



# The Lawyers' Guide to the Perfect Accounting System

# Contents.

The Lawyers' Guide to the Perfect Accounting System.....	3
Your Accounting Is Probably Set Up For Failure. ....	4
The Numbers Are Way Behind, And They Look Backward .....	4
The Accounting, Billing, And Bank Accounts Are Saying Different Things .....	5
The Attorney Is Too Involved In The Day-To-Day .....	5
Troubleshooting The Root Problems. ....	6
Problem #1: Systems.....	6
Problem #2: Setup.....	6
Problem #3: Roles .....	7
Problem #4: Goals .....	8
What Does A Good Financial System Look Like? .....	9
Zero data entry.....	9
Reports on demand .....	9
Compliance .....	10
Tax.....	10
Trust accounting .....	10
Real-time business intelligence .....	10
Connected to Goals.....	11
Looking forward .....	11
Cash flow-focused.....	11
Feedback and optimization .....	12
What Does This System Do For The Firm? .....	13
About The Author. ....	14
About LawPay. ....	15

# The Lawyers' Guide to the Perfect Accounting System.

For most law firms, accounting is a necessary evil needed to maintain compliance with tax laws and bar regulations. In this light, it's not hard to see why most attorneys hate discussions on accounting. But the true goal of bookkeeping is to help drive your goals. It's there to guide your decisions and give you real-time feedback as to the overall health of your business.



***When done well, your accounting system should provide peace of mind and be a driving force for where your firm is going.***

Every law firm starts with a goal in mind. Even if it's done out of passion and the kindness of your heart, the numbers will tell you how long and how comfortably the firm can continue to operate. From there, you can make better decisions on how to plan future spending and billing targets. This helps you be more confident in your books overall, and ideally opens up more time to dedicate to other tasks.

# Your Accounting Is Probably Set Up For Failure.

---

We can talk as much as we want about the importance of bookkeeping, but the simple reality is the large majority of law firms have very painful experiences with it. To determine how to do bookkeeping right, we need to first explore why it goes wrong.

For many attorneys, their first instinct at the thought of accounting or anything related to numbers is to avoid and retreat. That's because many have been burned by terrible experiences.

The good news is, we can dig to the bottom of those bad experiences and create a turnaround going forward and a system that helps you achieve your goals. What do these bad experiences look like?

## The Numbers Are Way Behind, And They Look Backward

Many attorneys have never taken a real-time look at their financials. Instead, they get their profit and loss statement several months after the fact. But when the insights are of times past, you're left in the dark when it comes to the current state of your firm, which makes it difficult to care about the information (or lack thereof).

Even if the numbers are provided quickly and efficiently, they are still just a report on things that have already happened. This information can be useful if you know how to categorize what you can see, and know what to look for, but overall it's still about things that have already happened and can't be changed. Meanwhile you are looking forward at the things that need to be dealt with now.

## The Accounting, Billing, And Bank Accounts Are Saying Different Things

The beauty of technology is you can use specialized tools to help keep your head on straight. Many attorneys use cloud-based practice management tools ([Clio](#) is a great one) to manage matters, time, billing, payments, and all things client-related.

To complement these tools, it's also important to have an accounting software to verify what the practice management system is saying with what the bank is saying. The right accounting software can also help organize your operating expenses and provide a full financial picture of your firm.

And, while many attorneys are very good with managing their time, billing, and clients, many also have a hard time keeping the information consistent between the different software. Eventually, this creates a big headache for anyone trying to understand which information to trust.

This is where the word reconciliation (which we'll cover later) comes into play. The role of bookkeeping is to ensure that every dollar and every transaction is categorized, so you know your information is accurate at all times. When you don't reconcile, and continue to pile up transactions, you risk letting something fall through the cracks—and out of compliance.

## The Attorney Is Too Involved In The Day-To-Day

Finally, bookkeeping really becomes a hindrance when you get too involved in the day-to-day.

You not only have bad numbers that aren't meaningful, but you end up wasting your valuable time. This is the experience for most law firms, so it's no wonder most hate thinking about bookkeeping.

# Troubleshooting The Root Problems.

---

Why the disconnect? Where does the bookkeeping go wrong to create these problems? We can look at a few common challenges, and they will help us solve what needs to be straightened out.

## Problem #1: Systems

As discussed, firms get into trouble when they have a practice management system, an accounting system, and bank accounts that show inconsistent information. These systems should be balanced and they should be self-verifying so you know nothing is falling through the cracks.

Solving this challenge is not terribly difficult, but one of the critical first steps is to make sure you have the right systems and technology in place to make this easier.

