



SQE1 · FLK2 · ACCOUNTS · 2026 - 2027

Solicitors

Accounts

for the SQE

Client money, the ledger, bills and VAT, with worked examples.

Know where every pound goes
FQPS Academy - SQE Prep

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THE SERIES

SQE 2027 Changes · Ethics · Resitting SQE1 · Employer Funding ·
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Every accounts question
asks the same thing.
Whose money is it?

What is This Guide?

A practical route through **Solicitors Accounts for SQE1**: what the specification asks, the SRA Accounts Rules in plain English, a **decision tree** for client and business money, the **double entry** you must be able to post, and two fully worked ledgers, one from a **house purchase** and one from an **estate**, the two contexts in which the SRA examines it.

Who This Guide is For?

- SQE1 candidates preparing for FLK2
- Anyone who finds the ledger questions slow or confusing
- Candidates with no accounting background
- Paralegals who see client account in practice and want the rules behind it

Why It Matters?

Accounts can appear in **both FLK2 sessions**, inside Property and inside Wills. The rules are short, fixed and in force since 2019, so these are marks you can bank, but only if you can answer one question in seconds: **whose money is it, and which side does it go on?**

How Accounts Is Tested



There is no separate accounts paper. The SRA's SQE1 specification lists Solicitors Accounts in **FLK2**, "examined in the context of Property Law and Practice and Wills and the Administration of Estates". In practice that means an accounts point can sit inside a conveyancing question or an estate administration question.

FLK2 session	Subjects (2027 format)	Accounts context
Session 1 85 questions, 2 h 33 min	Wills and the Administration of Estates, Solicitors Accounts, Trusts Law, Land Law	Estates: receiving assets, paying debts and beneficiaries
Session 2 85 questions, 2 h 33 min	Property Law and Practice, Solicitors Accounts, Criminal Liability, Criminal Law and Practice	Conveyancing: deposits, completion money, SDLT, bills

The question format

Single best answer: five options and "only one correct answer". The assessments are closed book, so the rules and the entries have to be in your head.

The level

The SRA says SQE1 questions test fundamental rules "at the level required of a competent newly qualified solicitor", not specialist practice. You are not the firm's cashier: you need to know what the rules allow and how an entry is posted.

Which rules

The law examined is the law in force four calendar months before the first day of your window: 11 September 2026 for January 2027, 12 March 2027 for July 2027. The SRA Accounts Rules on sra.org.uk are the version "in effect from 25 November 2019", so they apply to both 2027 sittings.

The entries

"Accounting entries required" appears under five of the specification's accounts headings: client money, the client account, interest, breaches and the records. Expect options that differ only in the side of the ledger.

Important: ethics travels with accounts

Ethics and Professional Conduct is examined pervasively and can be examined in any subject area. An accounts question can turn on a conduct point, such as using the client account as a **banking facility** (page 08) or replacing money that is missing (page 15).

Sources: SRA SQE1 Assessment Specification applicable from 1 September 2026 (updated April 2026); SRA SQE1 Functioning Legal Knowledge; SRA Accounts Rules. Accessed 2 October 2026.



The 25 Lines on One Page

The Solicitors Accounts specification, mapped to the rules

IN OUR WORDS · TICK THE BOX WHEN YOU CAN DO IT WITHOUT NOTES

The four assessment areas: transactions involving client money and the firm's own money; running the ledgers and bank accounts, including paying interest; breaches of the SRA Accounts Rules; and the accounting entries, bills, accountants' reports and record-keeping.

