# LPC BUDDY

## Solicitors' Accounts
## 2023 / 24

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# Solicitors' Accounts

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| **Colour Coding Guide** | ❖ Blue Text – Reference to statutes and case law. <br> ❖ Green Text – Reference to textbook paragraphs[2], workshop tasks[3] and other notes in LPC Buddy. <br> ❖ Purple Text – Reference to Professional Conduct Rules or Principles. |

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|---|---|
| **Accounts Entries Colour Coding Guide** | ❖ **Green Text – CR Entry** <br> ❖ **Red Text – DR Entry** <br> ❖ **Purple Text – Client Account Column** <br> ❖ **Orange Text – Business Account Column** <br> ❖ **Grey Text – Client Ledger** <br> ❖ **Blue Text – Cash Ledger** |

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[1] This is probably the most helpful document in this guide!

[2] Textbook references are to the CLP Legal Practice Guides by CLP Publishing.

[3] References to Workshop tasks are to University of Law workshop tasks (which may be adopted by other LPC institutions). The content and structure of Workshops is subject to change at short notice and so task references should be treated as a general guide only.

## Client Money

❖ *Accounts for Solicitors, 9.2*

| Overview | ❖ There are two "categories" of money held in a solicitors' account: |
|---|---|
| | ➢ **"Client" money**: this is money that is received by a firm and held for its client(s) or third parties; i.e., it is NOT the firm's money. |
| | ➢ **"Business" money**: (formerly "office" money). This is money that belongs to the firm (though note that this is not a formal definition in the rules which only define "client money")). |

| Terminology | ❖ As a preliminary point, it is important to appreciate the distinction between: |
|---|---|
| | ➢ Fees; |
| | ➢ Disbursements; and |
| | ➢ Costs; |
| | ❖ Each of these terms is defined by the *SRA Glossary*. |

| Fees | ❖ A firm's **charges** or profit costs (including VAT). |
|---|---|
| Disbursements | ❖ Disbursements are ***expenses*** which have or will be paid to a third party on behalf of the client. |
| | ❖ This: |
| | ➢ Includes any VAT element; but |
| | ➢ **DOES NOT** include **postage costs and courier** fees (these are "office expenses"). |
| | ❖ Common examples include: expert's fees, counsel's fees, court fees, payments to HM Land Registry. |
| Costs | ❖ Costs" are "fees" and "disbursements". |
| | ❖ This definition is **significant** when considering the operation of Rule 4.3 below which sets out what a firm must do when using client money to pay *"costs"* (i.e., the obligation applies to fees and also (where relevant) disbursements). |

| What is client money? [1] | ❖ "Client money" is defined by Rule 2.1(a) – (d) of the Accounts Rules: |
|---|---|
| *Accounts for Solicitors, 9.4* | |

| Type of Client Money | Explanation |
|---|---|
| **2.1(a): Money that is:**<br>➢ **Held or received *by you.*** <br>➢ **Relating to *regulated services delivered by you* to a client;** | ❖ Money held by a firm that **relates to "regulated services"** is client money. <br><br>❖ "Regulated services" are all legal and other professional services that the firm provides that are regulated by the SRA. |

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[1] Introduction to Professional Practice, Solicitors' Accounts Workshop 1, Task 1

