How to Manage Your Trust Accounting With Clio

Keep Meticulous Records in Compliance with Industry Rules

Clio Team

Manage all your trust accounting responsibilities

Many states have rules for how attorneys need to maintain trust accounts. These rules vary from state to state, but the common underlying theme is that as a lawyer, it's your job to act as a fiduciary towards client funds.

In any given jurisdiction, when handling client funds, a lawyer's fundamental duties include:

- **Clear account identification.** Law firms must deposit funds into an account specifically labeled as a trust account.

- **Segregation of accounts.** Law firms must keep client funds separate from a lawyer's own funds.

- **Detailed accounting records.** Law firms must create and maintain appropriate records of funds belonging to their clients.

In addition to these fundamental duties, some states give lawyers additional responsibilities when handling client funds, which may include:

- The duty to notify the client upon receipt and deposit of funds.

- The duty to maintain a separate ledger sheet for each client who has funds on deposit in a trust account.

- The duty to produce a full accounting report for client funds.

- The duty to report any unclaimed funds held in trust.

If lawyers are required to provide a full accounting report of client funds, this report may need to include: the amount of funds received and deposited, the amount of funds paid or distributed out of your client's trust account, and the amount of funds still held in trust.

Note: Most states have adopted rules of professional conduct that outline your responsibilities in terms of maintaining and keeping records related to client trust accounts, so check your state's rules to ensure you're not missing anything.

The importance of a legal-specific solution

Accounting software can be useful in helping lawyers keep accurate records of their business accounts, but may not be suited to ensuring compliance with trust accounting regulations. The problem with many accounting programs is that they aren't designed to keep records in the manner that is required of law firms. Most accounting software will treat funds in a trust account as an asset; whereas, law firms must treat this money as a liability.

One of the advantages of using legal-specific software such as Clio is that it makes it easy to manage and maintain trust accounts. Clio is a fully integrated practice management platform that allows law firms to manage all case and administrative information in one place, which includes all billing workflows and accounting information for both general firm operations and trust accounts.

In this guide, we'll look at how Clio's trust accounting features can help your law firm easily meet its requirements related to managing client trust funds.
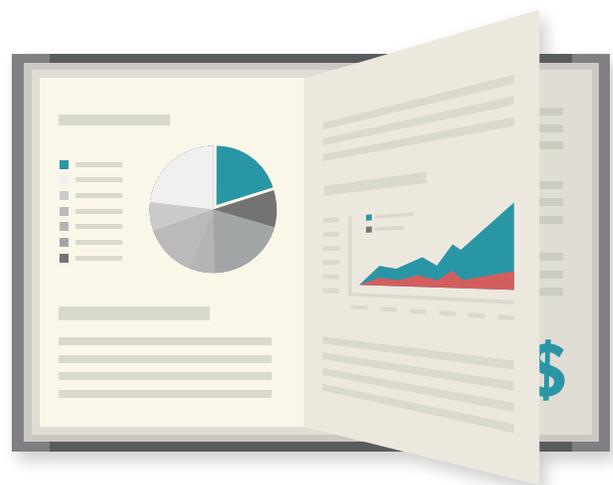
Manage separate accounts for general firm operations and client trust funds

With Clio, you can set up multiple ledgers to record transactions across several accounts.

At the very least, firms will need a general operations account. This is the account from which your firm will manage all operating funds (i.e., revenues earned).

Most firms will also require a trust account to manage all client funds on deposit. (Even if your firm doesn't handle client funds regularly, it's often a good idea to create a trust account in case the situation arises.)

In Clio, you can manage individual client funds within a pooled trust account (an IOLTA for example), or across multiple trust accounts as required by your clients or jurisdictional rules. This lets you access and update all account information in one place. Each account is also

linked to a client and matter ledger, which contains detailed transaction notes with respect to pooled or separate trust accounts.

Access all your firm's bank accounts from one place.
**See how**.