SPECIFICATION HEADING, PARAPHRASED	RULES	PAGE	DONE
Client money What it is, paying it into client account, when it may be held elsewhere, returning it, and the entries	2.1 to 2.5	05, 06	☐
The client account What it is and what it must be called, the ban on banking facilities, withdrawals and the entries	3, 5	07, 08	☐
Keeping money separate Client money apart from the firm's money, including mixed payments	4.1, 4.2	06	☐
Interest The duty to account for a fair sum, and the entries	7	15	☐
Breaches Correcting them promptly on discovery, and the entries	6	15	☐
Client ledgers and records Accurate records, reconciliation and a record of bills	8	10, 16	☐
Disbursements The agency and principal methods	Glossary; VAT Notice 700	12	☐
Transfers and bills Transfers; submitting, reducing and paying bills, including the VAT	4.3, 8.4	11 to 14	☐
Joint accounts and clients' own accounts Which rules still apply	9, 10	16	☐
Third party managed accounts When a firm may use one	11	16	☐
Accountants' reports and records Obtaining and delivering reports; storing and keeping records	12, 13	16	☐

Paraphrased from the Solicitors Accounts section of the SRA's SQE1 Functioning Legal Knowledge (FLK2), applicable for assessments from 1 September 2026, which keeps the same accounts lines as earlier versions. For the exact wording see our free SQE1 Specification Checklist or the SRA's specification. Checked 2 October 2026.

25

specification lines
all in FLK2, none in FLK1

2

FLK2 sessions
wills context and property context

5

headings ask for entries
"accounting entries required"

Client Money or Business Money?



Every accounts question starts here. Rule 2.1 defines **client money** as money you hold or receive in four situations. Everything else that belongs to the firm is business money, kept separate from client money (rule 4.1) in the business account (rule 4.2).

(a) For a client

Money relating to regulated services you deliver to a client. Example: the deposit for a house purchase, or damages in a personal injury claim.

(b) For a third party

Money held for someone else in connection with your services, "such as money held as agent, stakeholder or held to the sender's order". Example: a mortgage advance from a lender.

(c) As trustee or office holder

Money you hold as a trustee, or as donee of a power of attorney, Court of Protection deputy or trustee of an occupational pension scheme.

(d) Fees and unpaid disbursements, before a bill

Money for your fees and any unpaid disbursements, if held or received before you deliver a bill for them. Money "on account of costs" is client money.

Client money or not?

You receive...	It is	Why
£500 on account of costs, no bill yet	Client	2.1(d)
Payment of a bill you have already delivered	Business	The bill is paid: SRA guidance says it goes to business account
Money for counsel's fee, not yet paid or billed	Client	An unpaid disbursement, 2.1(d)
Mortgage advance from the buyer's lender	Client	Held for a third party, 2.1(b)
Rent collected as attorney under a power of attorney	Client	2.1(c)
One payment covering a delivered bill and an unpaid fee	Mixed	Split it and allocate promptly, 4.2

The rule 2.2 exception: if the only client money a firm holds is for its fees and for disbursements it is itself liable for (counsel or an expert, not SDLT), and it has no client account for any other reason, it may hold that money outside a client account, provided it told the client in advance where and how the money will be held.

The Money Decision Tree

Run every receipt through it before you post a single entry. The rule numbers are the SRA Accounts Rules.



Run it: four receipts

Receipt	Stops at	Result
£20,000 from a client to "keep safe" while abroad, with no matter behind it	1	Refuse: a banking facility (3.3)
£1,440 paying a bill delivered last week	2	Business account
£1,800: a delivered £1,200 bill plus £600 for counsel's unpaid fee	3	Split: £1,200 business, £600 client (4.2)
£200,000 mortgage advance from the buyer's lender	End	Client account, promptly (2.1(b), 2.3)



The Client Account

Six rules govern where client money sits and how long it stays. Learn them as a life cycle: in, held, out.

1

Where

At a branch, or the head office, of a bank or building society in England and Wales (3.1).

2

Its name

Must include the firm's name and the word "client", to tell it apart from the firm's other accounts (3.2).

3

In promptly

Client money is paid into a client account promptly, unless an exception in rule 2.3 (or the rule 2.2 exemption) applies.

4

Kept apart

Client money is kept separate from the firm's money (4.1). Each client's money pays only for that client (5.3).

5

On demand

Available on demand, unless you agree something else in writing with the client or third party (2.4).

