

Accounting Tips

(Updated November 2017)

Getting Started

- **Read the Law Society Rules** Lawyers' accounting obligations are set out in the Law Society Rules, which apply to all aspects of trust accounting and to many aspects of General Ledger ("G/L") accounting. The relevant rules are found in Rules 1 and 2 (definitions), Part 5, Rule 118 (client identification and verification requirements), Rule 119 and the related forms. You can download the rules and forms from the Law Society website (www.lawsociety.ab.ca). See Tab 6-7 Law Office Accounting in Alberta for the specific requirements for starting your law firm.
- **Open bank accounts** Unless you have obtained an exemption from requiring a trust bank account you will need at least one pooled trust account in an approved depository—a branch in Alberta of a bank, loan or trust corporation, credit union or a treasury branch—and at least one general account. Both of these type of bank accounts must be maintained in Alberta.
- **Interest on pooled trust accounts** All the financial institutions have signed agreements to pay interest on pooled trust accounts to the Alberta Law Foundation. You are required to instruct the bank that holds your pooled trust account to send this interest to the Law Foundation.
- **Service Charges on trust accounts** You must also instruct your bank not to take service charges or amounts owed by you personally from your trust account; this may require changes to the bank's standard account operation agreement. You can put up to \$500.00 of your own money in your trust account to cover any inadvertent posting of service charges by the bank.
- **Order cheques** Get different coloured cheques for trust and general to avoid writing cheques on the wrong bank account. If you have more than one trust or general account, get different coloured cheques for each. If you are using a computerized accounting program order computer cheques and forms that can be completed in your printer. You may have to order them directly from a supplier approved by your financial institution – you will need to ask your financial institution who they suggest that you order from.
- **Get organized** Keep all your accounting records in one area. Open a separate reconciliation s file folder for each bank account and file the reconciliations in reverse chronological order with the bank statement. If you have few transactions, keep the cheques with the statement and reconciliations; if you have many cheques, get boxes to store them in.
- **CDIC Coverage on the Trust Accounts** CDIC (Canada Deposit Insurance Corporation) insures bank depositors against a bank collapse for up to \$100,000 per depositor. However, a law firm can get trust account coverage of \$100,000 per client by providing the financial institution with a list showing the clients (identified by client number, not name) and outstanding amounts. The list must be as of April 30 and be sent to the financial institution by May 30 each year.

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- It should also include separate interest-bearing trust accounts. When you open a new trust account, you must submit a list after you complete the first reconciliation to get your clients coverage until the next annual list is due. Submitting these lists gets CDIC coverage for all funds that flow through the trust account, not just the funds identified on the lists. Coverage is not available for foreign currency accounts and terms deposits with a maturity of greater than five years. See www.cdic.ca.

Operational Tips

- **Depositing trust money** Rule 119.19(1) requires you to deposit trust money "on or before the next banking day".
- **Handling credit card slips** Credit card slips are considered money in the Rules. Trust receipts must be deposited directly into your trust account. You must, concurrently with the deposit, transfer the amount of the bank discount, if any, from your general account so the total in trust equals the face amount of the slip. You must deposit the credit card slip within 2 banking days, so you cannot hold a blank, signed credit card slip as security for your fees and disbursements (Rule 119.44(a)). You should understand your bank's clearing rules for credit card slips to ensure that you do not disburse funds that have not cleared.
- **Restriction** Rule 119.17 prohibits the use of a trust account where no legal services are being provided.
- **Posting** All postings should be made as the transactions occur so you will always know how money is in each client ledger account prior to issuing a payment against those funds. If you have a manual accounting system all postings must be done in ink. Avoid obscure abbreviations.
- **Deposit Slips** To preserve confidentiality, use file numbers, not client names or transaction references, on deposit slip.
- **Trust funds from one client on several matters** When you receive trust money from one client for more than one matter at the same time, you must open separate client trust ledger accounts for each matter.
- **Certifying funds received in trust** If you intend to disburse trust money to a third party immediately after receiving it from your client, you should require certified funds unless the source of the funds is another lawyer or a financial institution. It is less important to get certified funds where the money will remain in your trust account for some time before being disbursed, but it may be prudent if you do not know the client well. It is ethical to certify another lawyer's trust cheque. It is also ethical to require a lawyer to provide certified funds if the contract under which the funds are provided requires certified funds – where the contract states that funds can be paid by lawyers' trust cheque or bank draft, it is not appropriate to require the issuing lawyer to certify their own trust cheque.

