

End-of-Year Law Firm Accounting Checklist

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As with any business, your law firm depends on sound billing and accounting practices. With the end of the year in sight, review this accounting checklist to be sure you've collected your outstanding balances, squared away your trust account ledgers, and prepared for the upcoming year.

However, your end-of-year legal finances shouldn't bring any surprises. Healthy law firm financials come from regularly monitoring your books. By the year's end, you don't want to be shocked by the status of your accounts receivable and find yourself chasing down uncollected invoices.

If you find yourself scrambling at the end of the year, use this law firm accounting checklist to see how [legal billing](#) and law practice management software offers one way to stay organized.

Analyze Your Legal Billing

Generate an annual financial report to check the vitals of your legal billing. Your law firm's financial statements could include the following:

Profit/Loss Statements

A profit/loss statement reflects your revenue and expenses. This is also called an income statement. Review these monthly reports to see your bottom line at a glance. Here, you can learn more about financial trends, like when your firm tends to slow down, has a greater case volume, or has more expenses.

Accounts Receivable Report

An accounts receivable report will tell you what hasn't been paid. Review your billable hour entries. If you have outstanding balances, make it a priority to send a reminder to your clients. Alternatively, if you have long overdue balances and know you won't collect on them, the end of the year offers a good time to write them off.

Cash Flow Projection

Cash flow is a key sign of your law firm's financial health. Your monthly cash flow shows the cash

you have on hand after your invoices are fulfilled, and your expenses are paid. So, if your firm is taking longer to bill and collect payments, this issue may appear in a cash flow report.

In your end-of-year checklist, include a cash flow projection. It's a good time to estimate your cash on hand as of December 31 after accounting for staff bonuses, tax payments, or payments to equity partners.

How to Handle Law Firm Collections

Lawyers spend their time helping clients get the justice or settlements they deserve. But, at the end of the day, getting paid is key to ensuring your firm succeeds as a business. The average firm only collects [85% of its invoices](#).

It's true: collecting on balances can be the biggest challenge for firms — especially when you think your clients may not be able to pay, or they express dissatisfaction with their results. Maybe you don't know how to word a legal debt collection letter, or you've been meaning to set up a billing policy to resolve persistent issues with your collections.

One solution is to make a plan to collect on balances before the end of the year. Check your billing entries to review any outstanding accounts. Then, prepare a plan to contact clients. You may want to try creating a standard debt collection letter template to reach them by email or postal mail. If you don't get responses that way, you could plan to make phone calls.

You can also work with clients who genuinely need alternative payment arrangements. In some cases, it may be better to discount a bill than to collect nothing at all on the account.

Bottom line: Bill as soon as possible. The longer you wait to send invoices, the greater the chances that you won't collect.

Review Your Legal Trust Accounting

[Legal trust accounting](#) helps ensure that your firm complies with important legal regulations, keeping your firm's finances separate from your client's funds.

In almost all states, you need to reconcile your trust accounts. So, make sure to balance all ledgers. You'll need to review your trust's bank statements against your in-house records of your trust accounts, including your client ledger and the trust ledger. If you notice any disagreement between these numbers, it's important to self-report the matter promptly and work to resolve the issue.

The American Bar Association sets regulations regarding the management of trust accounting. Be sure to avoid these costly mistakes, as your law license is on the line [here](#).

Some of the most commonly overlooked regulatory issues include:

- Falling into the negative on your trust account balances
- Recording your trust account balances as revenue
- Charging your clients for processing fees, which may be prohibited based on your state

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- Mixing your firm's and the trust's finances

Here's an area where it can be crucial to use [legal billing software](#) to manage your trust account funds. Human error can easily lead to honest mistakes with these regulations. Yet, automated legal accounting systems can help ensure that you're on track to comply.

Get a Full Picture of Your Law Firm's Finances

Think about how you measure your firm's success. It can vary by law firm, but you could identify success based on case volume, client retention, or revenue.

All of these could be key to building a great law firm. But what if your case volume is suffering, or your clients express more dissatisfaction than normal?

It could be time to get a big picture of your law firm's finances. You can look at key performance indicators to measure the financial reality of your firm. In doing so, you may start to see patterns of wins and losses. Taken together, these patterns can tell you a story about where you have opportunities to be more efficient or make adjustments to your processes.

Understanding Your Performance

Performance indicators let you measure all the core functions of your business—which can help you better predict your future and navigate any challenges.

- **Financials:** Your financial data could include your monthly billed and collected revenue, your number of outstanding accounts, or the difference between your net income and your revenue.
- **Productivity:** Collect and review data on productivity indicators, which could include the ratio of your billable to non-billable hours, or the difference between the number of billable hours worked versus the number of hours invoiced.
- **Client relationships:** You can measure everything from client acquisition to satisfaction. Measure the revenue generation from new cases, your lead-to-client conversion rate, or your client retention rates.

Tax Preparation

At the end of the year, you're probably not thinking about April. But getting started on your tax prep early is another good way to set up your finances for the coming year.

Take a look at your receipts and reimburse yourself if needed. This includes reviewing your travel expenses. Think about whether you've paid your quarterly taxes, and ensure these obligations are paid up.

How to Simplify Year-End Law Firm Accounting

It bears repeating that most law firms aren't collecting the revenue they deserve. But that doesn't

have to be the case for your firm.

A good way to collect revenue is to utilize legal technology and practice management software. According to Bloomberg Law, nearly 80% of firms use billing software — the top type of technology employed by firms.

Billing software can:

- Help you create uniform billing guidelines to ensure your clients and your staff understand your policies upfront
- Create a billing system that helps you manage legal billing and get paid promptly
- Give you access to ready-made billing templates
- Allow your clients to access online payment systems
- Run a solid accounting system that helps prevent audits

With legal billing or practice management software, you're storing your billing, accounting, and client data in one centralized location. This has the added benefit of allowing you to run custom reports. For instance, you can quickly review your outstanding accounts or review the status of your trust accounts through an easy-to-read dashboard.

Of course, human help can also come in handy when you're working to optimize your law firm's finances. Hiring a legal accounting consultant can help you interpret your financial reports, comply with State Bar or federal requirements, and grow your business. They can also [guide you on implementing legal billing practices](#) and software.

Plan Your Law Firm Accounting Ahead for a Successful End of Year

Your end-of-year accounting checklist can be crucial to setting yourself up for success by December 31 and for the year to come. By reviewing essential financial reports, like your expense and revenue statements or your accounts receivable, you can ensure your firm's financial performance is where you think it should be.

Using billing software allows you to review these financial reports quickly and easily. That means less time combing through the books and more time running your practice. With automated tools to help you invoice and manage transactions, you don't have much more to do to start watching your cash flow.

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