6

Out promptly

Returned promptly once there is "no longer any proper reason to hold those funds" (2.5). See page 08 for small balances.

Paid into the wrong account? If client money lands in the business account by mistake, that is a breach: money improperly withheld from client account must be paid into it immediately (6.1). Record both entries (page 15).

Withdrawals: three gateways and two conditions

Client money comes out of a client account only through one of three gateways in rule 5.1, and every withdrawal must also pass two tests.

Gateway (5.1)	Example
(a) For the purpose it is held for	Paying the completion money held for a purchase; reimbursing the firm for a search it has already paid (SRA costs guidance)
(b) On instructions	From the client, or the third party the money is held for
(c) SRA authority or prescribed circumstances	Small residual balances paid to charity (below)

Test 1: enough for this client

Only withdraw if sufficient funds are held for that specific client or third party (5.3). Another client's money never covers a shortfall, and a debit balance on the client side of a ledger is a breach.

Test 2: authorised

All withdrawals are appropriately authorised and supervised (5.2). The SRA expects the people who authorise them to understand the rules and be senior enough.

Taking your costs: bill first

To pay the firm's costs from client money, you must first give the client (or paying party) a **bill or other written notification of the costs**. Only then may you transfer, and only for the specific sum billed and covered by what you hold for that client (4.3). Keep a central record of every bill (8.4).

No banking facilities

"You must not use a client account to provide banking facilities to clients or third parties" (3.3). Payments in, out and between accounts must relate to your regulated services. The SRA's warning notice (updated 2023) says the rule reflects Solicitors Disciplinary Tribunal decisions, and that "The client's convenience is not a legitimate reason". Holding money long after completion risks breaching rules 2.5 and 3.3 together.

Red flag: paying others

The warning notice names payments of substantial sums to others, such as family members or companies overseas, where there is no reason the client could not receive and pay the money themselves.

Red flag: ledger hopping

Repeated transfers between different clients' ledgers with no evidence of their purpose or legal basis will breach rule 3.3, especially if made simply on request.

Residual balances: the £500 line

If a client cannot be traced at the end of a matter, the SRA's prescribed circumstances let you pay a residual balance of **£500 or less** per client matter to a charity of your choice, without asking the SRA, provided you took reasonable steps to return it, keep the records for at least six years and a central register, and deduct no tracing costs. **Over £500**, you need the SRA's authority first (5.1(c)).



4 Double Entry

The client ledger

Rule 8.1 requires a ledger for each client and matter, with **two sides**: the **client side** for client money, and the **business side** for everything else, including bills. SRA guidance says books should be kept “on the double-entry principle”, so that every client money transaction appears in at least the cash book and the client ledger.

How a ledger looks

Client: Ms A Patel · Matter: sale of 9 Mill Lane (an example)

Date	Details	Business side			Client side		
		Dr	Cr	Bal	Dr	Cr	Bal
2 Jun	Received from client on account of costs					400	400 Cr
9 Jun	Bill: costs	600		600 Dr			
9 Jun	Bill: VAT at 20%	120		720 Dr			

Reading the balances

Client side: Cr

A credit balance means the firm **holds** money for the client. It may fall to nil, but it must **never go into debit**: a debit means another client’s money was used (rule 5.3).

Business side: Dr

A debit balance means the client **owes the firm**, for example an unpaid bill. Above, Ms Patel owes £720 and the firm holds £400 of her money.

Our five rules for posting

Event	Client ledger	The other half
Money in	Cr, on the side that matches the money	Dr the client or business cash account
Money out	Dr, on the side the money came from	Cr the matching cash account
A bill	Dr business side: costs and VAT on separate lines	Cr costs account and HMRC (VAT) account. No cash moves
A transfer for costs	Dr client side; Cr business side	Cr client cash; Dr business cash
Before every payment	Ask: whose money, which account, and is there enough on this client’s side?	

The debit and credit layout is standard double-entry bookkeeping, presented here as our method; the SRA rules require the records, not a particular layout.

