

Trust Fund Accounting Do's and Don'ts

A large percentage of disbarments and disciplinary actions arise out of client trust fund mismanagement. With the key concepts of trust accounting in mind and a few practical tips that you can put into practice immediately, you'll be in compliance and be prepared — even for a random audit.

Which Funds Belong in Client Trust Accounts?

In general, deposit only these client funds into a trust account:

- Real estate transaction funds
- Personal injury settlements
- Other settlements or judgments
- Collections
- Retainers and advances for fees until actually earned

Which funds do not belong in a trust account?

- Earned fees when the client pays
- Personal funds
- Operating or other business funds

Remember, any funds for which you have fiduciary responsibility should always be held in separate properly entitled accounts.

All Client Funds Must Be Kept Separate

"Client A's" money has nothing to do with "Client B's" money. Even when you keep funds in a pooled client trust bank account, each client's funds are completely separate entities—which means a separate balance and transaction report for each client must be maintained at ALL times.

Your Client Ledger Must Never Have a Negative Balance

If there is an instance where you unintentionally spend more than a client has on deposit, the overdraft amount must be paid back from your personal funds.

Verify Funds before Disbursement

Don't disburse until the deposited funds have cleared the trust account. Be diligent, but don't let a client rush you. After you have written the trust check(s), take a moment to add them up and reconcile the client's account.

All Funds In and Out Must Balance

The goal in client trust accounting is to make sure what "comes in" for each client equals what "goes out" for that client - no more, no less.

Match your Books with Bank Statements

You must keep a record showing that you reconciled or balanced each trust bank account every month. The balance in the bank must agree with the total of the client balance listed on your books. Most trust account mistakes are identified during reconciliation. Firms that do not reconcile monthly are waiting for disaster to strike.

Keep Paper Records In Addition To Bank Statements

Establish a good audit (paper) trail. In addition to the bank account statement and any canceled checks, keep a monthly folder with the following:

- Copies/stubs of all checks deposited to or written on the account

- Copies of all deposit slips (copies you made - don't rely on the bank)
- A copy of your receipts and disbursements journal (or reports from your trust software) showing the account transactions for the month.

Each deposit and disbursement should identify the client and the matter to which it relates.

Know Your State's Trust Account Requirements

Each state has its own set of rules and regulations for client trust account management. Always keep a current Rule Book in your office and consult it as your first source of information.

Don't lose sleep over trust fund accounting. Follow these simple rules and you'll always be prepared for an audit.

About Us: Easy Soft has been a leading legal software provider since 1986. We offer specialized solutions for real estate, family law, trust account management, document automation, time & billing, bankruptcy and estate planning. More than 15,000 customers use our legal software products to increase their office productivity. Visit us online at: <http://www.easysoft-usa.com>. Learn more about all our premier legal software products and services. Contact: 800-905-7638, email: info@easysoft-usa.com

© 2009 All Rights Reserved **Easy Soft LLC**