

Accounting Terms Cheat Sheet for Attorneys



Ready to brush up on the essential accounting terms you need to know to manage your law firm's finances effectively? Here's your opportunity.

A solid understanding of legal accounting means you can better understand your financial statements, make informed financial decisions, and stay compliant with ethics and rules of conduct.

Here are the fundamental terms you need to get started.

ACCOUNTING METHODS

Accrual Basis Accounting

An accounting method where income and expenses are recorded when they're earned or incurred, even if they've not yet been received or paid.

Cash Basis Accounting

An accounting method in which income and expenses are recorded when they're actually received or paid.

Modified Cash Basis Accounting

A hybrid between accrual basis and cash basis accounting. Income and expenses are recorded when they are incurred, with some exceptions such as prepaid expenses and accrued revenue.

ACCOUNTS PAYABLE

The amount of money a law firm owes to its vendors and other creditors.

ACCOUNTS RECEIVABLE

The amount of money that clients owe a law firm but have not yet paid.

ASSETS

Economic resources owned by your firm, such as cash, accounts receivable, inventory, and property.

BILLABLE HOURS

The amount of time a lawyer spends working on a client's matter for which the client can be billed.

CASH FLOW

The net movement of cash into and out of a law firm over a period of time. Calculated by subtracting total cash outflows from total cash inflows.

CHART OF ACCOUNTS

A reference list of all the accounts a law firm uses to track and manage financial transactions.

DISBURSEMENTS

The expenses a law firm incurs on behalf of a client, such as filing fees, expert witness fees, and travel expenses.

EQUITY/NET ASSETS

The difference between a law firm's assets and liabilities.

GENERAL LEDGER

A record of a law firm's financial transactions, including the beginning balance, debits, credits, and ending balance for each account held by the firm. This can be used to prepare financial statements like balance sheets and income statements.

LIABILITIES

Debts that a law firm owes, such as accounts payable, taxes payable, and loans payable.

NET INCOME

A law firm's profit after all expenses have been paid.

OVERHEAD EXPENSES

Expenses that are not directly related to billable hours, such as rent, salaries, and benefits.

PROFIT MARGIN

A measure of how efficiently a law firm is converting revenue into profit. Calculated by dividing net income by revenue.

RECONCILIATION

The process of comparing bank statements for trust accounts to the general ledger to ensure that they match. For three-way reconciliation, cross-check the client ledger, trust ledger, and trust account statement.

REIMBURSABLE COSTS/CLIENT COSTS

Costs associated with a client matter that can be billed for. Can be divided into hard costs (direct costs incurred for a client and paid directly to a vendor) and soft costs (indirect costs like overhead expenses).

REVENUE

The total amount of money a law firm generates from its legal services. Calculated by adding up all the fees that the firm bills to its clients, regardless of whether they have been paid yet.

TRUST ACCOUNT

An account that is separate from the law firm's business account. Serves to ensure client funds are protected and used only for the purposes that the client has directed.

TRUST ACCOUNT STATEMENT

A statement that shows the activity in a trust account over a particular period of time.

WORKING CAPITAL

The difference between a law firm's current assets and its current liabilities.

CosmoLex simplifies legal accounting for busy law firms

With CosmoLex's legal business accounting and trust accounting software, you can easily track income and expenses, reconcile trust accounts, generate financial reports, and so much more.

[TRY IT FREE TODAY](#)