Client cash account

2 Jun: Dr £400. The bank now holds £400 of Ms Patel’s money.

Costs account

9 Jun: Cr £600. The firm has earned its fee, though it has not been paid.

HMRC (VAT) account

9 Jun: Cr £120. The firm owes the VAT on its bill to HMRC.

The entries to know

Twelve transactions cover almost everything the specification lists. Learn the pattern, not the table: each line is money in, money out, a bill, or a transfer.

Transaction	Client ledger	Other entries
1. Money on account of costs, no bill yet	Client side Cr	Client cash Dr
2. Payment of a delivered bill	Business side Cr	Business cash Dr
3. Mixed payment received into client account	Client side Cr (whole sum), then transfer the business part promptly as in 9	Client cash Dr
4. Agency disbursement paid from client account	Client side Dr (whole invoice, including its VAT)	Client cash Cr
5. Agency disbursement paid from business account	Business side Dr (whole invoice)	Business cash Cr
6. Principal disbursement paid by the firm	Business side Dr (net amount)	HMRC (VAT) Dr with the VAT; business cash Cr with the total
7. Delivering a bill	Business side Dr: costs; then VAT (including VAT on principal items)	Costs Cr; HMRC (VAT) Cr
8. Reducing a bill	Business side Cr: the reduction and its VAT	Costs Dr; HMRC (VAT) Dr
9. Transfer from client to business account for a delivered bill	Client side Dr; business side Cr	Client cash Cr; business cash Dr
10. Transfer between two clients' ledgers (written authority)	Paying client: client side Dr. Receiving client: client side Cr	No cash entry: the money stays in client account. Record the transfer
11. Interest credited to the client	Client side Cr	Interest payable Dr; business cash Cr; client cash Dr
12. Replacing a shortfall (breach)	Business side Dr; client side Cr	Business cash Cr; client cash Dr

The two-pair check: a transfer between client and business account always needs **four** entries, two on the ledger and one in each cash account. If the question asks for all the entries and an option shows only two, it is wrong.

Our method. Rules behind the lines: 2.1 and 2.3 (1 to 3), 4.2 (3), 4.3 (7, 9), 5.1 and 5.3 (4, 9), 6.1 (12), 7.1 (11), and SRA guidance on written authority for loans between clients and a record of inter-ledger transfers (10).

Line 3 in action: £1,800 arrives in client account: £1,200 pays a bill already delivered, £600 is for counsel's fee, not yet paid.

1

Client cash Dr £1,800; client side Cr £1,800.

2

Promptly transfer the £1,200: client side Dr, client cash Cr; business cash Dr, business side Cr.

3

£600 stays on the client side until counsel is paid: then client side Dr, client cash Cr.

Bills, VAT and Disbursements



In the SRA Glossary, **costs** means “your fees and disbursements”, and a **disbursement** is a cost or expense paid, or to be paid, to a third party on the client’s behalf, including any VAT element, but not office expenses such as postage and courier fees. VAT is charged at **20 per cent** (VATA 1994 s.2).

Agency or principal?

The specification asks for disbursements “using the agency and principal methods”. The difference is **whose supply it is** for VAT.

	Agency method	Principal method
Whose supply	The client’s. You pay the third party as the client’s agent	The firm’s. The third party supplies the firm
HMRC test	All the Notice 700 conditions met, including: you acted as agent, the client received the supply and was responsible for paying, and “you recover only the exact amount”	The conditions are not met, so the cost is part of the firm’s own supply
VAT on your bill	None added by the firm. Any VAT on the invoice is the client’s	The firm charges VAT on the recharge, as part of its fee
Input VAT	The firm may not reclaim it (the supply was not made to the firm)	Treated as the firm’s own input VAT (FQPS method)
Examples	Stamp Duty payable by the client (HMRC’s example; we treat SDLT the same way); a postal search fee	A bank’s fee for sending money; a personal search of official records (HMRC’s own examples)

The bill, step by step

1

Deliver it

Profit costs, plus VAT, plus any principal items with their VAT. List agency disbursements separately.

