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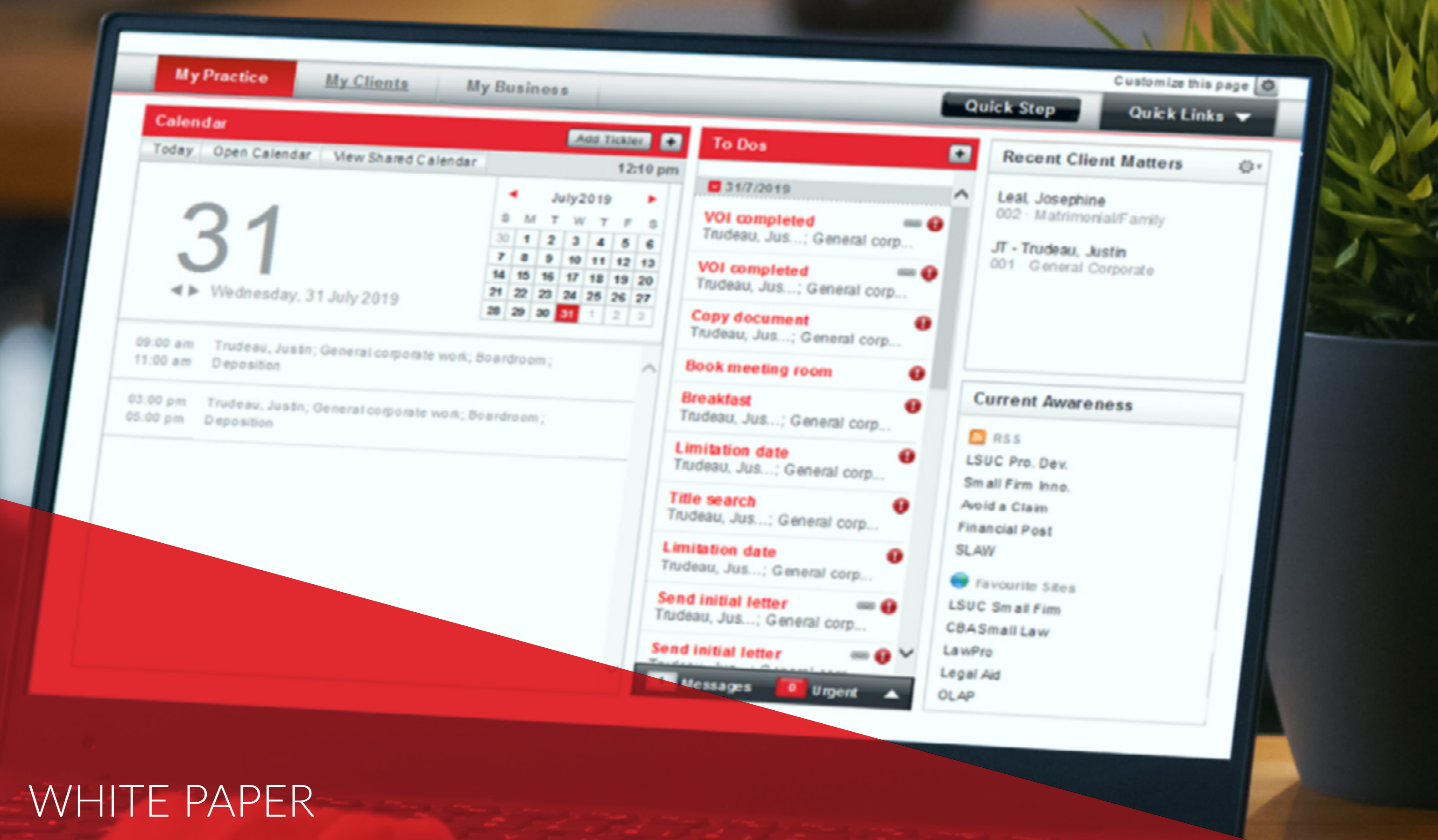

WHITE PAPER

END-OF-YEAR RESOURCES

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End-Of-Year Doesn’t Have To Be The End Of You. Really.

I know the year-end process inside and out, but I never rely on memory, I rely on checklists.

While you may always feel some trepidation before you start preparations, even taking care of one single step early – bank reconciliation – can make all the difference in making everything go significantly smoother.

As a CPA myself, I know the year-end process inside and out, but no matter how much I may pride myself on knowing every step by memory, I never rely on memory. I rely on checklists, which I’ve made a major part of this guide, along with notes I’ve made through the years that keep the process moving along smoothly.

