of the disbursements not yet billed will be recorded in the office column in all clients' ledgers and treated as part of the work in progress under current asset in the management account as mentioned in Appendix 2 of this Manual.

3.2.1 Treatment of expenses qualified as disbursements

In order to decide whether money spent or to be spent by a solicitor on behalf of the client or trust is to be drawn from a client account, a solicitor should first classify the disbursements as "disbursements spent or to be spent by solicitors as a principal or an agent".

In the case of disbursements classified as "disbursements spent or to be spent by solicitor as a principal", money would be drawn from the office account for settlement thereof. For disbursements classified as "disbursements spent or to be spent by solicitors as an agent", money would be drawn from the client account (insofar as sufficient costs on account is held for such purpose) to settle the same.

- (a) If disbursements are classified as "disbursements spent or to be spent by solicitors as a principal"

This is an expense incurred by the solicitor which he will be primarily liable for the payment to a third party (i.e. invoice will be issued to the solicitors' firm).

Examples:

- (1) Counsel's fees;
- (2) Photocopying charges (e.g. for obtaining copy documents from another solicitors' firm);
- (3) Courier costs;
- (4) Postage;
- (5) Travelling expenses of a solicitor;
- (6) Search fees;
- (7) Expert fees (e.g. legally aided cases); and
- (8) Fees for the taxation of bills of costs;
- (9) Hotel or venue expenses;
- (10) Translation and transcription fees;
- (11) Storage fees;
- (12) Photograph and video fees;
- (13) Detecting agency fees; and
- (14) Telephone and fax charges.

Accounting treatment:

Such disbursements should be paid from the office account and should only be recovered from the client after (i) a bill has been issued; or (ii) the solicitor has been paid money on account being disbursements.

Example 1 in the sample clients' ledgers and sample accounting journals below set out entries relating to payment of land search fee of HK\$270 by a firm on behalf of their client, Ms. Black.

RELEVANT RULE(S):

Rules 7(a)(iii) and 7(a)(iv) of the Solicitors' Accounts Rules

- (b) If disbursements are classified as “disbursements spent or to be spent by solicitors as agent”

This is an expense incurred by a solicitor for purchasing goods or services for a client as an agent.

Examples:

- (1) Business registration fees;
- (2) Fee payable on application of company incorporation;
- (3) Expert fees;
- (4) Stamp duty; and
- (5) Land registration fees.

Accounting treatment:

Such disbursements can be paid from the client account if such client has sufficient funds held in the client account for that particular purpose or the client had authorised part of the funds kept in the client account be used to settle such disbursements.

Example 2(a) in the sample clients' ledgers and sample accounting journals below set out entries relating to payment of land registration fees of HK\$450 directly from client account.

Example 2(b) in the sample clients' ledgers and sample accounting journals below set out entries relating to:

- (1) payment of land registration fee of HK\$450 from the firm's office account;
- (2) instructions from Ms. Black to use the costs on account to reimburse the firm.

RELEVANT RULE(S):

Rules 7(a)(i) and (ii) of the Solicitors' Accounts Rules

3.2.2 Treatment of expenses which are not qualified as disbursements

Expenses which do not qualify as disbursements under Section 3.2.1 above (e.g. charges for services provided to a client by staff of a firm) are considered as the solicitors' own expenses.

Examples:

- (a) Travelling charges;
- (b) Photocopying charges; and
- (c) Fax charges.

Accounting treatment:

Such expenses should be paid from the office account and can be included as profit costs in a bill to a client if the solicitor is able to relate the expenses to a specific client through his internal administrative system.

Examples 3 and 4 in the sample clients' ledgers and sample accounting journals below set out entries relating to payment of travelling charges and photocopying charges incurred by the firm for Ms. Black's file.

Set out below are samples of the clients' ledgers and accounting journals.

