

## Keeping Clients' Trust Accounts with QuickBooks Desktop 2018 Pro



**Minnesota State Bar Association**

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Maintaining Clients' Trust Accounts with QuickBooks Desktop 2018 Pro  
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## Table of Contents

Introduction .....	1
The Rules and Required Books .....	1
Computerized vs. Handwritten Accounting .....	3
General Background and Good Practices .....	3
Overview of the Accounting Plan .....	4
Options for Handling Your Firm's Funds and Interest In and Out.....	5
Preparation for Initial Set-up .....	5
Setting Up a “Company” for Your Trust Accounts.....	6
Setup Option 1: the “blue button” route.....	7
Setup Option 2: the “Advanced Setup” route.....	9
Setting Up the Chart of Accounts .....	10
Creating an asset-side account (one per bank account) .....	11
Creating liability-side accounts .....	14
Entering Initial Balances .....	16
Reconciling the Initial Balance .....	20
Normal Running: Entering Transactions .....	23
Adding a new client.....	23
Receiving money for a client.....	25
Verifying payment funds from a client.....	26
Disbursing money for a client .....	27
Paying your fees (Split Disbursements) .....	31
Entering IOLTA interest accrued and paid over .....	33
Reconciling Monthly (Part 1: Check Register and Bank Statement) .....	34
Reconciling Monthly (Part 2: the Trial Balance) .....	40
Making the Required Monthly Records (Paper or PDF) .....	44
Making Backups .....	46
Miscellaneous Tips .....	47
Request .....	48

## Introduction

Ever since advising or arguing about the law became a way to make a living around the 12th century, and lawyers began to take money for their work, there have been requirements for lawyers to be able to account to their clients for money given to them. Since about the same time, to “account” has meant both generally to tell or justify, and specifically to say what one has done with money or other assets that one was supposed to use some way. Modern double-entry methods of accounting date to about the same time.

Today, lawyers' obligations to account have moved from being governed and enforced by common law principles to being defined by court rules. Minnesota promulgated the predecessor to its current rules, specifying what records you must keep, in 1976. You need only read two documents: Rule 1.15 in the [Minnesota Rules of Professional Conduct](#) (“MRPC”), and Appendix 1, a document issued every year by the [Lawyers Professional Responsibility Board](#) (“LPRB”). You should re-read them every year to check for changes. Appendix 1 is explicitly subject to annual revision, and Rule 1.15 was most recently amended in the fall of 2015.

Those two documents tell you *what* records to keep, but mostly do not say *how*. It is the purpose of this guide to explain *how* you can keep the required records, using a modern computer accounting program from Intuit, *QuickBooks® Desktop 2018 Pro* (“QB”).

## The Rules and Required Books

[Rule 1.15](#) is the place to begin. It is the source rule on “safekeeping property.” Its paragraph (h) requires lawyers who handle client funds to keep “books and records sufficient ... to establish compliance” with the rule's other provisions. What is “sufficient?” Enter paragraph 1.15(i). It requires the Lawyers Professional Responsibility Board to say annually what is required. The LPRB does so each year via [Appendix 1](#). The following paragraphs summarize some key points of Rule 1.15 and the current Appendix 1.

All funds of clients or third persons must be deposited in one or more identifiable trust accounts, MRPC 1.15(a), (c)(5), and trust accounts must be denominated as such. MRPC 1.15(o). The rule says “one or more” because trust accounts may be one of three types, listed in the rule. MRPC 1.15(e,f). MRPC 1.15(g) tells how to decide which account type to use. Most lawyers have an IOLTA bank trust account pursuant to MRPC 1.15(e) and (g). This guide shows how to maintain an IOLTA, because IOLTAs are the default under Rule 1.15(g), and because the methods that work for IOLTAs work for the other types of trust accounts, too.

Some records are required outside the accounting system itself. For example, Appendix 1 requires that you keep records to identify all trust accounts you have. These records must include the name of the bank or institution, the date the account was opened, account number and name, and the bank agreement. App. 1, § I.1. They must also show the account type — i.e., whether money is pooled with net interest paid to the IOLTA program; money is pooled and net interest allocated among clients; or the account is for a single

named client. (These are the three types defined in MRPC 1.15(e), (f)(1), and (f)(2), mentioned previously.) The name printed on trust account checks should explicitly include the words “trust account.” Although the rules do not require using different color trust and business account checks, it is a good idea.

As for accounting records specifically, Appendix 1 requires keeping the following accounting records *separately* for each trust account, including any IOLTA accounts:

1. A separate check register for each account, showing all deposits and checks chronologically with a running balance and other information. In particular, each entry must show the date, amount, client identity, payee and check number (if a check), and purpose of the deposit or check. App. 1, § I.2.
2. A separate subsidiary ledger for each client matter, showing each receipt and disbursement, its date, amount, purpose, payee and check number (for disbursements), and the running balance. Such ledgers are needed also for (1) a small amount of the firm's own funds, under \$200, and (2) interest earned and paid to the IOLTA program. App. 1, § I.3.
3. A monthly “trial balance” of the subsidiary ledgers. This means a report showing all clients and matters for which the lawyer is holding money in trust, with the balance in each and the total of all the balances. App. 1, § I.4. The trial balance used to be required as of “the end of each month,” but the 2015 amendments now require it “as of the date of the monthly bank statement.”
4. A monthly reconciliation of *three* balances: (1) the adjusted bank statement's, (2) the checkbook's, and (3) the subsidiary ledger trial balance total. “Reconciliation” means accounting for outstanding deposits and checks, and for transactions shown on bank statements but not already entered in your records (e.g., interest and service charges). App. 1, § I.5. As there must never be ATM or cash withdrawals from a trust account, only checks or deposits can ever be outstanding. App. 1, § I.2.b. (Wires are basically checks.)

Three of those four records must be printed out each month: (1) the check register, (2) the trial balance of the subsidiary ledgers, and (3) the monthly reconciliation report, each must be printed to paper or PDF each month. App. 1, § I.7. You must keep the monthly “print-outs” for at least six years after completion of the employment to which they relate (not just after the dates of the transactions or printing). MRPC 1.15(h). PDFs must be stored on a separate electronic device from where the records are kept. *Id.* In addition, regular backups should be made of the current records in the program and of the monthly PDFs. *Id.*

Of course, base records must be kept, too: bank statements, cancelled checks or copies, wire or EFT confirmations and authorization memoranda (depending on the direction), duplicate deposit slips, receipts, and image statements for deposits via substitute checks. Please see App. 1 § I.6 for the current list. Note also that you may need to create written memoranda for some transactions, or add annotations to some documents, to identify the relevant client or third person; and that cash payments also require

documentation. But items 1 through 4 above are the bookkeeping requirements for electronic records. And, for electronic records, there is a backup requirement. App. 1, § I.7.

### *Computerized vs. Handwritten Accounting*

All the required records can be kept by hand with ink and paper, using methods dating from the 13th century or earlier: debits on the left, credits on the right, with every amount entered twice—once as a debit and once as a credit, to separate accounts; and money moving from the credit (right) side of one account to the debit (left) side of another.

Indeed, the LPRB offers a guide showing how to keep the required books manually.<sup>1</sup> The ABA long advised lawyers to begin by keeping trust account books with ink and paper by hand in order to learn the hows and whys before computerizing the process or hiring a bookkeeper. See Jay Foonberg, *The ABA Guide to Lawyer Trust Accounts*, 1996, p. 90.

The fact that one *can* keep handwritten accounts should be reassuring. It shows how simple the task is. There is no math beyond addition and subtraction. (The bank handles the interest calculation and provides the results in the monthly statement; you need only add or subtract that amount in your books. Indeed, many banks will pay the interest over to the IOLTA program in the same month as it accrues, so you need not even track its fluctuations.)

But using a program dedicated to accounting has advantages. In particular, a program can take care of the “double” in “double-entry bookkeeping,” avoiding transcription mistakes. (Your specification of the source and destination accounts tells the program where to make the two entries.) If you make all the check register entries properly, the program will take care of the subsidiary ledgers and trial balance, while making the three-way reconciliation and the required monthly print-outs a snap.

### *General Background and Good Practices*

As a lawyer, you will want to read Rule 1.15 and Appendix 1 for their exact language. The following comments are included just to make clear the mind-set behind this guide. Whenever they conflict with the Rule or Appendix 1, the Rule and Appendix 1 always control.

1. Every penny in the bank account must be identified as belonging to (1) a specific client (indeed, a specific matter), (2) your firm, or (3) the IOLTA program. There can never be any unallocated money “loose” in the account.
2. One can spend only one’s own money. You can’t “cover” a negative balance for one client with anyone else’s money. Appendix 1 § I.3.a and § I.4 prohibit negative balances not just overall, but in *any* client matter or subsidiary ledger.

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<sup>1</sup> It’s called *Other People’s Money: Operating Lawyer Trust Accounts*. The most recent version is dated September 2015.

3. Keep it simple. QB lets you have multiple companies at no extra cost. The “separate company” approach, one for trust accounts and one for business accounts, keeps things simple. Such segregation can also increase security.
4. Proper books result from consistently following a simple method and knowing why it works, not from any programmed “magic.”
5. Make it a habit to check for possible mistakes and be sure that all reports show exactly what you would expect them to. Check early and often. It’s easier to correct one or two recent transactions than to go back over many.
6. Your trust accounts are for other people’s money, not yours. Respect the \$200 limit on how much of your money can ever be in a trust account. Never use a trust account to pay operating or personal expenses.

## Overview of the Accounting Plan

The table that follows shows how the QB accounts should be set up; essentially the same as for a paper and pen system. On the left are asset accounts, one for each real-world bank account. On the right are liability accounts, one for each client matter, and one for a small amount of your own funds and for any interest earned but not immediately paid over to the IOLTA program. Three potential bank accounts are shown, to correspond to the three Rule 1.15 types: (e), (f)(1), and (f)(2).

Asset Accounts	Liability Accounts (and sub-accounts)
Trust Account: IOLTA (1.15(e))	IOLTA trust liability (1.15(e)) Apple trust liability Baker trust liability Charlie matter 1 trust liability Charlie matter 2 trust liability Firm's Funds (limited) Interest (if any; if bal. may vary monthly)
Trust Account: non-IOLTA pooled (1.15(f)(2))	Non-IOLTA trust liability pooled (1.15(f)(2)) Xu trust liability Yu trust liability
Trust Account: non-IOLTA 1-client (1.15(f)(1))	Non-IOLTA trust liability Žert (1.15(f)(1))

The asset and liability sides, left and right, must balance, and each real-world bank account must balance with the total of the associated liability accounts. Every deposit to a bank trust account must be matched by an increase in one of the trust liability accounts, and every disbursement matched with a reduction in a liability subaccount. Of course, the right liability subaccount must always be used: one can’t rob Peter to pay for Paul. There must never be any amount not assigned to a specific client’s or matter’s liability subaccounts, i.e., there must not be any “loose” money.

With just this much explanation, you could probably figure out how to use any general-purpose accounting program with reasonable features for your trust accounts yourself, or even do your accounting with paper and ink or in a spreadsheet program. But it would take some trial and error to verify that things were working as you intended they should. This guide will walk you through the steps, so you can avoid that trial-and-error. In particular, it will walk you through the initial setup of your trust account books and a month of typical operations, including reconciling and printing out the records required by Minnesota's rules. This guide's method is not the only way one could use the program and comply with the rules, but it works, is simple and consistent, and minimizes the opportunities for errors.

### Options for Handling Your Firm's Funds and Interest In and Out

MRPC 1.15(a)(1) lets you keep a small amount of your own money in the same bank account as the client funds, "reasonably sufficient" to cover expectable bank charges. But "reasonably sufficient" is never over \$200. "The amount of an attorney's own funds in a trust account shall not exceed \$200." App. 1, § I.3(b). The purpose is to ensure that bank charges always come out of your money, never your clients'; the purpose is not to cover mistakes. Basically, mistakes (if made) must be visible, measurable, and easily fixed.

Some banks handle IOLTA interest in such a way as to never affect the balance in the trust account. Specifically, they never reflect the deposit of accrued interest in the account, without also showing a payout in an identical, offsetting, amount. But as the LPRB notes in its *Other People's Money: Operating Lawyer Trust Accounts* guide (Sept. 2015), ("OPM") "[e]ven where interest is credited and debited within the same month, banks occasionally make errors in crediting and debiting IOLTA interest." The MSBA agrees with the LPRB that "[m]aintaining a separate ledger for ... interest transactions facilitates detection of these errors." *Id.* So, you should know how to account for interest in its own separate ledger yourself. App. 1, § I.3.b.

### Preparation for Initial Set-up

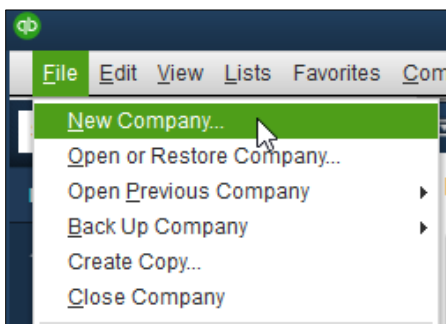
Before you begin, you need to know the exact balance in all existing accounts your company holds in trust. In principle, you could determine these at any time, and use any initial date to switch your accounting to QB. But the most recent amendments from 2015 require reconciliation "as of the date of the monthly bank statement," whereas previously it was required "at the end of each month." So, it will be easiest if you determine your initial balances as of the date of your most recent bank statement.

When setting up QuickBooks, enter initial balance amounts as if any outstanding checks from an existing bank trust account have not been written. *After* those initial entries have been entered, record the outstanding items. Doing so will make your reconciliation with the next month's statement easier when the check clears — and will ensure that the outstanding obligation is properly reflected in QB if it happens still not to have been presented by then.

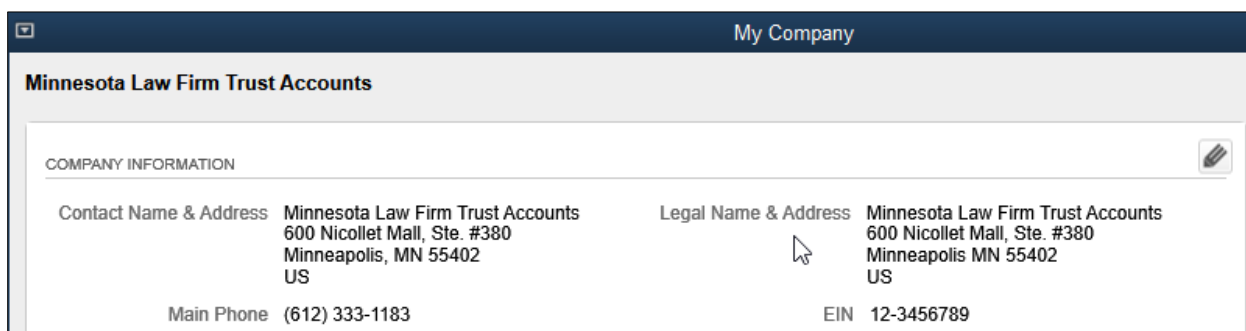


## Setting Up a “Company” for Your Trust Accounts

The first thing to do in QB is to set up a “company” for the trust accounts. You can do this either during installation or afterwards, using the **File > New Company** command.