Manage trust account transactions

Since lawyers are required to keep unique records for all trust accounts and their respective clients, managing transactions can require significant amounts of manual entry across multiple ledgers.

With Clio, firms can keep track of all money deposited and withdrawn from individual trust accounts. Every time a transaction has been completed, each ledger affected will be updated accordingly.

Log trust account deposits

With Clio, it's easy to log trust account deposits with payment details and any additional notes to be included in trust ledger reports and statements of account.
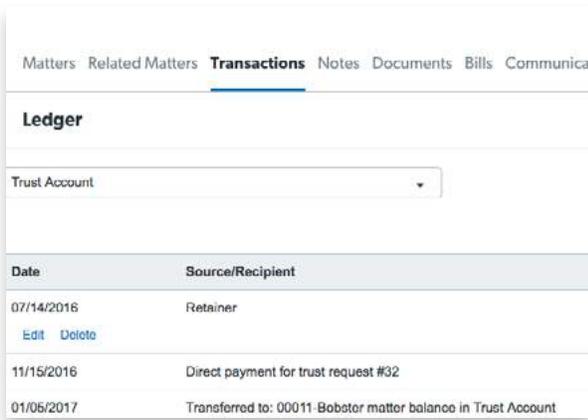
Apply funds in trust to an invoice. **See how**.

Link trust fund deposits to specific client and matter ledgers. **See how**.

Apply trust account funds directly to an invoice

Advanced fee deposits held in trust can be applied directly to an invoice in Clio. Once an invoice has been approved and shared with a client, you can transfer the invoice amount from the trust account to your firm's operating account, and the affected ledgers will automatically update with the new balance.
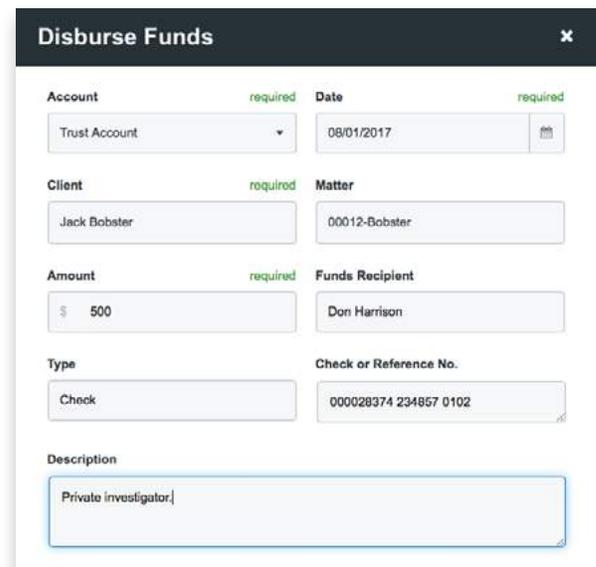
Log trust account disbursals to third parties

When funds from a trust account are withdrawn for purposes other than a refund or to pay an invoice in Clio (i.e., if you're transferring money from real estate escrow or to pay damages awarded to a client), you can update all trust ledgers by logging a trust fund disbursal.

Log disbursed funds across all ledgers with one action. **See how**.

Collect trust requests through online payments

Clio Payments lets you send electronic bills and trust requests via email or secure client portal. Clients can pay these requests online, immediately, using a credit card. Depending on the request, funds will be deposited directly into the appropriate account—a trust or operating account—in compliance with trust accounting rules. Once funds have been deposited, the client and your firm receive a deposit notification, and your ledgers and invoice status will be updated automatically.

Get details on all trust ledgers when you need them

In Clio, you can get a real-time view of any trust account ledger or individual client or matter ledgers at any time. For a summary of all transactions, you can also run detailed reports, which show all account updates, including the receipt and deposit of funds, payment transactions, refunds, and disbursals. These reports can be used to:

- Notify clients of account updates.
- File regular reports to overseeing bodies.
- Conduct three-way reconciliations across firm records (details below).