Client: Ms. Elizabeth Black
 Matter: Probate of Mr. John Robert Black

Date	Particulars	Amount (HK\$)	Reference	Office			Client		
				Debit	Credit	Balance (HK\$) Debit/ (Credit)	Debit	Credit	Balance (HK\$) Debit/ (Credit)
01/01/XX	Balance brought forward								(11,000)
15/01/XX	Costs on account	50,000	CR-101					50,000	(61,000)
<i>Example 1</i>	<i>ABC Solicitors paid land search fee of HK\$270 for this file (disbursements spent by the firm as principal)</i>								
02/02/XX	Land search fee	270	PV-222	270		270			(61,000)
<i>Example 2(a)</i>	<i>ABC Solicitors paid registration fee of HK\$450 for this file and there is sufficient fund kept in the client account for this purpose (disbursements spent by the firm as agent)</i>								
03/03/XX	Land registration fee	450	PV-333				450		(60,550)
<i>Example 2(b)</i>	<i>ABC Solicitors paid registration fee of HK\$450 for this file but no money was kept in the client account for this purpose; on 13/03/XX, the firm received client's instructions to transfer money from costs on account to reimburse the firm (disbursements spent by the firm as agent)</i>								
03/03/XX	Land registration fee	450	PV-333	450		720			
15/03/XX	Transfer of the paid registration fee from client account to office account	450	PV-444		450	270	450		(60,550)
<i>Example 3</i>	<i>ABC Solicitors set aside HK\$500 petty cash for travelling expenses incurred within a week; \$300 travelling expenses incurred can be related to this file (profit costs), [for illustration purpose, entries of example 3 are made immediately after entries set out for example 2(b)]</i>								
20/04/XX	Travelling expenses	300	PV-555	300		570			(60,550)
<i>Example 4</i>	<i>According to ABC Solicitors' records, HK\$600 photocopying charges can be related to this file (profit costs)</i>								
20/04/XX	Photocopying fee	600	OR-001	600		1,170			(60,550)
						1,170			(60,550)
						Total balance of office column		Total balance of client column	

Manual on Solicitors' Accounting

ABC SOLICITORS

This accounting journals recorded corresponding entries relating to entries set out in Clients' Ledgers of Ms. Elizabeth Black as per File No. 1210 – Matter: Probate of Mr. John Robert Black

Date	File No.	Account Name	Reference	Amount (HK\$)	
				Debit	Credit
<i>Example 1</i>		<i>ABC Solicitors paid land search fee of HK\$270 for this file (disbursements spent by the firm as principal)</i>			
02/02/XX	1210	Office column in client's ledger Office cash book	PV-222	270	270
<i>Example 2(a)</i>		<i>ABC Solicitors paid registration fee of HK\$450 for this file and there is sufficient fund kept in the client account for this purpose (disbursements spent by the firm as agent)</i>			
03/03/XX	1210	Client column in client's ledger Client's cash book	PV-333	450	450
<i>Example 2(b)</i>		<i>ABC Solicitors paid registration fee of HK\$450 for this file but no money was kept in the client account for this purpose; on 13/03/XX, the firm received client's instructions to transfer money from costs on account to reimburse the firm (disbursements spent by the firm as agent)</i>			
03/03/XX	1210	Office column in client's ledger Office cash book	PV-333	450	450
15/03/XX	1210	Client column in client's ledger Client cash book	PV-444	450	450
15/03/XX	1210	Office cash book Office column in client's ledger	PV-444	450	450
<i>Example 3</i>		<i>ABC Solicitors set aside HK\$500 petty cash for travelling expenses incurred within a week, \$300 travelling expenses incurred can be related to this file (profit costs). (for illustration purpose, entries of example 3 are made immediately after entries set out for example 2(b)).</i>			
20/04/XX	1210	Office column in client's ledger General expenses – travelling expenses Petty cash book	PV-555	300 200	500
<i>Example 4</i>		<i>According to ABC Solicitors' records, HK\$600 photocopying charges can be related to this file (profit costs)</i>			
20/04/XX	1210	Office column in client's ledger Other income – sundry income	OR-001	600	600

3.3 SETTLEMENT OF BILLS AND APPLICATION OF RULE 9(2A) OF THE SOLICITORS' ACCOUNTS RULES

Based on the sample bill of costs, clients' ledgers and accounting journals above, the following steps will be taken to settle the profit costs and disbursements of HK\$111,740 as set out in the sample bill.

(a) *Settle disbursements by costs on account before issuing bill*

Before issuing the sample bill, HK\$450 had been drawn from the client account to settle the registration fee [see Example 2(a)]. The remaining balance of costs on account for this file should be HK\$60,550.

(b) *Settle by costs on account after issuing bill*

Upon issuing the sample bill, costs on account of HK\$60,550 will be transferred, within 14 days from the date of delivery of the sample bill, to the office account for partial settlement of the bill in compliance with rules 7(a)(ii) and (iv) of the Solicitors' Accounts Rules.

(c) *Settle profit costs and paid disbursements*

Upon receiving the client's payment for settlement of the balance payable (i.e. HK\$50,740) as per the sample bill, the payment will be deposited to the office account in compliance with rules 9(2)(b) and (c) of the Solicitors' Accounts Rules to settle the remaining portion of the profit costs in the sum of HK\$50,350 (HK\$110,900 – HK\$60,550) and to pay the disbursements in the sum of HK\$270.

(d) *Settle unpaid disbursements*

Application of rule 9(2A) of the Solicitors' Accounts Rules

A solicitor shall consider when to settle unpaid disbursements (i.e. HK\$120 adjudication fee and stamp duty).

