

## Example – Second Month of Trust Account Activity (Pooled Trust Account)

### Types of transactions include:

- statement of account payments;
  - voiding a cheque;
  - a deposit being returned for insufficient funds;
  - correction of bank error from the prior month;
  - cancelling and reissuing a cheque; and
  - receipt of cash to close for a real estate transaction.
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This example builds on the scenarios and accounting record illustrations in “Example – May 20XX - First Month of Trust Activity”, where the transactions and reconciliation illustrated were for May, 20XX, and this example continues on for June, 20XX.

The scope of this example is a bit narrower, as it only includes pooled trust account activity.

### Transaction Narrative<sup>1</sup>

#### TRANSACTIONS 1 - 3 – PAYMENT OF RED & RED STATEMENTS OF ACCOUNT FOR WHITE MATTERS (files 004 and 005), and VOIDING A CHEQUE

Under the heading “Transactions 10-14” in the transaction narrative for the original scenarios for May, 20XX, two transactions were listed as occurring June 1, but were not illustrated in the materials. Both were for statements of account rendered on the White matters:

Mr. White Domestic (file 005)	\$3,000
Mr. White Accident (file 004)	\$2,000

After you complete the cheque for the Accident matter, as you are tearing along the perforation in the paper to be able to remove it from your cheque book, you accidentally tear the cheque behind it, ripping it in such a way that it makes it unusable. Knowing that your accounting records need to account for each cheque in the sequence, you record it as a void cheque in your book of original entry. As the cheque does not relate to any matter, it is a rare exception to the requirement that all transactions are recorded in your book of original entry and client trust ledger. You write ‘void’ on both pieces of the ripped cheque, staple it together, and put it in your folder for your June, 20XX trust reconciliation, as it is a good practice to keep the void cheque for your records.

#### TRANSACTIONS 4-7 FOR PINK MATTER (file 006):

- 4 June 5: RECEIPT OF RETAINER INTO POOLED TRUST ACCOUNT
- 5 June 10: PAYMENT OF RED & RED STATEMENT OF ACCOUNT
- 6 June 14: RETAINER RETURNED FOR INSUFFICIENT FUNDS (NSF)

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<sup>1</sup> While many trust transactions have related general account transactions, for simplicity they are not being illustrated in these materials. In addition, all Statement of Account examples do not consider general account disbursements or possible GST/RST implications.

CHEQUE FROM CLIENT)  
7 June 14: RED & RED RETURNS MONEY FROM STATEMENT OF  
ACCOUNT TO POOLED TRUST ACCOUNT

At the end of May, Ms G. Pink retains you to act on her domestic matter (file 006). She returns to your office on June 5 to provide a retainer (transaction 4), providing a personal cheque for \$800. By June 10 you decide to render a statement of account for the work completed so far on her matter, so you email her an account for fees, disbursements and taxes of \$650, write the pooled trust cheque to the firm, and update the related trust accounting records (transaction 5).

On June 12, your savings institution contacts to you advise that Ms Pink's retainer cheque was returned for insufficient funds. You contact her, and she apologizes profusely, noting that she had forgotten to transfer enough money into the bank account before leaving for her vacation that would cover the cheque she wrote for you. She says she'll do the transfer as soon as possible and bring you a new cheque after she returns from her holidays. When you record the NSF cheque in your records (transaction 6), you realize that you have overdrawn Ms Pink's matter by \$650 since you had already disbursed some of the money! You cannot wait for her to provide you with a replacement cheque, since you are in violation of two Law Society Rules right now – 5-44(1)(g) and (i) - and you write a cheque from the Red & Red general account for \$650 to replace the shortfall, depositing it into the pooled trust account (transaction 7).

In follow up to this problem, as trust account supervisor you realize that this should not have happened and that you have not instituted long enough hold policies for receipts – the hold period you used was calendar days and not business days. You follow up with your savings institution to confirm what you hold policies should be, and make necessary adjustments to your hold policies.

TRANSACTION 8 – FIX BANK ERROR FROM MAY RECONCILIATION

On June 19, you completed the monthly trust reconciliation for May, and you found that the bank charged the cheque printing fees of \$35 to the trust account on May 1, when it should have been directed to the general account instead. Not only is it a reconciling item for your May reconciliation, it needs to be fixed forthwith. You head over to the bank on June 20 and ask them to fix it, which is corrected by a transfer of \$35 to the trust account (account # 123456) from the general account (account #456789).

