

Trust Account Bookkeeping Basics

Trust account rules vary from state to state, but one constant for attorneys or anyone working in a fiduciary capacity is the over-riding fear of running afoul of strict requirements. Take the following steps and you won't lose sleep worrying about your responsibility to comply with complicated trust account regulations.

1. Migrate from Manual to Automated Record Keeping

Review your firm's trust bookkeeping procedures and identify which procedures are managed manually. Often, law firms enter each client's transactions separately and issue trust checks manually. Manual bookkeeping is the root of several problem areas. Not only are manual processes time-consuming, but also mistakes are difficult to detect and reports are next to impossible to prepare.

A good trust accounting software program can easily replace ALL your manual bookkeeping tasks and provide you with total control of your trust accounting. You will:

- Simplify transaction entries, trust check printing, bank reconciliations, and generating reports,
- Readily detect errors
- Maintain an audit trail for any changes made in your trust books
- Make it easy for your accountant to review your trust data and make appropriate corrections without shuffling through stacks of paper

2. Choose Your Trust Accounting Program Wisely

Don't rush to embrace the first accounting program you find to manage your trust books. Many accounting packages that work very well for general operating accounts often lack features that trust accounting requires. For example, general accounting packages typically do not produce client ledgers easily and do not prevent trust accounting mistakes from occurring. There is typically no audit trail log and one can even go back to reconciled months and edit prior transactions. That's not proper trust accounting! When you evaluate your trust program choices, consider the following questions

- Does the program make deposits and disbursements in each client account very easy to enter, track and reconcile?
- Is the program designed to prevent common trust accounting errors, such as duplicate check numbers, client ledger overdrafts etc.? These are examples of problems that must be stopped at the transaction entry itself.
- Are required monthly reports such as ledger card balances, transactions, reconciliation and three-way reconciliation, etc. easily produced?
- Is there an option to print trust checks and/or deposit slips?

3. Avoid Commingled Bank Trust Accounts

A client trust bank account is a special kind of account. Today, many banks offer a particular type of trust account with separate sub-accounts for each client.

A bank account that allows you to manage individual client funds separately provides a double layer of protection for your firm because a bank can also alert you to any client ledger overdraft situation. Additionally, you will receive monthly client ledger trial balances from the bank, which you can then match with your office client ledger records.

4. Archive Closed Client Accounts

When a client matter has been completed, the balance on the client's ledger is zero, and all transactions have been reconciled with the bank statement, you should "close" or archive that client ledger. Otherwise, over a period of time, you will be dealing with hundreds or even thousands of "open" client ledgers.

5. Protect Your Trust Software Data File

While a computer or software can be replaced, lost data is not easy to re-create. For trust accounts, always maintain a hard copy of each client ledger on a monthly basis. Make regular backup copies of your trust database files and store them at a remote location.

Automate Today and Put a Stop to Trust Fund Account Worries

Managing trust accounts is easier than you think. Start with a careful review of your firm's trust accounting processes. Begin using trust account software designed to help you comply with state regulations. Remember, a client A's money has nothing to do with client B's money. Your trust books should only contain open accounts. And, make an iron clad rule to backup copies of data files and store them in a secure and separate place. Follow these tips and you will bring order to your trust bookkeeping, tighten controls and no longer worry whether or not you are in full compliance with state regulations.

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