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## Trust Accounting Guidebook – The Reconciliation Process

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### [Regulation 10.4.2 Required Records](#)

A practicing lawyer or law firm must reconcile their trust accounts monthly. This is one of the most important functions that you perform with respect to the account records. The reconciliation process involves the comparison of four basic records – the bank statements, the client trust ledgers, and the trust receipts and disbursements journal.

### **What is a client trust ledger?**

(Regulation 10.4.2(c) *Required Records*)

The client trust ledger shows trust account activity for each client. The report shows a list of all trust transactions (deposits and withdrawals) for a particular client.

#### **ABC Lawyer Clients' Trust Ledger**

##### **Account: Anna, Anderson Re: Loan to Zoey, Zimmer**

<b>Date 202X</b>	<b>Particulars</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balance</b>
August 30	Mortgage advance	40,000.00		40,000.00
September 2	Transfer to Zimmer		40,000.00	<b>0</b>

##### **Account: Beth, Baker Re: Corporate**

<b>Date 202X</b>	<b>Particulars</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balance</b>
August 25	Retainer Re: Corporate	600.00		600.00



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September 10	Transfer to General (invoice #213)		600.00	0
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**What is a client trust listing?**

(Regulation 10.4.2(i)(i) *Required Records*)

A detailed listing made monthly showing the amount of trust money held for each client and identifying each client for whom trust money is held.

**ABC Lawyer  
Client Trust Listing  
As at August 31 202X**

File Name	Last Activity Date	Amount
Anna, Anderson	August 30	40,000.00
Beth, Baker	August 25	0.00
<b>Total:</b>		40,000.00

**What is the receipts journal?**

(Regulation 10.4.2(a) *Required Records*)

A data source showing the date of receipt and source of trust money for each client and identifying the client on whose behalf the trust money is received.

**ABC Lawyer  
General Trust - Receipts Journal**

Date 202X	Client	Received From (Source of funds)	Amount	Method
August 30	Anna, Anderson	Mortgage 1 <sup>st</sup> Re: Loan	40,000.00	Bank draft
August 25	Beth, Baker	Beth, Baker Re: Retainer	600.00	Cheque



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### **What is the disbursements journal?**

(Regulation 10.4.2(b) *Required Records*)

A data source showing all payments out of trust money for each client, the date of each payment, the name of each recipient, and identifying the client on whose behalf each payment is made out of trust money.

#### **ABC Lawyer General Trust - Disbursements Journal**

<b>Date 202X</b>	<b>Client</b>	<b>Paid to</b>	<b>Amount</b>	<b>Method</b>
September 2	Anna, Anderson	Zoey, Zimmer	40,000.00	Wire #456
August 25	Beth, Baker	ABC Lawyer	600.00	Cheque #7001

### **Should you use legal accounting software for trust account records?**

Yes. Only firms with relatively few transactions should use excel for bookkeeping purposes.

Most legal accounting software packages have adopted terms such as ledgers and journals as names for their applications/modules within their software accounting program. However, it is not a requirement for an accounting software package report to use the exact same naming conventions as noted in this guide.

### **Why do trust accounts need to be reconciled to the bank?**

(Regulation 10.4.2(i) *Required Records*)

Timing differences. You need a record showing any outstanding cheques and deposits. The accrual method of accounting is used for trust accounts. This means a deposit or withdrawal is recorded *when the transaction occurs* rather than when it appears on the bank statement. For example, if a \$1,000 cheque is written on September 25<sup>th</sup>, 202X, the journal entry is recorded as of September 25<sup>th</sup>, 202X. If this same cheque clears the bank on November 10<sup>th</sup>, 202X, you would not wait until November 10<sup>th</sup>, 202X to finally record the transaction in your records. When preparing your September 30<sup>th</sup>, 202X trust account reconciliation, you would note that your bank account balance is \$1,000 greater than the balance of the client trust account ledger. The reconciliation would reflect this difference by showing a \$1,000 outstanding cheque.