TRANSACTION 9 – CANCEL AND REISSUE TRUST CHEQUE FOR WHITE ACCIDENT (file 004)

Mr. White dropped by your office on June 21, asking for a replacement cheque for his accident settlement (\$14,500, cheque #6 written May 31). He had left the cheque on his kitchen counter at home, and now can't find it. His best guess is that he may have thrown it out by accident when he was recycling some newspapers that were lying around on the counter.

You tell him that it will take some time to complete the necessary steps to reissue a cheque, and that you'll call him when it's ready.

After he leaves, you tell yourself that although you have no particular reason to doubt him, requesting a replacement cheque is a red flag so you need to be cautious. You head off to your savings institution later that day to discuss the situation with your account manager. She checks your

account, and confirms that the cheque has not yet been cashed, and after discussing the pros and cons of a stop payment, including your savings institution's related policies, you decide that it is the best course of action. You proceed with the stop payment paperwork, and direct the related bank fee to your general account. Before you leave, you make sure to obtain a copy of the related paperwork for your records.

When you return to the office, you update your accounting records to reflect the stop payment. Remember:

- a) You need to cancel the May 31 cheque (#6) in your records. **You do not backdate an entry to do the cancellation, nor do you just cross it out in your May records.** You record a new transaction, using the current date of June 21, reversing the original entry. As with all transactions on the pooled trust account, you update your book of original entry and the related client trust ledger.
- b) Only now are you ready to issue a new cheque to Mr. White, using the next trust cheque in the sequence (#11), and again using the current date of June 21.

You keep a copy of the records for the stop payment with both the monthly trust reconciliation records, as well as in Mr. White's accident file.

#### TRANSACTION 10 – RECEIPT OF TRUST MONEY FOR REAL ESTATE PURCHASE FROM MR. BLUE

Mr. M. Blue (file 007) retained you to represent him on his purchase of a house. He came in on June 29 with \$9,000 cash to put towards the purchase price. However, you know that you are not allowed to accept more than \$7,500 in cash unless it is one of the exceptions in Rule 5-45(5). You double check the Rule, and since this transaction is not one of the exceptions, you tell Mr. Blue that you cannot accept the cash, advising that he provide a bank draft instead.

On June 30, Mr. Blue returns to your office, this time with a bank draft for \$9,000 that you can accept.

You make the necessary entries in your book of original entry and Mr. Blue's ledger.

The book of original entry and client trust ledgers for the above 10 transactions are illustrated in the accounting records that begin on the next page.

## Example Book of Original Entry and Client Trust Ledgers

### BOOK OF ORIGINAL ENTRY – Pooled Trust Account

Not every column will be used for every transaction. Each column is labelled with a number:

- (1) Use these columns for every transaction;
- (2) In addition to columns labelled (1), use these columns when you *receive* money; and
- (3) In addition to columns labelled (1), use these columns when you *disburse* money (i.e. write a cheque).

Transfers in the pooled trust account between client matters can be recorded as a *disbursement* from one client and a *receipt* for the other.

Date (1)	Client Name &/or Number (1)	Description (1)	Source of Funds (2) *	Form of Receipt (2) *	Receipt # (2) *	Cheque Payee (3) *	Cheque # (3) *	Cheque Amount (3)	Receipt Amount (2)	Balance (1)
May 31, 20XX		Balance forward								5,350
June 1, 20XX	White – Domestic 005	SOA <sup>2</sup> #2 Fees & disbursements				Red & Red LLP	7	3,000		2,350
June 1, 20XX	White – Accident 004	SOA #3 Fees & disbursements				Red & Red LLP	8	2,000		350
June 1, 20XX	n/a	Cheque #9 void (ripped)					9			350
June 5, 20XX	Pink – Domestic 006	Retainer	G. Pink	Cheque	7				800	1,150
June 10, 20XX	Pink – Domestic 006	SOA #4 Fees & disbursements				Red & Red LLP	10	650		500
June 12, 20XX	Pink – Domestic 006	Receipt #7 returned by bank as NSF							-800	-300

\* These columns do not apply for matter to matter transfers.