Trust account ledger report

A trust ledger report gives a full account of funds held in trust with your firm, including all transaction details and balance updates for any given date.

View a summary of all trust account balances and transactions across your entire firm. **See how**.

Client ledger report

A client ledger report lets you see all accounts associated with a client, including transaction details and balance updates for any given date. If required, this report will also show account balances for the client across different matters.

View a summary of all trust account balances and transactions for a given client. **See how**.

Statement of account

A statement of account can be created at any time to update a client on the status of their trust account and all associated transactions. A statement of account can also be included automatically as a component of your firm's regular billing cycle, which is a requirement in some states.

*Include a statement of account in an invoice. **See how***.

Exported CSV reports

Any report can be exported from Clio into a CSV file for additional sorting and formatting using a variety of common programs, including Excel, Numbers, and OpenOffice Calc.

Export reports into CSVs when required.

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Let clients access reports when they need them

Use Clio's client portal, Clio Connect, to share documents and communications in a secure, password-protected location online. Clients can access the information they need at any time, reducing the amount of personal attention required for each client.

Three-way reconciliations

A three-way reconciliation is a routine procedure that ensures your trust account ledgers align with your individual client ledgers, and that both of these records match your actual bank account register. This type of reconciliation is unique to law firms, and many accountants won't be familiar with the process.

As part of your duty to keep accounting records for funds held in trust, you must reconcile your trust bank account regularly. Some states require that lawyers conduct a three-way reconciliation on a regular basis, and this fiduciary responsibility ultimately resides with you.

With Clio, performing a three-way reconciliation of your trust account ledgers can be done in two easy steps.

Step 1: Reconcile trust accounts and individual client ledgers

Trust account ledgers in Clio are linked directly to individual client ledgers, which helps ensure that all transactions are aligned between both records. Clio's reporting features make it easy to generate statements for simpler three-way reconciliation:

- Clio's Trust Listing Report shows client- and matter-level trust account totals.
- Clio's Trust Ledger Report shows account balances for all separate and pooled trust accounts.

Step 2: Reconcile your bank account

Once you have summaries of your trust accounts and individual client ledgers, you can reconcile these amounts to your actual bank accounts by comparing them to your bank statements or the information you keep in your accounting software (such as Xero or QuickBooks Online).

> Three way reconciliations are unique to law firms, and many accountants won't be familiar with the process.

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Sync trust accounting with QuickBooks Online

Clio also offers a dedicated trust accounting integration with QuickBooks Online, which allows you to sync your records in Clio to your QuickBooks Online statement of accounts. Once the sync is set up, any trust accounting update you make in Clio will trigger an automatic update in both your assets and liabilities accounts in QuickBooks

Improve trust accounting at your law firm

How you manage your firm's trust accounts also determines how you manage risk, as even small errors can lead to grievances that may result in disbarment. And risk aside, keeping meticulous records can be time consuming and mentally draining. The right tools, however, can help you maintain accurate records quickly and with less effort, so that you can put your mind to more pressing matters.
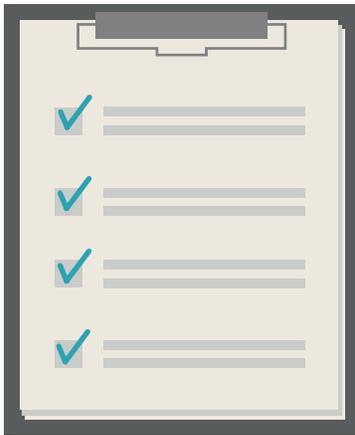
About Clio

Clio is the most comprehensive cloud-based practice management platform for the legal industry. With the help of the cloud, Clio eases the process of time tracking, billing, administration, and collaboration for law firms of all sizes. Based in Vancouver, B.C., and with a European office in Dublin, Clio is used by legal professionals in over 50 countries.

Try it for free or schedule a demo today!