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|---|---|---|
| | | ❖ **Examples** of client money under this head include: purchase monies for a property, and settlement monies on conclusion of litigation. |
| | **2.1(b):** **Money that is:**<br>➢ Held or received by you *on behalf of a third party.*<br>➢ In relation to *regulated services delivered by you.* | ❖ Money held by a firm *on behalf of a third party* will be client money.<br><br>❖ The rules list the following examples:<br>    ➢ Money held as an **agent;**<br><br>    ➢ Money held **as a stakeholder;**<br>        ▪ I.e., Where the solicitor holds money on behalf of **both parties** to a transaction.<br>        ▪ This is particularly relevant for commercial property transactions where SCPC 3.2.2 provides that a deposit is to be held as stakeholder (entitling a buyer to claim this back at any point prior to completion).<br><br>    ➢ Money **held to the sender's order.**<br><br>❖ Rule 2.1(a) and 2.1(b) together essentially **cover any money held or received by the law firm** which relates to **the service that the law firm is providing for its client.** |
| | **2.1(c):** **Money that is:**<br>➢ Held or received by you as a *trustee or as the holder of a specified office* or appointment. | ❖ Money held by the firm as a *trustee or office holder* will be client money.<br><br>❖ The rules list the following examples of offices / appointments:<br>    ➢ Donee of a power of attorney<br>    ➢ Court of Protection deputy<br>    ➢ Trustee of an occupational pension scheme; |
| | **2.1(d):** **Money held in respect of:**<br>➢ *Your fees;* and<br>➢ Any *unpaid disbursements;*<br>➢ If held or received *prior to delivery of a bill* for the same. | ❖ Monies paid to a firm in respect of unpaid fees and disbursements are ***client money*** *unless and until they are billed.* |

| Examples | Examples of *Client Money* | Examples of *Business Money* |
|---|---|---|
| | ❖ The client pays money to the firm **on account of costs** (i.e., money received in respect of the firm's fees, but in advance of the firm raising a bill for these). | ❖ The firm bills a client for professional charges, and the client **pays money in respect of this.** |

|  |  | ❖ The client **pays money in respect of Counsel's fees which** (a) have not been paid by the firm, and (b) the firm has not yet raised a bill to the client. | ❖ The firm makes a payment from its business bank account on behalf of the client (e.g., for a Court Fee), and **the client reimburses this.** |
| --- | --- | --- | --- |
|  |  | ❖ The client sends the firm **monies to complete a purchase** of a flat. | ❖ The firm bills a client for its professional charges, and an unpaid disbursement, and the **client sends a cheque to cover this.** |

| What is a client account?<br><br>*Accounts for Solicitors, 9.5* | ❖ [Rules 3.1 and 3.2](#) require firms to hold **client money** in a separate "client bank account" (unless the exception in [Rule 2.2](#) applies (see below)); this is referred to as the "client account". |
| --- | --- |

| | **Requirements of the account.** | ❖ The client account must:<br>    ➢ Be a bank account or building society in **England and Wales** ([Rule 3.1](#)).<br>    ➢ Include in the title:<br>        ▪ The **name** of the authorised body (the firm) ([Rule 3.2(a)](#)).<br>        ▪ The word **"client".**<br><br>❖ NB: the inclusion of the word "client" in the title means that the **bank** will *not* have any recourse or right against the money in respect of any liability of the solicitor ([s85(2) Solicitors Act 1974](#)). |
| --- | --- | --- |

| | **Exceptions - [Rule 2.2](#)** | ❖ [Rule 2.2:](#) You **DO NOT** have to hold money in a client account **IF** *all* of the following factors apply: |
| --- | --- | --- |
| | | **The only client money held by the firm falls within [Rule 2.1(d)](#).** | ❖ This is money in respect of **fees or unpaid disbursements which have not yet been billed.**<br><br>❖ The [Rule 2.2](#) exception ***cannot*** apply if the firm receives ***any other types of client money.***<br><br>❖ E.g., If money is transferred to complete a purchase of a property, or funds are held for the beneficiaries of a trust or an estate, the firm will need to hold these in a separate client account. |
| | | AND:<br><br>**Any money held for disbursements relates to costs or expenses incurred** | ❖ Examples of an unpaid disbursement for which the firm would be liable:<br>    ➢ A firm has <u>an account at the Land Registry and pays monthly for searches.</u> |