2

Record it

Business side of the ledger. Enter it in the central record of bills (8.4).

3

Transfer

Only after delivery, only the billed sum, only from that client’s money (4.3, 5.3).

4

Or reduce

A reduced bill reverses the excess costs and VAT: page 11.

Sources: SRA Glossary; SRA Accounts Rules 4.3, 8.4; HMRC VAT Notice 700, section 25.1; VATA 1994 s.2(1). The ledger treatment of input VAT under the principal method is our method, not HMRC or SRA text. Accessed 2 October 2026.

Worked example: a purchase

FLK2 session 2 context. Invented client and figures. The SDLT figure is given, not calculated.

You act for **Priya Shah**, buying 14 Elm Road for **£300,000** with no mortgage. Deposit 10%. SDLT is **£5,000**. A search report is invoiced **to the firm** at £120 plus £24 VAT (principal method). Your costs are £1,000 plus VAT.

Client: Priya Shah · Matter: purchase of 14 Elm Road

Date	Details	Business side			Client side		
		Dr	Cr	Bal	Dr	Cr	Bal
1 Mar	Received from client on account of costs					500	500 Cr
12 Mar	Received from client for the deposit					30,000	30,500 Cr
12 Mar	Paid seller's solicitors: deposit on exchange				30,000		500 Cr
14 Mar	Search report (net; VAT £24 to HMRC account)	120		120 Dr			
28 Mar	Bill: costs	1,000		1,120 Dr			
28 Mar	Bill: VAT on £1,120	224		1,344 Dr			
30 Mar	Received from client for completion					275,844	276,344 Cr
1 Apr	Paid seller's solicitors: completion money				270,000		6,344 Cr
1 Apr	Paid HMRC: SDLT (agency)				5,000		1,344 Cr
1 Apr	Transfer: costs (bill of 28 Mar)		1,344	nil	1,344		nil

Why each entry

The £500 and the deposit money are client money, paid promptly into client account (2.1, 2.3). The search report was supplied to the firm, so the firm pays it from business account and charges VAT on the recharge. The SDLT is the client's own liability: it stays in client account until paid, which is what the SRA expects (costs guidance).

The completion figure

£270,000 balance of price + £5,000 SDLT + £1,344 bill = £276,344, less the £500 already held = **£275,844**. The bill was delivered on 28 March, **before** the transfer on 1 April, and the transfer is for the exact billed sum (4.3). Both sides end at nil.

The bill Priya receives on 28 March

Profit costs	£1,000
Search report (principal)	£120
VAT at 20% on £1,120	£224
Total	£1,344

The firm's other accounts: client cash mirrors every client side entry; business cash Cr £144 on 14 March and Dr £1,344 on 1 April; HMRC (VAT) Dr £24 and Cr £224; costs Cr £1,000.

Worked example: an estate

FLK2 session 1 context. Invented client and figures. The interest figure is given.

You act for **Ana Evans**, executor of her late father **Tom Evans**. You collect his bank balance of **£12,000**, pay the funeral account of £3,000 and a valuer's invoice **addressed to the executor** of £400 plus £80 VAT (agency method). You credit £35 interest, bill £2,500 plus VAT and pay the residue to the sole beneficiary.

Client: Ana Evans, executor • Matter: estate of Tom Evans deceased

Date	Details	Business side			Client side		
		Dr	Cr	Bal	Dr	Cr	Bal
5 May	Received from Northbank: closing balance					12,000	12,000 Cr
8 May	Paid funeral director (agency)				3,000		9,000 Cr
15 May	Paid valuer, £400 + £80 VAT (agency)				480		8,520 Cr
30 Jun	Interest credited (from business account)					35	8,555 Cr
30 Jun	Bill: costs	2,500		2,500 Dr			
30 Jun	Bill: VAT at 20%	500		3,000 Dr			
2 Jul	Transfer: costs (bill of 30 Jun)		3,000	nil	3,000		5,555 Cr
2 Jul	Paid residuary beneficiary				5,555		nil

The valuer: agency

The invoice is addressed to the executor, so the firm pays it as agent and recovers the exact amount. The whole £480, VAT included, goes on the client side. The firm adds no VAT and claims none.