Option 1:

- HK\$120 was paid to the client account pending future payment to third party.

Option 2:

- HK\$120 remained in the office account and such amount must be applied to pay the adjudication fee and stamp duty not later than the 4th working day from the date of receipt of the relevant client's cheque.
- if adjudication fee and stamp duty were not paid, HK\$120 should be transferred from the office account to the client account not later than the 5th working day from the date of receipt of the relevant client's cheque pending future settlement with third party.

A solicitor may consider the following factors when deciding which option to take:

- whether there is any dispute as to the amount of the disbursements charged by the third party?
- whether the disbursements are due and payable (e.g. the third party has already issued invoice)?
- whether there will be sufficient time for the firm to clear the client's cheque for settlement of the bill and issue the firm's cheque to settle the disbursements on or before the 4th working day from the receipt of the client's cheque?

3.4 BILLS REGISTER

Bills register (also known as bills delivered book) keeps a record of bills or intimations issued by the firm.

RELEVANT RULE(S):

Rules 7(a)(iv) and 10(4) of the Solicitors' Accounts Rules

Set out below is a sample of a bills delivered book:

Bill no. (1)	Bill date (2)	File no. (3)	Client name (4)	Handler (5)	Total bill amount (6)	Profit costs (7)	Disbursements (8)	Amount settled by client's money (9)	Amount received from client (10)	Settlement date (11)

- (1) Bill no. - bill numbers should be in strict numerical order.
- (2) Bill date - the date upon which the bill was issued.
- (3) File no. - file in respect of which the bill was issued.
- (4) Client name - name of the client of the related file.
- (5) Handler - name of handling solicitor.
- (6) Total bill amount - amount of the bill including the profit costs and disbursements.
- (7) Profit costs - the amount of costs shown on bill.
- (8) Disbursements - the amount of disbursements shown on bill.
- (9) Amount settled by client's money - the amount of money transferred from the client account to settle the bill as per prior agreement or client's instructions.
- (10) Amount received from client - the amount paid by client to settle the bill.
- (11) Settlement date - the date upon which the bill was fully settled.

3.5 PHOTOCOPY, FAX AND IDD REGISTERS

These registers are kept by the firm to record details of sundry expenses spent for a particular file. The related sundry expenses will be billed as profit costs of that file.

It should be noted that the expenses spent by the firm for providing the photocopying services (e.g. toner, paper and repair and maintenance services) should be recorded in the office ledger of the firm's accounting system. Some firms may name such office ledger as "general expenses – printing and stationery" or "photocopying expenses account".

Set out below is a sample of a photocopy register:

ABC Solicitors

DISBURSEMENTS - PHOTOCOPYING

Date	Client Name	File no. & matter description	No. of copies	Handled by (1)	Bill number (2)

- (1) Handled by – the name of the person input the details in the photocopy register.
- (2) Bill Number – the bill within which the photocopying charges are billed as profit costs.

Set out below are samples of fax and IDD registers:

ABC Solicitors

DISBURSEMENTS - FAX

Date	Client Name	File no. & matter description	No. of copies	Handled by	Bill number

ABC Solicitors

DISBURSEMENTS - IDD

Date	Client Name	File no. & matter description	Charges	Handled by	Bill number

4. RECORD KEEPING METHOD

4.1 MANUAL SYSTEMS

The firm may use manual systems to record information and keep books of account as required under the Solicitors' Accounts Rules.

Manual system simply means keeping all books of account (e.g. the hand-written cash book and ledgers) and its supporting evidence by paper-based method.

4.2 COMPUTER SYSTEMS

The firm should obtain professional advice from a qualified computer system vendor and a certified public accountant (practising) when installing a computer system for the firm to record information and keep books of account.

If a computerised system is used, the principal must ensure that:

- (a) the computer system has enough capacity and backup capability to record the information required to be kept under the Solicitors' Accounts Rules; and
- (b) the computer system is backed-up as frequently as possible and in any event, at least once a month. It is good practice that the system be backed up on a daily basis, if possible.