Once you have a practice management and billing solution in place to organize all of your case and client information, billing, and payments, you need to have an accounting system such as Xero or Quickbooks Online that integrates with your bank account and practice management software.

Many firms are stuck doing data entry and getting confused bouncing between a bunch of systems. It doesn't have to be that hard. Syncing all of these systems will help ensure that the data in each one is consistent, which may not solve the problem on its own, but will put you ahead of the game when it comes to reconciling all of your information.

## Problem #2: Setup

But just having the right tools doesn't make things easy. Even with the right software, many law firms never get set up correctly in the first place, which makes it difficult to find financial success.

For many firms, the problem is that, when you are first starting out, the accounting system is not the number one priority that it should be. Instead, lawyers focus on bringing in revenue and delivering a great experience to their first clients. Survival takes priority.

But, what inevitably happens is you end up with an accounting system where nothing is connected, you have a poorly defined chart of accounts, and transactions start to fall behind.

It's worth taking the time early on to create a strong accounting system, with a **chart of accounts** that gives enough detail about all your firm's revenue and expenses, including specifics on the performance of individual practice areas and attorneys at your firm. These are the insights that will help you make good decisions about growing your business.

Whereas, a broken system will only become more of a problem, and more difficult to fix, the more ingrained it becomes.

## Problem #3: Roles

Law firm bookkeeping also breaks down when the wrong people take on the role. We often see this progression at law firms:

1. Lawyer does bookkeeping
2. Lawyer's spouse does bookkeeping
3. Paralegal does bookkeeping
4. Office Admin wearing 100 hats does bookkeeping
5. Part-time bookkeeper with no law firm experience does bookkeeping
6. Qualified bookkeeper takes over

Until a qualified bookkeeper takes over, most firms will struggle. Anyone else in the firm taking on the additional responsibility of bookkeeping with few qualifications will rarely have the time to prioritize bookkeeping over their other responsibilities. And no one other than a qualified bookkeeper has the knowledge and experience to navigate a law firm's practice management, trust accounting, and various software systems. It's a recipe for disaster.

## Problem #4: Goals

That brings us to the biggest challenge. If a law firm truly prioritized their financials and bookkeeping, they would jump straight to hiring a qualified bookkeeper. They would get someone who knows what they are dealing with every day to handle the numbers and deliver them.

But this unfortunately isn't always the case. And the reason why is because for most firms, the goal of bookkeeping is just to get it out of the way. It's not seen as valuable. It's not connected to goals. It's a necessary evil to maintain compliance and get taxes done. So whatever is a cheap way to get it out of the way is the best option.

But what if your financial system was actually contributing to your goals? What if it helped you have a simpler tax season? What if it helped you increase the cash flow going into your pocket?

# What Does A Good Financial System Look Like?

---

These accounting challenges happen to nearly every small law firm. They don't get set up properly, they don't get their tools working together, they don't prioritize their accounting, and everything breaks apart.

Conversely, when accounting is smooth and insightful for the business, lawyers start to love it because it guides them to getting what they want.

So what does that system look like?

## Zero data entry

First and foremost, we believe lawyers should never do the following:

- Enter data into an accounting software
- Log in to an accounting software
- Upload a spreadsheet
- Maintain a spreadsheet

You get the idea. The perfect accounting system involves minimal data entry. A law firm should be comfortable billing their clients and then they should have someone in the bookkeeping role making sure the invoicing and payments data matches the bank data.

This lets attorneys focus purely on serving clients and building their business. Or whatever they want. Just not bookkeeping and entering data.

## Reports on demand

The perfect financial system reconciles your data in real time, giving you on-demand reports when you want them, which can have a really big impact on how you run and plan your business.

## Compliance

Getting reports when you need them lets you account for your money, helping you achieve peace of mind in knowing that nothing is slipping through the cracks. It's also a key component to ensuring your financials are in accordance with legal industry rules.

## Tax

With all of the wrong problems, tax season can be painful. Searching through a year's worth of financial documentation is tedious and time consuming without the right systems in place.

Tax season is essentially about providing the right reports, and when you can get the reports you need at any time, your tax season won't be all that different from any other month.

## Trust accounting

Most attorneys understand the importance of good record keeping when it comes to trust accounting. You need to be careful when handling someone else's money.

Good bookkeeping provides the means for easy **three-way reconciliation**, so at any given moment you can be sure the movement of trust funds is tracked and balances are accurate.