The interest

A fair sum of interest is due on money held (7.1). Here it is credited to the ledger: interest payable Dr and business cash Cr £35, then client cash Dr and client side Cr £35. It becomes client money.

The exam twist: if the valuer's invoice had been addressed **to the firm** (principal method), the client side would show nothing for it: the business side would carry £400, the firm would treat the £80 as its own input VAT, and the bill would charge VAT on the £400.

The bill Ana receives on 30 June

Profit costs	£2,500
VAT at 20%	£500
Total	£3,000

The funeral account and the valuer were paid from the estate's money as agent, so they carry no VAT from the firm and no transfer to business account.

Interest, Breaches and Records



Interest

You must account to clients or third parties for a **fair sum of interest** on client money you hold for them (7.1). A different arrangement is possible, but only by written agreement, after giving enough information for **informed consent** (7.2). The rule sets no rate: the question will tell you the figure.

Paid straight to the client

Interest payable account: Dr. Business cash: Cr. No client money moves, so the client side of the ledger is untouched.

Credited to the ledger

Interest payable: Dr; business cash: Cr. Then client cash: Dr; client ledger, client side: Cr. The interest is now client money, held for the client.

Breaches

"You correct any breaches of these rules promptly upon discovery. Any money improperly withheld or withdrawn from a client account must be immediately paid into the account or replaced as appropriate" (6.1). The firm's managers are jointly and severally responsible for compliance (1.2). The SRA's 2024 warning notice adds that missing money must be replaced "with extreme urgency", by managers from their own resources, and that "It is irrelevant that fault may not lie with you personally."

Worked breach: the client side of Mr Khan's ledger holds £200. The cashier pays a £350 expert's fee for him from client account. The ledger shows **£150 debit**: £150 of another client's money has been used (5.3).

1

Transfer £150 from business to client account **immediately**: business cash Cr, business side of Mr Khan's ledger Dr.

2

Client cash Dr £150; client side of Mr Khan's ledger Cr £150. The client side is back to nil.

3

Mr Khan now owes the firm £150 on the business side, to be billed or recovered in the usual way.

Until it is replaced

The SRA's warning notice says that while money is missing from client account you should **not take costs** from it: you cannot properly pay your fees from client account until the shortfall is made good.

Rules 1.2, 5.3, 6.1, 7 of the SRA Accounts Rules; SRA warning notice, Money missing from client account (21 June 2024). The entries are our method.

The records rule 8 requires

Record	What it must show
Client ledgers (8.1)	Accurate, contemporaneous and chronological. One per client and matter: client money on the client side; other money and bills on the business side
Balances and cash book (8.1)	A list of client ledger balances with a running total, and a cash book with a running total of all client account transactions
Statements (8.2)	At least every five weeks, for every client and business account
Reconciliation (8.3)	At least every five weeks: bank statement, cash book and client ledger total, signed off by the COFA or a manager
Bills (8.4)	A readily accessible central record of all bills

A five-week reconciliation

Bank side

Statement balance £58,400
+ money received, not yet on the statement £2,000
– payment made, not yet cleared £3,400
= **adjusted bank balance £57,000**

Books side

Client cash book balance **£57,000**
Total of client ledger credit balances **£57,000**
All three agree. A debit balance must be listed separately and fixed: the SRA says it “cannot be deducted” from the credit balances.

