

QuickBooks Best Practices for Law Firms

By: Tamara S. Philabaum



Opening Separate Bank Accounts

Reconciling accounts and preparing for tax time is much easier if you separate personal from business bank accounts. Same goes for credit card and line-of-credit accounts.

Choosing the Right Product

There are many accounting packages out there, but QuickBooks is one of the most widely used. However, even QuickBooks has several options both in the cloud and for your desktop. The cloud options include Self-Employed, Online Simple Start, Online Essentials, and Online Plus. The desktop versions include Pro, Premier, and Enterprise.

I've often been asked which product is best for a law firm. Well, that depends on how many users you will need, number of companies you want to track, and whether or not you use a separate timekeeping/billing/case management software. See below for more information.

FIRM NEEDS	QUICKBOOKS PRODUCT	
Independent practice w/no support staff	QuickBooks Self-Employed	
Only 1 company file required; Separate system used for timekeeping/billing/case management; Limited number of users needed PROS: <ul style="list-style-type: none"> • Easy access from any computer • Backed up in the cloud • Continually updated • Mobile access CONS: <ul style="list-style-type: none"> • Cannot add custom fields to customer records • Limited ability to customize invoices • Cannot add multiple jobs to customers 	QuickBooks Online	
	Simple Start (beginners)	1 user + 2 accountants
	Essentials (service based)	3 users + 2 accountants
	Plus (product based)	5 users + 2 accountants
Does NOT use separate system for timekeeping/billing/case management Mobile access not necessary (can access remotely with additional software)	QuickBooks Desktop	
	Pro	3 users max
	Premier	5 users max



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FIRM NEEDS	QUICKBOOKS PRODUCT	
PROS: <ul style="list-style-type: none"> • Custom fields • Customizable invoices • Multiple jobs/customer • Multiple companies per license • Edit multiple records function • Track sent emails (create templates) • Price Levels for clients/jobs (% discounts) 	Enterprise	30 users max

Getting Started

QuickBooks makes it easy to get up and running. When starting a new company file, customer, vendor, and item lists can be uploaded from a variety of file formats. In addition, most banks have an online function for downloading transactions into a file that can be pulled into QuickBooks. There is also an option to connect directly with banks from within QB. However, I have found that process to be much more difficult. It also limits the import to a 90-day period.

Understanding the Terminology

When learning & using QuickBooks, it is important to understand the terms and use them consistently.

TERM	MEANING
Bill (If you report on a cash basis, you do not have to use bills, but it can help with cash flow or to organize A/P in one place.)	What you receive from a vendor Creates A/P & expense transaction Must use “pay bills” function to write check or enter CC payment for a bill.
Invoice	What you send to your clients/customers Creates A/R & revenue Must use “receive payment” function to apply payments against the A/R
Receive Payment	What you do to record payment on an existing invoice. Reduces A/R and increases Undeposited Funds
Undeposited Funds	The GL account that reflects customer payments that have been received but not yet deposited. It is important to use this feature



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TERM	MEANING
	correctly and consistently. Think of it as the blue bank deposit bag where you keep checks & cash before it goes to the bank.
Create Sales Receipt (for QBO use Banking – Go to Register – choose from dropdown in left top corner of list)	Used to enter a client charge, create an invoice and receive payment all at the same time. Increases revenue and undeposited funds accounts.
Make Deposit Works quite differently in QBO: use Banking – Use Register – Choose from dropdown in left top corner of list. Does not pull up undeposited funds to include in deposit.	Used to record one or more receipts and other funds when they are deposited at the bank. Decreases undeposited funds and increases bank balances If no receipt or invoice was created, apply directly to revenue account instead of undeposited funds. Use this so that deposits in QB match deposits on bank statements
Items	The products or services that your sell. These can be associated with different revenue account for P&L detail.

Recording Sales

METHOD	USE WHEN
Invoicing	customer buys product/service but does not pay at time of sale allows A/R tracking
Sales Receipt	customer pays at time of sale
Statement Charge	charges accumulate over time and are invoiced at the end of a period
Deposit	customers are not tracked, and invoicing is not used
Import	a separate program is used for tracking sales and payments

Setting Preferences

Use edit, preferences to customize your QB Desktop experience. For example, cash v accrual reporting, change what appears on the home page, and much more.



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Managing Lists

General

QuickBooks operates best by carefully populating “lists.” Vendors, employees, customers, jobs, and items are the key lists that need to be maintained. The tricky part is that a specific name can only be on one of these lists. So, if you have a vendor that is also a customer, you need to use a different version of that name on each list. It is important to be careful which version you use when entering transactions so that customer/employee/vendor center information is correct.