RELEVANT RULE(S):

Rule 10(5A) of Solicitors' Accounts Rules

Paragraphs (2)(6) and (2)(7) Guidelines for Accounting Procedures and System of Appendix 5 to Practice Directions

The Law Society's Circular 13-815(MS)

5. OTHER AREAS OF CONCERN

5.1 INTEREST ON CLIENT ACCOUNTS

RELEVANT RULE(S):

Rule 6A and the Schedule to the Solicitors' Accounts Rules

5.2 OPENING OF CLIENT ACCOUNT AND ACCOUNT HOLDING CLIENTS' MONEY OR TRUST MONEY

There is no restriction on the number of client accounts that can be opened by a firm. Separate designated accounts to hold clients' money or trust money may be opened for specific reason. When opening a client account or an account holding clients' money and trust money, the firm should pay attention to the following:

- (a) The firm should consider the bank's credit ratings.
- (b) In the case of a client account, its bank statements and cheques must be identified with the word "client account" appearing in the title of the account. Where a bank refuses to place the word "client account" on the bank statement or chequebook the solicitor should refrain from using the bank account as a client account until the bank has used the word "client account". Where solicitors experience difficulty or refusal by a bank they should consider requesting the Law Society to communicate with the Association of Banks and the Monetary Authority.
- (c) It is advisable that no banking facility such as overdraft facilities should be arranged.
- (d) The firm should implement proper procedures for handling interest and debit bank charges.
- (e) ATM card with withdrawal function from the account should be disabled.

RELEVANT RULE(S):

Rules 2, 3 and 6A of Solicitors' Accounts Rules

Paragraphs (2)(5) Guidelines for Accounting Procedures and System of Appendix 5 to Practice Directions

5.3 USE OF ATM AND CHEQUE / CASH DEPOSIT MACHINE WHEN HANDLING CLIENTS' MONEY OR TRUST MONEY

When using an ATM or cheque / cash deposit machine to deposit cheques and money into a bank account, the firm should ensure that no office money will be intermingled with clients' money or trust money as this will constitute a breach of rule 4 of the Solicitors' Accounts Rules.

In any event, it is not recommended to use an ATM card to withdraw clients' money or trust money from the firm's client accounts or those accounts holding clients' money or trust money (including for cash withdrawal and transfer to another account) to avoid misappropriation of clients' money or trust money by using the ATM card. Furthermore, it is advisable to disable the overdraft facilities granted to such bank account which is issued with an ATM card and the daily cash withdrawal limit and the daily transfer limit should be set to zero.

RELEVANT RULE(S):

Rule 4 of Solicitors' Accounts Rules

5.4 UNCLAIMED MONEY IN CLIENT ACCOUNT

The Solicitors' Accounts Rules prohibit drawing money from a client account other than in accordance with rule 7 of the Solicitors' Accounts Rules. However, there are occasions when unclaimed balance remains in a client account for various reasons, for instance, when a client cannot be traced. This can create problems when auditing the solicitor's books of account or closing the solicitor's practice.

Rule 8(2) of the Solicitors' Accounts Rules empowers the Council of the Law Society to authorise specifically in writing the withdrawal of money from a client account in circumstances other than those permitted by rule 7 of the Solicitors' Accounts Rules.

Those who wish to apply to the Council for such authorisation must provide a written explanation of the grounds of application including steps taken by the firm to locate the client in whose favour the unclaimed balance remains in the account. The firm may refer to a checklist attached to the Law Society's Circular 16-148(SG) which is prepared, for guidance purpose only, to assist solicitors in making attempts to trace the client or other proper recipient of such unclaimed balance before applying to the Council for authorisation to withdraw the said balance from the client account.

RELEVANT RULE(S):

Rules 7 and 8(2) of Solicitors' Accounts Rules

The Law Society's Circulars 09-733(SD) and 16-148(SG)

5.5 OFFICE CASH BOOK AND LEDGERS

The firm should record details of the receipt, payment and transfer of money held in the office account in the office cash book and ledgers within 1 month after the date of the relevant transaction.

RELEVANT RULE(S):

Rule 10(3) of Solicitors' Accounts Rules

5.6 TRIAL BALANCE

Trial balance is a list showing debit and credit balances (as the case may be) of (a) the office cash books and office ledgers, (b) the clients' cash books and (c) clients' ledgers (collectively called "general ledger accounts"). It is required for preparation of the monthly management accounts of the firm (i.e. profit and loss account, appropriation account and balance sheet) which reveals the financial position of the firm. It is a good practice that a trial balance should be prepared monthly with the last day of that calendar month as the cut-off-date. If the aggregate debit balance shown in the trial balance is equivalent to the aggregate credit balance shown therein, it can be assumed that corresponding entries to the respective cash books and ledgers are posted properly. Otherwise, the firm's principal should investigate the matter with a view to rectifying the discrepancies forthwith. Samples of the trial balance and management accounts are shown in Appendices 1 and 2 to this Manual.

RELEVANT RULE(S):

Rule 10(3) of Solicitors' Accounts Rules

6. POWERS OF COUNCIL

6.1 INSPECTION OF DOCUMENTS

The Council of the Law Society may require a solicitor to produce his books of account, management accounts including monthly profit and loss accounts, bank pass books, loose-leaf bank statements, statements of account, vouchers and any other necessary documents for the inspection of any person appointed by the Council. Management accounts should also include monthly balance sheet.

