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Centerbase CloudBased Law Firm Management & Growth Platform

It's Time to Smooth Out Your Year-End Closing Process

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For many firms, accounting is a huge pain point. It's time-consuming and tedious, but it's crucial to any business's operations.

But before we get into the nitty-gritty, what does it even mean to close out a firm's books? Keep reading and we'll tell you!

Closing a firm's books is the process of finishing up all accounting activity for an accounting period and ensuring that the general ledger accurately reflects the financial activities of the firm.

There are many closing procedures that should be followed on a regular basis throughout the year, but there are also additional procedures to include at year-end. We know, that's just adding more to your plate, but these year-end procedures should be given special attention prior to closing the books for the fiscal year and we'll tell you why.

Profit distribution can occur at any time during the year, so it is critical to maintaining a complete and accurate financial picture so that appropriate projections of net income and cash flow can be made whenever required. By establishing regular month-end procedures, your firm can better maintain an accurate financial picture throughout the year and, in turn, will ensure a smoother year-end closing of the books.

Of course, each firm is different and the procedures that are put in place will vary from firm-to-firm, but we have tried to make it as easy as possible for you and compiled a list that includes some basic, monthly procedures that your firm may find useful.

Accounting Procedures to Consider Following

1. Distribute a list of outstanding, unpaid accounts receivable that are 90 or more days past due to the responsible attorney for collection efforts.

- The older the receivable, the less likely it will be collectible.

2. Ensure that all timekeepers are current with their time entries by the end of each month so that billing will not be delayed.

3. Record all incoming cash.

- Ask yourself: Have all electronic and credit card payments been entered?

4. Review the Aged WIP Report to identify fees that can be billed and those that should be written off.

- Centerbase Tip 1: If you use Centerbase already, check out our new AR Sweep to apply payments to client bills that have funds available through client overpayment, retainers and/or trust funds.

5. Reconcile all cash and credit card accounts, entering all unrecorded transactions.

- A best practice is to reconcile all bank and credit card statements within a few days of having access to the statements to ensure balances include all electronic receipts and expenses, monthly fees, interest income, and interest expense.

6. Review and reconcile petty cash.

7. Record month-end payroll journal entries.

8. Review the Payment/Credit Allocation Details report, filtering for any credits for expenses.

- Enter a journal entry for any matter expenses that were written off or discounted during the month to properly account for expenses that the client will not be reimbursing.
- This is an important step that is often overlooked.
- If a client will not be reimbursing the firm for a matter expense, it is necessary to reduce the Matter Expenses Advanced account (asset account) and increase the Unreimbursed Client Expenses account (expense account) to properly account for what will now be a firm expense.

9. Review liability accounts to ensure accuracy.

- Are payables clearing out properly?

10. Review the Comparative P&L Report.

- Are there any unusually positive or negative changes from the previous period?
- If so, research why this has occurred and make adjustments if necessary.

11. Review the Trial Balance.

- Do all accounts have normal balances, i.e. asset and expense accounts have debit balances and income and liability accounts have credit balances.
- If not, review accounts with unusual balances for errors.

12. Prepare draft Profit & Loss Statement, Balance Sheet, and Trial Balance and provide to CPA for review and tax planning (and tax preparation at year-end).

- A best practice is to submit financials to the CPA for review at least quarterly.

13. Enter any adjusting journal entries per your accountant's instructions.
14. Print and save finalized financial statements.
15. Update the closing date in System Settings to ensure no changes can be made that will affect the financial statements for prior periods.



And if you were thought that was it think again because we have more! In addition to the above, at year-end the items below should also be added to the closing procedures.

Additional Closing Procedures

1. Request that all expense reports be submitted to accounting in plenty of time for processing, so they can be paid prior to year-end.
2. Review IOLTA balances and request replenishment according to the firm's policies so there are sufficient funds on hand to apply to client bills at the end of the fiscal year.
3. Update accounts payable.
 - Have all expenses for the fiscal year been entered? Pay all older vendor bills.
4. Pay down line of credit.
5. Plan for and enter any retirement plan funding.

6. Plan for and enter any year-end bonuses.
7. Budget for sufficient cash on hand and adequate line of credit for the first quarter of the following fiscal year.
8. Account for partner/shareholder distributions.
9. Enter adjusting entries for depreciation, bad debt, etc.
10. Enter final adjusting journal entries per accountant's instructions.
11. Per the Accounting Period End Date set in the Accounting System Settings, Centerbase will process the year-end closing entries to book the current year's net income to retained earnings.
 - This will also \$0 out all income and expense accounts for the first day of the new fiscal year. It is the final step in the year-end closing process. No prompting is necessary as it is an automatic procedure that Centerbase performs.

The Finale!

At this point, you're either thinking "oh boy," or "wow that was helpful!" Either way, we want to try to make this process as easy as possible for you so we have created an [Accounting Period Closing Procedures Checklist](#) to assist you in assigning and tracking the tasks listed above.

End-of-year closing is never fun, but hopefully these steps and checklist will help you keep billing, collections, and your financial records up to date!

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