



Trust Accounting 101

Why Trust Accounting Matters

Trust accounting isn't just bookkeeping—it's a core professional responsibility. When you hold client funds, you are acting as a fiduciary. The Law Society's rules exist to protect clients, maintain public confidence, and safeguard your practice.

What is Trust Money?

Trust money is any money received in connection with legal services that is held for the benefit of a client. This includes:

- Transaction funds, such as those for the purchase or sale of property
- Retainers to pay for future legal services
- Money for disbursements not yet billed (*Rule 97*)

Trust money belongs to the client—not you or your firm.

Operating a Trust Account in the NWT

Authorization Required

Only approved firms may hold trust funds (*Rule 127*). Before handling trust money, your firm must:

- Obtain approval from the Law Society to open a trust account (*Rules 114, 121*)
 - Appoint a responsible lawyer (*Rules 114, 117*)
 - Operate in Canada (*Rule 121*)
 - Use approved accounting software (*Rule 121*)
 - Direct financial institution to remit interest earned on pooled trust account to the Law Foundation of the Northwest Territories (*Rule 124(3)*)
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Types of Trust Accounts

Pooled Trust Accounts (*Rules 124(1)–(2)*)

- Hold funds for multiple clients
- Must be in the firm's name and clearly designated as a trust account
- Interest must be remitted to the Northwest Territories Law Foundation at least annually (*Rule 124(3)*)

Separate Interest-Bearing Accounts (*Rule 129(1)*)

- Used for individual clients when appropriate
 - Must be in the firm's name *in trust for the client*
 - Must clearly identify the client
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Handling Trust Money

- Trust money received by law firm must be deposited into a pooled trust account within a reasonable time (*Rule 128(1)*)
 - All withdrawals and transfers from trust account must be signed by a lawyer of the firm (*Rule 130(1)*)
 - Before authorizing any withdrawal or transfer you must ensure that the client has sufficient funds in trust and that the trust account has sufficient funds to permit the disbursement
 - Withdrawals must be by consecutively numbered cheques (*Rule 131(1)*), or by electronic transfer where conditions are met (*Rule 109*)
 - Only funds directly related to legal services may flow through the trust account (*Rules 100(1), 125*)
 - You must always maintain enough money in the trust account to meet obligations to all clients (*Rule 132*)
 - Trust shortages must be reported to the Law Society if the deficiency is more than \$2500 and in other circumstances identified in the rules (*Rule 132(1) and (3)*)
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Reconciling Trust Accounts (*Rule 107(1)*)

- You must prepare a monthly trust reconciliation of the total of all unexpended balances of trust money held for clients as they appear in the trust ledger, with the total of balances held in the trust account or accounts, together with the reasons for any differences between the totals
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Required Trust Accounting Records

You must maintain the following accurate, complete, and up-to-date records:

1. Trust Journal (*Rule 106(4)(a)*)

A chronological record of all trust activity

Must include:

- Date
 - Source of funds / payee
 - Form of payment
 - Client name & file number
 - Receipt or cheque number
 - Amount
 - Running trust balance
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2. Client Trust Ledger (*Rule 106(4)(b)*)

A separate ledger for each client

Must include:

- Client name, matter description, file number
 - All transactions (chronological)
 - Source/payee details
 - Running balance
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3. Trust Transfer Journal (*Rule 106(4)(c)*)

Tracks transfers between client trust ledgers

4. Monthly Reconciliation Record (*Rules 106(4)(d), 107*)

Must be prepared **every month**.

Must compare:

- Bank statements
- Trust journal totals
- Client trust ledger balances

Must include:

- Explanation of discrepancies
- Total trust balances
- Deposits in transit

- Outstanding cheques (detailed list)
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5. General Journal (*Rule 106(4)(e)*)

Tracks all activity in the firm's **general account**.

6. Billing Journal (*Rule 106(4)(f)*)

Records:

- Fees charged
 - Billing dates
 - Client names and file numbers
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7. Accounts Receivable Ledger (*Rule 106(4)(g)*)

Tracks:

- Amounts billed
 - Payments received
 - Outstanding balances
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8. Supporting Documents (*Rule 106(4)(h)*)

Keep records for **every transaction**, including:

- Bank statements
 - Cancelled cheques (or images)
 - Deposit slips
 - Credit/debit slips
 - Invoices
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9. Non-Monetary Trust Property Record (*Rule 106(4)(i)*)

A central log of property held in trust (e.g., documents, valuables)

Reporting Obligations

Start Up Report

- [Start up report](#) must be prepared by an accountant and submitted to the Law Society within four months of approval to operate a trust account (*Rule 101(1)*)

Law Firm Self Report

- Law firms must file a [self report](#) by September 1st each year (*Rule 101(3)*)

Accountant's Report

- Law firms approved to operate a trust account must file by September 1st each year (*Rule 101(4)*)
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Final Takeaway

Trust accounting is about **integrity, precision, and accountability**. Small mistakes can have serious consequences—so disciplined processes and attention to detail are essential.