Using a separate “company” for the trust accounts (separate from your operating accounts, those you are required to keep by Rule 1.15(h)<sup>2</sup>) will keep things simple. One company satisfies the requirement as to your operating accounts; the other company satisfies the requirement as to trust accounts. We recommend including “trust accounts” in the name of the “company” used for the trust accounts as shown in the example below that shows “Minnesota Law Firm Trust Accounts” as the name of the “company.”



Doing so can help satisfy Appendix 1’s requirement that your records include “[a]n identification of all trust accounts maintained, including the name of the bank or other financial institution, account number, [and] account name.” App. 1, ¶I.1. When we set up the trust accounts, we will include such bank details for each account, storing it in QB.

To be clear, nothing in the rules requires using the word “trust account” *here* in the name of the company in QB. Rule 1.15(o) defines a “[t]rust account” as an account *denominated as such* and refers to the account name *at the bank*, not in QB, and relates to the requirement in Rule 1.15(a) that trust accounts be “identifiable.” The LPRB notes that “[i]t is important that the name of the account indicate that it is held in trust for the client,

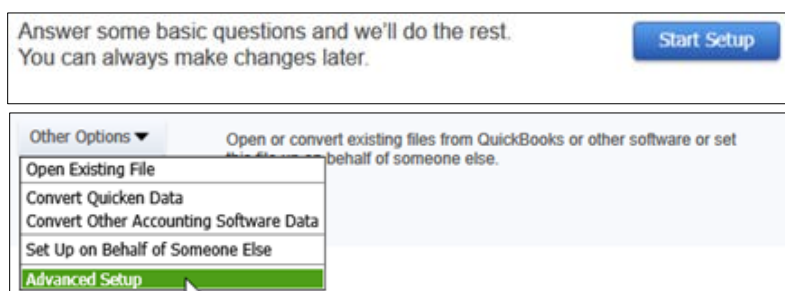
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<sup>2</sup> “Every lawyer engaged in private practice of law shall maintain or cause to be maintained on a current basis, books and records sufficient to demonstrate income derived from, and expenses related to, the lawyer’s private practice of law ....” MRPC 1.15(h). Cf. App. 1, II (“An attorney or law firm must maintain at least one bank account, other than the trust account, for funds and property received and disbursed outside the attorney’s fiduciary capacity.”)

to give notice to the world, e.g., creditors, that the funds are being held in a fiduciary capacity.” OPM p. 19. Our suggestion about account titles in QB is practical but not a requirement.

In the process of setting up a company in QB, you will create an account with Intuit, with a password and even challenge questions. As the database for QB is encrypted, mere access to the hard drive itself will not allow automatic use of QB or the ability to see the information stored in it.

The program offers two ways to create a new company. One way goes through an interview via the “Start Setup” button shown in blue below; the other way through the option for “Advanced Setup” shown in green in the drop-down “Other Options” menu’]; below.



Either way works. We’ll go through both, but we suggest using the “Advanced Setup” option. That’s because it lets you tell QB that the company has no employees. With that choice (and some others: services only, no sales tax, no estimates, no billing statements, no invoices, no bill tracking, and no time tracking), you can begin creating your chart of accounts with a blank chart of accounts, or a minimal set. Keeping it minimal avoids clutter, and let you see what’s important.

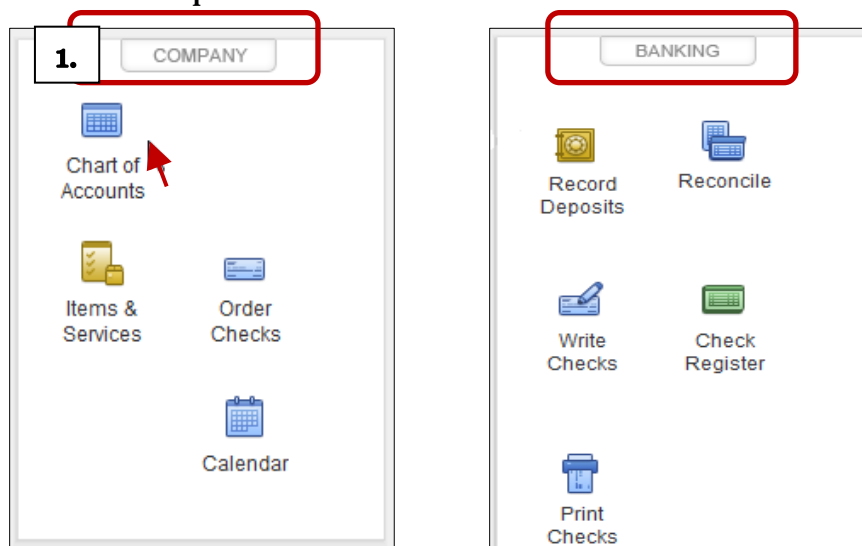
### Setup Option 1: the “blue button” route

Press “Start Setup” and you will see the next screen that asks only a few questions.

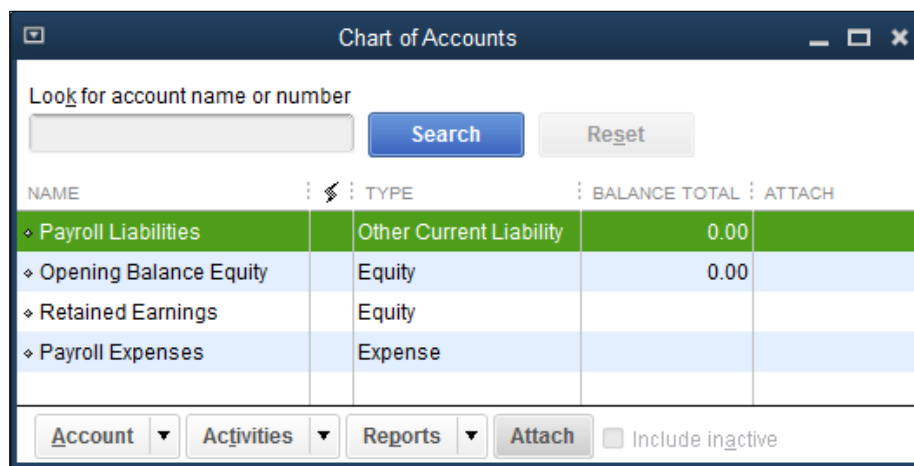
This guide chose “Other/None” for the \*Industry and \*Business Type. That’s because nothing in this guide depends on any particular “magic” programmed into any “special” kinds of software-specific accounts, as might be done in a practice-management

program and choosing other types will create additional accounts in the chart of accounts, requiring additional work to delete or hide them

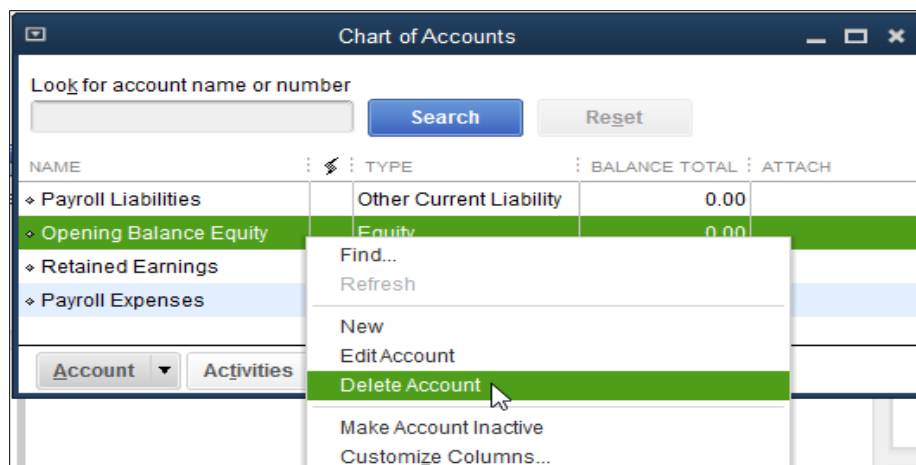
Once you've created a company, the "home" screen in QB is a large diagram with areas for vendors, customers, employees, the company, and banking. In a "company" dedicated only to a law firm's trust accounting, you need only use the "COMPANY" and "BANKING" areas of the map.



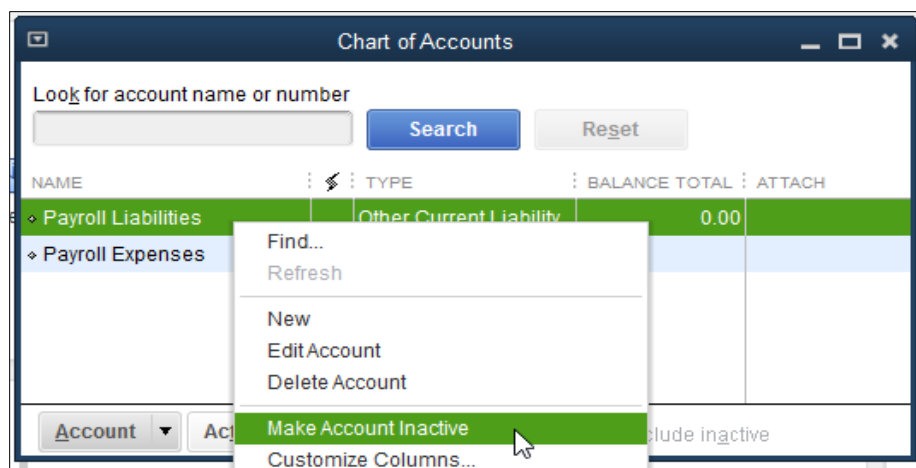
The first place to go after creating the "company" for your trust accounts is the "Chart of Accounts." Here you want to delete or hide extraneous accounts automatically created by QB in the initial company setup.



To delete an account, right-click on the line and choose "Delete Account."



You cannot delete the “Payroll Liabilities” and “Payroll Expenses” accounts. You can, however, hide them, by making them ‘inactive’. Right-click on a line to highlight or select it, then click “Make Account Inactive.”



### Setup Option 2: the “Advanced Setup” route

Using the previously mentioned “Advanced Setup” option avoids creating those ‘payroll’ accounts if you choose the “no employees” option. A default set is created with several other default accounts as shown below, but one need only uncheck each line to end up with a nearly empty (just four lines) chart of accounts.

**EasyStep Interview**

**Review income and expense accounts**

Income and expense accounts categorize money your business earns from, or spends on, normal business operations.

✓ **Recommended accounts** for your industry are typically **all you need** for income tax purposes. [Explain](#)

ACCOUNT NAME	TYPE
✓ Sales	Income
Sales Discounts	Income
Merchant Account Fees	Cost of Goods Sold
Subcontracted Services	Cost of Goods Sold
✓ Advertising and Promotion	Expense
✓ Automobile Expense	Expense
✓ Bank Service Charges	Expense
Business Licenses and Permits	Expense
Charitable Contributions	Expense

[Restore Recommendations](#)

**Note:** You can modify your chart of accounts anytime after completing this interview.

Going through the “Advanced Setup” screens, choose: services only, no sales tax, no estimates, no billing statements, no invoices, no bill tracking, no time tracking, and NO EMPLOYEES; and a fiscal year start date of January 1. When done, you will end up with just four lines in the chart of accounts. You can right-click on each and delete it, to start clean.

**Chart of Accounts**

Look for account name or number

[Search](#) [Reset](#)

NAME	TYPE	BALANCE TOTAL	ATTACH

[Account](#) [Activities](#) [Reports](#) [Attach](#) ☐ Include inactive

## Setting Up the Chart of Accounts

Now it's time to create the QB accounts needed for your trust account. To keep it simple, set up the accounts in QB with zero balances to begin with.

Here is part of the outline that we showed earlier, but just for the IOLTA bank account (Asset Account) and fictional clients (Liability Accounts).

Asset Accounts	Liability Accounts
Trust Account: IOLTA at Bank 1 (1.15(e))	Apple trust liability Baker trust liability Charlie matter 1 trust liability Charlie matter 2 trust liability Firm's Funds (limited) Interest (if any; if bal. may vary monthly)

You might have more than one IOLTA, or other bank accounts holding client money in trust. If so, there should be a **one-to-one correspondence** between the QB account(s) listed *on the left-hand (asset) side* in the table, and the real-world bank account(s). This is because “books and records must be *separately* maintained for *each* individual<sup>3</sup> trust account,” App. 1, I (emphasis added), with “trust account” defined as a bank account.

So, the first steps will be:

1. Create an asset account for each real-world bank account in which you hold clients' money in trust.<sup>4</sup> At this stage, it will have a zero balance.
2. For every client (and matter, if some clients have more than one), create a separate liability account. Repeat for the firm's funds and interest in the IOLTA. Again, create these with zero balances.

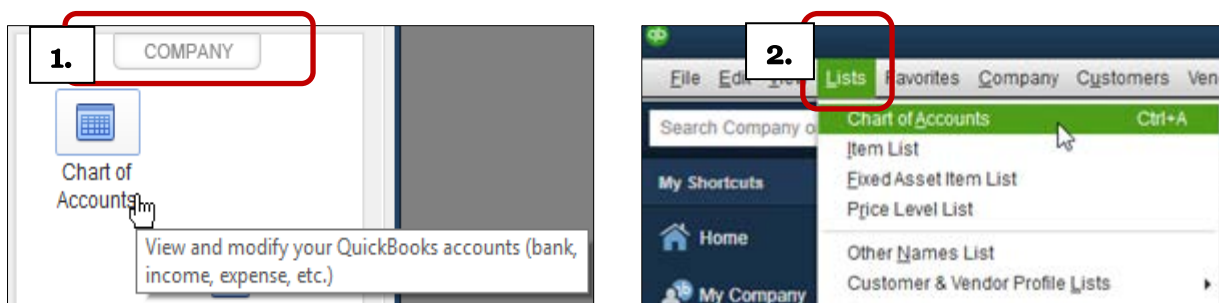
Only *after* these accounts are created, with zero balances, will we enter any numbers to reflect the beginning balance amounts in each account as of an appropriate date.

### Creating an asset-side account (one per bank account)

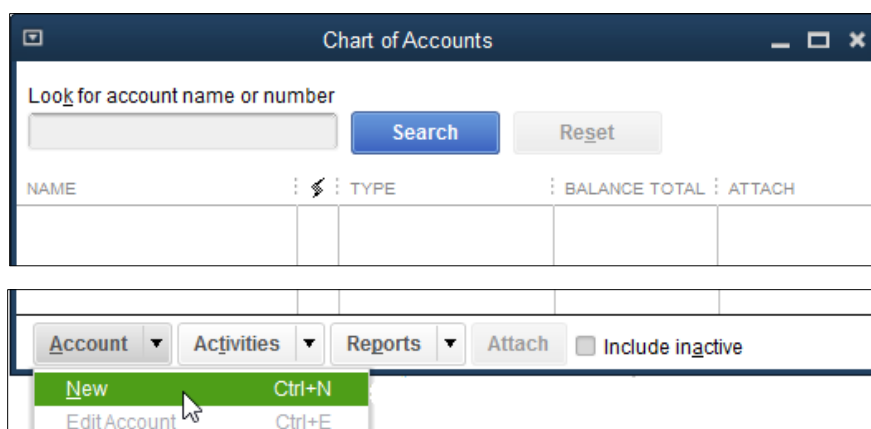
Open the Chart of Accounts. (Either click the icon in the “Company” box of the home screen, or go to the top menu, and under “Lists” choose “Chart of Accounts.”)