### **What is the purpose of reconciling the trust account?**

Aside from providing a listing of outstanding deposits and cheques, it is a crucial internal control to aid in the identification of any mistakes or errors.



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**How do you perform a trust account reconciliation?**

- 1) Obtain the trust bank statement(s).
- 2) Check off all negotiated cheques, other withdrawals and receipts that have been processed for that month. Note any discrepancies in the amounts compared to the disbursements and receipts journals. Most accounting software packages feature a reconciliation module to help you with this process.
- 3) Identify any cheques that you have issued, but have not cleared the financial institution, from your trust disbursements journal. List the outstanding cheques including cheque number, date of issue, amount, payee, and client file reference. Total the listing of outstanding cheques; these are your outstanding cheques to note on your trust account reconciliation.
- 4) Identify any deposits that do not appear on the bank statement that you recorded in your trust receipts journal. List the outstanding deposits, by date and the amount that are not recorded on the bank statement; these are your outstanding deposits to note on your trust account reconciliation.
- 5) List any errors and/or posting errors individually by date of occurrence and provide a brief explanation; copy any supporting documents and attach to your reconciliation.
- 6) Calculate your reconciled trust bank balance by subtracting the outstanding cheques, and adding the outstanding deposits from the ending balance on the trust bank statement. *Bank balance + outstanding deposits – outstanding cheques = reconciled trust account balance.*
- 7) Compare the reconciled trust bank balance to your total client trust listing. These balances should agree.

**Monthly Trust Reconciliation Sample:**

<b>TRUST BANK SEPTEMBER 30, 202X</b>	
<b>TRUST ASSETS</b>	
Bank Reconciliation	
Balance per bank statement as at September 30, 202X	\$50,000
Add: outstanding deposits (per listing attached)	Nil
Less: outstanding cheques (per listing attached)	Nil
Add/deduct adjustments (supporting documentation attached)	
<b>Total Trust Assets as at September 30, 202X</b>	<b>\$50,000</b>



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TRUST LIABILITIES			
Client Trust Listing			
Client Matter #	Responsible Lawyer	Last Transaction Date	Balance
1001	ABC	Aug 15, 202X	\$25,000
1002	XYZ	Sept 15, 202X	\$25,000
			\$50,000
Prepared by:		Date:	
Reviewed and Approved by:		Date:	

**How do you review a trust reconciliation and client trust listing?**

- Ensure the reconciled trust account balance agrees to the total client trust listing.
- Ensure reconciliations are completed for all trust accounts, including the Service Nova Scotia Trust Account and any specific trust account(s).
- Ensure any discrepancies are appropriately documented.
- Ensure any stale-dated cheques, which are cheques more than 6 months old, are monitored and cancelled or re-issued if appropriate.
- Ensure there are no old outstanding deposits. Trust money must be deposited without delay, but not later than the first day after receipt. An outstanding deposit older than a day or two is an issue that needs to be investigated. Outstanding deposits not due to timing differences may indicate a shortage in trust.
- Ensure there are no overdrawn client trust ledger balances.
- Investigate any client trust ledger balance with no activity in the previous 12 months.
- Consider the [Undistributed Trust Fund Application](#) for any client trust ledger balance with no activity in the previous 24 months.
- Investigate any client trust ledgers with trivial balances. The firm should develop processes to prevent trivial balances from occurring in the trust account. Before each disbursement, the client trust ledger should be reviewed.
- Ensure funds in trust for completed matters have been billed to the proper clients and the funds are either transferred to the general account or returned to the client as appropriate. Trust accounting requires that every dollar you receive on behalf of a client



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is ultimately paid out to the appropriate parties at the conclusion of the legal services provided. *If a firm ensures their trust listing remains current, the trust account should zero out on a regular basis.*

- Ensure there are no old outstanding cheques payable to your law firm. These cheques should be deposited into the firm operating account without delay.
- Ensure all trust funds are allocated to a client and there are no miscellaneous or float accounts.
- If there is a shortage in trust, you must fill out the [Trust Account and Client Ledger Shortages](#) form.
- Sign and date the reconciliation.