## Real-time business intelligence

Reports on demand can be even more powerful depending on how detailed your chart of accounts is. If you are simply categorizing generic revenue and expenses, then it may help you find peace of mind, but it won't tell you a lot about the firm.

If you have multiple practice areas and start breaking down revenue and expenses by practice area, you can see, at a glance, which part of your firm is outperforming another and where to focus your efforts.

## Connected to Goals

Having organized bookkeeping is great. It saves time. It gives you peace of mind. It makes a lot of things easier. However, that still does not necessarily drive you toward where you want to go as a small law firm. To take your financial system to the next level you need to have your numbers connected to your goals.

### Looking forward

Most firms move ahead with no real direction or end goal. The best of the best are very intentional about what they want and how to make it happen.

Every firm has different goals. Some may want to grow aggressively. Yours may want to simply take more money home or be more profitable. No matter what that goal is, the path to get there is found in the numbers.

The simplest way to connect your numbers to your goals is to project forward with a 12-month budget. You can simply extrapolate the data from the last 12 months to give you a baseline to work from. In looking at your past 12 months, you should get a sense of your monthly revenues, when your slow months are, when your peak months are, and when you need to account for certain expenses.

Once you set a target and build a budget to get there, then you can start asking questions. What has to happen to get there? What are the numbers that stand out? Your projections may not completely support your goals as you design your model, but the exercise of looking forward will help build accountability and clarity in terms of where the firm is going.

### Cash flow-focused

No matter what your firm's goals are, your key numbers are going to come back to cash flow. Cash is king for many reasons. Most importantly, cash flow is what keeps your business running and allows you and your employees to get paid.

Any business owner who is taking what they are doing seriously will have a good understanding of the cash flow in the business.

Specifically, you should have a handle on how to quickly convert client bills into cash.

A few things you can do right now to improve your firm's cash flow:

1. Use LawPay to accept credit cards and get paid immediately
2. Relentlessly track your Accounts Receivable so you can follow up quickly
3. Get bills out quickly - the sooner, the more likely you are to get paid right away

Once you have your foundational element in place, the next piece in driving cash flow is to create a forward-looking budget.

When you create your forward-looking budget, you'll quickly determine that all numbers in your business are not created equally. There are typically three to five key metrics in any business that have the biggest impact on success or failure.

These are called key performance indicators or KPIs. Depending on what your goals are, you will have three to five KPIs that will determine whether or not you hit those goals. You will want to track them relentlessly, and make adjustments to make sure they happen.

## Feedback and optimization

Creating your forward-looking plan and determining KPIs is a huge step, but it's still not the most impactful piece of the perfect accounting system. When things really get interesting is when you make that plan, you create a system for feedback and optimization.

The best law firms and businesses have a regular cycle of forecasting, tracking, and adjusting as their assumptions change.

Instead of waiting several months before getting a report about what happened in the past, when you have the right system in place you essentially have a road map toward your goals—and real-time accountability on how that plan is playing out. This gives you time to make adjustments quickly to get things on track.

Now, this is where bookkeeping becomes a bit more interesting. You now have a guide toward getting what you want and putting more cash flow in your business and your pocket.

One of the reports we prioritize for all law firms is a budget variance report so you can see right away the difference between what you planned and what really happened. This shows, at a glance, where things stand and what needs to happen on a month-to-month basis to get where you want to be.

# What Does This System Do For The Firm?

---

For most law firms, accounting means stress, worry, frustration, wasted time, and not much real value. But if you have a system that works, you can turn that into confidence and insight, which will actually help your business in a huge way.

Your numbers can guide your goals and help you build the firm you envisioned when you started—or they can be a burden that keeps pulling you down.

The difference is in the systems, setup, and roles, and when you have those foundations in place, you can take control of your law firm. Even if you hate the numbers.

The true difference is in how much control you have in achieving your goals.

# About The Author.

---

Micky Deming is the Director of Business Development at [Kahuna Accounting](#). Kahuna Accounting specializes in law firm bookkeeping and is a Clio Gold Certified Partner and also Xero and Quickbooks Online certified. They help firms all over the country to put bookkeeping on autopilot turning lawyers' financial headache into clarity and insight. [Schedule a strategy session with Kahuna.](#)



# About LawPay.

---

LawPay was developed specifically to provide a sophisticated payment solution for legal professionals. The LawPay platform contractually protects client funds by restricting the ability of any third-party from debiting monies from an IOLTA account, and ensures compliance through the separation of earned and unearned fees. LawPay is an approved Member Benefit of 47 state bars, trusted by more than 50,000 lawyers, and is the only payment solution offered through the ABA Advantage program.