<sup>3</sup> The phrasing “each individual” at the end of App. 1, I's first paragraph could support an argument that the separate maintenance requirement is only for [MRPC Rule or Rule] 1.15(f)(1) type trust accounts as mentioned in the second sentence of App. 1, I. (whether an account is pooled or “individual”) — but it is far safer to read “each individual” as pleonastic, than to treat it as limiting the scope of the requirement.

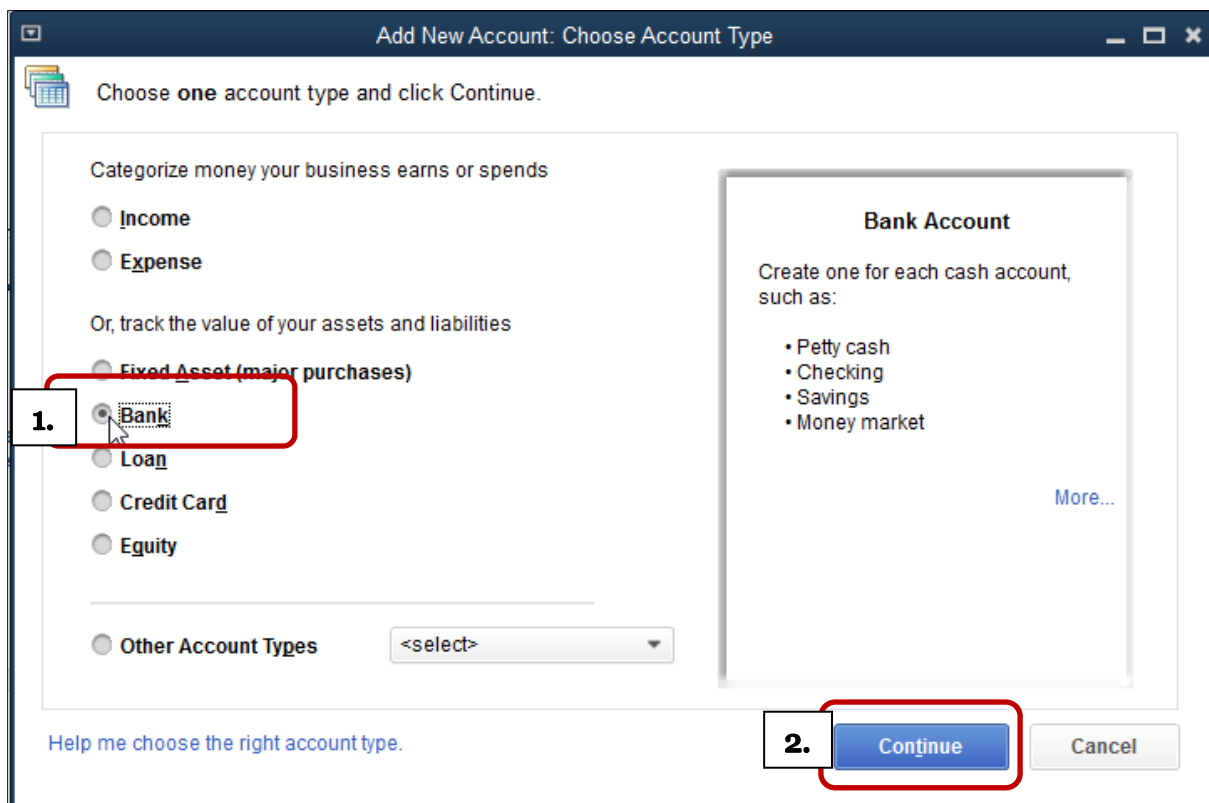
<sup>4</sup> In the MSBA's last guide to the desktop version, *QuickBooks 2010 Professional*, the MSBA suggested creating “umbrella” accounts. Doing so did and would still work, but the method here is simpler, and still provides for separate reporting (check registers, trial balances, and reconciliations) on each real-world bank account where money is held in trust, and separate reporting (subsidiary ledgers) for each client and matter.



Either way brings you to the same place for managing the Chart of Accounts. There, as shown below, click the drop-down bar labelled “Account,” and choose “New.”



In the next window, choose “Bank” and then click “Continue.”



In the next window that appears, shown below, enter the requested information. Note that there is a 31-character limit on the name for the account, but that the “description” space is less limited. We suggest using the “description” block to include as much of the following information as possible: “the name of the bank or other financial institution, account number, account name, date account opened ... [and what type of account, with reference to Rules 1.15(e), (f)(1), and (f)(2)].” App. 1, I.1. Note that the name of the account at the bank indicates that it is a trust account. This is important to give the world (especially anyone who might try to collect on an alleged debt) notice of the funds’ nature. Do NOT enter any opening balance at this time. It will be much easier to enter numbers once all of the liability-side accounts for this trust account are created.

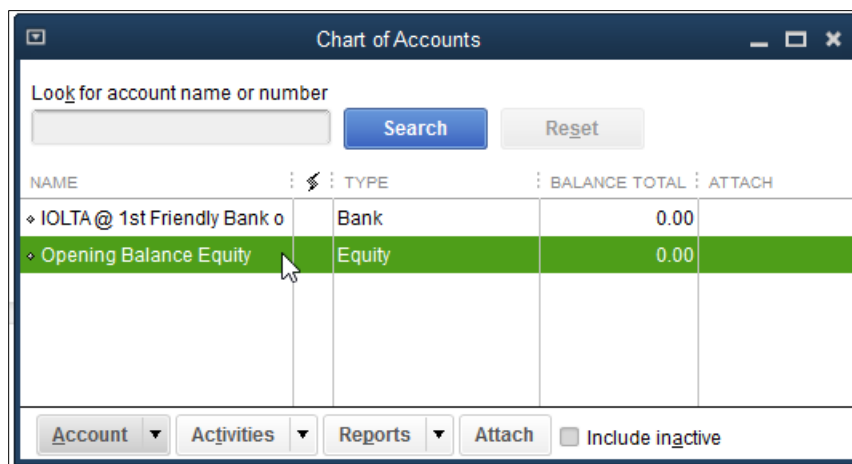
When done entering the information for the IOLTA bank account, click “Save & Close.” When you do, QB will offer to set up a bank feed. We suggest answering “No.” You can set up online services such as statement downloads later, if your bank offers them and you wish to use any. Having them can be useful when reconciling the bank statements for the trust account with your own records of activity in it, as you must do every month. But until you have had some practice and experience with QB, we think it better to take things one step at a time. For now, simply continue creating the accounts, all with zero balances.

If you have other bank accounts holding client moneys in trust, create those in this same way. Every bank account needs its own separate identified asset account in QB.

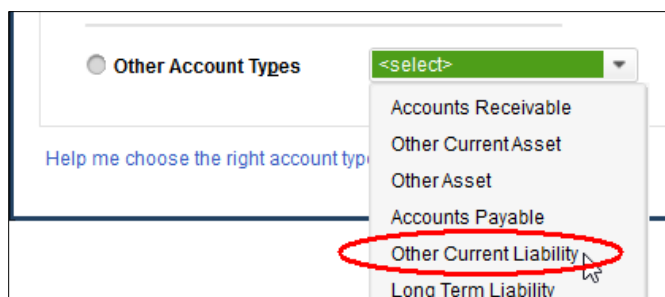


### Creating liability-side accounts

Again, open the Chart of Accounts management window. You will see the account you just created, and the new corresponding “equity” account QB created automatically. Having the “equity” account in the Chart of Accounts will do no harm, but you can delete it or make it “inactive” to hide it.



As before, expand the drop-down menu under the “Account” button, and click “New.” This time, none of the account types with radio buttons is suitable. Instead, you will need to use one of the “Other Account Types” — specifically, “Other Current Liability.”



Then click the blue “Continue” button. The resulting window for entering information about the account appears in the next illustration. We suggest:

- naming the account to include the words “trust liability,” and an abbreviated version of the client’s name
- adding the client’s full name and a brief description of the matter in the “Description” box.

Doing so helps ensure that all records for deposits show “the identity of the client(s) for whom the funds were deposited,” and all records for checks show “the identity of the client for whom the check was issued.” App. 1, I.2. Entering the name here also ensures clear identification of reports such as the “subsidiary ledger for each client matter.” App. 1, I.3.

Account Type: Other Current Liability

Account Name: Apple Trust Liability

Subaccount of: [Empty]

OPTIONAL

Description: Annie Apple conversion and invasion of privacy vs. Marberry Hotel

Account No.: [Empty]

Routing Number: [Empty]

Enter Opening Balance... Should I enter an opening balance?

As before, do NOT enter an opening balance here. When done, click the blue “Save & Close” button. If you now open the Chart of Accounts, you will see the accounts created so far, all with zero balances.

NAME	TYPE	BALANCE	TOTAL	ATTACH
IOLTA @ 1st Friendly Bank o	Bank	0.00		
Apple Trust Liability	Other Current Liability	0.00		
Opening Balance Equity	Equity	0.00		

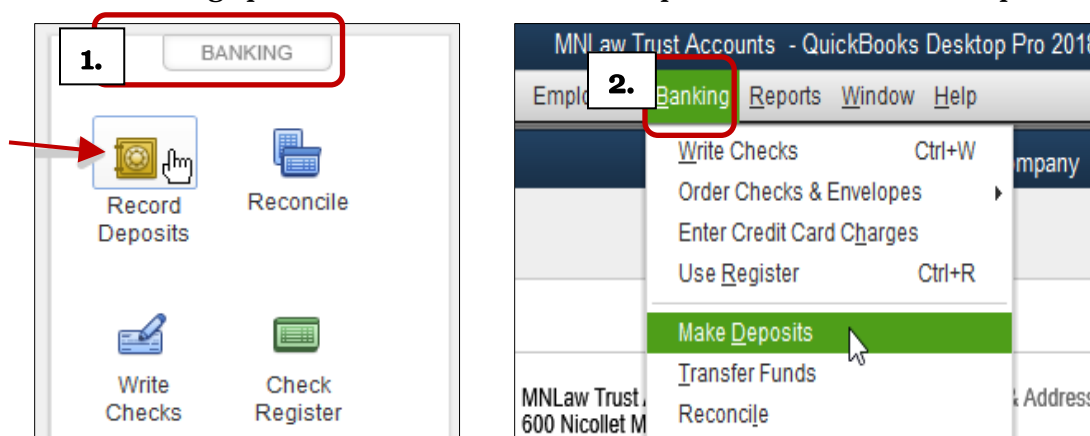
Create an “Other Current Liability” account for every client who has money in the IOLTA bank account, keeping all balances zero. Likewise, create an “Other Current Liability” account for the small amount of the firm’s funds that you can deposit to cover bank charges or fees (if any), so that those never come out of any client’s money. Finally, create an “Other Current Liability” account for interest, if your bank does not always pay that to the IOLTA program as soon as earned. The next illustration shows this guide’s Chart of Accounts after adding liability accounts for two more clients (one with two matters), the firm’s funds, and interest. All balances remain zero.

NAME	TYPE	BALANCE	TOTAL	ATTACH
IOLTA @ 1st Friendly Bank o	Bank	0.00		
Apple Trust Liability	Other Current Liability	0.00		
Baker Trust Liability	Other Current Liability	0.00		
Constantine trust liab. #1	Other Current Liability	0.00		
Constantine trust liab. #2	Other Current Liability	0.00		
Firm's Funds	Other Current Liability	0.00		
Interest	Other Current Liability	0.00		
Opening Balance Equity	Equity	0.00		

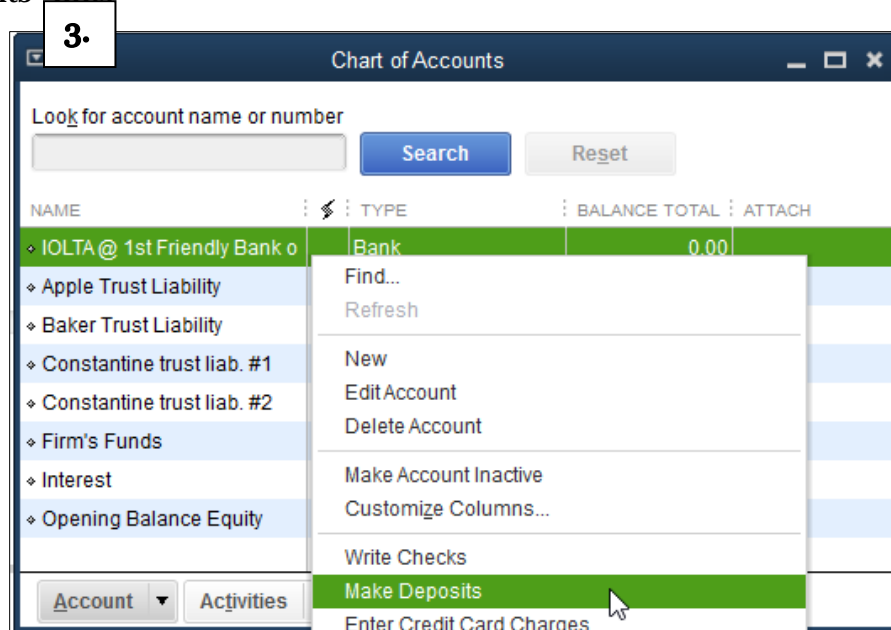
## Entering Initial Balances

Now that setup of the accounts with zero balances is done, you are ready to enter the actual amounts being held in the bank trust account. Let's assume initial trust account balances to carry forward for Apple, Baker, and Constantine (who has two matters) of \$800, \$2,000, \$3,000, and \$200 respectively. We separate the matters because of the requirement in App. 1, I.3, that you maintain a "subsidiary ledger *for each client matter*" and not just for each client. (Emphasis added.) Cf. App. 1, I.4, requiring a "trial balance ... show[ing] each client *matter* [and] the balance of funds [for] each client *matter*." (Emphasis added.)

There are at least three different ways to get to a 'make deposits' window. One is to use the "Record Deposits" icon on the "home page" chart, in the "BANKING" area. Another is to use the "Banking" part of the menu bar at the top, and choose "Make Deposits."

