



# Year-end Accounting Checklist for Law Firms



You may be ready to throw out the old and ring in the new—but that's no excuse for your law firm to neglect key end-of-year tasks! Plan to review your firm's financials ahead of time so tasks feel more manageable and you can prevent them from cutting into your holiday plans.

At year-end, it is especially important to review your firm's financials as this information will be used to prepare your tax returns. Having clear and correct information will save you time and money as your accountant will be able to prepare accurate tax returns on a timely basis, with less need to meet with you to resolve questions. It also means that if you get audited, you are easily able to produce the needed records to respond.

While these procedures should be used throughout the year, we recommend paying extra attention at year-end. As you embark on your year-end accounting—consulting your accountant as needed—use the checklist below to help you get started. And when you've have everything in order, we hope you take a moment to enjoy the final days of the year and raise a glass to next year!

- Invoice clients through December 31**
- Pay bills that are due (if you plan on expensing the item in the current year)**
  - Make sure bills paid in December have been entered
- Reconcile all bank accounts (through December 31)**
  - Enter all bank fees and interest.
  - Match transactions between bank statements and books
  - Identify aged transactions that have not cleared
    - Less than 30 days: were the transactions near the statement closing date?
    - Greater than 31 days: determine why transactions have not cleared.
      - Contact parties, e.g. outstanding checks
      - Confirm entries are correct, e.g. duplicate entries
  - If trust account contains uncleared transactions for an extended duration, follow local jurisdiction rules to dispose of those assets.
  - If operating account contains uncleared transactions for an extended duration, formulate a plan for reissuance or voiding of these transactions.
  - Make adjustments (after consulting with your accounting professional).

- Reconcile Credit Card Statements**
  - Enter finance charges, interest, late fees, if any.
  - Enter any cash rewards.
  - Match transactions between credit card statements and books.
  - Review and confirm that client costs are linked to matters.

## **Trust Account**

- Confirm client retainer balances.**
  - If the client has an account receivable balance, pay from their retainer (if appropriate).
  - Identify closed matters with retainer balances; issue refunds.
  - Identify required retainer replenishments and issue invoices.
- Check client trust activities:**
  - Identify balances.
  - Ensure all trust activities are accurately posted.
  - Identify closed matters and ensure balances are zero.
- Run three-way bank reconciliation.**
  - Print and archive three-way reconciliation reports separate from bank reconciliation reports (one for each month in the year).
  - Send out annual trust ledger reports to clients if required by local bar rules.

## **Run and Review End-Of-year Reports**

- Balance sheet - as of December 31:**
  - Look for irregularities in balances.
  - Liabilities:**
    - Did the firm incur any new liabilities during the year?
      - Add to the balance sheet.
      - Review according to long-term/short-term as follows:
        - Long-term:**
          - Review opening date/terms.
          - Check that payments reflect debt service.
          - Determine that principal (unless interest-only debt) has been reduced.
        - Short-term:**
          - Review opening date/terms.
          - Check that payments reflect debt service.
          - Determine that principal (unless interest-only debt) has been reduced.

## **Run and Review End-Of-year Reports**

### **Balance sheet - as of December 31:**

Look for irregularities in balances.

#### **Liabilities:**

##### **Did the firm incur any new liabilities during the year?**

Add to the balance sheet.

Review according to long-term/short-term as follows:

###### **Long-term:**

Review opening date/terms.

Check that payments reflect debt service.

Determine that principal (unless interest-only debt) has been reduced.

###### **Short-term:**

Review opening date/terms.

Check that payments reflect debt service.

Determine that principal (unless interest-only debt) has been reduced.

### **Assets**

##### **Did the firm acquire any new assets during the year?**

Add to the balance sheet.

##### **Post accrued depreciation according to the IRS schedules (ask your accountant for details).**

##### **Advanced client costs, if applicable:**

Review transactions for accuracy.

Check for unrecoverable expenses and work with an accountant to determine what portion of those expenses can be written off as bad debt.

Write off amounts as instructed by an accountant.

- Equity -- identify owner-initiated contributions to equity (capital contributions).**
- Owner's draw:**
  - Review to ensure appropriate owner non-business expenses are allocated correctly, e.g., personal expenses charged to the business credit card.
  - Review to ensure firm expenses incurred by the owner are not allocated to this account.
  - If income to the owner is not allocated under salary expense, ensure all draws are included.

**Note:** this is a function of the type of business designation, e.g., LLC or LLP, S-Corp, etc.

## **Profit and Loss - Fiscal Year, e.g., January 1 - December 31**

- Income accounts -- review to confirm allocated transactions**
  - Fee income -- total.
  - Reimbursed client costs (only applies if your accountant has you track the matter hard costs on your income statement instead of on the balance sheet).
  - Reimbursed client costs -- soft.
  - Discounts - negative as reduces fee income.
- Expense Accounts**
  - Chart of Accounts
    - Review to ensure duplicate accounts have not been created.
    - Merge any duplicate accounts.
    - Ensure sub-accounts are properly listed.

- Reimbursable client costs expenses (if tracking matter hard costs on income statement instead of the balance sheet).**
  - Review to ensure transactions are properly posted
  - Check for unrecoverable expenses; write off.
  - Note: It is unlikely this expense and its counterpart in income will be equal.
- General expense accounts
  - Review and ensure no client reimbursements are posted to expenses.
  - Quickly review for overall accuracy of transaction postings.
- Accounts receivable/collection, as of December 31:**
  - Review overall AR Aging Report as of December 31.
  - Look for invoices aged more than 60 days.
  - Create Dunning Letter or other notification to clients.
  - For uncollective AR, formulate a plan with your accountant to write off invoices.
- Client retainer balances, as of December 31:**
  - Are there open invoices? Pay them from trust, if appropriate.
  - Is the matter active? If not, formulate a plan to issue refunds.
- 1099 Misc for non-employee compensation in excess of \$600.**
  - Run Vendor report, identify all vendors who must receive a 1099, such as, but not limited to:
    - Expert witnesses
    - Independent contractors
    - Other attorneys
    - Unincorporated businesses
  - Obtain EIN's or Social Security numbers.
  - Prepare Form 1099 Misc for each.
  - Prepare Form 1096 compilation and file.
- Compare numbers with last year. If anything is grossly out of line, why? This could be a sign of an error or a problem in the business that needs to be examined.**

## **□ Tasks For Your Law Firm's Accountant**

- Run trial balance report.**
  - Make adjustments (at a later date, post your accountant's review).**
- Close books effective December 31 to avoid accidental edits/ changes to books. However, changes might be needed as your accountant reviews.**
- Review performance and patterns with the practice owners. Understand the numbers and the trends and look at what you can do to help make the next year even better.**