| | | | by you on behalf of your client and for which you are liable. | ➤ The firm has instructed counsel on behalf of a client. |
|---|---|---|---|---|
| | | | **AND:** <br><br> **The firm does not, for any other reason, maintain a client account;** | |
| | | | **AND:** <br><br> **The firm has informed the client in advance of where and how money will be held.** | |
| | | **Benefits of the** Rule 2.2 **Exemption** | ❖ If a firm can benefit from this exemption, there are **potential cost savings** e.g.: <br> ➤ Reduced professional indemnity insurance premiums. <br> ➤ No accountant's report is required for the client account (which is otherwise required by Rule 12). | |
| | **Third-Party Managed Accounts (TPMAs)** <br><br> Rule 11 | ❖ Another alternative to maintaining a client account, available to small firms, is to open a **Third-Party Managed Account** (TPMA). <br><br> ❖ This is allowed under Rule 11, subject to certain circumstances, and involves a **third party** (a TPMA provider) making and receiving payments on behalf of that client instead of the firm. Money is **not held by the solicitor but by the TPMA provider**. <br><br> ❖ The money, therefore, does not meet the definition of client money in Rule 2.1 (which requires money to be *"held or received by you")*, such that the **accounts rules relating to holding client money do not apply.** <br><br> ❖ See notes on *Third Party Managed Accounts*. | | |
| **Obligation to pay client money "promptly" into the client account.** | ❖ Client money must be paid "*promptly*" into a client account (Rule 2.3). <br><br> ❖ There is **no definition** of what amounts to "promptly". <br><br> ❖ The SRA has stated that this will "***depend on all the circumstances** of the matter, **the nature of the firm** and the **instructions received** – underpinned by the obligation in the SRA Code of Conduct for Solicitors and Firms to ensure that **money and assets are safeguarded** and the SRA Principles including that they **act in the client's best interests**".* | | | |

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| *Accounts for Solicitors, 9.6* | ❖ **14 days is likely to be sufficient** given that this was the required time period under the previous rules.<br><br>❖ Where there is a delay, this will require **justification**. | | |
| | **Exceptions**<br><br>Rules 2.3(a) – (c) | ❖ There are three *limited* exceptions to the requirement to pay client money "promptly" into the client account (Rules 2.3(a) – (c)): | |
| | | **Rule 2.3(a): Where this would conflict with your obligations under an *office or appointment.*** | ❖ I.e., where monies are **held as a trustee or officeholder** (e.g., Court of Protection Deputy etc.) under Rule 2.1(c) AND<br><br>❖ To pay monies into the client account would **conflict** with your obligations under rules or regulations **relating to your specified office** or appointment. |
| | | **Rule 2.3(b): Where client money is *received from the Legal Aid Agency* for the firm's costs.** | ❖ Money from the legal aid agency will often include **advance payments for third parties, such as Counsel**, which are strictly client money.<br><br>❖ Rule 2.3(b) provides an exception from the normal rule that this must be paid "promptly" into the client account. There is **no specified time for those third parties to be paid** or for monies to be transferred to the client bank account if the third party is not paid.<br><br>❖ However, a firm cannot hold such funds indefinitely in its business account as the firm is still subject to the SRA Code of Conduct and in particular must act with integrity (Principle 5) and in its client's best interests (Principle 7). |
| | | **Rule 2.3(c): Where you *agree to an alternative arrangement* in writing with a client, or the third party, for whom the money is held.** | ❖ The agreement MUST be in writing. |
| **Payments out of the client account.** | ❖ Firms are under the following obligations when making payments out of the client account: | | |
| | | **The firm must make client money** | ❖ Client money must be made available by a firm *"on demand"* **UNLESS** an alternative arrangement is agreed **in writing.** |