RELEVANT RULE(S):

Rule 5B of Solicitors' Practice Rules
Rule 11 of Solicitors' Accounts Rules
Paragraph 4 of Practice Direction K

7. PROCEDURAL REFERENCE

7.1 CLOSING OF FILES

Upon completion of a matter, it is good practice to follow the procedures below when closing the relevant file:

- (a) Review the file, ensure that all the bills of costs had been issued and all the bills of costs had been settled.
- (b) Promptly refund all the clients' money (including small balances) to the client.
- (c) After all the drawings from the relevant client account had been made and its balance became zero, the clients' ledger can be closed and be transferred to a binder.
- (d) Keep a copy of the clients' ledger in the file.
- (e) Allocate a file closed number to the file for future reference before putting the closed file to storage.

7.2 TRANSFERRING FILES BETWEEN FIRMS

When the firm is required to transfer a file to another firm as per client's written instructions, it is good practice to follow the procedures below:

- (a) Review the file to consider whether a bill of costs should be issued and if so, issue the bill.
- (b) Subject to any arrangement with the client regarding settlement of any outstanding bill(s) and to sufficient funds being withheld to pay any unrepresented cheque(s) issued for that file, refund all client's money to the client or transfer the client's money to the new firm as per client's written instructions.
- (c) Ensure that proper record is made in relation to the documents transferred to the new firm and that it is kept in the file.
- (d) After all drawings from the relevant client account had been made and its balance became zero, the clients' ledger can be closed.
- (e) Keep a copy of the clients' ledger in the file.
- (f) Allocate a file closed number to the file for future reference before putting the closed file to storage.

APPENDICES

Appendices 1-2 are samples of trial balance and management accounts. Different computer accounting system may adopt different formats for these accounting documents.

APPENDIX 1

TRIAL BALANCE

Set out below is a sample of a trial balance:

ABC SOLICITORS – Trial balance for the year ended 31 March, Yr. 2			
General Ledger Accounts	Accounts Code	Debit Balances	Credit Balances
		HK\$	HK\$
Property, plant and equipment (cost) – leasehold property and improvements	1-1110	x	
Property, plant and equipment (cost) – computer equipment	1-1120	x	
Property, plant and equipment (cost) – fixture and fittings	1-1130	x	
Property, plant and equipment (cost) – motor vehicles	1-1140	x	
Property, plant and equipment (accumulated depreciation) – leasehold property and improvements	1-1210		x
Property, plant and equipment (accumulated depreciation) – computer equipment	1-1220		x
Property, plant and equipment (accumulated depreciation) – fixture and fittings	1-1230		x
Property, plant and equipment (accumulated depreciation) – motor vehicles	1-1240		x
Investments	1-2000	x	
Work in progress – time costs	1-4100	x	
Work in progress - disbursements	1-4200	x	
Fees receivable – bills rendered before year end	1-5100	x	
Disbursements receivable – bills rendered before year end	1-5110	x	
Fees and disbursements receivable – provision for impairment	1-5120		x
Prepayment - insurance	1-5210	x	
Prepayment – rent and rates	1-5220	x	
Prepayment – interest receivables	1-5230	x	
Prepayment - subscriptions	1-5240	x	
Prepayment – amounts owed by outgoing partners	1-5250	x	
Prepayment – other debtors	1-5260	x	
Office account – ABC Bank	1-6110	x	
Office account – DEF Bank	1-6120	x	
Office account – GHI Bank (overdraft)	1-6130		x
Cash in hand	1-6200	x	

[Page 1 of trial balance]

General Ledger Accounts	Accounts Code	Debit Balances	Credit Balances
		HK\$	HK\$
Clients' cash book – ABC Bank	1-6310	x	
Clients' cash book – XYZ Bank	1-6320	x	
Other payables and accrued expenses - salaries	2-1100		x
Other payables and accrued expenses – Amounts owed to outgoing partners	2-1200		x
Other payables and accrued expenses – Motor vehicles, travelling and entertainment	2-1300		x
Other payables and accrued expenses – Rent, rates and service charges	2-1400		x
Other payables and accrued expenses – disbursements	2-1500		x
Income tax payable	2-2000		x
Clients' ledgers – control account	2-4000		x
Partners' accounts – equity partners' salaries	3-1100	x	
Partners' accounts – interest on capital	3-1200	x	
Partners' accounts - capital	3-1300		x
Partners' accounts – amounts due to partners	3-1400		x
Fee income	4-1100		x
Other income – sundry income	4-2100		x
Other income – Interest income of client accounts	4-3100		x
Other income – Interest income of office accounts	4-3200		x
Other income – other interest	4-3300		x
Income tax charged	5-1000	x	
Staff costs – professional staff / salaries	5-2100	x	
Staff costs – professional staff / insurance	5-2200	x	
Staff costs – professional staff / pension costs	5-2300	x	
Staff costs – administration staff / salaries	5-2400	x	
Staff costs – administration staff / insurance	5-2500	x	
Staff costs – administration staff / pension costs	5-2600	x	
Staff costs – staff welfare and other costs	5-2700	x	
Staff costs – training	5-2800	x	
General and administrative expenses – rents and rates	5-3110	x	
General and administrative expenses – service charges	5-3120	x	
General and administrative expenses – lighting and air conditioning	5-3130	x	
General and administrative expenses – repairs and maintenance	5-3140	x	
General and administrative expenses – office cleaning	5-3150	x	
General and administrative expenses – file storage	5-3160	x	
General and administrative expenses - insurance	5-3170	x	
General and administrative expenses – telephones / fax	5-3200	x	
[Page 2 of trial balance]			