Even if you know every year-end step by memory, even if you’re certain you have every account reconciled, every decimal in place, you’ll find the entire guide helpful for going back over and checking twice before you push the button to close out your accounting or fiscal year.

End-Of-Year Checklist

So many details. So little time. The trick is avoiding missteps along the way. Follow this roadmap carefully to avoid costly detours that can lead you off-course.

- [ ] Reconcile each bank statement to your banking transactions for the fiscal year. Ensure that the dollar balance on your records is accurate.
- [ ] Submit financial statements to the firm’s accountant to check for posting errors or reclassification changes.
- [ ] Make a back-up of your financial software data before and after you close the year.
- [ ] If client costs are carried as a receivable, be sure the client detail ties out.
- [ ] Review your 1099 listings for the year and produce 1099 forms for all vendors by January 31 [U.S. only].
- [ ] Close all months except the last month of the fiscal year.
- [ ] Enter general ledger adjustments from your accountant dated the last day of the fiscal year.
- [ ] Use budgeting features from your financial software to analyze and prepare budgets and make adjustments for the following year.
- [ ] Make a back-up of your financial software data.
- [ ] Close the last month of the fiscal year.
- [ ] Close the year.

Closing The Books

When all data entry activity is complete for the previous year, it's time to close the books for the year. This process occurs in two stages, closing the individual months, and closing the year itself.

The end-of-month process should occur throughout the fiscal year. This process freezes data entry for any activity involving cash, along with the general ledger for the closed month.

When the last month of the fiscal year is closed, end-of-year can be run, zeroing out income and expense accounts while also updating the capital/equity accounts for the new year.

End-of-year is not performed immediately when the calendar year ends. Often year-end adjusting entries prescribed by the firm's accountant are required. Upon receiving these entries, you'll need to back-date the adjustments to the last day of the fiscal year.

Before closing a year, the following conditions must be met:

- All bank accounts have been reconciled.
- The accountant's adjusting entries have been received and entered.
- Financial statements have been printed and compared.
- The last month of the fiscal year has been closed.

Year End/Month End Reports Checklist

This is a general guideline for which financial reports you'll need to refer to and/or print for end-of-month/end-of-year. Check with your accountant for any additional reports he or she may recommend, or that may be required by regional governing bodies.

- [ ] General Bank Journal (for each general bank account check register)
- [ ] Trust Bank Journal (for each trust bank account check register)
- [ ] Write-Up/Write-Down Journal (for costs that have been adjusted)
- [ ] Client Costs Journal
- [ ] Client Trust Listing
- [ ] Client Summary (detailed including retainers)
- [ ] Billings Fees Journal (this must tie back to the clients receivables)
- [ ] General Journal
- [ ] Receivables by Client Report
- [ ] Sales Tax Journal (if applicable)
- [ ] WIP Fees and Collection Report or print out each individually
- [ ] Revenue Collected by required parameters (for partner compensation calculations)
- [ ] 1099 Listing
- [ ] All relevant Payroll Reports

For firms using accounts payable, the following reports should also be used:

- [ ] Purchases Journal
- [ ] Payment Listing
- [ ] Payable Listing
- [ ] Financial statements you'll need:
- [ ] General Ledger
- [ ] Trial Balance
- [ ] Income Statement
- [ ] Balance Sheet

BEST PRACTICE

Produce separate general bank journals and/or trust bank journals for each affected bank account. A separate report should be present in any report group for each bank account.

BEST PRACTICE

Two versions of the Client Summary should be included as part of month-end reporting procedures: One to display retainer balances, the other to display totals for the firm.

FYI

Primary reports are: general bank, trust bank, client cost, billing fees and purchases. Financial statements and productivity reports pull their content from these journals. Detailed transactions on the general ledger indicate the source journal from which the record is pulled.

FYI

Some journals reconcile to the general ledger. The G/L is preferable for comparison purposes because it displays opening balances, entry details and closing balances.

TIP

Bank reconciliations must be complete before you begin general ledger reconciliation and before the G/L is frozen. Each bank account balance in your G/L will need to balance to the bank journal and bank statements.

ALERT

A journal entry should not be used to adjust the client receivables and accounts payable. Those adjustments should be entered as an invoice or credit note for client receivables and accounts payable should be entered as a debit memo.

Your Accountant's Role In End-Of-Year

It's traditional to have your accountant look over all your firm's financial statements at the very beginning of the year-end process. One reason is to spot and correct classification errors, such as rent posted as telephone. Another equally important reason is to take advantage of your accountant's expertise in finding reclassifications to help reduce your tax bill and to ensure compliance with all tax issues.