## BOOK OF ORIGINAL ENTRY – Pooled Trust Account

Not every column will be used for every transaction. Each column is labelled with a number:

(4) Use these columns for every transaction;

(5) In addition to columns labelled (1), use these columns when you *receive* money; and

(6) In addition to columns labelled (1), use these columns when you *disburse* money (i.e. write a cheque).

Transfers in the pooled trust account between client matters can be recorded as a *disbursement* from one client and a *receipt* for the other.

Date (1)	Client Name &/or Number (1)	Description (1)	Source of Funds (2) *	Form of Receipt (2) *	Receipt # (2) *	Cheque Payee (3) *	Cheque # (3) *	Cheque Amount (3)	Receipt Amount (2)	Balance (1)
June 14, 20XX		Balance forward								-300
June 14, 20XX	Pink – Domestic 006	Return money to trust from SOA #4	Red & Red LLP	Cheque	8				650	350
June 21, 20XX	White – Accident 004	Stop pymt cheque #6 (client misplaced it)					6	-14,500		14,850
June 21, 20XX	White – Accident 004	Settlement proceeds (replace cheque #6)				Mr. White	11	14,500		350
June 30, 20XX	Blue – Purchase 007	Cash to close	M. Blue	Bank draft	9				9,000	9,350

\* These columns do not apply for matter to matter transfers.

## CLIENT TRUST LEDGER – Pooled Trust Account

Not every column will be used for every transaction. Each column is labelled with a number:

- (1) Use these columns for every transaction;
- (2) In addition to columns labelled (1), use these columns when you *receive* money; and
- (3) In addition to columns labelled (1), use these columns when you *disburse* money (i.e. write a cheque).

Transfers between client matters can be recorded as a *disbursement* from one client and a *receipt* for the other.

MATTER: Accident									FILE # 004
NAME: Mr. White									
ADDRESS: 76 ABC Street									
Date (1)	Description (1)	Source of Funds (2) *	Receipt # (2) *	Cheque Payee (3) *	Cheque # (3) *	Cheque Amount (3)	Receipt Amount (2)	Balance (1)	
May 31, 20XX	Settlement	MPIC – wire transfer	6				20,000	20,000	
May 31, 20XX	Doctor's report			Manitoba Clinic	5	500		19,500	
May 31, 20XX	Settlement proceeds			Mr. White	6	14,500		5,000	
May 31, 20XX	Transfer to domestic matter White #005					3,000		2,000	
June 1, 20XX	SOA #3			Red & Red LLP	8	2,000		0	
June 21, 20XX	Stop pymt cheque #6 (client misplaced it)				6	-14,500		14,500	
June 21, 20XX	Settlement proceeds (replace cheque #6)			Mr. White	11	14,500		0	

\* These columns do not apply for matter to matter transfers.

## CLIENT TRUST LEDGER – Pooled Trust Account

Not every column will be used for every transaction. Each column is labelled with a number:

- (1) Use these columns for every transaction;
- (2) In addition to columns labelled (1), use these columns when you *receive* money; and
- (3) In addition to columns labelled (1), use these columns when you *disburse* money (i.e. write a cheque).

Transfers between client matters can be recorded as a *disbursement* from one client and a *receipt* for the other.

<b>MATTER:</b> Domestic		<b>FILE #</b> 005						
<b>NAME:</b> Mr. White								
<b>ADDRESS:</b> 76 ABC Street								
Date (1)	Description (1)	Source of Funds (2) *	Receipt # (2) *	Cheque Payee (3) *	Cheque # (3) *	Cheque Amount (3)	Receipt Amount (2)	Balance (1)
May 31, 20XX	Transfer from accident matter White #004						3,000	3,000
June 1, 20XX	SOA #2			Red & Red LLP	7	3,000		0

\* These columns do not apply for matter to matter transfers.

## CLIENT TRUST LEDGER – Pooled Trust Account

Not every column will be used for every transaction. Each column is labelled with a number:

- (1) Use these columns for every transaction;
- (2) In addition to columns labelled (1), use these columns when you *receive* money; and
- (3) In addition to columns labelled (1), use these columns when you *disburse* money (i.e. write a cheque).