General Ledger Accounts	Accounts Code	Debit Balances	Credit Balances
		HK\$	HK\$
General and administrative expenses – postage and document exchange	5-3310	x	
General and administrative expenses – printing and stationery	5-3320	x	
General and administrative expenses – advertising and promotions	5-3410	x	
General and administrative expenses – subscriptions	5-3420	x	
General and administrative expenses – books and publications	5-3430	x	
General and administrative expenses – travelling expenses	5-3440	x	
General and administrative expenses – entertainment	5-3450	x	
General and administrative expenses – leasing of offices	5-3500	x	
General and administrative expenses – equipment hire and maintenance	5-3610	x	
General and administrative expenses – motor vehicle charges	5-3620	x	
General and administrative expenses – loss in foreign currencies exchange difference	5-3700	x	
Professional charges – accountancy	5-4100	x	
Professional charges – public relations	5-4200	x	
Professional charges – professional indemnity insurance	5-4300	x	
Professional charges – practising certificates	5-4400	x	
Finance costs – bank charges	5-5100	x	
Finance costs – overdraft interest	5-5300	x	
Depreciation charges – leasehold property and improvements	5-6300	x	
Depreciation charges – computer equipment	5-6400	x	
Depreciation charges – fixture and fittings	5-6500	x	
Depreciation charges – motor vehicles	5-6600	x	
Other – operating expenses – loss on disposal of equipment	6-1000	x	
Other – operating expenses – impairment charged of fees and disbursements receivable	6-2000	x	
Other – operating expenses – interest paid to clients	6-3000	x	
Total:		x	x
Remarks: the total value of all debits equals the total value of all credits of the firm's general ledger accounts			
[Page 3 of trial balance]			

APPENDIX 2

MANAGEMENT ACCOUNTS

According to rule 11 of the Solicitors' Accounts Rules, in order to ascertain whether the provisions of the Solicitors' Accounts Rules have been complied with, the Council may require any solicitor to produce his books of accounts, management accounts including monthly profit and loss accounts and any other necessary documents for the inspection of any person appointed by the Council at the time and place fixed.

A sample of a set of management accounts comprising profit and loss account, appropriation account, balance sheet and notes to the accounts is as follows:

ABC SOLICITORS

MANAGEMENT ACCOUNTS FOR THE YEAR ENDED 31 MARCH, Yr. 2

<i>CONTENTS</i>	<i>PAGES</i>
PROFIT AND LOSS ACCOUNT	1
APPROPRIATION ACCOUNT	2
BALANCE SHEET	3
NOTES TO THE MANAGEMENT ACCOUNTS	4-12

ABC SOLICITORS

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH, YR. 2

	Notes		Yr. 2		Yr. 1
		\$	\$	\$	\$
Revenue					
Fee income			x		x
Sundry income			x		x
			<u>x</u>		<u>x</u>
Interest income	4		x		x
Impairment of fees and disbursements receivable	12		(x)		(x)
Operating Costs					
Staff costs	5	(x)		(x)	
General and administrative expenses	6	(x)		(x)	
Professional charges	7	(x)		(x)	
Depreciation charges	9	(x)		(x)	
Loss on disposal of equipment		(x)	(x)	(x)	(x)
Operating profit			x		x
Finance costs	8		(x)		(x)
Profit before income tax			x		x
Income tax charge			(x)		(x)
Profit for the year (to appropriation account)			<u>x</u>		<u>x</u>

