

## Bookkeeping & Accounting in a Law Office

(Updated January 2013)

### Number-crunching in a law office

In a law office, "number-crunching" takes place at three levels:

- **bookkeeping**, which involves posting transactions to journals and ledgers, and is the foundation for the other levels
- **accounting**, which involves sorting the posted entries into several common reports that are generally accepted by accountants as summarizing the basic financial performance of the business, including in particular the Profit and Loss Statement and the Balance Sheet
- **management information reporting**, which involves sorting the posted information into a variety of reports that can be used in the management of the business, including such reports as
  - aged work in progress
  - aged accounts receivable
  - summary of fees and disbursements billed and collected, by month, by lawyer or by area of practice
  - accounts receivable trends
  - budget variances

### Do I have to have a Trust Account?

The Rules of the Law Society of Alberta, Rule 119.1 permits the Executive Director to exempt a lawyer from the requirement of appointing a responsible lawyer and the requirements of a trust account. Typically, most law firms that practice law receive and disburse client funds entrusted to them. However, there are situations where no retainers/trust money will be received, such as a criminal lawyer dealing exclusively with Legal Aid or a Wills and Estates lawyer who will only issue accounts after completion of the work. In these cases, a lawyer/law firm must file an Application for Exemption from operating a trust bank account. Once approved, the law firm must then submit annually a Law Firm Self Report. Please note that a lawyer/law firm approved for exemption is only required to complete specified sections of the Law Firm Self Report.

The mandatory Designated Filing Date ("year-end") for all law firms is December 31 and the report is due three months after the Designated Filing Date. The completed Law Firm Self-Report must be submitted by March 31 ("Due Date") the following year.

### Should I use a Manual or a Computer-based System?

Your decision on whether to use a manual or a computer-based system will depend on a number of factors. Some of the pros and cons are set out in the table on the next page.

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Type	Pros	Cons
Manual	Inexpensive to purchase "Low-tech"--easy to learn Sufficient for practice with low volume of entries "Hands-on"	Minimal management information Requires considerable time-consuming, repetitious, tedious, meticulous work No automation of account generation Very difficult to implement timekeeping efficiently Error-prone No built-in error corrections or audit controls Inadequate for practices with high volume of entries Tracking budget information is difficult Needs accountant for year end
Computer	Instantaneous access to information Built-in math functions reduce errors Rapid entry codes permit quick, accurate posting Can handle high volume of entries Trust integrated with Manual Systems	More expensive to purchase Users must be trained Some programs are overly complex for solo or small practices May result in technophobic lawyer losing touch with financial information

Although computerized accounting and management information systems are used widely in today's law offices, there is still a place for manual bookkeeping systems, particularly for

- lawyers with a minimal amount of bookkeeping
- lawyers who do not want to computerize

**Note:** some firms may have electronic filing as a condition of their trust account approval which will require the use of approved accounting software.

A manual system is a good way to get a "gut-level" understanding of law office bookkeeping. It is also very inexpensive to get a manual bookkeeping system started. However, a manual system is inefficient and does not produce much useful information.

If you decide to use a manual system, call the Practice Advisors Office for a free copy of the Guide to Manual Law Office Bookkeeping.

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## Computerized Systems

There are a number of good computer accounting programs available for small law practices. Under the new Trust Safety rules, lawyers are being encouraged to use legal specific accounting programs to stream-line their accounting procedures. If lawyers are using accounting software that contains features that enable users to transmit accounting information to the Law Society and if the data is transmitted, no Accountant's Report is required. Currently, there are three Law Society approved legal software vendors, Clio, PCLaw and Esilaw. The Law Society continues to work with other vendors so this list will continue to be expanded. See the article [What Kind of Accounting Software Should I Buy?](#) and call the Practice Advisors for current information.

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