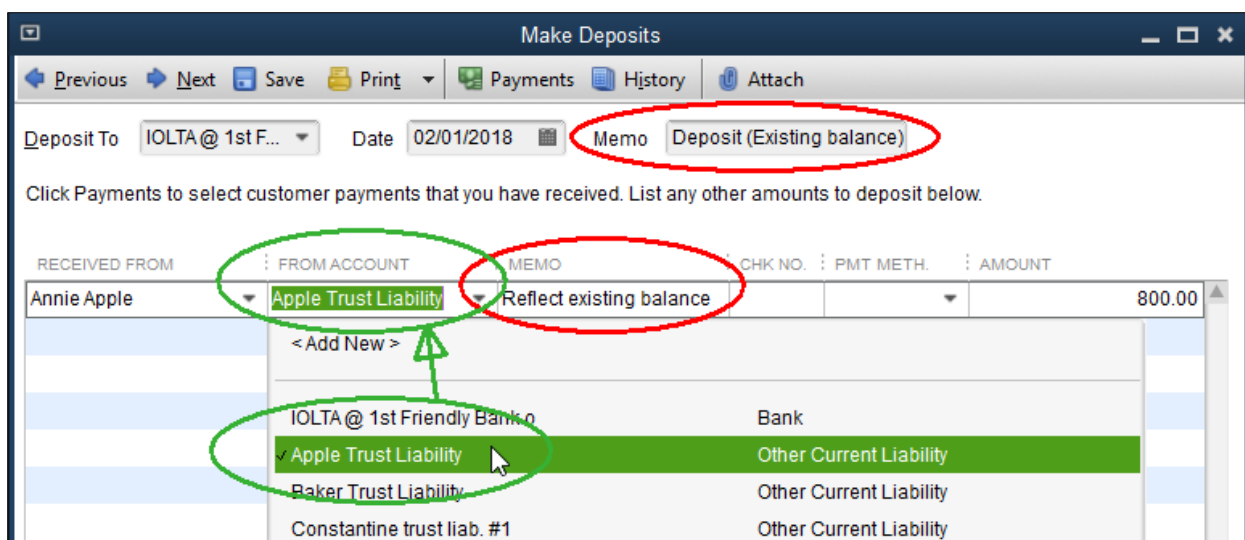


A third way is to right-click on the bank account in the Chart of Accounts and choose the "Make Deposits" line.

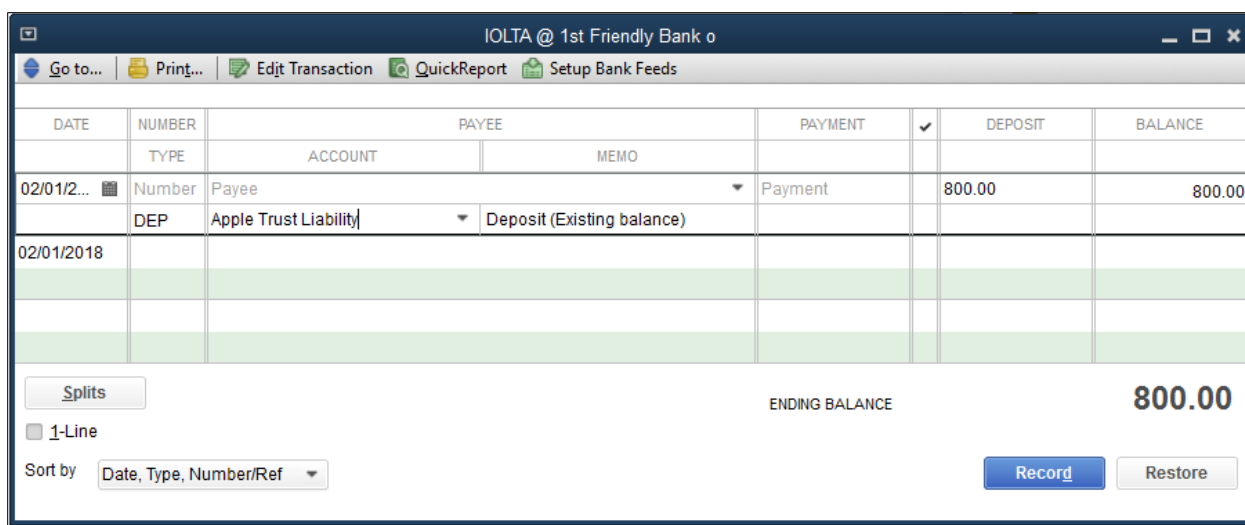


All three ways bring you to the window shown partially below. Note first that its “Deposit To” window is designed as a drop-down, where you can choose any bank account you have recorded to which you might make a deposit. So far, we have only created the IOLTA bank account. Note also that it has two different fields, both labeled “Memo.” Recall that every “deposit entry must include the date of the deposit, the amount, the identity of the client ... *and the purpose* of the deposit.” (Emphasis added.) Use the “Memo” fields to record the purpose. Use both of them: QB puts the contents of one into some reports, and the contents of the other into other reports.

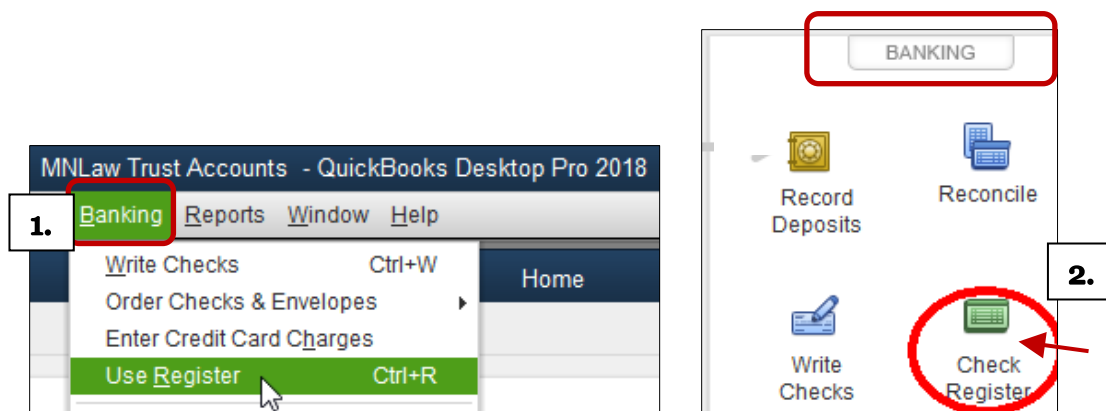
Be sure you have selected the right account in the “Deposit To” window, in this case, your pooled IOLTA. Use the calendar icon to select the date. Ideally, you would use the date of your most recent bank statement for the IOLTA trust account. For this guide, we will assume your statement is dated the first of the month, so we will change the date shown above to be ‘02/01/18’. In the “RECEIVED FROM” box in the area that is horizontally striped alternately white and light blue, like accountants’ paper, type the client’s name — in our example here, Annie Apple, and the amount of the “deposit.” As no actual new ‘deposit’ is being made, rather entry of the initial balance that you are entering, use the “Memo” fields to reflect that “carry-forward” or “existing balance” *purpose* for the entry. Finally — *and this is the key to the entire system* — be sure to choose the “Other Current Liability” account for Ms. Apple as the “FROM ACCOUNT.” In the picture below, the two red ovals call attention to the two “Memo” fields. We have made the text slightly different in this guide so that it will be apparent later in reports which field was used. The two green ovals call attention to the key point just made: that *all transactions into or out of the trust account must always be associated with the appropriate client’s (or matter’s, if a client has multiple) liability sub-account*. When done, click the blue “Save & Close” button (not shown in the next illustration).



The effect in the “Check Register” is shown below.



The “Check Register” can be pulled up at any time by using the menu path shown in the following illustration, or the keyboard shortcut noted, or by clicking the “Check Register” icon in the “BANKING” area of the home dashboard.



You can also verify the deposit by looking at the “General Ledger.” You can view that by going to the top menu line in QB and clicking on the word “Reports” that expands a drop-down list, which includes an “Accountant & Taxes” line, which in turn expands to show several stock reports, one of which is a “general ledger.” That stock report appears below.

General Ledger

Customize Report Comment on Report Share Template Memorize Print E-mail Excel Hide Header Refresh

Dates: This Month-to-date From 02/01/2018 To 02/23/2018 Sort By Default

Report Basis: ☐ Accrual ☒ Cash Show Filters

5:33 PM  
02/23/18  
Cash Basis

**MNLaw Trust Accounts**  
**General Ledger**  
As of February 23, 2018

Type	Date	Num	Name	Memo	Split	Original Amount	Paid Amount	Balance
<b>IOLTA @ 1st Friendly Bank o</b>								0.00
Deposit	02/01/2018			Deposit (Exi...	Apple Trust L...	800.00	800.00	800.00
<b>Total IOLTA @ 1st Friendly Bank o</b>							800.00	800.00
<b>Apple Trust Liability</b>								0.00
Deposit	02/01/2018		Annie Apple	Reflect exis...	IOLTA @ 1st...	-800.00	-800.00	-800.00
<b>Total Apple Trust Liability</b>							-800.00	-800.00
<b>TOTAL</b>							0.00	0.00

Enter the initial amounts being held for each other client and matter in the IOLTA the same way, and also the initial amounts of the firm’s funds and any amount for interest (if there is an amount not paid over to the IOLTA program by the bank as of the date for your initial balances). “The same way” includes, in particular, (1) making sure to use the appropriate client-and-matter-specific *trust liability account* as the “From” account for the “deposit” of the initial balance; and (2) making sure to use the “Memo” fields to identify the purpose of your entry as stating, reflecting, or carrying forward the existing amount you are holding in the account for that client as of the date you begin keeping the records in QB. Then enter the actual balance in your bank trust account as of the record-keeping beginning date for your (your firm’s) funds and for interest.

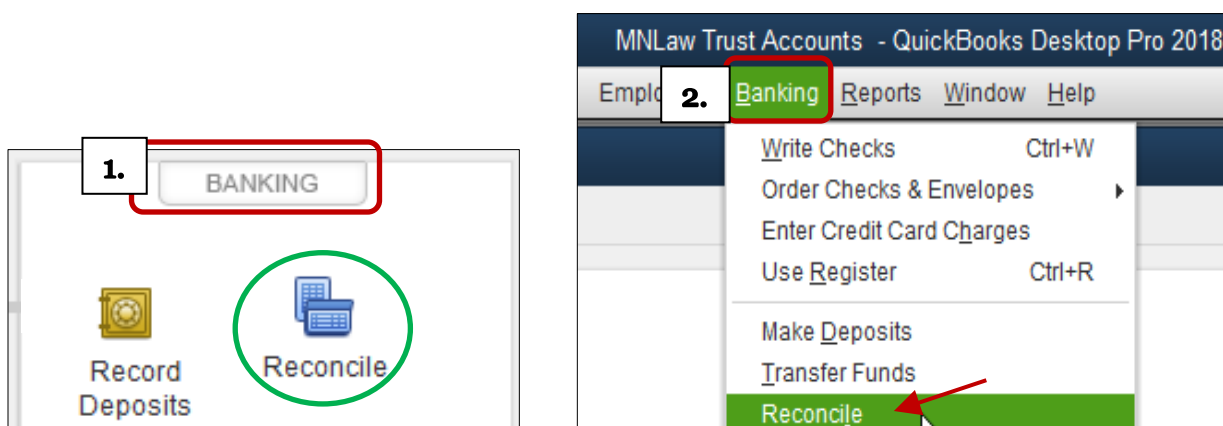
The result appears in the built-in “Trial Balance” report as shown in the next illustration. Note that the totals on the asset and liability sides (debit and credit) match as they always should, and there is no amount showing not connected with a specific named account.

MNLaw Trust Accounts Trial Balance		
	Debit	Credit
IOLTA @ 1st Friendly Bank o	6,089.89	
Apple Trust Liability		800.00
Baker Trust Liability		2,000.00
Constantine trust liab. #1		3,000.00
Constantine trust liab. #2		200.00
Firm's Funds		85.00
Interest		4.89
<b>TOTAL</b>	<b>6,089.89</b>	<b>6,089.89</b>

## Reconciling the Initial Balance

Recall that the 2015 amendments to Appendix 1 require that your trial balances show the amounts “held on behalf of each client matter as of the date of the monthly bank statement.” That — and making initial balance entry as simple as possible — is why we recommend that you enter your clients’ matters’ initial balances as of that date, which we’ve assumed to be the 1st, but could be any day of the month.

You can reach the reconciliation windows either of at least two ways. One is via the icon in the “BANKING” area on the home page. Another is through the top menu’s “Banking” drop-down list, choosing “Reconcile.”



Either route takes you to the same place, shown in the next illustration. The “Ending Balance” box is blank when the window opens. Both it and the “Statement Date” need to be changed to match your bank statement’s date. The “Begin Reconciliation” window also includes boxes for ‘service charges’ and for ‘interest earned’ (not shown below).

1. One reason is that for this initial reconciliation there will have been no such amounts since we have already entered initial balances directly.

2. More importantly, we recommend you rely strictly on the liability accounts for firm's funds and interest – enter the amounts either as they occur (if known to you, e.g., for some service charge you know you've incurred) or from the statement after you view it and before you do the reconciliation in QB.

Below, we have changed the date as required to match our assumed February 1 statement date, and have entered the balance, \$6,089.89.

Leave the service charge and interest boxes untouched. Click the blue “Continue” button, which will take you to the following window.

DATE	CHK #	PAYEE	AMOUNT

DATE	C...	MEMO	T...	AMOUNT
02/01/2018	DEP	Deposit (Existing balan...	800.00	800.00
02/01/2018	DEP	Creating Initial Balance	2,000.00	2,000.00
02/01/2018	DEP	existing balance	3,000.00	3,000.00
02/01/2018	DEP	record balance brought...	200.00	200.00
02/01/2018	DEP	Existing bal. carry-fwd	85.00	85.00

Beginning Balance	0.00
Items you have marked cleared	
0 Deposits and Other Credits	0.00
0 Checks and Payments	0.00

Service Charge	0.00
Interest Earned	0.00
Ending Balance	6,089.89
Cleared Balance	0.00
Difference	6,089.89



Click in the column under the checkmark icon to mark a line as being correct, “clearing” it. As you check off lines that are correct, the “cleared balance” amount will increase and the “difference” amount will decrease, as shown below.

✓	DATE	C...	MEMO	T...	AMOUNT
✓	02/01/2018		Deposit (Existing balance)	DEP	800.00
✓	02/01/2018		Creating Initial Balance	DEP	2,000.00
✓	02/01/2018		existing balance	DEP	3,000.00
	02/01/2018		record balance brought...	DEP	200.00
	02/01/2018		Existing bal. carry-fwd	DEP	85.00

Go To Columns to Display...

Modify

Service Charge	0.00
Interest Earned	0.00
Ending Balance	6,089.89
Cleared Balance	5,800.00
Difference	289.89

Reconcile Now Leave

When you have cleared all items, the “Difference” should be zero. If it is not, as in our illustration above, you have not transferred in all balances as of the date of the bank statement correctly, so you need to find the mistake and correct it. QB lets you edit transactions and keeps an audit trail of the edits.

