

Law Office Management Chapter 9

Chapter 9

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Managing the Client Funds Trust Account

OBJECTIVES

After completion of this chapter, you should be able to:

- Know the type of funds to be deposited in a trust account.
 - Prepare a client ledger sheet.
 - Document financial transactions in the cash receipts and cash payments journals.
 - Document trust account transactions correctly.
 - Disburse funds from the trust account.
 - Prepare monthly trust account statements.
 - Close a client's trust account.
 - Guard against trust account abuse.
 - Understand disciplinary actions for trust account abuses.
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Key Terms

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1. **Cash payments journal:** Record of all checks written or cash disbursed.
 2. **Cash receipts journal:** Record of all deposits and cash received.
 3. **Check kiting:** Using other clients' funds until a check clears the bank.
 4. **Client security fund:** A fund established to reimburse clients who have been damaged because of their attorney's fraudulent abuse of the trust account.
 5. **Commingle:** Mixing one person's funds with another person's funds.
 6. **Hard copy:** A copy of computer records on a sheet of paper.
 7. **Misappropriation:** Using funds in the trust account for personal purposes.
 8. **Segregation of cash:** Keeping clients' funds separate from law firm funds.
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Answers to Chapter Review Questions

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Following are answers to the Chapter Review Questions found in the text.

1. Segregation of cash is the separation of money according to type of funds (p. 302).
 2. The following types of funds are deposited into the trust account:
 - A. Costs and expenses;
 - B. Estate proceeds;
 - C. Escrow funds;
 - D. Settlements;
 - E. Judgments;
 - F. Fee advances; and
 - G. Funds in which a third party has an interest (pp. 303-305).
 3. A client would have a separate trust account if the amounts deposited therein will be large sums or there will be many transactions from the trust account (p. 303).
 4. When a firm is paid an advanced fee, it is paid when it is earned (p. 304).
 5. The nine steps of maintaining a trust account are:
 - A. Preparing the client ledger sheet;
 - B. Maintaining journals;
 - C. Communicating with clients;
 - D. Documenting transactions;
 - E. Disbursing funds;
 - F. Reconciling the account;
 - G. Preparing monthly statements;
 - H. Closing an account; and
 - I. Keeping accurate records (p. 305).
 6. Trust account records must be kept for auditing purposes or in the event of a malpractice claim (p. 312)
 7. IOLTA is Interest on Lawyers' Trust Accounts (p. 314).
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8. The three types of IOLTA participation are:

- A. Comprehensive;
- B. Voluntary; and
- C. Opt-out (p. 314).

9. IOLTA funds are used to fund law-related public interest programs and a client security fund (p. 314).

10. The eight ways a trust account is abused are:

- A. Misappropriation;
 - B. Paying office expenses with clients' funds;
 - C. Withdrawing funds from the trust account of one client to meet another client's trust account obligations;
 - D. Check kiting;
 - E. Commingling;
 - F. Failure to promptly notify clients of receipt of funds;
 - G. Failure to promptly disburse funds; and
 - H. Failure to provide clients with an accounting of trust account funds (pp. 316-317).
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Examples for Discussion

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1. The Money Is in the Trust Account

Mr. Bristol's actions are obviously unethical. Ellen is in a bind. Should she do something that she knows is unethical or do as her boss demands? What would happen to Ellen if she did as her boss demanded? What would happen to Mr. Bristol? The urgency of filing the motion is not stated, but if there is no urgency, the best solution is to have client Fisher submit the \$8 before the motion is filed. If he submits a check for \$8, the firm would have to wait 10 days before the check is cleared to file the motion. If he paid in cash and the cash could be deposited right away, then the motion could be filed immediately.

2. Those Pesky Little Details

Mr. Bristol's instructions are not only unethical, they constitute the crime of forgery. Ellen should not do as Mr. Bristol instructed. They must wait for Jane to return from vacation.

3. Does Interest Belong to the Client?

Individual student response.

Possible Answers to Assignments

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Following are possible answers to Assignments provided in the text. The responses below are a guide to what an instructor would look for within the student's response. Some assignments are based solely on individual experience and/or opinion, and a general response for such questions is not provided.

1. Answers are shown on Completed Ledger tab. The balance of fees owed is \$-0-. The balance of costs owed is \$ -0-. The balance of the trust account is \$487.00.
 2. Individual student response.
 3. Individual student response.
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Quiz

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[Click here to take the Chapter Quiz.](#)