Transfers between client matters can be recorded as a *disbursement* from one client and a *receipt* for the other.

<b>MATTER:</b> Domestic									<b>FILE #</b> 006
<b>NAME:</b> Ms G. Pink									
<b>ADDRESS:</b> 81 Colour Street									
<b>Date (1)</b>	<b>Description (1)</b>	<b>Source of Funds (2) *</b>	<b>Receipt # (2) *</b>	<b>Cheque Payee (3) *</b>	<b>Cheque # (3) *</b>	<b>Cheque Amount (3)</b>	<b>Receipt Amount (2)</b>	<b>Balance (1)</b>	
June 5, 20XX	Retainer	G. Pink	7				800	800	
June 10, 20XX	SOA #4 Fees & disbursements			Red & Red LLP	10	650		150	
June 12, 20XX	Receipt #7 returned by bank as NSF						-800	-650	
June 12, 20XX	Return money to trust from SOA #4	Red & Red LLP	8				650	0	

\* These columns do not apply for matter to matter transfer.



## CLIENT TRUST LEDGER – Pooled Trust Account

Not every column will be used for every transaction. Each column is labelled with a number:

- (4) Use these columns for every transaction;
  - (5) In addition to columns labelled (1), use these columns when you *receive* money; and
  - (6) In addition to columns labelled (1), use these columns when you *disburse* money (i.e. write a cheque).
- Transfers between client matters can be recorded as a *disbursement* from one client and a *receipt* for the other.

<b>MATTER:</b>		Purchase of 747 Airplane Road					<b>FILE #</b> 007	
<b>NAME:</b>		Mr. Michael Blue						
<b>ADDRESS:</b>		314-282 XYZ Avenue						
Date (1)	Description (1)	Source of Funds (2) *	Receipt # (2) *	Cheque Payee (3) *	Cheque # (3) *	Cheque Amount (3)	Receipt Amount (2)	Balance (1)
June 30, 20XX	Cash to close	M. Blue	9				9,000	9,000

\* These columns do not apply for matter to matter transfer.

## Monthly Trust Reconciliation

Using the example transactions for June, 20XX, a monthly reconciliation for the pooled trust account will be completed.

If you were using an electronic accounting system, your first step after month end would be to print your book of original entry. This usually means the first business day after the end of the month. Since Red & Red LLP is using a manual system, this step does not apply.

The first step in the bank reconciliation generally begins after receipt of monthly statement. Firms who use on-line banking (on a 'read only' basis) sometimes log in to obtain their account information so they can reconcile earlier than waiting for the monthly statement to be ready.

Red & Red LLP's bank statement for June arrived July 15, and you sit down on July 18 to start the reconciliation. After the reconciliation steps outlined below, you will find Red & Red LLP's monthly bank statement for June. The statement and cheque images were provided with the June transactions, and you'll note that the ending balance at June 30 is \$300.

Since this is Red & Red LLP's second month of operations, there is a prior reconciliation to reference. It is used for the list of reconciling items that were outstanding that have now cleared, or as is sometimes the case for outstanding cheques, remain outstanding again in the current month's reconciliation.

Now that all necessary records have been gathered, it's time to perform the reconciliation:

1. Account for all enclosures/images with your statement: Occasionally a cheque clears the bank, but either the original or image is not provided by your savings institution with the monthly statement. For June, there are 6 cheques/withdrawals shown on your statement, but only 5 images enclosed. Upon closer look, you realize that one of the cheques/withdrawals is the NSF cheque returned, which the bank had returned to you earlier in the month and is not part of usual monthly statement enclosures. With that in mind, you can account for all of the enclosures, so this step is concluded.
2. Review the bank statement and cleared cheques: All transactions should look reasonable – there shouldn't be any surprises! However, if you see a bank charge that shouldn't be there, you need to make note of it. It will be a reconciling item, as well as something that needs to be investigated further and corrected as part of your follow up after the reconciliation has been completed.
3. Compare transactions in your book of original entry with the bank statement: Your firm should have a record of each withdrawal and deposit in the statement. So, you systematically compare each transaction on your statement with your book of original entry.