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ABC SOLICITORS

APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31 MARCH, YR. 2

	Yr. 2	Yr. 1
	\$	\$
Profit for the year (from profit and loss account)	x	x
Less: equity partners' salaries	(x)	(x)
interest on capital	(x)	(x)
Profit for the year before appropriation to partners	<u>x</u>	<u>x</u>
Appropriation:		
Partner A	x	x
Partner B	x	x
Partner C	x	x
Profit for the year after appropriation to partners	<u><u>x</u></u>	<u><u>x</u></u>

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ABC SOLICITORS

BALANCE SHEET AS AT 31 MARCH, YR. 2

	<i>Notes</i>		<i>Yr. 2</i>		<i>Yr. 1</i>
		\$	\$	\$	\$
Assets					
Non-current assets					
Property, plant and equipment	9	x		x	
Investment	10	<u>x</u>	x	<u>x</u>	x
Current assets					
Work in progress	11	x		x	
Fees and disbursements receivable	12	x		x	
Prepayments	13	x		x	
Office accounts		x		x	
Cash in hand		<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
Total assets			<u><u>x</u></u>		<u><u>x</u></u>
Equity					
Capital and reserves	14		x		x
Liabilities					
Current Liabilities					
Other payables and accrued expenses	15	x		x	
Income tax payable	16	x		x	
Bank overdraft		x		x	
Amount due to partners		<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
Total liabilities			<u><u>x</u></u>		<u><u>x</u></u>
Total equity and liabilities			<u><u>x</u></u>		<u><u>x</u></u>
Net current assets			<u><u>x</u></u>		<u><u>x</u></u>
Total assets less current liabilities			<u><u>x</u></u>		<u><u>x</u></u>
Client accounts					
Clients' cash books			<u><u>x</u></u>		<u><u>x</u></u>
Clients' ledgers			<u><u>x</u></u>		<u><u>x</u></u>
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ABC SOLICITORS

Notes to the management accounts for the year ended 31 March, Yr. 2

1. General information

ABC Solicitors (the "Firm") is a local firm which mainly provides legal services in conveyancing, litigation, probate, corporate finance, mergers and acquisitions.

2. Basis of preparation

These management accounts of the Firm have been prepared under the historical cost basis and are presented in Hong Kong dollars ("\$"), which is the Firm's functional currency.

The principal accounting policies and methods of computation applied by the Firm in the preparation of the management accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3. Principal accounting policies

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables or to be received and represented amounts receivables for services provided in the normal course of business, net of discounts.

Fee income and sundry income are recognised when services are rendered. Services provided by the Firm's professional staff to its clients which have not been billed at the balance sheet date are recognised as fee income. Fee income and sundry income recognised in the manner are based on an assessment of the fair value of services rendered by the Firm at the balance sheet date.

Sundry income represented expenses incurred which should be paid from the office account and can be included as profit costs in a bill to the Firm's clients as the Firm is able to relate these expenses to a specific client through its internal administrative system.

Interest income is recognised on a time proportion basis using effective interest method.

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3. Principal accounting policies (continued)

(b) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, (if appropriate), only when it is probable that future economic benefits associates with the item will flow to the Firm and the cost of the item can be measured reliably. The carrying amount of the replaced part is disrecognised. All other repairs and maintenance are charged in the profit and loss account during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated by using the straight-line method to allocate their costs to their residual values over their estimated useful lives. The principal annual rate used for this purpose is:

leasehold property and improvements	equally over the shorter of the term of the lease and useful lives of the assets
furniture and fittings	15 per cent per annum
computer equipment	33.3 per cent per annum
motor vehicles	25 per cent per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised in the profit and loss account.

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3. Principal accounting policies (continued)

(c) Impairment of assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash-generating units).

Assets that have indefinite useful life are not subject to amortisation and are reviewed annually for impairment. These assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment provision is made for the amount by which the asset's carrying amount exceeds its recoverable amount.

Impairment of fees and disbursements receivable and work in progress is based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the clients and current market conditions. The partners re-assess the impairment at the balance sheet date.

(d) Fees and disbursements receivable

Fees and disbursements receivable are recognised initially at fair value when the fee notes has been issued and subsequently measured at amortised cost using the effective interest method, less provision for impairment. When the fees and disbursements receivable is uncollectible, the carrying amount is written off against the allowance account for the receivables, and the amount of the impairment loss is recognised in the profit and loss account.

(e) Work in progress

Work in progress comprises of the unbilled time costs spent by the Firm's professional staff which have not yet been billed to its clients and the unbilled disbursements spent or to be spent by the Firm on behalf of its clients recorded in the office column in the clients' ledgers. It is only recognised when the time cost and disbursements are probable of recovery.

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3. Principal accounting policies (continued)

(f) Income tax

Income tax represents the current income tax expense. The income tax payable represents the amount expected to be paid to the relevant tax authority, using tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is not provided.

