



The Best Defense is a Good Offense: Trust Accounting

by Gina Lara, MBA, CFP®, EA

When the first request for a trust accounting came from one of six multi-generational trust beneficiaries, counsel noted that the request was not a formal petition for accounting filed with the Court. Counsel argued that preparation of a formal fiduciary accounting pursuant to California Probate Code requirements would be overkill. The trustee agreed; after all, she reasoned, the beneficiaries were all family.

A few years later, mired in interrogatories and document production, this trustee came to us with her newly appointed defense attorney and engaged us to prepare extensive formal court fiduciary accountings.

Why did this happen?

Trustees who are not presently seeking court approval have flexibility in the format of their trust accounting, but they still must meet certain substance requirements. Accounting in the probate code format is the best way to ensure these requirements are met and adequate disclosure has been made to all beneficiaries.



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A court fiduciary accounting is the most bulletproof documentation of trust activity. It is prepared using a very specific format based on the applicable financial reporting framework outlined in the Probate Code and is consistent with the Uniform Principal and Income Act (UPIA). Instead of the debits and credits that accountants typically report, fiduciary accountants report in terms of principal and income. Rather than preparation of balance sheets and income statements, fiduciary accountants prepare schedules such as Assets on Hand and Summary of Account.

The cost of an accounting prepared in probate code format is an administrative expense of the trust. It is immaterial in comparison to the cost of defending oneself in court for failure to adequately deliver timely accountings of trust money to beneficiaries. When it comes to trust accounting, the best defense is a good offense by filing proper fiduciary accountings each year.

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