Anything on your statement that is not in your book of original entry? You need to make a note of it. It will be a reconciling item for the month, and needs to be investigated.

There can also be transactions in your book of original entry that are not on your statement. In our example, your June 30 deposit for \$9,000 was brought to the bank that day, but after their daily cut off, so it is an outstanding item at June 30. Outstanding deposits are added to the bank statement balance in a reconciliation.

Also when reconciling, you identify that cheque #5, written in May, 20XX but clearing in June, was written for a different amount than you have in the firm's accounting records. Specifically, the cheque was written for \$550, but your records show \$500. You double check the invoice in file 004, and find that the cheque was written for the correct amount. The impact of this error is for both your June trust reconciliation as well as your accounting records. For the reconciliation, it becomes a reconciling item for both the book of original entry and the client trust ledger. Regarding the accounting records, in accordance with proper bookkeeping practices for the trust account, you do not back date your correction or alter the original entry in any way. As today is July 18, you will record correcting entries in your July book of original entry, as well as the client trust ledger for file 004, by reversing the original entry and recording a new entry.

After this step is completed, you know which transactions on your book of original entry are different from your monthly statement.

4. Make a list of the client ledgers for the pooled trust account with balances at the end of the month: As part of the reconciliation process, you must compile a list of ledgers with balances outstanding at June 30.

In our example, the following have balances:

- a) Brown (#002) and Fuchsia (#003) still have balances – unchanged from May 31;
- b) White (#004), adjusted for the error in cheque #5 noted above, has a balance of -\$50, a violation of Rule 5-44(1)(g) as the ledger is overdrawn. Similar to the deposit for the Pink matter that became an NSF cheque, a general account cheque is written for \$50 to replace the money to the trust account forthwith. You now need to decide if you will contact Mr. White, explaining the situation and asking him to provide you with \$50, or if you will absorb it as a cost of doing business. From the perspective of the reconciliation, your correction will have occurred after June 30, and therefore the overdrawn balance will be shown on the June reconciliation, but resolve in July; and
- c) Blue (#007) had a balance at the end of the month.

The above list will become the third part of the reconciliation. The reconciliation is found after the monthly bank statement, below.

# June, 20XX Red & Red LLP Bank Statement

## MONTHLY ACCOUNT STATEMENT

June 1-30, 20XX

Account 123456

My Bank  
894 Red Road  
Anytown, Manitoba

Red & Red LLP  
POOLED TRUST ACCOUNT  
144 Yellow Avenue  
Anytown, Manitoba

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### ACCOUNT SUMMARY

Opening balance	\$20,315
Total deposits (3)	1,485 +
Total cheques/withdrawals (6)	<u>21,500</u> -
Closing balance	\$ 300

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### ACCOUNT ACTIVITY DETAILS

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Date	Description	Cheques/Withdrawals	Deposits	\$ Balance
	Opening Balance			20,315
June 2	Cheque 7	3,000		17,315
June 2	Cheque 8	2,000		15,315
June 5	Deposit		800	16,115
June 11	Cheque 10	650		15,465
June 12	NSF Cheque	800		14,665
June 12	Deposit		650	15,315
June 18	Cheque 5	550		14,765
June 20	TR from 456789		35	14,800
June 22	Cheque 11	14,500		300

Cheque images (5)

*My Bank*  
Page 1 of 6

**MONTHLY ACCOUNT STATEMENT**  
**June 1-30, 20XX**  
**Account 123456**

My Bank  
894 Red Road  
Anytown, Manitoba

**CHEQUE 005 {front}** **June 18, 20XX** **\$550**

Red & Red LLP 005  
Trust Account  
144 Yellow Ave Date 20XX 05 31  
Anytown, MB

Pay to the order of Manitoba Clinic \$ 550

Five Hundred & Fifty XX DOLLARS

My Bank  
894 Red Road  
Anytown, Manitoba

Re: (004) Invoice #89733 Per (lawyer signature)

'005'

:123456:

'550'

**CHEQUE 005 {back}**

(DEPOSIT STAMP)

(My Bank clearing information)