Depending on the nature of the mistake, you can either edit an existing line by double-clicking on it, or you can use the “Leave” button (beside the blue “Reconcile Now” button) to suspend your reconciliation — say, because you didn’t enter the amount being held for some other client. But once the “Difference” is zero, click the blue “Reconcile Now” button, and you will see the following screen with options to Display or Print reports.

Select Reconciliation Report

Congratulations! Your account is balanced. All marked items have been cleared in the account register.

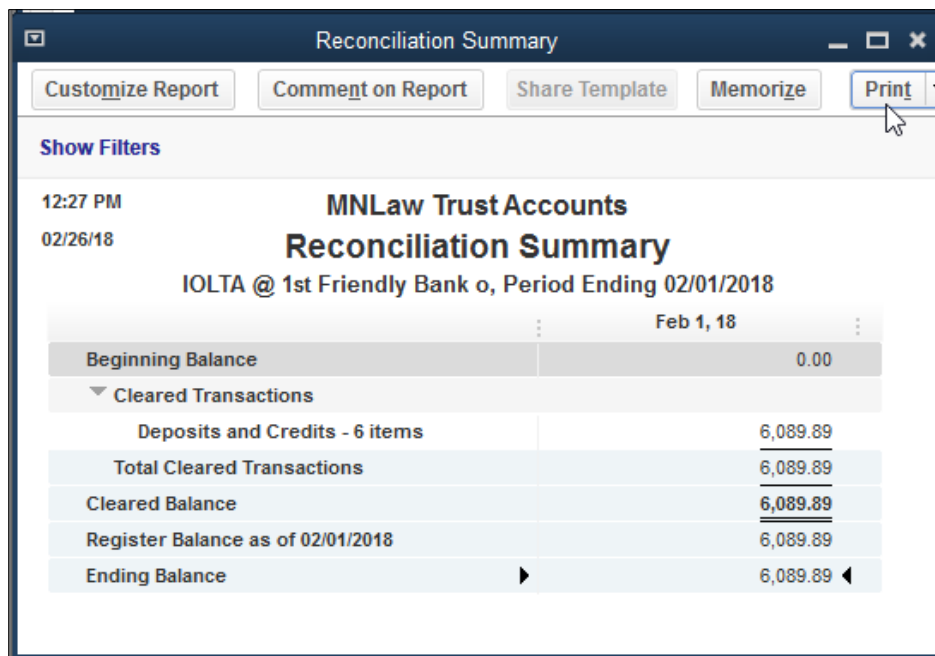
Select the type of reconciliation report you'd like to see.

☐ Summary  
☐ Detail  
☒ Both

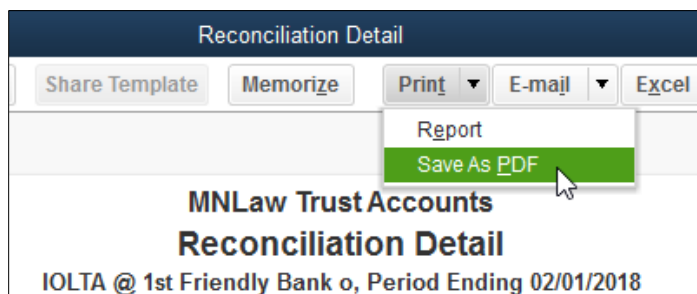
To view this report at a later time, select the Report menu, display Banking and then Previous Reconciliation.

Display Print... Close

The Reconciliation Summary report is simple and satisfies the record-keeping requirement.



Use the “Print” button to satisfy the requirement that you keep a printed copy of every month’s reconciliation report. App. 1, I.7. It need not be on paper but can be a PDF. Conveniently, QB builds in a “Save As PDF” function.



## Normal Running: Entering Transactions

### Adding a new client

A new client, David Dude, comes in on February 5, and (after you’ve made conflict checks and agreed to represent him) gives you a retainer of \$1,250. You could record this using the same way as you did for existing clients: 1) create a liability account with a zero balance, then after it is created, 2) record the actual amount of the deposit. But there is another way, too.

In the “Make Deposits” screen, you can use the “<Add New>” button to create the new liability account that is needed. (The method used in this guide relies on there *always* being a liability account for every client or matter.)

In the “Add New Account: Choose Account Type” screen that will then appear (shown below without its title bar), do as before: choose “Other Account Types” and in particular, under the “<select>” drop-down list, choose “Other Current Liability” as shown below, and then “Continue.”

In the “Add New Account” screen (shown only in part above), enter just as before an account name (including the client’s name and the words “trust liability”) and a description fully identifying the client and matter, then “Save and close.” QB will return you to the “Make Deposits” window, this time with the newly created account for the new client, so you can finish by entering text describing the purpose of the deposit in the memo field, and the amount, before clicking the blue “Save & Close” button (not shown).

You can verify the creation of the new account by looking at the Chart of Accounts.

NAME	TYPE	BALANCE TOTAL	ATTACH
◊ IOLTA@ 1st Friendly Bank o	Bank	7,339.89	
◊ Apple Trust Liability	Other Current Liability	800.00	
◊ Baker Trust Liability	Other Current Liability	2,000.00	
◊ Constantine trust liab. #1	Other Current Liability	3,000.00	
◊ Constantine trust liab. #2	Other Current Liability	200.00	
◊ Dude trust liability	Other Current Liability	1,250.00	
◊ Firm's Funds	Other Current Liability	85.00	
◊ Interest	Other Current Liability	4.89	

### Receiving money for a client

On February 8, you receive an \$18,000 settlement or payment of an award in Apple's matter and deposit it in the IOLTA trust account. Open the "Make Deposits" screen by any of the means previously noted. Be sure you have selected the IOLTA bank account (i.e., not any Rule 1.15(f) non-IOLTAs for which you might also have records) in the "Deposit To" window. Make appropriate "Memo" entries in both fields, so that the purpose will be reflected regardless what report you view or print.

RECEIVED FROM	FROM ACCOUNT	MEMO	CHK NO.	PMT METH.	AMOUNT
Marberry Hotel	Apple Trust Liability	full payment on claims			18,000.00

For the "FROM ACCOUNT," use the Apple Trust Liability account. The "FROM ACCOUNT" does not mean on what bank account the check was drawn: it refers to the QB-internal liability account for the client involved. This is the key to this guide's method: all money into or out of the trust account is always referenced to a QB-internal liability account for the appropriate client and matter (or for the firm's funds or interest).

Note in the illustration above, the payment method ("PMT METH." column) has been left blank; no choice was made as to cash, check, or e-check. You could make an entry

if desired, and also add the check number (“CHK NO.” column). It is good practice to do so. But Minnesota’s rules only require that you enter “the date of the deposit, the amount, the identity of the client(s) for whom the funds were deposited, and the purpose of the deposit.” App 1, I.2.a. When you have made all the entries you want, click the “Save & Close” button (not shown).

The transaction’s effect on the balance is immediately visible in QB’s “Check Register.” QB’s “Check Register” satisfies Appendix 1’s requirement that it “chronologically show[] all deposits and checks *and the balance of funds* remaining in the account,” App. 1, I.2 (emphasis added); the right-most column shows the running balance.

02/01/2018				✓	4.89	6,089.89
	DEP	Interest	existing bal. at record start			
02/05/2018					1,250.00	7,339.89
	DEP	Dude trust liability	Initial retainer			
02/08/2018					18,000.00	25,339.89
	DEP	Apple Trust Liability	Settlement of claims			

### Verifying payment funds from a client

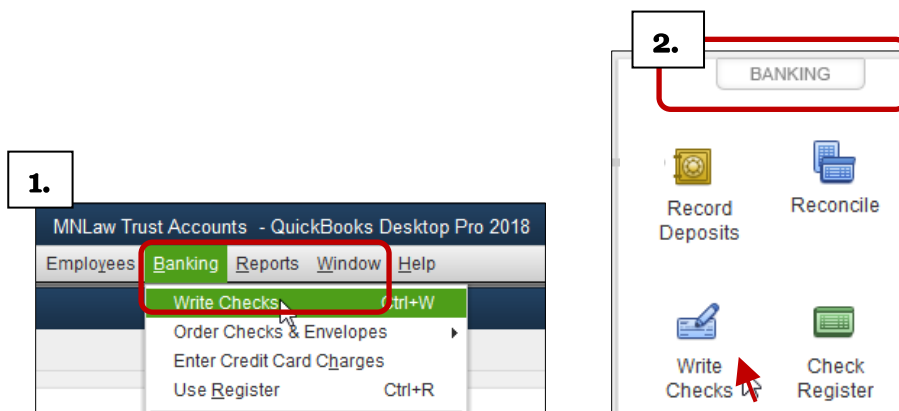
This guide is about using QB for trust accounting, it does not address all the issues that can arise with trust accounts and your practice. In particular, it is not meant to be a tutorial on the Uniform Commercial Code or on the law of modern bank payment systems. However, one practice tip is in order at this point. Do not write checks out of the trust account based on unverified deposits until you are sure that the funds are not only “available,” in your bank’s estimation or practice, but have also been the subject of “final settlement” by the proper payor/drawee bank so as to have been irrevocably paid. Many lawyers have been stung due to not knowing or being careful about the difference.

Being sure that final settlement has happened is harder with foreign banks than with domestic ones. But even domestic banks (real or fake) have been used in such scams, and transactions undone weeks later. Yes: weeks. Many fraud schemes depend on counterfeit checks that intentionally provide false information. Such false information may be meant to mislead naïve efforts at verifying a check’s validity, or to delay the occurrence of actual presentment and thus discovery of the fraud.

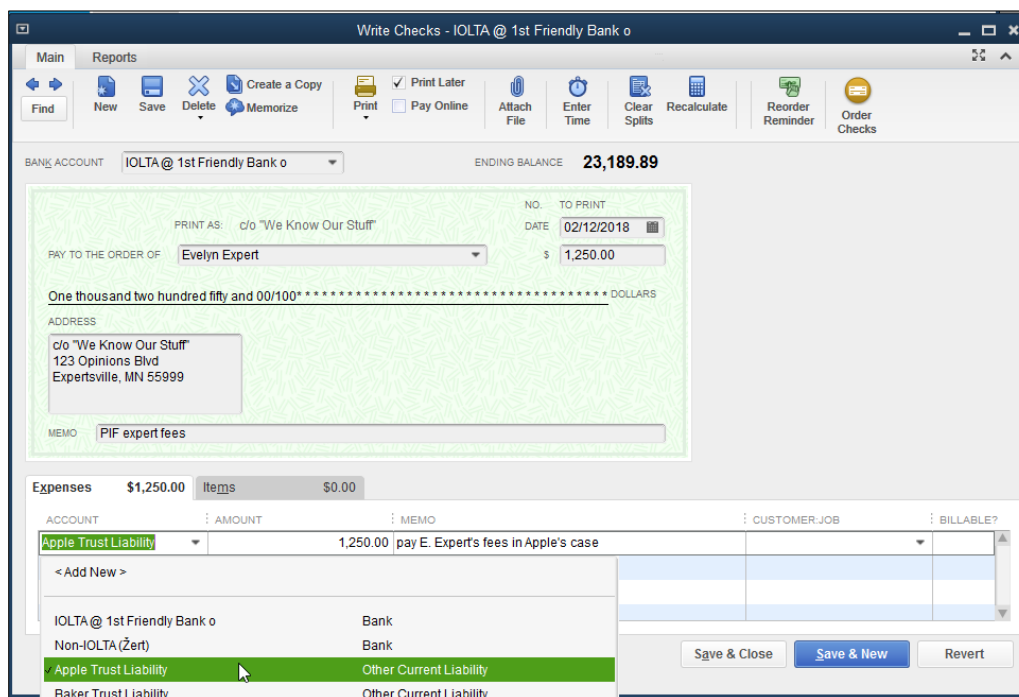
For example, a counterfeit might display a supposed phone number that actually belongs to the crook or an accomplice, who is just waiting to be called so as to “verify” that the check is genuine. Or a counterfeit might be printed with routing numbers that are inconsistent with each other or with the printed name of the bank on which the instrument is supposedly drawn. Inquiries into the propriety of a check should be made via channels that do not depend on the supposed truth of such numbers. For now, the guide will assume that you have exercised all due diligence and have confirmed final settlement by the actual drawee bank: the name and routing numbers match, you contacted that bank using information obtained from trust-worthy sources outside the face of the check, and all is well.

## Disbursing money for a client

Now you may disburse funds from the \$18,000 check entered in the previous 'Apple' example. Assume that payment should be made to an expert witness for \$1,250, to a document examiner for \$900, and to you for your services for \$4,400. QB provides more than one way to write a check. One is to use the top menu, expanding "Banking" to show its "Write Checks" line. Another is to use the "Write Checks" icon in the "Banking" area of the "home" dashboard.



Both of those lead to the same screen for writing a check. Be sure you are writing the check from the correct bank account, here the IOLTA one, choosable at the top left.



You can also right-click on the bank (trust) account in the Chart of Accounts, choose "Write Checks" from the list of actions that appears, and it will take you to the same screen.

Most of the elements on the screen are self-explanatory. But the existence of two “Memo” fields bears noting, one on the ‘check’ and under the “MEMO” column. Both should be filled in; and it is essential that the “account” cell be used to specify Apple’s trust liability account. All deposits into a trust account at the bank (whether IOLTA or otherwise) have to be referenced to a specific client’s liability account, and so do all disbursements. When done, click “Save & Close,” or “Save & New” if, as in our case, we know that there are additional checks to write. The “Save & New” button will recall the bank account you are using, but nothing else, and in particular not a liability account, which needs to be entered for each check entry.

The effects of these two checks are shown properly reflected in the Check Register illustration below. It is good practice to verify that entries you believe you’ve made are in fact properly recorded.

02/08/2018					18,000.00	25,339.89
	DEP	Apple Trust Liability	Settlement of claims			
02/12/2018	To Print	Evelyn Expert		1,250.00		24,089.89
	CHK	Apple Trust Liability	PIF expert fees			
02/12/2...	To Print	Doc Examiner		900.00	Deposit	23,189.89
	CHK	Apple Trust Liability	for services in Apple matter			
02/12/2018						
ENDING BALANCE						23,189.89

The register as shown has not assigned a check number to the two checks. There are two main ways to do so.

1. You assign a number by clicking in the Check Register window that shows “To Print” and typing in the numbers from your set of physical pre-printed and numbered checks.

02/12/2018	1760	Evelyn Expert
	CHK	Apple Trust Liability
02/12/2...	1761	Doc Examiner
	CHK	Apple Trust Liability

2. QB provides a “Select Checks to Print” window, in case you want to print your own checks, and it will keep track of the check numbers to use.

Select Checks to Print

Bank Account: IOLTA @ 1st Friendly Bank o First Check Number: 1 Order Checks

Select Checks to print, then click OK.  
There are 2 Checks to print for \$2,150.00.

