UNIT – IV

Accountancy for lawyers

Books · Cash · Journal · Professional tax

Explanatory Lecture Slides

Professional Ethics & Professional Accounting System · Clinical-I · Semester VII

PROFESSIONAL ETHICS & PROFESSIONAL ACCOUNTING SYSTEM

LEARNING OBJECTIVES

Topics covered in this unit

01 State why an advocate keeps books

02 Distinguish cash book, journal, ledger

03 Read a trial balance and a simple balance sheet

04 Place receipts-and-payments against income-and-expenditure

05 Note client-account hygiene

06 Place GST, income-tax and the Welfare Fund

How this unit is organised

01	02	03	04	05	06
Why books	Cash book / journal / ledger	Trial balance	Client money	Tax & GST	Welfare Fund

Why books

You are a professional, not a kirana of cash. Books protect you in a fee dispute, a tax assessment, a Bar Council complaint, a partnership dissolution, a death of a partner.

- BCI / State rules and the Income-tax Act expect a record. A 10-mark of purposes, not a B.Com lecture.
- Double-entry is the method: every debit has a credit.

Why books

PROTECTS YOU IN

- Fee fight.
- Tax.
- Misconduct allegation of siphoning.

METHOD

- Double-entry.
- Vouchers.
- Bank reconciliation.

Cash book, journal, ledger

Cash book: cash and bank columns, the daily till. Journal: opening, adjustment, rare non-cash (depreciation, outstanding). Ledger: one account per head (fees, rent, library, salary, client X).

- A 16-mark: define each, one specimen entry each (fees received by cheque; rent paid; a client advance).
- Contra entry in a three-column cash book (cash deposited in bank) is a 6-mark favourite.

Cash book, journal, ledger

CASH BOOK

- Money in and out, daily.

LEDGER

- The home of every head.

Trial balance and statements

Trial balance: a list of ledger balances, totalling equal if the arithmetic of double-entry held. It does not catch every error (a wrong amount on both sides).

- Receipts and payments: a cash summary (capital and revenue mixed). Income and expenditure: the P&L of a professional / non-profit (accrual). Balance sheet: assets = capital + liabilities at a date.
- Stock v flow again (your Major-6) — a balance sheet is a stock.

Trial balance and statements

TRIAL BALANCE

- Arithmetical check, not a truth machine.

I&E

- Accrual picture of the year’s professional work.

Client money

A client's advance for court fees and a professional fee are not the same rupee. Keep a client ledger. Never mix. Never use one client's money to fund another's filing (unless a written arrangement the rules allow — usually never).

- This is the ethical heart of the accountancy unit. A Bar Council complaint is built on a missing rupee, not on a missing latin maxim.
- R.D. Saxena again: you may sue for fees; you may not hold the file or the client's money hostage.

Client money

ALWAYS	NEVER
• A client account / ledger. • A receipt.	• Mix. • Divert. • Disappear.

Income-tax, GST, professional tax

Fees are professional income (IT Act heads). TDS may apply on some clients' payments. GST: services of an advocate to a business entity in the taxable territory are typically RCM on the business; services to a non-business client are generally exempt — quote the current notification, do not invent a CGST section.

- State professional tax (Karnataka Tax on Professions Act) is a small, real, annual duty. PAN, a books-audit if the threshold is crossed.
- A 10-mark: three levies, one sentence of incidence each, one ethical rule (pay them).

Income-tax, GST, professional tax

IT

- Professional income.
- TDS in some streams.

GST

- RCM / exemption — as notified. Do not bluff.

Advocates’ Welfare Fund

State Advocates’ Welfare Fund Acts (Karnataka has one): stamps on vakalat, a fund for indigent / retired / dead colleagues’ families. Membership rules vary. A 6-mark of solidarity, not of actuarial science.

- Fellowship (Parry’s seventh lamp) with a statute number.

Advocates’ Welfare Fund

WHAT IT IS

- A statutory mutual of the bar.

WHAT YOU DO

- The stamp, the subscription, the honest declaration of years.

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LANDMARK AUTHORITIES

Cases a KSLU answer should name

CASE

R.D. Saxena v Balram Prasad Sharma

(2000) 7 SCC 264

Fees are collected by a suit, not by a hostage file — books make that suit possible.

CASE

P.D. Gupta v Ram Murti

(1997) 7 SCC 147

An advocate who deals in the client's subject-matter is in the books as a wrong, and in s.35 as a misconduct.

CASE

Bar Council of Maharashtra v M.V. Dabholkar

(1975) 2 SCC 702

Misconduct is wider than dishonesty of a rupee, but a rupee is enough.

STATUTE / SECTION MAP

Provisions & materials to quote

Income-tax Act 1961	Professional income, presumptive schemes where applicable, audit thresholds.
CGST notifications on	RCM / exemption — as currently notified.
Karnataka Tax on Profe	The small annual levy.
State Advocates' Welfa	Stamps on vakalat; solidarity.
BCI / State accountanc	The professional duty to keep books.

10 / 16-mark frames from this unit

Q1 Why should a lawyer maintain accounts? Explain the principal books.

Q2 Distinguish receipts-and-payments from income-and-expenditure.

Q3 What precautions must be taken in respect of clients’ money?

Q4 Write a note on GST on legal services / the Advocates’ Welfare Fund / a trial balance.

BEFORE YOU CLOSE THE FILE

Unit recap

1. Books exist to protect the client and then you.
2. Cash book daily; journal for adjustments; ledger by head.
3. Client rupees never mix with fee rupees.
4. IT, GST (as notified), professional tax — pay them.
5. Welfare Fund is fellowship with a stamp.