You might also consider meeting with your firm's accountant intermittently through the year, perhaps quarterly or even monthly if your goal is to take some of the chaos out of year-end, or to fully take advantage of your accountant's expertise without the pressure of year-end bearing down. Many firms spend dearly in added accounting costs each year because every piece of the year-end puzzle is pushed out to the frantic final weeks, days and even hours of the year-end procedure, when rush charges can accumulate rapidly and leave your firm with an extra expense you never planned for in budgeting.

If you're well-prepared at end-of-year and have closed the books each month, your accountant charges likely won't be much different for end-of-year service than they have been for getting help with end-of-month closeouts. It's even possible you'll save money over the year.

You're also more likely to have your accountant's full attention if you're not loading him or her down with everything at one time at the very last minute (never mind that your own attention span will be longer if you're not worried about every other detail still to be completed for year-end).

The Advantages of Closing Months as You Go During The Year

Closing months in a timely manner creates several advantages for law firms, and not all of them are about making end-of-year less taxing:

- Errors can be promptly identified and corrected, making the reconciliation process more manageable. Waiting until year-end to reconcile a year's worth of bank accounts and journals can be overwhelming.
- Users are prevented from backdating entries in previously reconciled months.
- Entries that have exceeded their allowable retention periods (stale checks) can be purged.
- Federal and state taxes are made easier to prepare in a timely, organized fashion.
- Organized and accurate trust account records are mandated by your local bar association. Many bar associations perform random audits to test compliance.
- Bank reconciliations must be complete before your firm can print financial statements. Financial statements allow your firm to:
    - ◊ Compare your firm's financial standing against budget.
    - ◊ Determine what's available for profit distribution.
    - ◊ Present a better lending profile to your bank.
- Updated month-ends may also help your firm save on end-of-year accounting fees. At year-end, all you'll have to do is close out the final month and send financial statements off to your accountant for adjustments. Once adjusting entries are made, the final month can be closed. With everything in order, there is no last-minute rush that can cost your firm excessive rush fees for hour-intensive catch-up work.

Closing A Month

Closing a month means finalizing entries for that month. Applicable journal entries are posted to the general ledger, and the account balances are frozen to prevent further changes to the financial statements for that period. Although a month may be reopened, a closed month prevents data from being backdated.

A month does not have to be closed immediately, though there are certainly advantages to reconciling and closing months on a regular basis, detailed on the previous page. Prior to closing any month, you should confirm that your key accounts are reconciled. This procedure is best performed using the G/L reconciliation report.

Completed properly with legal-specific accounting software, the month-end process will also include freezing bank account data entry and the general ledger for that month.

While freezing data entry may seem overly final, and somewhat nervewracking, freezing the month's data doesn't prevent you from accessing data. It merely keeps entries from being back-dated to a previous month that's been closed, protecting the integrity of your financial data.

ALERT

For your fiscal year-end to be on December 31st, the month of December must be the last month closed prior to performing end-of-year.

BEST PRACTICE

Maintaining hard copies of primary monthly reports on file:

- Creates an ongoing repository for your data.
- Builds a historical record of key reports in case you ever need them as evidence of what transactions occurred.
- Provides another layer of backup in case your data ever becomes inaccessible.

BEST PRACTICE

For both record maintenance and reconciliation purposes, it's best to print or keep an electronic record of the same reports each month, and to produce the reports in the exact same manner. You should create such print-outs or computer files as part of your regular back-up routine.

BEST PRACTICE

Your life will be much easier if you create end-of-month/end-of-year report groups to print all reports in a single activity. You'll save yourself from having to create individual reports separately, while also ensuring that you don't inadvertently leave out essential reports and statements. If you're using a good legal-specific program such as PCLaw® accounting software, you'll find existing report groups such as End-of-Month or End-of-Year that can be used as they are, or modified by adding to or subtracting from the existing list.

To protect your firm from potential year-end hassles, it's important to collect 1099 vendor information at the very beginning of a relationship.

1099 Checklist For Law Firms

Getting 1099s in order is essential to closing out the year and completing your taxes on time. Scan this list to jog your memory for any potential oversights.