✓	DATE	PAYEE	AMOUNT
✓	02/12/2018	Evelyn Expert	1,250.00
✓	02/12/2018	Doc Examiner	900.00

OK Cancel Help

Select All Select None

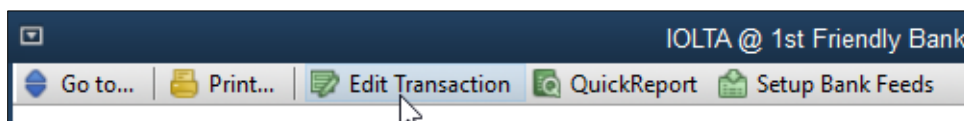


When writing checks, remember: “checks ... and deposit slips must be annotated with the identity of the affected client.” App. 1, I.6

For pre-printed checks, you might do that by hand. If you rely on QB to print your checks, you must enter that information into the correct “memo” field in QB. The “memo” field that gets printed with the checks appears as part of the facsimile representation of a check (the area with a very faint green background), right under the “address” box.



Yet another way to write a check is within the Check Register itself. Put your cursor in the box for the check number to the right of the date, then click the “Edit Transaction” command at the top of the check register window.



That will take you to the same “Write Checks” window as shown earlier. To continue this exercise, you can write the next check for \$4,400 to yourself (to your firm). Once you’ve completed all the necessary fields, the balance remaining in the bank account viewed in the Check Register will be \$18,789.89.

But that’s the total trust account balance. How do you check the amount left *for Apple specifically*, to write her a check for the balance you are holding in trust for her?

One way is through the Chart of Accounts. It shows a balance left in “Apple trust liability” of \$12,250.00.



NAME	TYPE	BALANCE TOTAL	ATTACH
IOLTA @ 1st Friendly Bank o	Bank	18,789.89	
Non-IOLTA (Zert)	Bank	0.00	
Apple Trust Liability	Other Current Liability	12,250.00	
Baker Trust Liability	Other Current Liability	2,000.00	

Another, better way, is to look at the Apple trust liability account itself. Double-clicking on the “Apple trust liability” line in the Chart of Accounts will show you a window with detail on just those entries related to it.

DATE	REF	PAYEE	INCREASE	DECREASE	BALANCE
02/01/2018		Annie Apple	800.00		800.00
	DEP	IOLTA @ 1st Friendl Reflect existing bala			
02/08/2018		Marberry Hotel	18,000.00		18,800.00
	DEP	IOLTA @ 1st Friendl full payment on clair			
02/12/2018	1760	Evelyn Expert		1,250.00	17,550.00
	CHK	IOLTA @ 1st Friendl pay E. Expert's fees			
02/12/2018	1761	Doc Examiner		900.00	16,650.00
	CHK	IOLTA @ 1st Friendl payment for doc. ex			
02/12/2018	1763	MNLaw Firm		4,400.00	12,250.00
	CHK	IOLTA @ 1st Friendl for fees earned -- Ap			
12/2018	Ref	Payee	Increase	Decrease	
		Account			
ENDING BALANCE					12,250.00

The same information can be viewed in a “Transaction Detail by Account” report as shown below. That is reached by going through “Reports” to the “Accountant & Taxes” line, expanding it to “Transaction Detail by Account,” and then choosing “Customize Report,” in order to filter the report by account (Apple trust liability only) and dates (all).

Transaction Detail by Account

Customize Report

Comment on Report

Share Template

Memorize

Print

E-mail

Excel

Hide Header

Refresh

Dates

All

From

To

Total By

Account list

Sort By

Default

Report Basis:

☐ Accrual

☒ Cash

Hide Filters

Account: Apple Trust Liability

6:39 PM

MNLaw Trust Accounts

02/26/18

Transaction Detail by Account

Cash Basis

All Transactions

Type	Date	Num	Name	Memo	Original Amount	Paid Amount	Balance
Apple Trust Liability							
Deposit	02/01/2018		Annie Apple	Reflect existing balance	800.00	800.00	800.00
Deposit	02/08/2018		Marberry Hotel	full payment on claims	18,000.00	18,000.00	18,800.00
Check	02/12/2018	1760	Evelyn Expert	pay E. Expert's fees in A...	-1,250.00	-1,250.00	17,550.00
Check	02/12/2018	1761	Doc Examiner	payment for doc. exam...	-900.00	-900.00	16,650.00
Check	02/12/2018	1763	MNLaw Firm	for fees earned -- Apple	-4,400.00	-4,400.00	12,250.00
Total Apple Trust Liability						12,250.00	12,250.00
TOTAL						12,250.00	12,250.00

Either way, you can determine that the right amount for the fourth check to be written, the one to Apple totaling \$12,250. Writing a check to her for that amount will make the amount of the trust liability account for her zero — but leaving \$6,539.89 in the IOLTA trust account, as shown in the picture of the check register below.

02/12/2018	1760	Evelyn Expert		1,250.00		24,089.89
	CHK	Apple Trust Liability	PIF expert fees			
02/12/2018	1761	Doc Examiner		900.00		23,189.89
	CHK	Apple Trust Liability	for services in Apple matter			
02/12/2018	1763	MNLaw Firm		4,400.00		18,789.89
	CHK	Apple Trust Liability	fees earned -- Apple matter			
02/12/2018	1764	Annie Apple		12,250.00		6,539.89
	CHK	Apple Trust Liability	net stlmt proceeds -- Annie Apple			

As a side remark, note that comparing the Check Register to the Annie Trust Liability ledger and the Transaction Detail by Account report shows which “Memo” field populates where. So do use *both* “Memo” fields. The rules clearly require that the purpose for issuing a check must be stated *not just* in the check register, but *also* in the ledger. App. 1, I.2 (“*Each check entry [in the check register] must include ... the purpose of the check.*”) & I.3 (“*For every trust account transaction, attorneys must record on the appropriate client subsidiary ledger ... the purpose of the transaction, and the balance of funds remaining ....*”)

### Paying your fees (Split Disbursements)

Next, assume that Baker owes you \$720 in fees, and Constantine owes you \$440 for work on his first matter, and you have given each of them appropriate statements for those amounts. QB lets you write a single check to yourself covering what both clients owe you, by letting you “split” the check’s amount into multiple counterpart liability account entries, as shown below. As you add liability accounts and amounts, the check total changes.

**Write Checks - IOLTA @ 1st Friendly Bank o**

Main Reports

Find New Save Delete Create a Copy Memorize Print Print Later Pay Online Attach File Enter Time Clear Splits Recalculate Reorder Reminder Order Checks

BANK ACCOUNT: IOLTA @ 1st Friendly Bank o ENDING BALANCE: 6,539.89

NO.: 1765 DATE: 02/15/2018

PAY TO THE ORDER OF: MNLaw Firm \$ 1,120.00

One thousand one hundred twenty and 00/100\*\*\*\*\* DOLLARS

ADDRESS: MNLaw Firm, 567 Lawyers Lane, Lawyerly, MN 55777

MEMO: paying fees for Baker & Constantine per statements issued to each

ACCOUNT	AMOUNT	MEMO	CUSTOMER:JOB	BILLABLE?
Baker Trust Liability	720.00	pay 2/14 statement for services		
Constantine trust liab. #1	400.00	pay 2/13 statement for legal services		

Expenses \$1,120.00 Items \$0.00

Save & Close Save & New Clear

The red oval above around the column “ACCOUNT” shows where each client’s liability account is chosen by pull-down, and the columns to the right under which the check amounts and memo entries are entered in the blue-and-white striped area. The MSBA knows of no built-in limit to how many lines in that blue-and-white-striped area can be added. But on any physically printed check, the “MEMO” room on the check itself will be limited. Since “[c]hecks ... must be annotated with the identity of the affected client,” App. 1, I.6, there might be a low practical limit on the number of clients among whom you can split one check.

However, paragraph I.6 is about what records must be kept and uses the term “annotated,” a word not used elsewhere. One might add the annotation to the check later, by an allonge. Moreover, Appendix 1 says that “[e]quivalent books and records demonstrating the same information in an easily accessible manner and in substantially the same detail are acceptable.” Given the check number and amount, it might suffice to say “et al.” after “Constantine,” and add a dozen other clients. The striped area for splits ensures that each client is named, an amount assigned and a client-specific purpose given to each, recorded in all affected clients’ subsidiary ledgers. The extent to which you can use “splits” with physical, paper, checks is for you to decide. In any event, one might use an electronic funds transfer, and annotate the clients on the confirmation, as App. 1, I.6 mentions.

The subsidiary ledgers for Baker and for Constantine's matter 1 properly reflect the amount, date, purpose, and remaining balance for each.

Baker Trust Liability						
Go to... Print... Edit Transaction QuickReport						
DATE	REF	PAYEE		INCREASE	✓	DECREASE
	TYPE	ACCOUNT	MEMO			BALANCE
02/01/2018		Bartholomew Baker		2,000.00		2,000.00
	DEP	IOLTA@ 1st Friendl	Bring fwd initial bal.			
02/15/2018	1765	MNLaw Firm				720.00
	CHK	IOLTA@ 1st Friendl	pay 2/14 statement			1,280.00

Constantine trust liab. #1						
Go to... Print... Edit Transaction QuickReport						
DATE	REF	PAYEE		INCREASE	✓	DECREASE
	TYPE	ACCOUNT	MEMO			BALANCE
02/01/2018		Charles Constantinte		3,000.00		3,000.00
	DEP	IOLTA@ 1st Friendl	carry-fwd balance			
02/15/2018	1765	MNLaw Firm				400.00
	CHK	IOLTA@ 1st Friendl	pay 2/13 statement			2,600.00

### Entering IOLTA interest accrued and paid over

As mentioned earlier, different banks handle interest on IOLTAs differently. This is why the Rules require a separate ledger for interest only “to record interest accrued but not transferred by the bank to the IOLTA program in the same month it is credited.” Some banks do always transfer accrued interest to the IOLTA program in the same month as it is credited, in the same amount, so there is never an amount accrued but not transferred. When they do transfer accrued interest to the program in the same month, the net effect in your account is a wash: an addition and a subtraction in the same amount. If the amounts do not always perfectly offset each other, however, you can easily reflect them properly in your trust account records in QB.

For example: On March 1, you receive your next statement for the IOLTA. It shows that the previously accrued amount of \$4.89 (which we entered earlier, when setting up the chart of accounts and their initial balances) was paid (transferred) to the IOLTA program on February 2, and \$3.02 of interest was credited to the account on February 28.

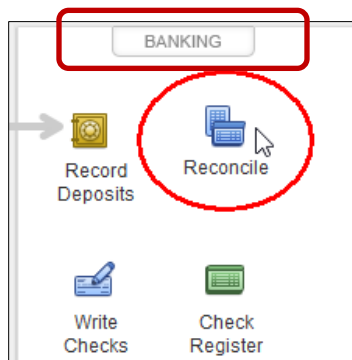
To reflect those entries in your records before doing your monthly reconciliation and required print-outs, you can use the same methods used for deposits into and disbursements out of the account for clients. Just be sure use the liability account for interest as the “FROM” account. Since no check is involved, remove any number, if any, from that field.

Then enter a deposit to reflect the bank's interest entry of \$3.02 on February 28, again — as always — using the appropriate liability-side account (Interest) as the “from account.”

## Reconciling Monthly (Part 1: Check Register and Bank Statement)

Once you have entered into QB any “new” transactions shown on the bank's statement, such as the interest entries above, then you can reconcile your QB records with the bank statement (conscious that you must also, to finish a **three-way** reconciliation as required by the rules, App. 1, § I.5, ensure that the two balances shown there both also agree with the trial balance of the liability subledgers).

Begin by clicking the “Reconcile” icon in the “BANKING” area of the home dashboard.



That will bring you to the following window, “Begin Reconciliation”.

- Be sure that you chose the correct bank account, here the IOLTA. (The steps shown in this guide also will work for non-IOLTAs, pooled or not.)
- Be sure that the statement date is correct.
- The beginning balance should match.

You'll note that the beginning balance is the same amount as appeared in several screens during the initial reconciliation, the last one done in this account. Indeed, that is QB's definition of the beginning balance: “[t]he sum of all previously cleared payments, deposits, and other transactions in the register (those with a checkmark).” You can see those checkmarks (indicating “cleared”) in the check register, and the balance after the last one that was cleared (previously reconciled).

DATE	NUMBER	PAYEE	PAYMENT	✓	DEPOSIT	BALANCE
	TYPE	ACCOUNT	MEMO			
02/01/2018				✓	200.00	6,000.00
	DEP	Constantine trust liab. #2	record balance brought fwd			
02/01/2018				✓	85.00	6,085.00
	DEP	Firm's Funds	Existing bal. carry-fwd			
02/01/2018				✓	4.89	6,089.89
	DEP	Interest	existing bal. at record start			
02/02/2018		Minn. IOLTA Program			4.89	6,085.00
	CHK	Interest	payment of accrued interest to MN			

Assume that the bank statement shows an ending balance of \$6,295.52. Enter it as shown below, then click the blue “Continue” button. Ignore the “Service Charge” and “Interest Earned” boxes. Although entries will be correctly calculated and there are “Account” drop-downs that limit choices to those available, there is no “memo” field to record the purpose. The MSBA considers that a better practice is always to enter



transactions in the same way, consistently, and thus to treat amounts involving the “Interest” and “Firm’s Funds” accounts the same way as all other deposits and disbursements.

**Begin Reconciliation**

Select an account to reconcile, and then enter the ending balance from your account statement.

Account: IOLTA @ 1st Friendly Bank o last reconciled on 02/01/2018.

Statement Date: 03/01/2018

Beginning Balance: 6,089.89 What if my beginning balance doesn't match my statement?

Ending Balance: 6,295.52

Enter any service charge or interest earned.

Service Charge: 0.00 Date: 02/28/2018 Account: [dropdown]

Interest Earned: 0.00 Date: 02/28/2018 Account: [dropdown]

Buttons: Locate Discrepancies, Undo Last Reconciliation, Continue, Cancel, Help

The “Continue” button produces the same “Reconcile” window as seen before. It lists all the entries that QB knows you have made in two columns, checks and payments on the left, deposits and other credits on the right. You then “clear” items by putting a checkmark next to them whenever your entry and the bank’s entry agree. Obviously, they need not agree as to date: your records in QB will show when a check was issued; the bank’s statement will show when it was presented or honored (and some checks may not have been presented or paid yet). But whenever you and the bank agree as to an item’s amount and nature, you enter a checkmark to clear the item. As you do so, the “cleared balance” will increase, and the “difference” will decrease.

**Reconcile - IOLTA @ 1st Friendly Bank o**

For period: 03/01/2018 ☐ Hide transactions after the statement's end date

**Checks and Payments**

DATE	CHK #	PAYEE	AMOUNT
02/02/2018		Minn. IOLTA P...	4.89
02/12/2018	1760	Evelyn Expert	1,250.00
02/12/2018	1761	Doc Examiner	900.00
02/12/2018	1763	MNLaw Firm	4,400.00
02/12/2018	1764	Annie Apple	12,250.00

**Deposits and Other Credits**

DATE	C...	MEMO	T...	AMOUNT
02/05/2018		Initial retainer	DEP	1,250.00
02/08/2018		Settlement of claims	DEP	18,000.00
02/28/2018		interest accrued over F...	DEP	3.02

Buttons: Highlight Marked, Mark All, Unmark All, Go To, Columns to Display...