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- **Authority to withdraw funds from trust** The best authority for drawing a trust cheque is the written direction of the beneficial owner of the trust money. In any situation where you don't have written authority, you should identify the source and nature of your authority as clearly as possible. If the source of your authority is not obvious, document your authority in a memo to the file.
- **Withdrawals from trust** Withdrawals from trust must be by cheque, except a transfer to or from a separate interest-bearing account in the same branch, which may be made by a document other than a cheque (see Rule 119.22) or by electronic transfer (see rules 119.23 and 119.42. The Rules prohibit cheques made payable to "Cash" or "Bearer" and post-dated cheques. The cheque must clearly indicate that it is a cheque drawn on a trust account, be dated and completed as to the payee and amount and be signed by the member from whose trust account the withdrawal is made or another member authorized by that member.
- **Paying fees from trust** Do not transfer a retainer from trust to your general account to pay your fees or to reimburse you for disbursements until you have rendered a written account to your client. You do not have to render an account when you use trust money to pay disbursements directly to a third party, provided you have your client's authority to do so. See subrules 119.21 (3) and (4). To pay an account out of trust money, write a trust cheque to yourself and deposit it into your general account or by complying with the requirements of Rule 119.42 and completing the non-cheque withdrawal form. The account must be prepared and sent to the client before or contemporaneously with the removal of funds from trust. Promptly withdraw money which belongs to you from your trust account.
- **Separate interest-bearing trust accounts** Open a separate ledger card for each separate interest-bearing account. The interest on a separate interest-bearing trust account must be posted when credited to the account. Where you have a daily interest savings account that is posted monthly, you must obtain a statement updated at the end of each month for the purpose of reconciling the account. The interest is posted to a GIC or a term deposit when the term of the instrument expires; accrued interest must be posted when a GIC or term deposit is rolled over. Keep all separate interest-bearing account passbooks/statements and GICs together in one place (not in the file!!). Placing a client's money in a separate interest-bearing trust account may generate a considerable amount of bookkeeping, so make sure that the interest to be generated justifies the hassle (unless the investment is required by trust condition or legislation).
- **Inadvertent Trust Deficiency** If you discover an inadvertent discrepancy in your trust account (e.g., the bank deducted cheque printing charges), you must immediately (within 7 days) make up the deficiency . Where you are not in a position to do so, or where the deficiency is over \$2500 you must immediately report the matter to the Law Society. You do not have to report inadvertent deficiencies, under \$2500 that you immediately make up, but you should document the problem and the steps taken to correct it as your accountant will need an explanation of the discrepancy during the annual review of your accounts. You will also need the information if the Law Society auditors conduct a spot audit on your practice. Note: you can keep up to \$500.00 of your own money in a trust account to deal with minor inadvertent overdrafts.

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- **Trust ledger overdrafts** One of the most common audit deficiencies is the cheque that creates a ledger overdraft, i.e., a cheque for more than the balance shown on the client's trust ledger. A ledger overdraft does not necessarily create a bank overdraft because other trust money in the pooled trust account may cover the deficiency. To prevent ledger overdrafts, personally examine the client trust ledger before signing a cheque and ensure all postings are current to the time of issuing the cheque.
- **Bank reconciliations** Monthly reconciliations for both your trust and general accounts are part of your records, and must be prepared monthly. Prepare and use a checklist. Monthly reconciliations must be done for all trust accounts, including separate interest-bearing accounts, even if the account had no transactions, and for your general account. **You must prepare a trust reconciliation every month even if you have no transactions during the month and no funds in trust.**
- **CDIC Coverage on the Trust Account** See above. The annual list must be effective April 30 and be sent to the financial institution by May 30.
- **Voided cheques** Sometimes you have to void a cheque. Keep voided cheques (tear out the signature area and staple the cheque to the cheque stub or store with cancelled cheques for the auditor to examine).
- **Annual Filings**

The Annual Report includes the following:

- **Law Firm Self-Report** – prepared by the law firm in accordance with subrule 119.30(3)
- **Accountant's Report** – prepared by the law firm's accountant in accordance with subrule 119.30(4)
- **Electronic Data Upload** – prepared by the law firm in accordance with subrule 119.30(5) or (6)

Law firms must submit the Law Firm Self-Report and either the Accountant's Report or the Electronic Data Upload.

The mandatory Designated Filing Date (year-end) for all law firms is December 31 and the Annual Report is due three months after the Designated Filing Date. The completed Annual Report must be submitted by March 31 (Due Date) the following year. Law firms are now able to e-file a completed Law Firm Self-Report online via the Lawyer Portal. It is mandatory for the Self-Report to be filed online.