| | available "on demand". Rule 2.4 | ❖ This means that, generally, firms should **not** tie up client money in deposit accounts which require extended notice periods. |
| | Money must be returned "promptly" to the client. Rule 2.5 | ❖ When there is no longer any reason to hold client monies, these must be **returned "promptly"** to the client.<br><br>❖ As with Rule 2.3, there is no definition of "promptly". |
| **Handling mixed payments**[2]<br><br>*Accounts for Solicitors, 9.8* | ❖ Rule 4.1 requires **client money to be kept "separate" from the firm's own money**.<br><br>❖ It is common, however, for a firm to receive a "mixed payment" containing ***both*** **client money and office monies.** For example, the firm may receive a payment from its client made up of (a) money for an unpaid disbursement not included in a bill (client money), *and* (b) payment for the firm's bill (business money).<br><br>❖ In such circumstances, Rule 4.2 requires the firm to allocate funds "promptly" to the ***correct bank account***. You must "*ensure that you **allocate promptly** any funds from **mixed payments** you receive to the correct client account or business account*".<br><br>❖ Ideally, where a mixed payment is received, this will be **split** by the firm and allocated to the correct account. However, this is rarely practical. For instance, where monies are paid by cheque, **only *some banks* will allow the cheque to be split between two accounts.**<br><br>❖ If the firm's bank does not allow for a cheque to be split, the ***whole cheque*** will have to be paid into **one** account and funds moved **promptly** into the other account.<br><br>❖ Where the monies **cannot** be split, the firm can **choose** whether the money is **INITIALLY** paid into the firm's client or business bank account, however, the monies must then be **allocated "promptly"** to the correct account. |
| | | **Example** ❖ You receive £500,960 from a client made up of:<br>➢ £500,000 for **completion of a purchase** = Client money.<br>➢ £360 for **billed professional charges** and VAT = Business money.<br>➢ £200 for **billed disbursements** = Business money.<br>➢ £400 for **billed future disbursements** = Business money.<br><br>❖ This is a mixed receipt of client and business money.<br><br>❖ The money can, therefore:<br>➢ Be **paid into either the client or business bank account.**<br>➢ However, funds must **then be transferred "promptly" into the correct account** (Rule 4.2). |

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|  |  | ❖ If monies are paid into the client account initially, £500,000 can be kept there, however, £960 must be transferred "promptly" to the business account. |
|---|---|---|
|  |  | ❖ If monies are paid into the business account initially, £500,000 must be transferred "promptly" to the client account. |
| **Withdrawing client money held on account of costs**[3] <br><br> Rule 4.3 |  | ❖ Rule 4.3: where monies are held by the firm in respect of the firm's **incurred costs,** the firm *cannot* transfer payments from the client bank account, *until they have given the client a bill of costs* or other written notification. <br><br> ❖ The firm must therefore send the client a bill or written notification **before** it transfers any money to the business account in respect of the firm's fees. Any transfer must be **for the specific sum identified in the bill** / written notification. <br><br> ❖ The wording of the rule, strictly, suggests that it also applies to **paid disbursements** (meaning firms would not be able to reimburse themselves in respect of disbursements that they have paid on a client's behalf without first issuing a bill to the client). However, the SRA has stated that **this is not the case** as Rule 5 allows money to be withdrawn from the client account "for the purpose for which it is being held", which includes reimbursing the firm for payments made on the client's behalf (providing this purpose has been made clear to the client)[4]. <br><br> ❖ The Rules appear to permit monies to be transferred in relation to **work to be undertaken** *in the future*, *providing a bill has been given to the client*. However, SRA guidance suggests that this is **not best practice**; it provides that this exposes the client to various **risks**; e.g., if the firm was to go insolvent, the client may not have sufficient funds to progress their matter if the insolvency practitioner refused to pay out to them. |
|  | **Example** | ❖ You receive £1,000 from your client on account of costs = client money. <br><br> ❖ You pay a disbursement of £700. <br><br> ❖ You pay a further disbursement of £500. <br><br> ❖ You can use the client money to pay the first disbursement of £700. You will be left with £300 in your client account. <br><br> ❖ You do not have enough money to pay the second disbursement, and therefore will need to pay this from your business bank account (see Rule 5.3 below). <br><br> ❖ *You cannot transfer the £300 in your client account to the business bank account **until you have issued a bill** or other written notification to your client.* |

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[3] Introduction to Professional Practice, Solicitors' Accounts Workshop 1, Workshop Task 1, Multiple Choice Question 1