- [ ] Expert witnesses
- [ ] Sheriffs
- [ ] Other lawyers or law firms your firm paid during the year (even incorporated attorneys or firms if they're paid more than the $600 annual threshold amount)
- [ ] Investigators
- [ ] Court reporters
- [ ] Jury consultants
- [ ] Vendors that are not incorporated or are classified as sole practitioners
- [ ] Class-action clients if your firm was heavily involved in managing and overseeing the distribution of settlement checks
- [ ] Vendors paid from trust accounts (checks paid from trust accounts won't be included in your Accounts Payable Journal, but will be included in your 1099 listing if they have been entered properly)
- [ ] Clients receiving settlement distributions over $600 or current limit

BEST PRACTICE

To protect your firm from potential year-end hassles, it's important to collect 1099 vendor information at the very beginning of a relationship. Each vendor should complete and provide a W-9 form. Not only will it protect you from year-end hassles tracking down missing information; it also ensures that every vendor is properly set up in your firm's accounts payable software from the very beginning. That makes issuing 1099s push-button easy if you're using legal-specific programs such as PCLaw financial management software.

BEST PRACTICE

When producing vendor checks from anywhere inside your financial software, be sure to select the vendor from the vendor list rather than typing the entry individually. You'll save yourself the hassle of having to consolidate vendors under different or misspelled names when you're creating 1099s at year-end, while ensuring that checks written outside of accounts payable will be included in 1099 reporting.

STRESS SAVER

If your firm is certain (or reasonably so) that you're making a one-time payment to a vendor or client, you can save the end-of-year hassle by issuing and sending 1099s along with the check, no matter what time of year it is. Particularly in the case of a class-action lawsuit where the firm involves itself in sending out settlement checks to large numbers of plaintiffs, it will also save the firm an extra mailing later.

IRS ALERT

Law firms come under special scrutiny by the IRS for 1099s and may face complications other types of businesses aren't subject to. On the recipients' end of client payouts, the IRS also singles out law firms for special consideration, requiring every company hiring lawyers to report those payments on 1099s.

TIP

If in doubt about if you need to send a 1099 to a particular vendor or client, send a 1099.

ALERT

If your firm changed accounting software at some time during the current year, make sure you have complete vendor information from both programs before closing the books on the year's 1099s. You'll also need to include payments from your prior system in the current calendar year.

IRS ALERT

If a law firm creates more than 100 1099s, the IRS requires that those 1099s be filed electronically. For more details see, **www.irs.gov/pub/irs-pdf/i1099msc.pdf**

IRS ALERT

Needless to say, IRS rules are not only very complex; they also change from year to year. It's essential that your firm stay updated on the latest 1099 guidelines. To be safe, consult a tax advisor or the relevant IRS webpage. For 1099 rules, the address is:
www.irs.gov/pub/irs-pdf/i1099msc.pdf

"Needless to say, IRS rules are not only very complex; they also change from year to year. It's essential that your firm stay updated on the latest 1099 guidelines."

THE ADVANTAGES OF LEGAL-SPECIFIC SOFTWARE

FOR END-OF-YEAR, AND EVERY TIME OF YEAR

Generic financial software is a life saver for small businesses. It's intuitive. It's easy to use. And it's relatively inexpensive.

Unless your small business happens to be a law firm.

If you're using generic small-business software to manage the finances of a law firm, it's exactly the opposite of easy or inexpensive. And never more difficult or expensive than at year-end.

Reconciliation is a great example. If you're using separate programs for billing and accounting, entering numbers into both is not only time-consuming, it can be the worst possible nightmare at year-end. Every double entry throughout the year doubles your risk of human error bringing year-end to a dead-halt before you even get started.

With legal-specific programs, every step of your firm's financial organization is fully integrated — from billing to accounting to reporting and even analytics — so the numbers flow seamlessly from one step to the next. No double entry. No extra entry point for human error.

Generic small-business accounting programs also create problems for law firms because they're most often configured for businesses using the accrual basis of accounting. Unless the settings are customized (more lost time), all accounts receivable will be reflected in income and accounts payable in expenses.

Producing the correct reports for year-end can also be more difficult with generic software. Law firms aren't like any other business in some of the specific reports that can help you get through end-of-year, and on to a more profitable year next year. Perhaps most problematic for off-the-shelf software, though, is trust accounting.

PCLaw is designed to streamline trust accounting and to automatically prevent your firm from making errors that violate trust rules.

National and local bar association rules leave little room for error for law firms that handle their clients' money or other valuables in trust. And there are several ways that generic programs — even those with trust plug-ins — don't adequately support your firm:

- Generalized accounting can't account for money or valuables in trust by matter, nor provide detail by matter number the way legal software can.
- Reconciling aspects related to trust are far more difficult with generalized software.
- Generic programs require that firms set up separate companies for trust accounts, complicating the 1099 process. That can mean having to create 1099 forms for trust vendors separately, or worse yet, neglecting to create and send trust 1099s at all.

Legal-specific programs such as PCLaw® financial software are not only designed to streamline trust accounting; they're also programmed to automatically prevent your firm from making errors that violate trust rules and can lead to sanctions.