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# End of Year Preparations - Best Practices for Your Law Firm

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SMART BUSINESS STRATEGIES FOR THE LEGAL WORLD.

# What you say to yourself...

**It's only October!**

# What you say to yourself...

**I have plenty of time!**

# **What you say to yourself...**

**A lot will change between  
now and then**

# Surprise!



# Avoid Stress!

- ▶ Fourth quarter is prime planning time!
- ▶ Review, correct, plan
- ▶ Don't wait until January to start
- ▶ Too late for some tax planning items



# Maintain...

- ▶ Firm's financials should be reviewed and analyzed all year long
- ▶ Monthly checklist of items & reports
- ▶ Confirm things are done properly each month - easier to find, correct, improve process
- ▶ Waiting until year end to find issues will take more time/frustration

# Is Data Entry Up to Date?

- ▶ Can CPA review 3<sup>rd</sup> quarter books for tax planning & get accurate figures?
- ▶ Don't wait until year end to confirm all items being done timely:
  - ▶ Payments posted
  - ▶ Bills finalized
  - ▶ Trust transactions entered
  - ▶ AP entered/paid
  - ▶ Payroll posted and liabilities paid
  - ▶ Bank reconciliations (check stales)



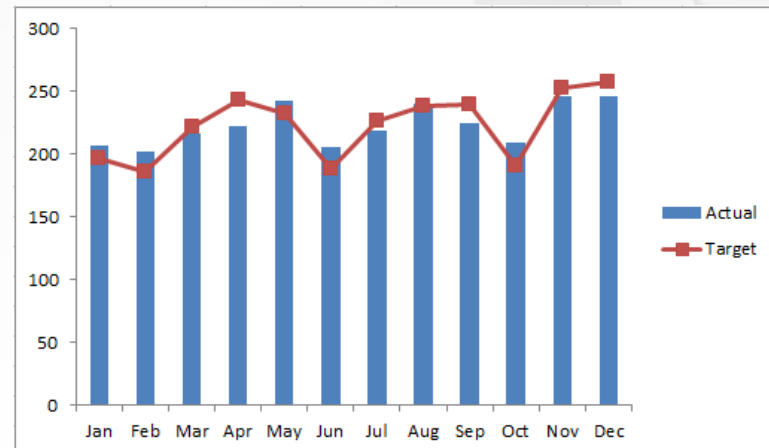


# Trust Account ≠ Tax Planning

- ▶ You CANNOT use your trust account as a tax planning tool (i.e. Defer income to 2019 by leaving earned fees in trust)
- ▶ IRS Attorney Audit Technique Guide highlights this – it WILL be an audit issue if caught

# Let Timekeepers Know...

- ▶ If your timekeepers have goals for the year, make sure their progress has been communicated to them.
- ▶ Give them regular actual v. target reports or dashboards
- ▶ Can't fix something they don't realize is broken.





**WHAT YOU MUST DO**

# Bank Reconciliation

- ▶ Confirm they are up to date
- ▶ Review, void and re-issue stale dated checks 6 months and older
- ▶ You should never have uncleared deposits that are more than a few days old



# 1099 Prep

- ▶ Review list of vendors now and send W-9s as needed.
- ▶ Review the requirements (basically anyone who is not a corporation should get a W-9)
- ▶ LLCs require 1099s unless filing as a corporation
- ▶ Consider online filing services (file4biz.com or Google 1099 online filing)
- ▶ 1/31/2019 deadline
- ▶ Can your accounting program produce them?



# W-2s and W-3 Payroll Forms

- ▶ If you are not using a payroll service, you will need to acquire and prepare the forms
- ▶ 1/31/2019 deadline
- ▶ Online services available to help (e.g. [file4biz.com](http://file4biz.com), [www.w2-form-online.com/](http://www.w2-form-online.com/))

# Review Financial Statements

- ▶ Check for miscoding. For example:
  - ▶ Fixed assets posted as expenses, or vice versa (e.g. Computers, Furniture)
  - ▶ Payroll tax or benefit liability account balances
  - ▶ Inflated Misc./General Office or Suspense accounts
  - ▶ Line of Credit balances
- ▶ Adjusting journal entries





**WHAT YOU SHOULD DO**



# Review Aged A/R & WIP

- ▶ Review all A/R and WIP over 90 days.
- ▶ If truly uncollectible, then write it off/down. If WIP, can you get it billed out, apply retainers, etc.?



Search ID: cwl3404

This is Jim, Jill, Larry and Barry from  
Accounts Receivable, Leavable,  
Believable and Retrievable.

# Aged A/R & WIP

- ▶ This is particularly true of Client Costs Advanced because you can expense these only if written off, otherwise declared as an asset and taxable at year end
- ▶ Firms are supposed to file taxes as modified cash (AR/WIP Client Advance balances tracked as an Asset, not an Expense per IRS Attorney Audit Technique Guide, Chapter 3).