[4] It is anticipated a new Rule 4.4 will shortly be added to the Accounts Rules to make clear that firms **can** withdraw money from the client account in respect of disbursements that they have paid on a client's behalf, without issuing a bill. See *Accounts for Solicitors, 9.8.4.*

| | | |
|---|---|---|
| **Withdrawals of client money from the client bank account.**<br><br>*Accounts for Solicitors, 9.9* | | ❖ The following rules govern the circumstances when a firm can withdraw client money that is held in its client account: |
| | **When can you withdraw client money?** | ❖ Rule 5.1: Client money can ONLY be withdrawn:<br> ➢ For the **purpose for which it is being held** (e.g., for the purchase of a property); or<br><br> ➢ Following **receipt of instructions** from the client; or<br><br> ➢ On the **SRA's prior written authorisation** or in prescribed circumstances.<br><br>❖ So, although money cannot generally be used to pay for disbursements without the firm issuing a bill, this ***will be permissible if*** the firm has **made clear to the client,** prior to the withdrawal, that the client money in question may be used to reimburse **the firm** for payments made.<br><br>❖ Rule 5 will NOT, however, permit a transfer if the disbursement has not yet been incurred or paid for by the firm. |
| | **You must have sufficient funds to make the payment.**<br><br>Rule 5.3 | ❖ You may only withdraw money from a client account if **sufficient funds are held** to make the payment.<br><br>❖ If more is taken for a client than is held for them (i.e., that client's ledger becomes negative), **money held for OTHER clients will have been used for that client**. This will require urgent correction.<br><br>❖ Errors must be **corrected promptly** upon discovery and any money improperly withdrawn must be **immediately replaced** (Rule 6).<br><br>❖ This means that firms **cannot** make payments of disbursements out of the *client account* where the **disbursement is bigger than the amount of client money held**.<br><br><table><tr><td>**Example**</td><td>❖ A firm holds £1,900 for a client.<br><br>❖ It needs to pay a disbursement of £2,000.<br><br>❖ The firm **cannot** use £1,900 of client money towards that disbursement.<br><br>❖ The firm will not be able to transfer funds from the client account unless:<br> ➢ **A bill is raised** to the client, or<br> ➢ The firm has **made the client aware** that it would use money in this way (per Rule 5.1, above).</td></tr></table><br>❖ Therefore, the options for the firm are: |

|  |  | ➢ **Make payment of the full amount from the firm's business account**; or |
|  |  | ➢ **Advance the firm's own money to the client account to make up the difference.**<br>▪ This becomes subject to the rules governing client money, and a debt will then be owed by the client.<br>▪ E.g., The firm could advance £100 to the client account and pay the £2,000 disbursement. The client will then owe the firm £100. |
| **Residual client account balances.**<br><br>*Accounts for Solicitors, 9.9.2*<br><br>Rule 5.1(c) | ❖ Generally, where a **matter ends, the client account balance should be £0** (as Rule 2.5 requires client money to be returned promptly as soon as there is no longer a proper reason to hold the funds).<br><br>❖ Where a firm is in the rare situation where it holds money for a client which cannot be returned to them because the client **cannot now be identified or traced**, the firm should follow Rule 5.1(c), which provides that client money can be withdrawn:<br>➢ In **certain "prescribed circumstances"**, and where;<br>➢ The money is **less than £500**, and where;<br>➢ The firm has the **SRA's prior written authorisation** to do so.<br><br>❖ The "prescribed circumstances" are where **_all_** of the following apply[5]:<br>➢ The balance is **paid to charity**; and<br><br>➢ Reasonable steps have been taken **to return the money**; and<br>▪ What is reasonable depends on:<br>• Age of the balance.<br>• Amount of the balance.<br>• Whether the firm has access to up-to-date contact details.<br>• The costs associated with tracing the client.<br><br>➢ The steps taken to return the money are **recorded** and records are **retained** for at least six years; and<br><br>➢ **Appropriate accounting records** are kept.<br>▪ Including a central register recording the name of the rightful owner, the amount, the name of the recipient charity, and the date of payment; as well as all receipts from the charity.<br><br>❖ For amounts **over £500**, the firm must **contact the SRA** for authority to remove this from the client account. | |
| **Alternative ways of holding client money** | ❖ There are two potential situations where a firm may hold client money otherwise than in a client account: | |
|  | Joint accounts. | ❖ Firms can open a *joint account* **with a client or third party** where the firm holds or receives money **jointly with the client or third party.** |