Other accounts

Account	What still applies
Joint account with a client or third party (9.1)	Not Part 2, except bank statements (8.2) and the record of bills (8.4)
Client's own account, you sign (10.1)	Not Part 2, except statements (8.2), reconciliations (8.3) and bills (8.4)
Third party managed account (11)	Only if you never receive or hold the client's money, and you take reasonable steps to make sure the client understands the terms, the fees and the right to end it and dispute payments. Get regular statements

Accountants' reports and retention

If you held client money in an accounting period, or operated a joint account or a client's own account as signatory, obtain an accountant's report within **six months** of its end; deliver it to the SRA if it is qualified to show client money at risk (12.1), or if the SRA requires it (12.4). No report is needed if all client money came from the Legal Aid Agency, or the balance did not exceed an **average of £10,000 and a maximum of £250,000** (12.2). Keep accounting records securely for **at least six years** (13.1).

Working out the average: SRA guidance takes the sum of all the reconciliation balances in the period and divides it by the number of reconciliations. The maximum is the highest of those balances.

Exam Traps

Ten ways a plausible option can be wrong. Check every answer against them.

1. "Money on account is the firm's"

It is client money until a bill is delivered (2.1(d)), so it goes into client account promptly.

3. Borrowing from another client

Pay only if this client's side holds enough (5.3). A debit balance is a breach, even for a moment.

5. VAT on an agency disbursement

The firm adds none. VAT on the invoice is the client's and is passed on at cost, with the rest of the invoice.

7. Promptly or immediately?

Breaches are corrected promptly on discovery; money improperly withheld or withdrawn is paid in or replaced immediately (6.1).

9. Joint and clients' own accounts

Most of Part 2 does not apply, but statements and the record of bills do (9.1, 10.1), and reconciliations too for a client's own account.

2. Transfer first, bill later

Costs come out of client account only after a bill or written notification, and only for that exact sum (4.3).

4. Helping a client with their bills

Paying a client's outgoings with no legal work behind it is a banking facility (3.3). Convenience is not a reason.

6. The bank's transfer fee

HMRC says it is supplied to the solicitor, not the client: recharged, it is part of the firm's fee and carries VAT.

8. The £500 line

£500 or less, untraceable client: charity, on the SRA's conditions. Over £500: SRA authority first.

10. Delivering the accountant's report

Obtain it within six months if you held client money or operated a joint or client's own account; deliver it only if qualified or the SRA asks (12.1, 12.4).

Before you choose, ask four questions

1

Whose money is it?

2

Which account is it in, or should it be in?

3

Does this client have enough on the client side?

4

Has a bill been delivered?

Test yourself

Cover the answers, give yourself under two minutes each, and say the double entry out loud. All names and figures are invented.

1 A client sends £600 on account of costs. No bill has been sent. Where does it go, and what are the entries?

Answer. Client account, promptly: it is client money (2.1(d), 2.3). Client side Cr £600; client cash Dr £600.

2 You receive £1,500 in one transfer: £1,200 pays a bill already delivered, £300 is for an expert's fee not yet paid.

Answer. A mixed payment. Allocate promptly (4.2): £1,200 is business money, £300 is client money.

3 The client side of a ledger holds £200. Counsel's £350 fee for this client must be paid today.

Answer. Not £350 from client account (5.3). Pay it from business account (business side Dr) or get funds from the client first.

4 A bill of £800 plus VAT has been delivered. The client side holds £2,000. Post the transfer.

Answer. £960. Client side Dr and client cash Cr £960; business cash Dr and business side Cr £960.

5 The firm pays its bank £30 to send completion money and recharges it. Is VAT added?

Answer. Yes, £6. HMRC treats the fee as supplied to the solicitor, so it is part of the firm's supply (Notice 700, 25.1.3).

6 A matter closed years ago. £45 remains and the client cannot be traced despite reasonable steps.

Answer. It may go to a charity of your choice without SRA authority, under the prescribed circumstances: records kept six years, a central register, no tracing costs deducted.

7 A long-standing client abroad asks you to hold £50,000 and pay their household bills from it.

Answer. Refuse. There are no regulated services behind it: a banking facility (3.3). The client's convenience is not a legitimate reason.