Adding Custom Fields to the Customer List (Desktop Only)

QuickBooks Desktop allows the addition of custom fields for customer, vendor, and item lists. Small law firms can use this to create fields for important information like closed date, opposing parties, file location, and destruction dates. Other fields are available for price levels, referral source, etc. Go to – Customer Center – New Customer – Additional Info – Define Custom Field

Using Price Levels and Credit Limits

Price levels can be defined and added to jobs if you want to set special discounts for certain clients. The field is located in under the payment info tab on the customer edit screen. This tab is also where you can set credit limits and enter credit card information for clients. Note: you can also set up monthly credit card payments through QuickBooks merchant services, which an efficient way to accept credit cards in QuickBooks.

Modifying the Customer Center View

Once you have defined fields, you may want to view a variety of them on your client list. In the customer center, rt click on header row then click customize columns – choose columns to view. You can also modify the list with a variety of sorts and filters. If set up correctly, you can create a very useful client/matter database.

Populating or Editing Field Contents

When you need to edit multiple records, this tip will speed up the process. QuickBooks Pro 2018 can present customer:job information in an Excel spreadsheet format for editing purposes. Go to Lists – Add/Edit Multiple List Entries and choose the fields (customize columns) you want on the list for quick editing.

Combining List Entries

Ofentimes you may find that two GL accounts, clients, or vendors are one and the same. If you want to combine the two to clean things up, use this tip:



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Edit one entry to give it the exact same name as the one you want to keep: Account – Edit Account or by editing the customer or vendor information.

Using Estimates & Sales Orders

You can create customized estimates (engagement letters) for your legal work and progress bill against them as follows.

FORM	USE
Estimate	used to create a proposal for a customer non-posting w/ QBO can obtain customer signature on mobile acts as budget for a job create invoices from the estimate progress invoicing
Sales Order	represents future or back order non-posting can be created from an estimate & used for progress billing

Creating Invoices


Assigning Time and Expenses to Jobs

Creating complete invoices is made easier by assigning customer jobs to billable time & expense entries. For client cost advances, we suggest using a customer advances asset account when recording the purchase. The expense will automatically show up for inclusion on the client's next invoice.

Customizing Templates

You can customize the look and contents of your invoices.

Desktop: create invoice – format – manage templates OR lists - templates

Online: create invoice – customize OR  - all lists – customer form (for content changes click )

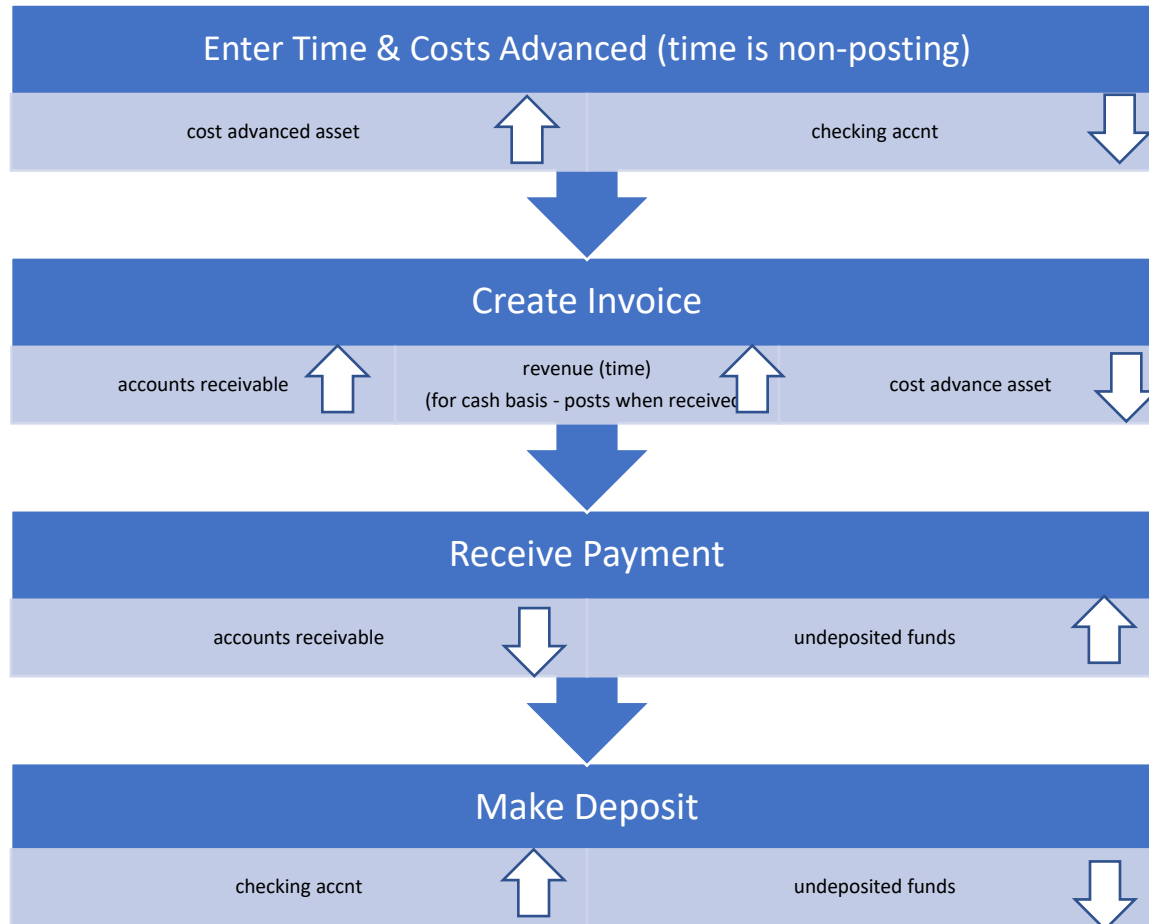
To include a past due amount and total balance, edit the body and click Account Summary