Summary:

Beginning Balance: 6,089.89

Items you have marked cleared:

- 0 Deposits and Other Credits: 0.00
- 0 Checks and Payments: 0.00

Buttons: Modify, Service Charge: 0.00, Interest Earned: 0.00, Ending Balance: 6,295.52, Cleared Balance: 6,089.89, Difference: 205.63

Buttons: Reconcile Now, Leave

After marking all transactions in QB that are reflected on the bank statement (note that Doc Examiner's check has not yet been paid), there is a \$22.50 discrepancy shown below.

Reconcile - IOLTA @ 1st Friendly Bank o

For period: 03/01/2018 ☐ Hide transactions after the statement's end date

Checks and Payments					Deposits and Other Credits				
✓	DATE	CHK #	PAYEE	AMOUNT	✓	DATE	C...	MEMO	T... AMOUNT
✓	02/12/2018	1760	Evelyn Expert	1,250.00	✓	02/05/2018		Initial retainer	DEP 1,250.00
	02/12/2018	1761	Doc Examiner	900.00	✓	02/08/2018		Settlement of claims	DEP 18,000.00
✓	02/12/2018	1763	MNLaw Firm	4,400.00	✓	02/28/2018		Interest accrued over Feb.	DEP 3.02
✓	02/12/2018	1764	Annie Apple	12,250.00					
✓	02/15/2018	1765	MNLaw Firm	1,120.00					

☒ Highlight Marked    

Beginning Balance 6,089.89

Items you have marked cleared

3	Deposits and Other Credits	19,253.02
5	Checks and Payments	19,024.89

Service Charge 0.00  
Interest Earned 0.00  
Ending Balance 6,295.52  
Cleared Balance 6,318.02  
**Difference -22.50**

Re-checking the bank statement reveals the source of the difference: a \$22.50 charge for printing new checks for the trust account, on February 27. (As an aside: it is a good idea to have your checks for the IOLTA trust account (or any other trust account) be a different color than your checks for your operating account.) To reflect that expense and be able to finish your reconciliation, click the “Leave” button in the “Reconcile” window. Doing that will suspend what you’re doing, so you can enter the charge for printing checks into your books. You do that just as you have any other disbursements from the IOLTA trust account: write a check (without any number, in this case), make “Memo” entries reflecting its purpose, and be sure to choose an appropriate liability “FROM” account (in this case, the “Firm’s Funds” liability account).

Write Checks - IOLTA @ 1st Friendly Bank o

Main Reports

BANK ACCOUNT: IOLTA @ 1st Friendly Bank o ENDING BALANCE: 5,418.02

NO. DATE 02/27/2018

PAY TO THE ORDER OF: 1st Friendly Bank of MyTown \$ 22.50

Twenty-two and 50/100\*\*\*\*\* DOLLARS

ADDRESS

MEMO: check-printing charges

Expenses \$22.50 Items \$0.00

ACCOUNT	AMOUNT	MEMO	CUSTOMER:JOB	BILLABLE?
Firm's Funds	22.50	for printing new checks		



When you return to the Reconcile window via the “Reconcile” icon. Your previous work marking items as cleared is still there, and now the additional disbursement appears. Mark it with a check as cleared, and the “Difference” becomes zero.

Next click the blue “Reconcile Now” button and the “Select Reconciliation Report” window presents choices to view and/or print a copy of a “reconciliation report.”

The Reconciliation Summary report appears in the next illustration. The “cleared balance” minus outstanding checks (one this time) equals the “Ending Balance” shown on the report.

MNLaw Trust Accounts Reconciliation Summary	
IOLTA @ 1st Friendly Bank o, Period Ending 03/01/2018	
	Mar 1, 18
Beginning Balance	6,089.89
<b>▼ Cleared Transactions</b>	
Checks and Payments - 6 items	-19,047.39
Deposits and Credits - 3 items	19,253.02
<b>Total Cleared Transactions</b>	<b>205.63</b>
<b>Cleared Balance</b>	<b>6,295.52</b>
<b>▼ Uncleared Transactions</b>	
Checks and Payments - 1 item	-900.00
<b>Total Uncleared Transactions</b>	<b>-900.00</b>
<b>Register Balance as of 03/01/2018</b>	<b>5,395.52</b>
<b>Ending Balance</b>	<b>5,395.52</b>

The “detail” reconciliation report appears as shown next.

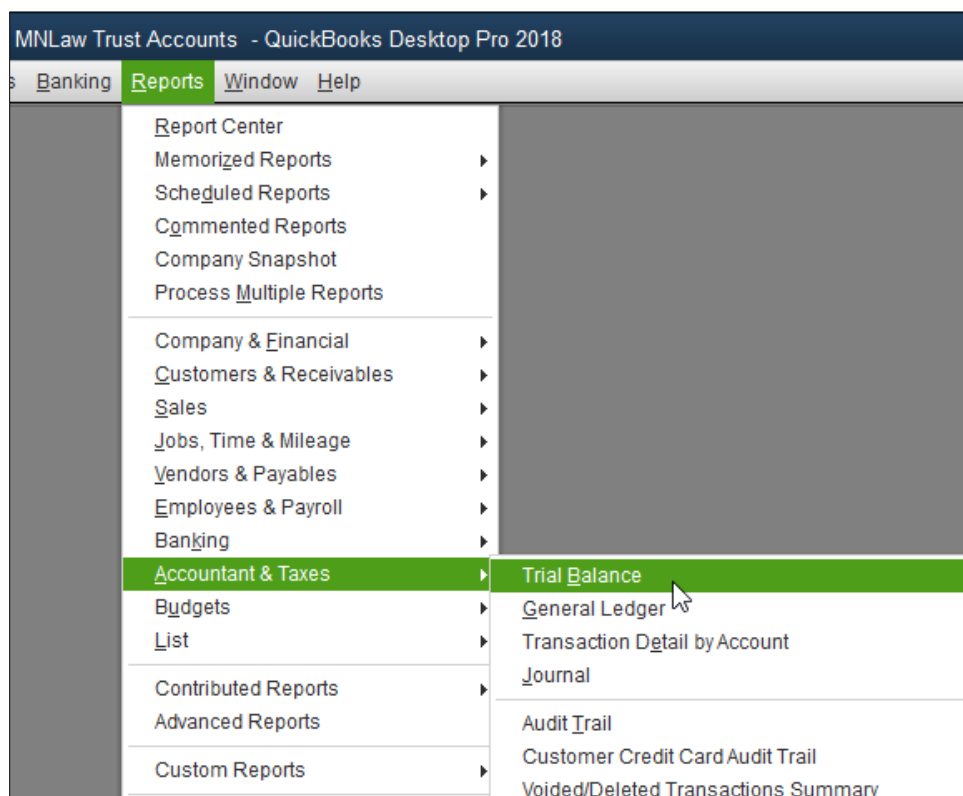
Reconciliation Detail						
<a href="#">Customize Report</a> <a href="#">Comment on Report</a> <a href="#">Share Template</a> <a href="#">Memorize</a> <a href="#">Print</a> <a href="#">E-mail</a> <a href="#">Export</a>						
<a href="#">Show Filters</a>						
12:18 PM						
<b>MNLaw Trust Accounts</b> <b>Reconciliation Detail</b> IOLTA @ 1st Friendly Bank o, Period Ending 03/01/2018						
Type	Date	Num	Name	Clr	Amount	Balance
Beginning Balance						6,089.89
Cleared Transactions						
Checks and Payments - 6 items						
Check	02/02/2018		Minn. IOLTA Progr...	✓	-4.89	-4.89
Check	02/12/2018	1764	Annie Apple	✓	-12,250.00	-12,254.89
Check	02/12/2018	1763	MNLaw Firm	✓	-4,400.00	-16,654.89
Check	02/12/2018	1760	Evelyn Expert	✓	-1,250.00	-17,904.89
Check	02/15/2018	1765	MNLaw Firm	✓	-1,120.00	-19,024.89
Check	02/27/2018		1st Friendly Bank o...	✓	-22.50	-19,047.39
Total Checks and Payments					-19,047.39	-19,047.39
Deposits and Credits - 3 items						
▶ Deposit	02/05/2018			✓	1,250.00	1,250.00 ◀
Deposit	02/08/2018			✓	18,000.00	19,250.00
Deposit	02/28/2018			✓	3.02	19,253.02
Total Deposits and Credits					19,253.02	19,253.02
Total Cleared Transactions					205.63	205.63
Cleared Balance					205.63	6,295.52
Uncleared Transactions						
Checks and Payments - 1 item						
Check	02/12/2018	1761	Doc Examiner		-900.00	-900.00
Total Checks and Payments					-900.00	-900.00
Total Uncleared Transactions					-900.00	-900.00
Register Balance as of 03/01/2018					-694.37	5,395.52
Ending Balance					-694.37	5,395.52

The “magnifying” glass in the illustration above is QB’s way of indicating that you can click on an item displayed in the Reconciliation Detail report to see the specifics of its entry. Print both of these reports to PDF, and keep them to comply with App. 1, I.5.

Note that this is NOT yet a complete reconciliation. This has reconciled your QB check register with the bank’s statement: a two-way reconciliation. But the rules require a **three-way** reconciliation. You also still need to verify that both amounts equal the trial balance of the subsidiary ledgers. App. 1, I.5. That (checking the trial balance of the subsidiary ledgers) then becomes this guide’s next topic.

## Reconciling Monthly (Part 2: the Trial Balance)

One of the three reports which Appendix 1, I.7 requires lawyers who keep trust account records by computer to print every month is “the trial balance of the subsidiary ledgers.” QB has a built-in “Trial Balance” report. To view it, begin with the “Reports” item in QB’s top menu line, which will drop down a menu with a line that says “Accountant & Taxes,” which in turn leads to a subsidiary menu with several report names, one of which is “Trial Balance.”



A “trial balance” is “a listing of the clients [or matters] with funds in the trust account as of the banking month-end date and the balance for each such client. All the individual client balances are added together to arrive at the subsidiary ledger trial balance.” *Other People’s Money: Operating Lawyer Trust Accounts* (LPRB rev. Sept. 2015). In particular, it shows all subaccounts (the “subsidiary ledgers”) with debit or credit entries and their totals in corresponding columns, summed. The picture below shows QB’s built-in “Trial Balance” report that the steps given above will produce.

	Debit	Credit
IOLTA @ 1st Friendly Bank o	5,395.52	
Apple Trust Liability	0.00	
Baker Trust Liability		1,280.00
Constantine trust liab. #1		2,600.00
Constantine trust liab. #2		200.00
Dude trust liability		1,250.00
Firm's Funds		62.50
Interest		3.02
<b>TOTAL</b>	<b>5,395.52</b>	<b>5,395.52</b>

In manual systems, a trial balance tests for non-matched debit and credit entries. In a program like QB that should always create both entries at the same time (so long as you choose the right liability account to reference any change in the trust account), non-matching debit and credit entries should not be a problem. So, it ought to be next to impossible to see a trial balance in QB in which the debit and credit columns do not match. However, there are two other matters that require attention.

First, the total in either column *must still equal what the check register and the “adjusted bank statement balance” both show*, the two documents that are effectively reconciled against each other in QB’s reconciliation process. An *[a]djusted bank statement balance* is Appendix 1’s term for the result of beginning with the bank statement’s balance, then subtracting the amount of any outstanding checks and adding the amount of any outstanding deposits. App. 1, I.5. (Recall that the reconciliation report as seen in this guide’s example showed both a cleared balance and a balance after subtracting outstanding checks.) In our example, of course, they are equal all three ways.

Second, “[n]o client subsidiary ledger balance should be negative at any time.” App. 1, I.4. How could a negative balance in a subsidiary ledger (in a liability subaccount here) ever arise?

Let's make a mistake deliberately and find out. Suppose we need to refund Baker his \$1,280, but we mistakenly use Dude's account as the liability account.

BANK ACCOUNT: IOLTA @ 1st Friendly Bank o      ENDING BALANCE: 5,395.52

NO. 1766  
DATE 03/01/2018

PAY TO THE ORDER OF: Bartholomew Baker      \$ 1,280.00

One thousand two hundred eighty and 00/100\* \*\*\*\*\* DOLLARS

ADDRESS: Bartholomew Baker

MEMO: refund to Baker

Expenses \$1,280.00      Items \$0.00

ACCOUNT	AMOUNT	MEMO	CUST
Dude trust liability	1,280.00	refund to Baker	

This ought to be hard to do, because there should be some cognitive dissonance triggered by seeing a liability account with the wrong name. (Especially if, as one should, one enters the client name in both “Memo” fields.) But mistakes happen. The check will not bounce. There will be no overdraft on the bank account as a whole, and no alert sent to the LPRB. But running the trial balance shows the result:

Report Basis: ☐ Accrual ☒ Cash      [Show Filters](#)

12:50 PM  
03/02/18  
Cash Basis

**MNLaw Trust Accounts**  
**Trial Balance**  
As of March 2, 2018

	Mar 2, 18	
	Debit	Credit
IOLTA @ 1st Friendly Bank o	4,115.52	
Apple Trust Liability	0.00	
Baker Trust Liability		1,280.00
Constantine trust liab. #1		2,600.00
Constantine trust liab. #2		200.00
Dude trust liability	30.00	
Firm's Funds		62.50
Interest		3.02
<b>TOTAL</b>	<b>4,145.52</b>	<b>4,145.52</b>

**There should never be a non-zero amount for any liability account in the “debit” column.** That effectively means a negative balance in the client subsidiary ledger. The two columns match — and if Baker cashed the check and nothing else happened before next month’s statement, all amounts (the statement’s, the check register’s, and the trial balance’s) would agree.

You can see the negative balance, as an explicitly (not just implicitly) negative number in two other places. One is the Chart of Accounts.

NAME	TYPE	BALANCE TOTAL	ATTACH
IOLTA @ 1st Friendly Bank o	Bank	4,115.52	
Non-IOLTA (Zert)	Bank	0.00	
Apple Trust Liability	Other Current Liability	0.00	
Baker Trust Liability	Other Current Liability	1,280.00	
Constantine trust liab. #1	Other Current Liability	2,600.00	
Constantine trust liab. #2	Other Current Liability	200.00	
Dude trust liability	Other Current Liability	-30.00	
Firm's Funds	Other Current Liability	62.50	

The other is the client subsidiary ledger balance. One way to get there is using the following path from the “Reports” line in the top menu: **Reports > Accountant & Taxes > General Ledger**; and then double-clicking on Dude’s liability account line in the ledger.

Type	Date	Num	Name	Memo	Clr	Split	Amount	Balance
<b>Dude trust liability</b>								1,250.00
Check	03/01/2018	1766	Bartholomew Baker	refund to Ba...		IOLTA @ 1st...	-1,280.00	-30.00
<b>Total Dude trust liability</b>								-30.00
<b>TOTAL</b>								-30.00

The take-away here is that any amount in the debit column of the trial balance, for a client liability account, is the same as a negative balance in that liability account’s ledger. If you have many clients, you may not look at each of their accounts individually every month. But the trial balance is your friend: anytime it shows a “debit” for a liability account, you know the balance is negative, and you have a problem to resolve.

