

Accounting Software: Legal Specific vs. Generic



You be the judge! How to best meet the special accounting needs of attorney's.

Range of Choices

Law firms face a confusing array of options in managing their financial affairs. The objective is always the same: to save time and money by better managing time and money. To understand how lawyers can do this, it is useful to review the most popular methods in use and examine their strengths and weaknesses.

The shoebox

Difficult though it may be to believe, many attorneys (and firms) still use the lowest of low tech techniques: keeping paper copies of all financial inflows and outflows to be organized by accountants or office staff as needed. The drawbacks to this are obvious. It is time-consuming, difficult to monitor, impossible to quickly analyze, and prone to errors.

Microsoft Word and Excel

Though a significant step up from the shoebox, there are still time-consuming tasks associated with these programs. A spreadsheet must be created, reports must be generated, and there is no continuous checking of things like accounts receivable.

Generic accounting software

This category would include programs like QuickBooks. While these products have many positive features, they are still unable to easily handle many of the specific accounting problems that attorneys and law firms must deal with.

Customizing these tools to effectively cope with these problems can be time-consuming, costly, and still yield less-than-optimal results.

Multiple Programs

Some lawyers and firms choose to use more than one system to handle their accounting and billing tasks. The disadvantage to having a separate system for billing and another for accounting is that there is usually little to no interaction between the two systems and getting a complete view of the financial picture requires separate reporting and analysis and reconciliation between the two systems, which is not the type of synergy that saves time and money.

Legal-specific software

This is, without question, the best choice. Attorneys have very special accounting needs and reporting responsibilities. Any failure in these matters can have serious professional, and, yes, legal consequences. So, finding a superior out-of-the-box tool that can address these needs is a major step forward for any lawyer or firm.

No Trust Accounting worries

Only legal-specific software can handle the special requirements attorneys must meet. Legal specific software programs are designed to deal with Interest on Lawyers Trust Accounts (IOLTA) requirements. It is possible for generic accounting programs such as QuickBooks to maintain IOLTA data, but reports are not automatically generated. And creating and monitoring reports is time-consuming. The other advantage of legal-specific software for IOLTA issues is that the system has been designed to prepare clear, detailed reports that will keep the auditors from the bar association very happy. An important safety feature offered by legal-specific software includes the prevention of overdrafts on client trust accounts. Additionally, legal-specific software permits automatic

transfer of funds during the billing process or manual transfer of funds from client accounts to operating accounts for payment of fees.

Flexible Billing Options

Another advantage of legal-specific software is the ability to generate a wide variety of bill types lawyers need. Whether the client is being charged on a flat fee, hourly-based, or contingency basis, legal-specific software can produce any type of invoice required. Bill layout needs may also differ from client to client. For example, sometimes bills must be split between clients and insurance companies. Or, perhaps a consolidated bill showing charges across many matters is needed. Customization of bills and their appearance is easily achieved with legal-specific software. Multiple clients can be billed all at once or one at a time, as appropriate. The order in which items appear on the bill can also be controlled to reflect chronological order or some other paradigm that is more suitable.

Additionally, an increasing number of businesses and insurance companies are beginning to require submission of electronic bills. Bills must be sent in a specific format in order to be analyzed by the receiving program. If there are no formatting errors or omissions, the invoice is paid. Legal-specific programs are able to format invoices properly and assure prompt payment.

Beyond Financial Reports

The ability to take payments from clients and allocate fees by biller, responsible attorney, area of practice, or by some variation of these criteria is critical to a firm with more than one stakeholder. With legal-specific

software fee allocation issues are readily resolved. Whether staff are paid by the hour or based on the value of the matter at hand, legal specific systems can produce the correct figures per your preference. Special compensation for things like bringing in new accounts can also be included in these reports. Because law firms require targets for their staff to bill each year, reports that show the productivity of staff compared to target are important for performance reviews and for employee coaching. With legal-specific software each employee's activities can be analyzed to see how many hours were worked, billed, and collected. Items like expenses and work in process are factored in, so that a complete picture of an employee's productivity is available. There is no better way of tracking an attorney's time.

Additionally, reports on trust accounts, operating and bank accounts, accounts-receivable, and work in progress can all be automatically generated by legal-specific software. Legal-specific software is designed to track hard costs and the much more elusive soft costs that clients incur. For example, if a check is generated to pay for some fees on behalf of a client, that expense is clear and is easily allocated. However, what about charges for things such as photocopying or faxing? Since no corresponding third-party payment is directly triggered, these expenses can be difficult to track. A good legal-specific software program makes available imports of this information from copiers, fax and telephone systems.

Security

There are two basic issues involved in security: granularity and mobility. Granularity refers to confidentiality issues. Which employees should have

access to financial information about clients? The firm? Who can submit bills? Who has the authority to use the software program's check-writing function? Who has access to information about the firm's bank accounts? All of these sensitive access issues can be established and monitored using legal specific software. Whether billing rates need to be kept secret or Chinese walls need to be erected between departments within the firm, your software should have the solutions to these problems.

Mobility is the other aspect of security. How will remote data entry be conducted? Will cell phone access to confidential matters be permitted? By whom? Again, the right software program can resolve these issues while monitoring all access activity and producing comprehensive reports.

Reluctant Accountants

Many accounting firms are familiar with generic accounting software like QuickBooks and reluctant to encourage firms to use legal-specific accounting software. They are often unaware of the advantages to the law firm and themselves that a legal-specific software solution provides. Fortunately, some legal-specific software solutions can export data for accountants in the QuickBooks format as well as provide a free copy for accountants of law firms to use for the purposes of having a copy at their office to run reports.

The Verdict

After reviewing all the special features and advantages that legal-specific accounting programs can offer, it is hard to see why firms choose to use generic software like QuickBooks. Although they are fine

programs, they simply do not meet the special needs of attorneys and law firms. Legal-specific software solutions provide so much more in terms of practice management accounting solutions than the generic software. And not just in the purely financial area. Document management, e-mail management, accounts receivable breakdowns by client or by attorney, 1099 generation, productivity reports, and security monitoring are all typically supported. There is no substitute for software designed with attorneys and law firms in mind.

Know Who You Can Trust

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PCLaw™ simplifies your firm's accounting tasks with a legal-specific system that integrates time, billing, and accounting functions in one easy-to-use solution. PCLaw provides flexible financial tools that are fine-tuned for law professionals - offering a comprehensive collection of powerful, flexible, and easy-to-use tools for time and expense tracking, billing, and receivables; trust accounting, and more in one integrated package. PCLaw is designed specifically to help your firm expedite billing and manage trust, financial, and client accounting tasks. Because it requires less training and includes advanced accounting features like eBilling, remote entry, integrated payroll, and credit card processing, its total cost of ownership is lower than most competitive products. PCLaw is the most widely used legal billing and accounting software in North America.

This Best Practice article is based on the original *QuickBooks Software vs. Legal Industry Accounting Software* webinar presented by Caren Schwartz, President of Time & Cents Consultants and a member of the 7 Second System group.

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