**MONTHLY ACCOUNT STATEMENT**  
**June 1-30, 20XX**  
**Account 123456**

My Bank  
894 Red Road  
Anytown, Manitoba

**CHEQUE 008 {front}** **June 2, 20XX** **\$2,000**

Red & Red LLP Trust Account 144 Yellow Ave Anytown, MB	Date 20XX 06 01	008
Pay to the order of _____Red & Red LLP General Account_____		\$2,000
_____Two thousand_____		XX DOLLARS
My Bank 894 Red Road Anytown, Manitoba		
Re: _____(004) _____	Per _____(lawyer signature)_____	
'008'	:123456:	'2000'

**CHEQUE 008 {back}**

<p>Red &amp; Red LLP GENERAL ACCOUNT  (DEPOSIT STAMP)</p> <p>(My Bank clearing information)</p>
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**MONTHLY ACCOUNT STATEMENT**

**June 1-30, 20XX**

**Account 123456**

My Bank  
894 Red Road  
Anytown, Manitoba

**CHEQUE 010 {front}**

**June 11, 20XX**

**\$650**

Red & Red LLP 010  
Trust Account  
144 Yellow Ave Date 20XX 06 10  
Anytown, MB

Pay to the order of Red & Red LLP General Account \$ 650

Six Hundred & Fifty XX DOLLARS

My Bank  
894 Red Road  
Anytown, Manitoba

Re: \_\_\_\_\_ (006) \_\_\_\_\_ Per \_\_\_\_\_ (lawyer signature) \_\_\_\_\_

'010'

:123456:

'650'

**CHEQUE 010 {back}**

Red & Red LLP  
GENERAL ACCOUNT

(DEPOSIT STAMP)

(My Bank clearing information)

My Bank  
Page 5 of 6



**MONTHLY ACCOUNT STATEMENT**  
**June 1-30, 20XX**  
**Account 123456**

My Bank  
894 Red Road  
Anytown, Manitoba

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**CHEQUE 011 {front}**

**June 22, 20XX**

**\$14,500**

Red & Red LLP Trust Account 144 Yellow Ave Anytown, MB	Date 20XX 06 21	011
Pay to the order of _____ Mr. White _____		\$14,500
_____ Fourteen thousand five hundred _____		XX DOLLARS
My Bank 894 Red Road Anytown, Manitoba		
Re: _____ (004) _____	Per _____ (lawyer signature) _____	
'011'	:123456:	'14500'

**CHEQUE 011 {back}**

*(DEPOSIT STAMP)*

*(My Bank clearing information)*

*My Bank*  
*Page 6 of 6*

Red & Red LLP

*(firm name)*

**Pooled Trust Account Reconciliation**

Month of June, 20XX  

Balance per bank statement \$ 300 (A)

Outstanding Deposits:

Date recorded in book of original entry	\$ Amount
June 30	\$9,000
Total	\$9,000

**ADD:** \$ 9,000 (B)  
*(insert total outstanding deposits here)*

Outstanding Cheques:

Chq date	Chq #	File #	Payee	\$ Amount
Total				

**DEDUCT:** \$   nil   (C)  
*(insert total outstanding cheques here)*

Other Adjustments:

Date	Full details	\$ Amount
Total		

**ADD OR DEDUCT:** \$   nil   (D)  
*(insert total other adjustments here)*

1. Reconciled Bank Balance = (A)+(B)-(C)+/-(D)

\$ 9,300

2. Book of Original Entry Balance at Month End:

Balance at June 30 \$9,350

Error:

Cheque 5 in records (file 4)	\$500		
Cheque 5 actual amount (file 4)	\$550		
Difference		\$ 50	

Reconciled Book of Original Entry Balance \$ 9,300

3. Client Trust Ledgers Listing:

File #	Client Name	Matter Description	Last Entry Date	\$ Amount
002	Brown	Divorce	May 15, 20XX	200
003	Fuchsia	Estate	May 16, 20XX	150
004	White	Accident (\$0 in ledger, but \$50 error for chq #5 results in overdrawn balance)	June 21, 20XX	-50
007	Blue	Purchase	June 30, 20XX	9,000
<b>Total</b>				<b>\$ 9,300</b>

I have prepared the above reconciliation, and observe that the balances for category 1, 2, and 3 above all agree.

Prepared by:

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Reviewed by:

Name: \_\_\_\_\_

Date: \_\_\_\_\_