



Why Law Firm Billing and Trust Account Systems Must Work in Tandem

Interrelated Billing and Trust Transactions Function like a Bicycle Built for Two

An Easy Soft LLC White Paper

Technology can be friend or foe. For small to medium size law firms, billing system choices exhibit the greatest contrast in the use of technology, for better or worse.

Law firms recognize the need for automated time tracking and billing systems. No arguments about that. But, unlike many other professions, other factors come into play for legal practices.

Choosing Legal-Specific Billing Software

Law firms typically require legal-specific billing programs to handle a variety of client billing arrangements, such as hourly, fixed and contingency fees. However, law firms often select a billing system without adequately analyzing their trust bookkeeping requirements. While attorneys understand the importance of complying with stringent trust account bookkeeping rules, they frequently do not grasp that many billing and trust activities function like a bicycle built for two, when managed in an integrated fashion.

Because legal billing practices come under purview of state ethics departments, it is equally crucial that billing and trust accounting software help you comply with regulations.

Law Firm Billing and Trust Accounting are Interrelated

A standard practice for most law firms is collecting advanced client payments (retainers) for services. In general, states have strict accounting rules that require depositing unbilled/unearned client funds in trust accounts.

If an attorney expects to use advanced funds quickly and the specification is in the client engagement letter, state rules may permit deposit of retainers in a regular operating accounts. The rule of thumb is strict adherence to states' professional and ethical rules pertaining to client funds. Failure to abide by the rules and maintain proper trust and operating account bookkeeping could result in administrative, civil or criminal sanctions.

If your law firm accepts and deposits client retainers in trust accounts until charging the funds to invoices and transferring them to an operating account, it is important to ensure your billing system also meets all your trust accounting needs.

Keeping Track of Retainer Balances

First and foremost, whether you deposit retainers in trust or operating accounts, you must always know a client's retainer balance. Remember, retainers are client funds, not your funds.

With each invoice, apart from the amount billed, you will need to supply retainer balance information. Once you generate an invoice, you might apply retainer balances to pay off the invoices.

If the retainer is in a trust account, you must:

- Issue a trust check payable to the law firm for the invoiced amount.
- Make a deposit in your firm's operating account.
- Apply the deposit to the invoice and mark the invoice paid.
- Update the client's retainer balance and unpaid balance, when retainer funds are used to pay invoices.

If the retainer is an operating account, you must:

- Apply funds received and previously deposited in the operating account toward invoices and mark invoices paid.

- Update the client's retainer balance and unpaid balance as retainer funds are applied and invoices marked as paid.

Missing a Critical Step Throws Your Billing and Trust Accounting Out of Sync

If you fail to complete any of the above steps in your ledger or bank account, your system will be out of sync. For example, if you applied a trust retainer to an invoice, but forgot to write a check in the trust bookkeeping system, the result will be an invoice marked paid, but funds not drawn from client trust account. Numerous combinations of this sort are possible and each mistake will result in severe administrative headaches.

Maintaining a 360 Degree View

While working on a legal matter, it's nice to know current retainer balances. In fact, it's beneficial to know the client balances for each of the following at all times:

- **Unbilled Balance:** The total dollar value of the time and expense cards recorded, but not billed.
- **Unpaid Balance:** The total amount you have billed the client, but that has not yet been paid.
- **Operating Retainer Balance:** Client retainer balance in the operating account.
- **Trust Retainer Balance:** Client retainer balance in a trust account.

The above balances are interconnected and you must update them simultaneously. When you convert time/expense cards to invoices, the unbilled balance goes down and unpaid balance goes up. Likewise, when your office pays invoices from retainer balances, the unpaid balance goes down and the retainer balance goes down.

Knowing these balances at all times gives you a 360 degree view and puts you in much better control. Here's how:

- If the unbilled balance exceeds your comfort zone, you can invoice immediately rather than waiting until your next scheduled billing date.
- If unpaid balances are rising, start sending payment reminder letters along with overdue invoices.
- If retainer balances are available, invoices are unpaid and your engagement letter allows you to apply retainers, you can quickly pay off those invoices.

Typical Billing & Trust Account Scenario

Here is a simplified example of how to handle the retainer for a legal matter and its corresponding trust account.

1. On January 1, you opened a new case with a \$5000 initial retainer and deposited it in your attorney trust account. Your trust books must reflect client balance of \$5000.
2. In the month of January, you recorded \$2700 in time/expenses charged to the matter. On January 31, your books must show the matter's unbilled balance as \$2700 and retainer balance as \$5000.
3. On February 1, you generated an invoice converting unbilled time/expenses to billed status. Your books must reflect the matter's unbilled balance as \$0, unpaid balance as \$2700 and retainer balance as \$5000.
4. On February 1, you paid the invoice from the retainer balance. Then, your books must reflect the matter's unbilled balance as \$0, unpaid balance as \$0 and retainer balance as \$2300. You will make a bank deposit with \$2300 trust check to your operating account, which your accounting ledger must reflect.

Even this simplified, but practical illustration shows how law firms billing and trust activities are closely interrelated.

Like Invoices, Retainers Aren't a One-Time Event

Most law firms send reminder notices for aging invoices (if you don't send late payment reminders, numerous studies suggest your chances of getting paid fall exponentially with rising invoice aging). It is also common for a good billing system to automatically prepare batch reminder notices for all overdue invoices and print your choice of cover letter.

Retainers are in the same league with invoices and late payment reminders, and are not just a one-time event. However, law firms often forget to ask for replenishments, when retainer balances fall below a required amount. If your engagement letter requires a client to maintain a specified retainer balance, you must ask for "replenishments."

Just like periodic invoice reminders, it is highly recommended law firms make it a practice to generate retainer replenishment demand letters. Chances of a client coming in on their own and handing out additional advances are not very high!

Trust Bookkeeping Safeguards — a "Must Have"

While you weigh the advantages of an integrated billing-trust account system, do not forget that it's not enough for the system to track retainer funds in trust accounts. Trust funds are strictly client funds; they follow special accounting rules. The same system must also provide required trust bookkeeping safeguards.

Trust accounting is fundamentally a different bookkeeping concept and must be able to:

- Support monthly bank statement reconciliation.
- Produce three-way reconciliation statements (tie bank with book and individual ledger card balances.
- General ledger balances with details about the portion of funds that have cleared/not cleared the bank.
- Prevent common trust bookkeeping mistakes from occurring such as ledger card overdraft, co-mingling with other ledger cards, duplicate check numbers, etc.
- Print checks, deposit slips etc.

Benefits of an Integrated Billing and Trust Accounting System

Your firm will reap a host of benefits with accounting software that blends trust account bookkeeping with your time-tracking and billing system. Not only will you improve back office efficiency, you'll spend less time on billing management and have more hours available for casework. Built in system safeguards ensure trust account compliance with state regulations and give you peace of mind. Last, but not least, when billing and trust accounting systems work in tandem, you'll increase profits and improve your firm's financial picture.

Easy Soft to the Rescue

For technology at its best, try Easy Soft's fully integrated billing and trust accounting software combo. Easy TimeBill software with the add-on Easy Trust module is an easy to use program that captures all billable hours/expenses, generates bills, receives payments and maintains trust books in compliance with state requirements.

Learn more. Contact: 800-905-7638 or visit us online at: <http://www.easysoft-usa.com>.

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