8 Over the year, client account averaged £8,000 but peaked at £300,000. Is an accountant's report needed?

Answer. Yes. The exemption needs both an average of no more than £10,000 and a maximum of no more than £250,000 (12.2).

9 The Legal Aid Agency pays £1,000 for your costs. Must it go into client account?

Answer. No. Payments from the Legal Aid Agency for your costs are an exception to paying client money into client account (2.3(b)).

10 You find that £200 of a client's money was paid into business account by mistake last week.

Answer. A breach: money improperly withheld from client account must be paid in immediately (6.1). Business side Dr and business cash Cr £200; client cash Dr and client side Cr £200.

Ask whose money it is

Every accounts answer depends on one word: client or business.

Before you read the options, label the money in the question. Client money goes to client account and the client side; business money to the business side. Most wrong options mix the two.

Draw the T, every time

Thirty seconds of sketching saves a wrong answer.

On your whiteboard, draw a two-sided ledger and post each event in date order. Check the client side never dips below nil, then compare your balance with the options.

Find the bill date

Many questions turn on whether a bill had been delivered.

Before a bill, fees money is client money and cannot be transferred. After it, the transfer is allowed for the billed sum only. Underline the date of the bill in every scenario.

Check the VAT twice

VAT is where the arithmetic options are built.

Agency disbursement: the firm adds no VAT and passes the invoice on at cost. Principal item: the firm charges 20% on the recharge as part of its bill. Profit costs: 20%, the standard rate.

Bonus Tip - Revise it in context

The SRA examines accounts inside Property and Wills.

When you revise a conveyancing completion or an estate distribution, post its ledger too. Our full-length SQE1 mocks in the 2027 format (2 x 85 questions) build pace for the rest of FLK2, but do not include Solicitors Accounts questions, so use this guide's examples for accounts.

Your Accounts Checklist

Tick a line only when you can do it from memory, with the double entry, in under two minutes.

Client money

- ☐ I can give the four limbs of the definition, with an example of each (page 05)
- ☐ I can run a receipt through the decision tree, including mixed payments (page 06)
- ☐ I know the exceptions to paying client money into client account (page 06)

The client account

- ☐ I know where it must be held and what it must be called (page 07)
- ☐ I can name the three withdrawal gateways and the two conditions (page 08)
- ☐ I can spot a banking facility, and I know the £500 residual balance rule (page 08)

The entries

- ☐ I can post all twelve transactions without notes (page 11)
- ☐ I can tell an agency disbursement from a principal one, and post both (page 12)
- ☐ I have reworked both ledgers from blank paper and both end at nil (pages 13 and 14)

Interest, breaches and records

- ☐ I can post interest and correct a debit balance (page 15)
- ☐ I know the five-week rules and can reconcile three balances (page 16)
- ☐ I know the rules for joint accounts, clients' own accounts, third party managed accounts, reports and retention (page 16)

On the day

- ☐ I run the four questions before choosing an answer (page 17)
- ☐ I have scored ten out of ten on the self-test, under time (page 18)

Make accounts automatic

STEP 1

Learn the definition

Rule 2.1 and the decision tree on pages 05 and 06, until you can say them from memory.

STEP 3

Rework the examples

Copy the facts on pages 13 and 14, close the guide and post both ledgers to nil.

STEP 5

Build pace for FLK2

Full-length SQE1 mocks in the 2027 format (2 x 85 questions). They do not include Solicitors Accounts questions.

STEP 2

Master the twelve entries

The table on page 11. Say each one out loud: whose money, which side.

STEP 4

Test yourself

The ten questions on page 18, under time, then the traps on page 17.

STEP 6

Questions?

Email support@fqps.co.uk and a person will answer.

FQPS SQE1 & SQE2 Course. Full-length SQE1 mocks in the 2027 format (2 x 85 questions).

Create your account

prep.fqps.co.uk

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Supporting - candidates

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Accounts rewards little and often. Draw one ledger a day for two weeks, from blank paper, and say each entry out loud as you post it: whose money, which account, which side.



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