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5 SRA Statement - 'Granting authority to withdraw residual client balances' (updated 8 October 2020)

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| *Accounts for Solicitors, 9.13* | Rule 9 | ❖ The following rules **do not** apply to money held in a joint account:<br>➢ Rule 2 – Client Money.<br>➢ Rule 3 – Client Account.<br>➢ Rule 4 – Client money must be kept separate.<br>➢ Rule 5 – Withdrawals from the Client Account<br>➢ Rule 6 – Duty to correct breaches on discovery.<br>➢ Rule 7 – Interest.<br>➢ Rule 8 – Client accounting systems and controls.<br>▪ EXCEPT FOR:<br>• The requirement to obtain statements from banks and building societies and other financial institutions at least every five weeks (Rule 8.2), and<br><br>• The requirement to keep a readily accessible central record of bills and other notifications of costs (Rule 8.4). |
| | Operating a client account as signatory.<br><br>Rule 10 | ❖ The firm can, alternatively, open an account "as signatory"; this is where a client authorises a firm to **manage an account which belongs to the client**. The firm will be an authorised signatory of the account.<br><br>❖ If the firm operates a client's own bank account as a signatory:<br>➢ As with Joint Accounts, Rules 2–8 **do not apply**.<br><br>➢ **Except for** Rule 8.2 (requirement to obtain statements from the bank every five weeks[6]) **and** Rule 8.4 (requirement to keep a central record of bills) (as above); and<br><br>➢ Rule 8.3, which requires reconciliations of the account at least every five weeks. |
| Receipt of cheques for third parties<br><br>*Accounts for Solicitors, 14.2* | | ❖ If the firm is not the payee (recipient) on a cheque (e.g., because the client or another third party is the named recipient):<br>➢ You **cannot** pay that cheque into a firm bank account. The firm is not the recipient.<br><br>➢ You simply need to **pass the cheque onto the correct payee without delay**.<br><br>❖ This is *not* client money:<br>➢ As such there is **no obligation under** Rule 8.1(a) **to record the event on the client ledger account and cash account**.<br><br>➢ It is, however, best practice to keep a written record of the receipt / correspondence. |

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[6] It is anticipated that the SRA will shortly increase this period to 16 weeks for firms operating a client account as signatory, due to firms struggling to comply with this, as well as add a new Rule 10.2 to require such accounts to be signed off by the firm's COFA.

Double Entry Bookkeeping

| Overview | ❖ The solicitors' accounts module is normally assessed in two ways: |
|---|---|
| |     ➢ Students are asked **questions, normally in multiple-choice format**, on the application of the Accounts Rules; and |
| |     ➢ Students are asked to **complete an accounts ledger**, meaning that in addition to understanding the theory behind the rules, you must also understand how to apply these in practice, and the *accounts entries that result*. |
| | ❖ This note aims to introduce the basics of the second bullet point; introducing the concept of double-entry bookkeeping. |

| Double-entry Bookkeeping | ❖ Double-entry bookkeeping is based on the premise that **every movement of money has two parts**. |
|---|---|
| | ❖ For instance: |
| |     ➢ If a business *receives* a payment of £500 from a client in respect of a bill, the business: |
| |         ▪ **Receives £500 in cash** BUT ALSO |
| |         ▪ Simultaneously **LOSES a debt owed to it** by the client (an asset) of £500. |
| |     ➢ **The business has received £500 in cash, but has also** <u>lost a £500 asset</u> **(the debt owed), and an entry must therefore be made in the businesses' accounts to reflect both of these elements of the transaction.** |
| |     ➢ Similarly, if a business *makes* a payment of £500, for instance to pay a disbursement on behalf of a client, the business: |
| |         ▪ Reduces its cash by £500 BUT ALSO |
| |         ▪ The client now owes the business £500. <u>The debt is an asset and should be reflected in the accounts.</u> |
| | ❖ **For the purposes of this exam, you do not need to understand the logic behind the method, just the method itself.** |
| | ❖ The critical point is the following: |
| | <p style="text-align:center;color:red">❖ EVERY MOVEMENT OF MONEY<br>❖ EITHER COMING INTO OR LEAVING A SOLICITORS' *CLIENT* LEDGER.<br>❖ WILL HAVE A *CORRESPONDING AND OPPOSITE* ENTRY INSERTED INTO THE SOLICITORS' *CASH* LEDGER.<br>❖ AND VICE VERSA</p> |
| | ❖ Both sides of the transaction **must ALWAYS be recorded**. |
| | ❖ The equal and opposite entries are set out in <u>Table 1</u> below. |
| CR and DR Entries | ❖ In light of the above basic principle, the movement of money to and from a Solicitors' Account **must always be reflected by TWO ENTRIES denoting the double entry.** |