If that ever happens, the rules specify a particular method to use when computing the trial balance. “If at the time a trial balance is performed ..., a negative client subsidiary ledger balance has not yet been rectified, *that balance should be viewed as zero for purposes of computing the trial balance total*. A negative client subsidiary ledger balance may not serve to reduce the trial balance total.” App. 1, I.4 (emphasis added). In other words, one would have to treat the trial balance as showing a total of \$4,175.52, not \$4,145.52, for purposes of testing whether the amount matches the check register and bank statement balances. Obviously, with that adjustment made as required, the three amounts

would not all match, so one would know that one has to go find out where an error happened and correct it.

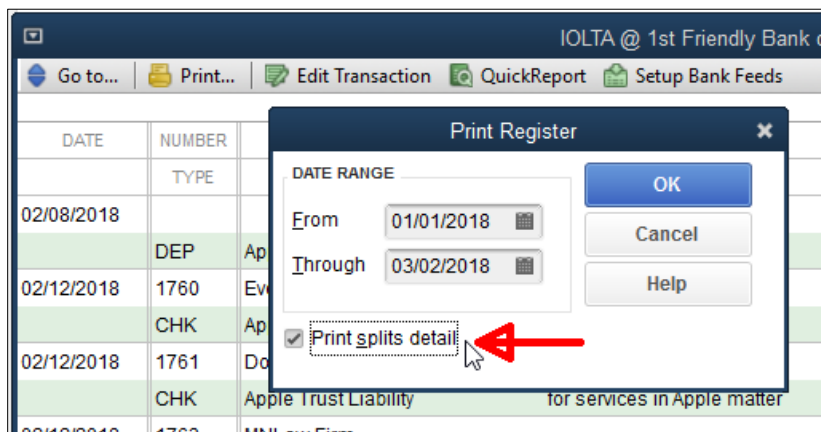
Similar errors could arise if one were to write a check out of the wrong trust account, for example, or if one had written the check to Apple for \$12,260 instead of \$12,250. Please keep in mind also that not all errors will create negative balances. For example, a check to Baker for only \$1,000 out of Dude's money would not have created any negative balances anywhere. So be sure to always use the "Memo" fields and on every check to name the client whose money is being used.

### Making the Required Monthly Records (Paper or PDF)

Appendix 1, I.7 requires lawyers who keep trust account records by computer to print three reports every month:

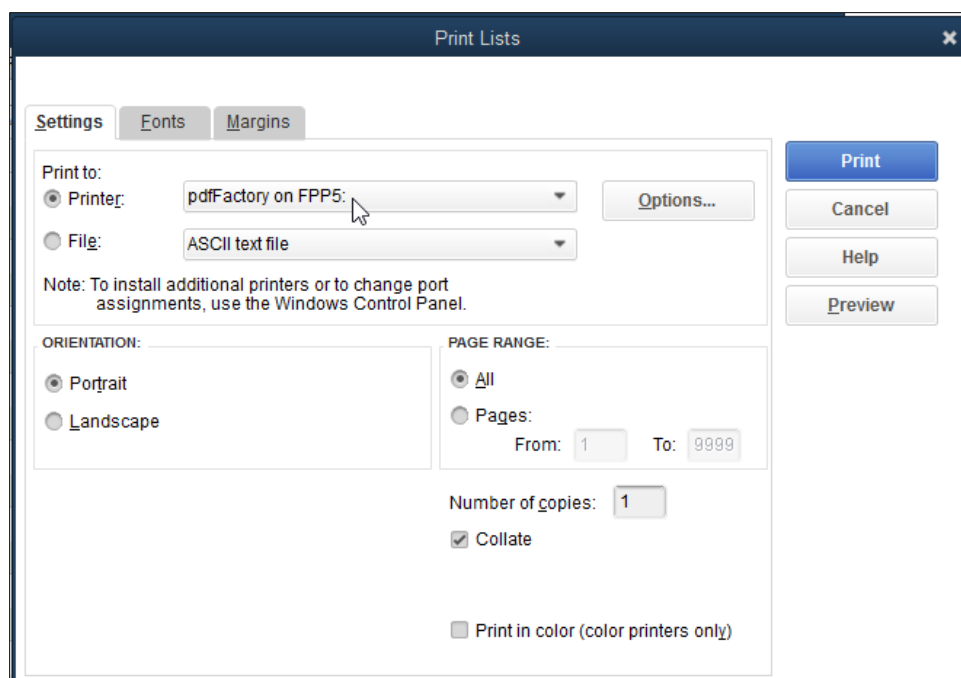
1. The monthly reconciliation report, which shows that the bank's books and your check register agree as to how much money is in the account. That has already been shown.
2. The trial balance, which must agree in amount with the two amounts from the reconciliation report and can never have any negative balance for a client liability account (subsidiary ledger).
3. The check register.

We have been using the Check Register throughout this guide. It appears whenever the "Write Checks" icon is clicked. The "Print" command is in the top menu line on the left. Clicking it produces the Print Register menu where you can set the date range. The "Print splits detail" box is NOT checked by default; we suggest you DO put a check in the box.



After verifying the date range, click the blue "OK" button and a Print Lists dialog window appears with most features you might expect, including the ability to choose which printer to print to, including any installed PDF printers you may have.





The resulting print-out is not fancy, but it documents all information that Minnesota's Rules require in your check register, and it identifies the bank account, the dates included, and the date of printing. The picture below shows the effect of choosing to show "splits."

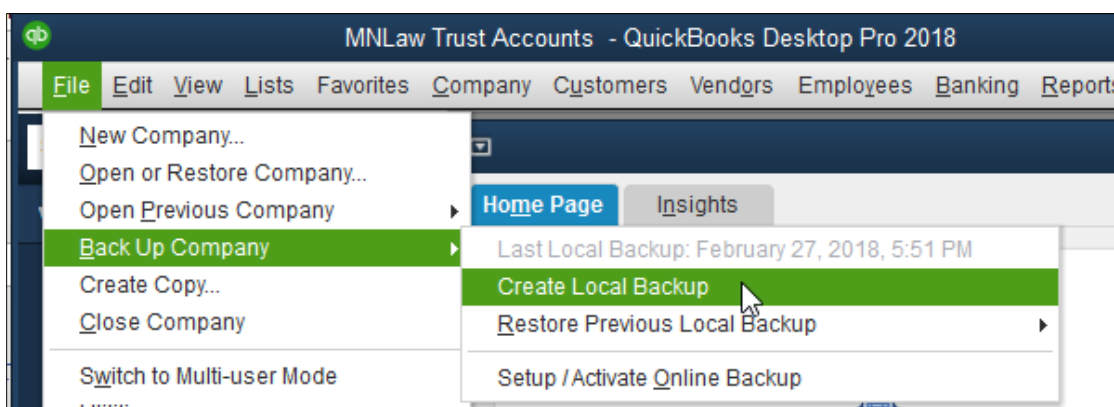
MNLaw Trust Accounts								3/2/2018 1:55 PM
Register: IOLTA @ 1st Friendly Bank o								
From 01/01/2018 through 03/02/2018								
Sorted by: Date, Type, Number/Ref								
Date	Number	Payee	Account	Memo	Payment	C	Deposit	Balance
02/01/2018			Apple Trust Liability	Deposit (Existi...	X		800.00	800.00
02/01/2018			Baker Trust Liability	Creating Initial...	X		2,000.00	2,800.00
02/01/2018			Constantine trust liab. #1	existing balance	X		3,000.00	5,800.00
02/01/2018			Constantine trust liab. #2	record balance ...	X		200.00	6,000.00
02/01/2018			Firm's Funds	Existing bal. ca...	X		85.00	6,085.00
02/01/2018			Interest	existing bal. at ...	X		4.89	6,089.89
02/02/2018		Minn. IOLTA Program	Interest	payment of acc...	4.89	X		6,085.00
02/12/2018	1764	Annie Apple	Apple Trust Liability	net sttlmt proce...	12,250.00	X		6,535.00
02/15/2018	1765	MNLaw Firm	-split-	paying fees for ...	1,120.00	X		5,415.00
			Baker Trust Liability	pay 2/14 statem...	-720.00			
			Constantine trust liab. #1	pay 2/13 statem...	-400.00			

MRPC 1.15(h) requires that all required records “be preserved ..., as to books and records relating to funds or property of clients or third persons, for at least six years after completion of the employment to which they relate.” Note: that is not just six years after the latest date of the transactions recorded, but instead six years after completion of the employment — that will be a later date, for any client for whom a matter lasts any considerable time.

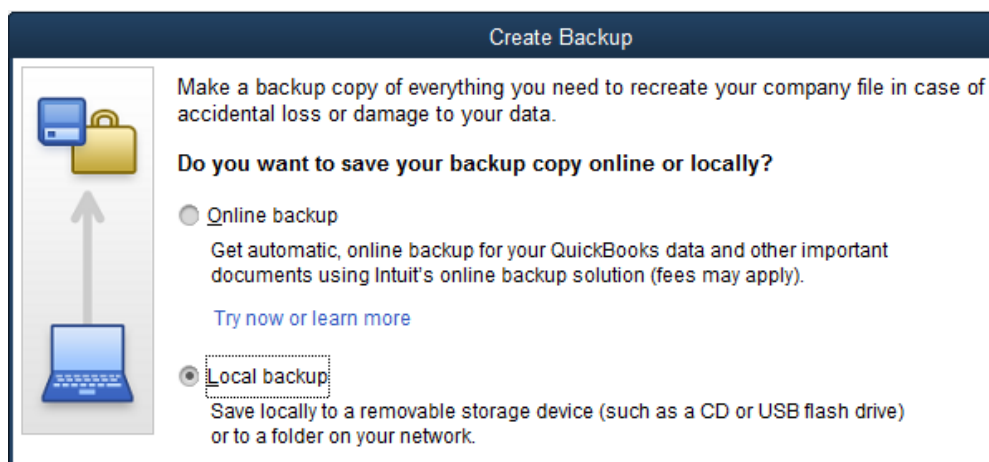
## Making Backups

Lawyers who use computers to keep their accounting records must make regular backups. These include any PDF print-outs, if you decide to make those instead of paper ones. “Electronic records, both those maintained contemporaneously and those retained in a PDF form, should be regularly backed up by an appropriate storage device. The frequency of the back-up procedure should be directly related to the volume of activity in the trust account.” App. 1, I.7.

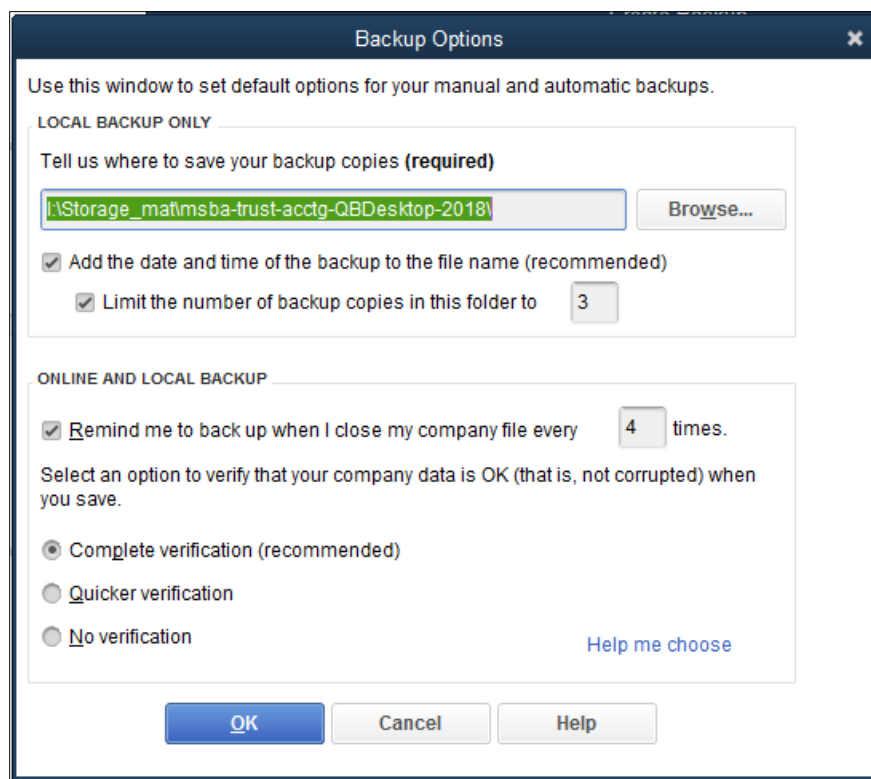
QB includes a utility for making backups at the program level (**File>Back Up Company>Create Local Backup**).



As one might expect from a command saying “Create Local Backup,” the next screen includes an option for local backup. But QB is trying to encourage users to do more online, albeit at a cost for online services, so you’ll also see an option to put your backup online.



The options for local backup, reached by a button that is located on the screen shown above but that itself wasn't included in the screen capture, are sensible, particularly as to dating the backup copy's name and performing a verification.



By now, more than thirty years since computers began to be used in law practices and for accounting, it ought to be obvious that for a backup to fulfill its purpose, it (or a copy of it — a backup of the backup) needs to be kept someplace different from where the original data is. “Someplace different” means somewhere that is unlikely to be affected by anything that might destroy the original data. Backups only work when needed, if they are unaffected by any fire, flood, lightning strike, theft, or other disaster that befalls the original data. So be sure to eventually get your “local” backup copy somewhere well away from the computer on which you are running QB, so that even if your office burns, your backup won’t. Using the online option obviously satisfies this concern; but the local option can be used too, so long as you remember not to keep it *too* local.

### *Miscellaneous Tips*

This guide needed only a few client matters to demonstrate the software steps, so a simple alphabetical sort was convenient. But you will have many more clients, so you may want to give some thought to future needs to sort your reports, whether by name or by client matter and file numbers that you may use elsewhere in your practice.

Many accountants recommend using numbered accounts in your Chart of Accounts. That recommendation probably is more important for your operating accounts than for the trust accounts. But QB does support using account numbers, and they can be useful for

things like ordering liability subaccounts other than alphabetically, e.g., to keep “Firm's Funds” and “Interest” liability subaccounts grouped outside the numeric range used for client liability subaccounts.

It is always a good idea with any software to experiment with it and try things out before committing real data to it. So it is with QB. You should work through the examples in this guide, and add others of your own, before moving your clients' records into the program. Regularly check the Chart of Accounts and the Trial Balance to ensure that the results you see are the ones you expect.

### *Request*

If you notice any mistakes in this guide or know of a better way to use QB to keep clients' trust accounts, please contact the Minnesota State Bar Association so the MSBA can help other members with the corrections and improved recommendations.

— Last Updated 04/02/18 —