# IRS Guidelines on Client Costs Advanced

Courts have determined that costs paid on behalf of a client are to be treated as in the nature of loans for tax purposes. They are not deductible by the attorney as a current cost of conducting business. The costs are those of the client and not the attorney since there is an expectation of reimbursement. A bad debt deduction may be taken in the year that any costs are determined to be uncollectible. Cases supporting this position appear in Exhibit 3-1.

Therefore, attorneys on the cash method of accounting may not take a current deduction for client expense advancements for which an attorney expects to be reimbursed.

**Affinity Demo Law Firm, P.A.**  
**Balance Sheet**  
**As at: October 1, 2018**

**ASSETS**

**Current Assets**

1000	Bank of America	251,699.96
1003	Warncke Operating	200.00
1004	Petty Cash	(8.79)
1100	Trust Bank Acct 1	435,237.88
1101	Wire account	4,900.00
1210	Client Costs Advanced	30,604.45

**Total Current Assets**

**\$722,633.50**

**Fixed Assets**

**Total Fixed Assets**

**\$0.00**

**Total Assets**

**\$722,633.50**

# Unallocated Payments/Credits

- ▶ Review and balance your Unallocated Payments/Credit Balances and confirm all ledgers correct
- ▶ Does your GL account holding these funds balance to the amount on individual client ledgers?
- ▶ Should any of this money be refunded or moved to trust?

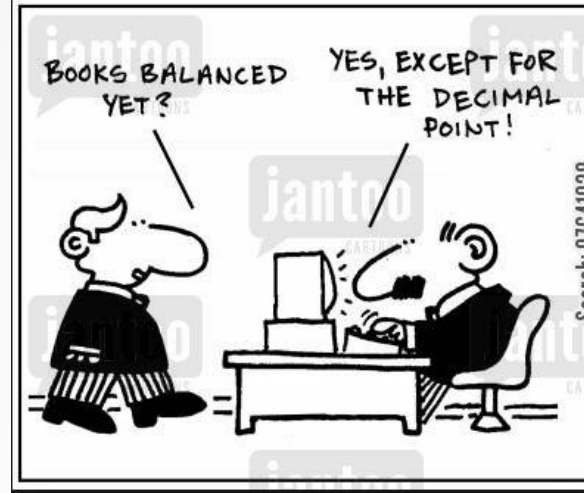


# Client Costs Advanced

- ▶ Review and Balance your client costs advanced to make sure that the amount in the asset account is not overinflated.
- ▶ Depending on your software, there will be different ways to do this, or there may be a report that automatically tells you if they are in balance or not.

# Check YTD allocations

- ▶ You may wish to check the YTD fee and cost allocations from your receipt/payment reports and confirm that the GL account totals YTD match



# Trust Balances

- ▶ Review age of trust balances and confirm no amounts due to be returned to client, or alternatively send to unclaimed property department of the State.
- ▶ Keep on top of this regularly.





# Budgeting

- ▶ Actual to Budget situation as of 3<sup>rd</sup> quarter:
  - ▶ How are you doing? Did you blow it or did you come in pretty close? Foreseeable deviations or unforeseen?
  - ▶ Do you need to adjust next year for some of the items that caused deviation?
  - ▶ What big expenditures are expected next year (e.g. new computers, other fixed assets, opening of new office location, adding attorneys or staff, etc.)
  - ▶ What items will be reduced?

# Net Income – Tax Planning

- ▶ If net income is higher than expected, should the firm look for logical expenditures to make in this fiscal year to reduce taxes? E.g. new software, equipment, etc.
- ▶ Most firms want to expense everything they can before year end, particularly if they have had a good year, to reduce their taxes, so make sure all items that can be expensed in the fiscal year are posted.



# IRS Scrutiny



- ▶ If your firm files as an S Corp, be careful how much your partners show in distributions versus salary.
- ▶ IRS will scrutinize this and if “reasonable” salaries are not being taken, they may assume you are trying to avoid FICA taxes.
- ▶ Should an Auto/Vehicle allowance be on W-2?
- ▶ Personal travel & entertainment expensed to firm

# Lock Down!

- ▶ Once all year end items are complete and you have sent your financial statements to your CPA, lock down the financials.
- ▶ No further changes to the fiscal year except for AJEs provided by your CPA.
- ▶ Also best practice to make a backup that is kept (not overwritten) of these figures.



# Final AJEs

- ▶ Once the CPA has finalized all items for tax, he/she should give you adjusting journal entries for things like depreciation, any issues found and corrected and allocation of income to shareholders (depending on the entity type).
- ▶ Partnerships will disburse to equity accounts while corporations may carry forward retained earnings.





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[Cindy's LinkedIn](#)



Like ACG!



# QUESTIONS?

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