❖ These entries are written as follows:

| CR | ❖ Denotes money **COMING IN**; i.e., a **receipt**.<br><br>❖ A **CR** entry must be made for **any money which COMES INTO OR ENTERS the relevant account**.<br><br>❖ We will colour these in **green** throughout this guide. |
|---|---|
| DR | ❖ Money **GOING OUT**.<br><br>❖ A **DR** entry must be made to reflect any money **which either:**<br> ➢ **LEAVES the relevant account or**<br> ➢ **Is OWED to the business.**<br><br>❖ We will colour these in **red** throughout this guide. |

**The Accounts Ledger**

❖ A solicitors' firm's account looks like the following. It is made up of two separate tables, known as ledgers, which are:
  ➢ A client ledger (i.e., below, Mr Brown) and
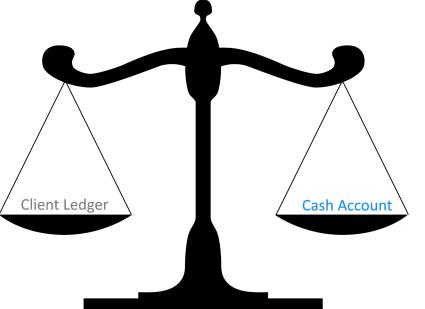  ➢ The cash ledger.

Client: Mr Brown
Matter: Purchase of 1 London Road

| Date | Details | Business Account | | | Client Account | | |
|---|---|---|---|---|---|---|---|
| | | DR | CR | BAL | DR | CR | BAL |
| | | | | | | | |

Cash Account

| Date | Details | Business Account | | | Client Account | | |
|---|---|---|---|---|---|---|---|
| | | DR | CR | BAL | DR | CR | BAL |
| | | | | | | | |

❖ Double entry-bookkeeping requires every movement of money to have its **two component elements recorded**. Each component element will be recorded on a separate *ledger*.

❖ The movement of money must be **equal and opposite**. This means that:
  ➢ The entry on the client ledger (i.e., Mr Brown) and
  ➢ The entry on the cash ledger;
  ➢ **MUST BALANCE.**

Client Ledger    Cash Account

| What does this mean? | ❖ In summary, this has two practical consequences: | |
|---|---|---|
| | 1 | ❖ For every **CR entry** (movement of money in) you record on the Client Ledger. <br><br> ❖ You must **balance this** by making a **DR entry** (movement of money out) on the **Cash Ledger.** |
| | 2 | ❖ For every **DR entry** (movement of money out) recorded on the Client Ledger. <br><br> ❖ You must **balance this** by a **CR entry** (movement of money in) on the **Cash Ledger.** |
| **Columns** | ❖ The **Business Column** and **Client Column** on each ledger should be thought of as entirely separate, and the column you use will be determined by the *type of money* that is being moved (i.e., client money, or business money). <br><br> ❖ The elements which need to "balance" are the *ledgers*, not the business/client columns. So, the following must balance: | |
| | 1 | ❖ The **Client Account Column on the** Client Ledger must balance with the **Client Account Column on the Cash Ledger**. |
| | 2 | ❖ The **Business Account Column on the** Client Ledger must balance with the **Business Account Column on the Cash Ledger** |