(g) Foreign currency transactions

Foreign currency transactions are initially recorded by using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the function currency rates of the exchange ruling at the balance sheet date. All differences are taken to profit and loss account. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

(h) Operating leasing (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to the profit and loss account as general and administrative expenses on a straight-line basis over the lease term.

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7. Professional charges						Yr. 2	Yr. 1
						\$	\$
Accountancy						X	X
Public relations						X	X
Professional indemnity insurance						X	X
Practising certificates						X	X
						<u>X</u>	<u>X</u>
8. Finance costs						Yr. 2	Yr. 1
						\$	\$
Bank charges						X	X
Overdraft interest						X	X
						<u>X</u>	<u>X</u>
9. Property, plant and equipment							
	Leasehold property & improvements	Fixture & fittings	Computer equipment	Motor vehicles	Total		
	\$	\$	\$	\$	\$		
Cost							
At 1 April Yr. 1	X	X	X	X	X		
Additions	X	X	X	X	X		
Disposals	X	X	X	X	X		
At 31 March Yr. 2	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>		
Accumulated depreciation							
At 1 April Yr. 1	X	X	X	X	X		
Charged for the year	X	X	X	X	X		
Disposal	X	X	X	X	X		
At 31 March Yr. 2	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>		
Net book value at 31 March Yr. 2	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>		
Net book value at 31 March Yr. 1	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>		

10.	Investment	<u>Yr.2</u>	<u>Yr.1</u>
		\$	\$
	Investment in AGB Limited, at cost	<u>x</u>	<u>x</u>
11.	Work in progress	<u>Yr. 2</u>	<u>Yr. 1</u>
		\$	\$
	Time costs	x	x
	Disbursements	<u>x</u>	<u>x</u>
		<u>x</u>	<u>x</u>
12.	Fees and disbursements receivable	<u>Yr. 2</u>	<u>Yr. 1</u>
		\$	\$
	Fees receivable	x	x
	Disbursements receivable	x	x
	Less: Provision for impairment	<u>(x)</u>	<u>(x)</u>
	Fees and disbursements receivable - net	<u>x</u>	<u>X</u>
The movements in allowance for impairment during the year are as follows:			
		<u>Yr. 2</u>	<u>Yr. 1</u>
		\$	\$
	At 1 April	x	x
	Charged to the profit and loss account	x	x
	At 31 March	<u>x</u>	<u>x</u>
		<u>x</u>	<u>x</u>
Ageing of fees receivable which are past due but not impaired is as follows:			
		<u>Yr. 2</u>	<u>Yr. 1</u>
		\$	\$
	Not past due	x	x
	Past due 0-30 days	x	x
	Past due 31-120 days	x	x
	Past due over 120 days	<u>x</u>	<u>x</u>
		<u>x</u>	<u>x</u>
The Firm allows credit period of 30 days to its clients.			
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13.	Prepayments				<u>Yr. 2</u>	<u>Yr. 1</u>
					\$	\$
	Insurance				x	x
	Rent and rates				x	x
	Interest receivables				x	x
	Subscriptions				x	x
	Amounts owed by outgoing partners				x	x
	Other debtors				<u>x</u>	<u>x</u>
14.	Capital and reserves					
			<u>Yr. 2</u>		<u>Yr. 1</u>	
		<u>Capital</u>	<u>Reserves</u>	<u>Total</u>	<u>Capital</u>	<u>Reserves</u>
		\$	\$	\$	\$	\$
	At April 1	x	x	x	x	x
	Profit for the year after appropriation to partners	-	x	x	-	x
At March 31	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	
15.	Other payables and accrued expenses				<u>Yr. 2</u>	<u>Yr. 1</u>
					\$	\$
	Salaries				x	x
	Amounts owed to outgoing partners				x	x
	Motor vehicles, travelling and entertainment				x	x
	Rent, rates and service charges				x	x
	Disbursements				<u>x</u>	<u>x</u>
					<u>x</u>	<u>x</u>
16.	Income tax				<u>Yr. 2</u>	<u>Yr. 1</u>
					\$	\$
	Hong Kong profits tax - current year provision				<u>x</u>	<u>x</u>
					<u>x</u>	<u>x</u>
<p>Provision for Hong Kong profits tax has been made at the current rate of income tax of 15% (Yr. 1 : 15%) on the estimated assessable profits for the current year.</p>						
<p>[Page 11 of Management Accounts]</p>						

17. Operating lease commitments

At 31 March, Yr. 2, the total future minimum lease payments under non-cancellable operating leases are payable as follows;

	<u>Yr. 2</u>	<u>Yr. 1</u>
	\$	\$
Within one year	x	x
After one year but within five years	x	x
Over five years	x	x
	<u>x</u>	<u>x</u>

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