Law firms that do not comply and file by the March 31 Due Date will be subject to the following late fees, and administrative suspension of the Responsible Lawyer applies if the Annual Report is more than three months late:

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Date	Event	Fees	Cumulative Fees
Dec 31	Designated Filing Date (Year-End)	\$0	\$0
March 31	Annual Report Due Date	\$0	\$0
April 1	1 month late	\$250	\$250
May 1	2 months late	\$500	\$750
June 1	3 months late	\$750	\$1,500
July 1 Responsible Lawyer is administratively suspended*			
Post-July 1	Firm files Annual Report which terminates Responsible Lawyer's administrative suspension	\$225**	\$1,725
Total Late Filing Penalties - \$250 (Minimum) - \$1,725 (Maximum)			
* The Responsible Lawyer is automatically suspended if the firm is more than three months late filing its Annual Reports and remains suspended until the Annual Reports and all related fees are submitted.			
** In addition to late filing fees, a reinstatement transaction fee is required when the Responsible Lawyer returns from suspension.			

For information on transitional reporting deadlines that may apply to you / your firm in 2017-2018, please see: [Trust Safety Changes](#)

- Undisbursable trust money** Undisbursable trust money may be turned over to the Law Society under Rule 119.27. By statute, the Law Society cannot accept any undisbursable funds unless the law firm has held the funds for at least 2 years.
- Petty cash** Instead of using a petty cash fund, when you pay cash for items that are chargeable as expenses or disbursements, retain the cash register slip or other voucher and, from time to time, write yourself a general cheque covering the amounts owed to you. Do the same for employees who use their own cash for minor amounts.
- Payroll** If you have any employees, you will have to get an employer number from the Canada Revenue Agency (CRA). You will be provided with books that set out the amounts of the Income Tax, Unemployment Insurance and Canada Pension Plan deductions. Payments may be made directly to CRA or paid at your bank using the official remittance forms that CRA supplies.

You are required to provide your employees with a pay stub showing period worked, gross pay, deductions and net pay. You should obtain a payroll book from a stationery store to accumulate your payroll information through the year, as you will have to issue T4 income tax slips.

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- **GST/HST** If your revenues from taxable supplies (fees and charges) exceed \$30,000 in a single quarter or over four consecutive calendar quarters, you must register for GST/HST and comply with CRA reporting and remittance requirements. Payments may be made directly to CRA or paid at your bank using the official remittance forms that CRA supplies or online. If you are dealing with clients or matters that are outside of Alberta, be aware that HST collection and reporting requirements may also apply.
- **Location of records** You must keep your records at your place of practice unless exempted by the Executive Director.
- **Record Retention** After each fiscal year, store all the closed books and records for that year together, keeping the most recent 2 years at your principal place of practice in Alberta. All accounting records and supporting information must be retained for at least the 10-year period see (R. 119.37).
- **Audits** The Law Society conducts spot audits; it also conducts investigations where there is reason for concern about how a lawyer or firm is carrying out its accounting. The member must co-operate by providing the auditor with immediate access to the member's books and records, including client files, as requested. The Society recognizes that audits are stressful and disruptive to the member being audited, and wishes to keep this activity within the bounds of reason and to conclude an audit quickly and with as little disturbance to the law practice as possible.

Getting Help

- **A good accountant** Look for an accountant who has experience with law office accounting and is willing to help you with such mundane matters as setting up your chart of accounts, establishing your accounting procedures and organizing your records so your year end will go smoothly.
- **The Law Society's auditors** The Law Society's Trust Safety Department is available to answer questions on the Law Society Rules relating to accounting and the accounting procedures.
- **The Law Society's Practice Advisors** The mandate of the Practice Advisors includes responding to accounting questions by phone and reviewing the accounting systems of small firms to help them over-come accounting problems.

The Practice Advisors are also available to discuss legal, ethical and practice concerns, and personal matter and provide assistance and resources in relation to strategic planning, practice management, marketing, and technology and systems, with focus on the needs of sole practitioners and lawyers practising in smaller settings.

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Practice Advisors will travel anywhere in Alberta for personal meetings with lawyers where appropriate. All contacts are strictly confidential. Services are provided without charge. Members are invited to call at any time.

- **Software Vendors** Some software vendors provide general accounting setup and support services, either themselves or through consultants to whom they make referrals. Of course, you have to use their software to obtain their support.

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