Set Your Law Firm Accountant up for Success

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Law school prepares lawyers for many challenges, but managing a law firm's finances is not typically one of them. Managing the firm's books and ensuring financial accuracy and compliance fall outside the traditional legal curriculum.

Because of this gap, lawyers often find themselves needing expert help to navigate the complex world of financial management. Accountants step in to fill this role, providing critical support in maintaining accurate records and helping to ensure compliance with jurisdictional regulations. Their expertise allows lawyers to focus on their core legal work without worrying about the intricacies of financial administration.

Therefore, law firms greatly value accountants, whose primary goal is to save the business time, hassle, and money.

In this blog, we explore the collaborative partnership between lawyers and their accountants and how legal accounting software empowers both parties for success!

Empowering accountants with legal tech: A lawyer's secret to financial success

Whether you're a larger firm with dedicated bookkeepers and accountants or a small firm that manages its own finances, there is one secret weapon that allows firms to ensure that their finances are in order: legal-specific accounting technology.

Below are some common legal accounting challenges that lawyers (and their accountants) face daily, quarterly, and annually. While these challenges are unavoidable, there are ways—with legal technology—to streamline and improve accounting efficiencies.

Addressing common legal accounting challenges through technology

A law firm's top financial concerns include accurate billing and invoicing, compliance with tax laws, trust accounting compliance, and having a clear view of the firm's financial health and standing. Below are some ways you can make your life and your accountant's life much simpler:

1. Trust accounting compliance

One of the main accounting challenges at any law firm is managing its trust accounts in compliance with the jurisdictions in which the firm operates or is licensed to practice in.

Law firms need to ensure that they comply with regulatory requirements in their jurisdiction, separate unearned client funds from operating funds, keep meticulous records, and conduct regular reconciliations of their trust accounts. Doing all of this work by hand is not only a headache but also opens up the firm's risk of audits, fines, and potential disbarment in the case of inaccuracies.

But with the help of a specialized accounting tool designed for law firms, legal trust accounting can be made simple. For instance, Clio Accounting allows lawyers and their accountants to track trust deposits, transfers, disbursements, withdrawals, and refunds all in one central location. In addition, you can match trust bank account transactions to what's in your books in one place, making it easy to reconcile your ledgers and complete three-way reconciliation.

And best of all, by providing built-in safeguards, such as trust account reconciliation tools and automated compliance checks, Clio enables law firms to maintain accurate trust accounting records and adhere to industry-specific regulations with ease.

2. Filing taxes

Each year, law firm accountants dedicate significant time to preparing a firm's tax filings, from gathering documents to compiling reports and financial information. When going between bank statements, a case management system, and accounting software, this task can be daunting and make firms vulnerable to mistakes and errors.

With legal accounting software solo lawyers, small firms, and firms with dedicated accountants can record and organize every financial transaction related to running their law firms in one centralized location.

Tools like Clio Accounting simplify the tax filing process by quickly generating financial and reconciliation reports that can be easily exported, printed, or filed. Additionally, lawyers can easily provide their accountants with free access to all the necessary information, streamlining the entire process with any paid Clio Accounting subscription.

Check out our post on the top tax reductions every law firm should know about.

3. Cash flow management

One of the most important parts of running any business is understanding the flow of cash. How much money is going out, and how much is coming back in. If you're keeping track of expenses and outstanding invoices in an Excel sheet, understanding cash flow would take a lot of manual calculation. Legal accounting software allows lawyers and their accountants to, at a glance, see how money is moving across the firm.

According to the *2024 Solo and Small Firm Legal Trends Report*, solo firms that use Clio Payments have total lockup (money that has been invoiced, but not paid) that is shorter by six days' worth of revenue, while small law firms that use Clio Payments have total lockup that is shorter by two days' worth of revenue. Now, combined with Clio Accounting, law firms will not only get paid faster, but they will have a better total grasp on their financials at all times.

For example, the accounts receivable tab in Clio allows firms to sort the unpaid or partially paid balances by client, due date, or balance owed. This ability to see AR aging status allows firms to improve cash flow more efficiently and effectively.

4. Integration with practice management software

Above, we spoke a lot about how legal accounting software can aid lawyers and their accountants with the financials, but that is not the whole picture. To best understand the profitability of your firm, you need to have visibility on all cases, client intake, payments, and eliminate non-billable work wherever possible.

Having your case management software solution, client intake and relationship management tool, payment processing software, and now, legal accounting software all in one place, you'll be able to eliminate the risk of error that can come with working with separate solutions and vendors. Clio improves efficiency and enables you to increase billable hours, by reducing the time spent on administrative work.

Better yet, compliance and accuracy will be simpler than ever for your accountant, and your firm.

Understanding your firm's financial needs and goals

To guide your firm in the right direction, you need to be able to clearly articulate where your firm stands financially and its utilization rate (the measurement of workload and productivity). If you're switching between case management tools and a separate accounting tool, there will be a lot of cross-referencing and manual report creation to see the whole picture. This can be time-consuming and potentially not completely accurate.

But the good news is that financial reporting can be easy, allowing lawyers and their accountants to pull reports and view their firms standing in a few clicks.

Clio Accounting allows a firm to review all entered financial data (reporting), recuperate client costs paid upfront, ensure trust accounts are being reconciled, review and approve draft bills (firm-dependent), get the documents required for quarterly or annual tax assessments, share various receipts with the correct person or team, and account for their own clients' or cases' bills and payments.

> "As a company that only does accounting work for lawyers, we have been exposed to many systems and integrations for law firm accounting. In the past four months, I have been using the new Clio Accounting system for a few of our clients. If you're a solo attorney looking for an integrated accounting system, not QBO [QuickBooks Online], look no further. Clio Accounting will meet your needs 100% for expense and income tracking, hard cost tracking, monthly reconciliations, trust accounting and three-way reconciliation, and financial reporting. Clio Accounting even ships with a built-in chart of accounts designed for law firm business. So, no need to scratch your head and figure out how to build your own chart of accounts. Connecting your bank accounts and credit cards to Clio Accounting is very simple as well. Handling the transfer of trust funds to operating after billing is very clean and simple to reconcile both sides (out of trust and into Operating)."
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> Peggy Gruenke of CPN Legal

Make your accountant happy with Clio Accounting

The seamless integration between Clio Accounting and Clio Manage empowers lawyers and their accountants by providing a cohesive and efficient solution for managing both financial and operational needs in a single system of record.

By simplifying complex tasks and reducing manual errors, Clio Accounting sets accountants and bookkeepers up for success, ultimately enhancing their productivity and ability to deliver exceptional service and compliance.

To get your firm's financials up to the gold standard, book your demo today and discover how you and your accountant can streamline processes, ensure accuracy, and enhance overall productivity.

About Clio

Clio is the global leader in legal AI, powering legal work across the profession, from law firms of every size to corporate legal teams, government agencies, and courts. Its Intelligent Legal Work Platform unites the business and practice of law, connecting the people, information, and processes behind legal work. Clio's AI brings the context together with legal sources drawn from Clio Library, a growing collection of more than one billion legal documents. Over 400,000 legal professionals in more than 130 countries rely on Clio to run their legal world. Learn more at www.clio.com.