| *So, if you...* | |
|---|---|
| ❖ Enter a **CR entry** on the **Client Account Column** on the Client Ledger. | ❖ Enter a **DR entry** on the **Client Account Column** on the Client Ledger. |

| | | | |
|---|---|---|---|
| | | ❖ Your balancing **DR entry** will ALWAYS be on the **Client Account Column** on the **Cash Ledger.** | ❖ Your balancing **CR entry** will ALWAYS be on the **Client Account Column** on the **Cash Ledger**. |
| | | ❖ Enter a **CR entry** on the **Business Account Column** on the **Client Ledger.** | ❖ Enter a **DR entry** on the **Business Account Column** on the Client Ledger. |
| | | ❖ Your balancing **DR entry** will ALWAYS be on the **Business Account Column** on the **Cash Ledger.** | ❖ Your balancing **CR entry** will ALWAYS be on the **Business Account Column** on the **Cash Ledger**. |

❖ **In overview:**
> ➤ The **COLUMN** in which the corresponding CR/DR entry is located will ALWAYS be the same.
> ➤ Only the **TYPE OF ENTRY**, and **THE LEDGER** will differ.

| | |
|---|---|
| **Another way to think about it is...** | ❖ The alternative way of thinking about this is that the **Client Ledger** is always "leading" i.e., money is going in or out of the **Client Ledger** first and foremost, with the "**Cash Account**" always being your "counter-balance" on which the "opposite" entry is denoted.<br><br>❖ E.g.<br>➤ If you are told that money is **leaving** the **Client Ledger;**<br>   ■ You will need to input a **DR entry** in the client ledger to record this.<br>   ■ Because you have entered a **DR entry**, this needs to be "counter-balanced" with a **CR entry** on the **Cash Account.**<br>   ■ The entries will always be in the **same column** (and the column will depend on whether the money is client or business money).<br><br>➤ If you are told that money is **entering** the **Client Ledger;**<br>   ■ You will need to input a **CR entry** in the client ledger to record this.<br>   ■ Because you have entered a **CR entry**, this needs to be "counter-balanced" with a **DR entry** on the **Cash Account.**<br>   ■ The entries will always be in the **same column** (and the column will depend on whether the money is client or business money). |

❖ The full list of possible scenarios is therefore as follows (the colour of the cell relates to the colour coding we have used for the column the transaction is recorded in (i.e., purple for the client account, and orange for the business account):

| Table 1 | |
|---|---|
| **If you make a:** | **You must make a corresponding:** |
| ❖ **CR entry**<br>❖ In the **client account column**<br>❖ Of the **client ledger** | ❖ **DR entry**<br>❖ In the **client account column**<br>❖ Of the **cash ledger** |
| ❖ **DR entry**<br>❖ In the **client account column** | ❖ **CR entry**<br>❖ In the **client account column**<br>❖ Of the **cash ledger** |

| | |
|---|---|
| ❖ Of the client ledger | |
| ❖ CR entry <br> ❖ In the business account column <br> ❖ Of the client ledger | ❖ DR entry <br> ❖ In the business account column <br> ❖ Of the cash ledger |
| ❖ DR entry <br> ❖ In the business account column <br> ❖ Of the client ledger | ❖ CR entry <br> ❖ In the business account column <br> ❖ Of the cash ledger |
| ❖ CR entry <br> ❖ In the client account column <br> ❖ Of the cash ledger | ❖ DR entry <br> ❖ In the client account column <br> ❖ Of the client ledger |
| ❖ DR entry <br> ❖ In the client account column <br> ❖ Of the cash ledger | ❖ CR entry <br> ❖ In the client account column <br> ❖ Of the client ledger |
| ❖ CR entry <br> ❖ In the business account column <br> ❖ Of the cash ledger | ❖ DR entry <br> ❖ In the business account column <br> ❖ Of the client ledger |
| ❖ DR entry <br> ❖ In the business account column <br> ❖ Of the cash ledger | ❖ CR entry <br> ❖ In the business account column <br> ❖ Of the client ledger |