Identifying Unbilled Costs/Time by Job

Run this report to make sure all your billable time/costs have been invoiced to the client.



Understanding the Invoice to Receipt Process



Using Bank Feeds

Bank feeds is a nice feature offered by QuickBooks. You can download and match bank transactions as often as you want. It also makes it easier to reconcile. But be warned! QB's attempt to automate this process involves the creation of "bank rules." Bank rules populate the payee and/or GL account fields. If you aren't careful, these fields can be assigned incorrectly based on a "rule" that needs to be ignored or deleted.

Bank feeds can be used to enter your transactions if you do not write many checks (use online banking or credit cards to pay bills) and do not have concerns about cash flow. On the other hand, recording checks and managing cash flow is probably easier if you enter transactions and just reconcile each month.

QBO: Dashboard – Bank Accounts – Connect Accounts or Banking – Add Account

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Handling Credit Cards & Other Liabilities

Business credit cards & lines of credit should be set up as separate liability accounts within a company. To download charges, go to QB Desktop: Banking – Enter Credit Card Charges – Download Card Charges. You can setup new account connections here as well. Once you set up and connect the account, you can simply download transactions, categorize them appropriately, and accept them into QB. Note that when you pay the credit card, use the transfer function from your checking (or savings) account to the CC account.

Reconciling Accounts

You should be reconciling all your checking, savings, credit card, and loan accounts on a regular basis. If you haven't done so in the past, choose a point in time (for example, the end of your fiscal year) and start with a statement balance entered as Opening Balance Equity.

Managing A/P

Using the Enter Bills function in QB is a good way to track accounts payable and “batch” payments so that you can pay many bills efficiently. If you report on an accrual basis, it is a good idea to use the “enter bills” & “pay bills” function. If you report on a cash basis, then it is not necessary.

Another way to manage bill payment is to schedule payment using online banking. As soon you receive an invoice, schedule it to pay online and enter it through “write checks” feature, dated according to the pay date, with EFT as the check number. I like this because you can easily see what your cash position is going to be in advance.

If you set up a bank feed & do NOT have a tight cash flow, then you can avoid the dual entry process. Just pay your bills through online banking. Then, update your QB bank feed regularly. Just be careful about the categories and even payees that QB assigns. QB creates rules as bank feed are download. If you aren't careful about monitoring the rules, you may end up with incorrect information.

Managing A/R

If you are not using QuickBooks to create invoices, then you are missing out on a powerful feature. I have seen many small businesses that are creating invoices on Word or in some other fashion and do not have a way to track their accounts receivable. They may also be missing out on billing for COGS expenditures and time tracking features.



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There are numerous ways to manage delinquent customer accounts. Start with making sure the terms on each invoice are correct. Then determine how you will remind customers who either a) incur new monthly charges and have overdue invoices or b) do not incur new monthly charges but have an overdue invoice.

Options

1. In the desktop version, you can **create a template with a Total Balance field** (but not a “Past Due” field). You can also add text boxes with messages such as “Your Total Balance includes current and past due charges. Please pay the total to bring your account up to date.”
2. Another option in desktop is to create **Statements** that show outstanding invoice totals and aging. You can choose to include details and text boxes with these templates as well.
3. Create a copy of the original invoice with a **PAST DUE status stamp**.
4. In QBO you can customize an invoice template to include the account summary which include the past due and total amount due.
5. Using the collections center (edit, preferences, sales & customers, company preferences, enable collection center) to identify and email past due notices. To define “past due” and “almost due” edit company preferences, reminders. The Collections Center is accessed from the customer center.
6. Include the past due balances on the customer center list and identify invoices & aging through the transaction filter.

To report on aged receivables

On QB Desktop: Reports – Customers and Receivables – AR Aging Summary

On QBO: Reports – Who Owes You – Accounts Receivable Aging Summary

Classifying Transactions

You can automate the assignment of GL accounts to transactions by assigning default expense accounts to vendors. For example, if every time you pay Verizon you want to use the Utilities account.

QB Desktop: Vendors – Vendor Center – double click on vendor – Account Settings

QBO: N/A

You can also enter the vendor’s tax id and 1099 status here in QB, which allows an easy way to create 1099s at the end of the year.



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Copying Journal Entries

You can speed up the process of adding repetitive journal entries by using the copy feature. Beware – QB makes an exact copy with the same date, number, etc. The only indication you get that you are now working in a copy is a notice at the top of the page. You then need to change those fields as well as the other details of the entry that may be different from the one you copy. Making payroll journal entries is a good use of this QB feature.

Tracking Multiple Types of Income

You can easily report different categories of revenue on your Profit & Loss statement if you use the QB invoicing feature. First, set up the income accounts based on the categories you wish to track. Then, assign the correct account to the Items to which they apply.

Using Special Customer Pricing

In QB Desktop, you can assign special pricing levels to customers. For example, suppose you have agreed to give a 10% discount to a certain customer. In the customer center, choose the customer, click on the payment settings tab, click the drop-down arrow to choose an option (or create a new one) in the Price Level field.

Setting Credit Limits

Credit limits can be assigned to customers to avoid over extending outstanding A/R or orders.

QB Desktop: Customers – Customer Center – Double Click Customer Name – Payment Settings tab

QBO – n/a

Handling Payroll

QuickBooks offers a variety of payroll options: from do-it-yourself to let-them do-it-for-you.

Saving on Subscriptions

By signing on with a QBO Certified Advisor, you can enjoy a discount for as long as you use the software.

Working w/IOLTA Accounts

Using sub-accounts is the recommended way to sub-divide funds in an IOLTA by client. It is best to track IOLTA bank accounts in a separate QuickBooks company to avoid



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accounting mistakes that can really mess up your financial reports. Think of this as your trust account ledger and bank account register all in one.

For IOLTA accounts that are NOT used for real estate closing, we have found it best to pay expenses out of the operating account. That way, you can provide a complete accounting of the expenses and fees that have been applied against a client's retainer when you send an invoice or statement.

Using Classes

If you want to track profit & loss by different areas/departments of your firm, use classes. To turn on, go to Edit, Preferences, Accounting, Company, Use class tracking for transactions.

Preparing for Tax Time

You can make your accountant's job easier, and less costly to you, by using Tax Line Mapping within the GL Account Edit screen. Then use report under Accountant and Taxes, Income Tax Summary to send to your accountant. The Income Tax Prep and Detail reports are helpful for discussing how to categorize expenses with your accountant. Note that QBO does not have this feature.

Some businesses also must submit 1099s to contractors. In the vendor center, indicate those vendors that require this form. The 1099s can be printed or e-filed also from the vendor center.

Managing Bounced Checks

Have you ever had a customer pay you, only to find a week later that their check bounced? When that happens, the accounting can get tricky. Here's how to handle it in desktop version of QuickBooks:

1. Go to the Customer Center > click the Transactions tab.
2. Click Received Payments > double-click the NSF transaction.
3. Click Record Bounced Check in the Manage Bounced Check window enter the following info: • Bank Fee • Date • Expense Account (to track fee) • Customer Fee (amount charged to customer)
4. Click Next.
5. Review the Bounced Check Summary > Click Finish

Voiding vs. Deleting Checks

Desktop: On the check screen, click the down arrow under the Delete button. Choose Void if the check printing incorrectly or is invalid/unusable for some reason. This allows you to account for that check number but 0s the amount. You can use Delete if the



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physical check wasn't really used. For example, maybe you forgot to put a check in the printer and it printed on plain paper. Or somehow it is a duplicate check number.

Taking Cash Out of a Deposit

At the bottom of the Make Deposit screen in desktop, there is "Cash Goes Back To" field. The drop down is for choosing the GL account that should be offset. Oftentimes, that will be "Owners Draw" but maybe you keep it for Petty Cash or to by Refreshments for the office. Either way, use the correct account & amount so that the deposit is equal to what happens at the bank.

Using QuickBooks Merchant Services

Must separate by company, so you may need one for your IOLTA company for retainer payments and a separate one for your operating account for invoice payments.

Merchant deposits are entered directly through QB Receive Payment or Sales Receipt functions. You still must "make deposit" which may end up grouping more than on payment on the transaction recorded to the bank.

Budgeting

If you want to set up and report against a budget and/or project cashflow, you can do so with QuickBooks. However, it is only available with the Plus version of QuickBooks Online.

Desktop: Company – Planning & Budgeting

Online:  Tools - Budgeting

