Best Practices for Small Firm Accounting

By show of hands, who here would rather work IN your business (e.g., finding clients, working on challenging matters, growing your network) rather than ON your business? Looks like a few "ONs" but mostly "INs" from here. The fact is, however, that you have chosen to start your own business (or to partner up with others) and there is no escaping the need to work both IN *and* ON your business.

Overall Accounting Rule of Thumb: You have two choices - you can either manage the basic accounting needs of your business or you can pay someone to do it. Where is your time better spent?

Here are some best practices collected from years of personal experience, client input and thought leaders in the accounting world:

Challenge	Best Practice(s)
Accounting 101 – getting the basics	• Learn the basic terms and concepts (e.g., cash flow, general ledger, P&L, accrual basis, forecasting, budgeting, etc.) – don't fake it.
Bookkeeping	• Resist having your spouse, significant other, child, aunt or former roommate do your books to save money. Bookkeepers are (usually) trained professionals and not that expensive – make sure you use one who has experience working with small law firms. • Always keep your personal and business records (and funds) separate.
Budgeting and Financial Reporting	• Do it – this is critical. • Monitor your financials at least monthly. • Use a dashboard or score card approach to reduce the amount of information you look at and the time it takes to review it. • Get someone (a CPA, a bookkeeper, a consultant) to help you with interpreting and learning from the data – the "so, what do I do" aspect.
Software Selection	• User friendliness and control are key – find something you can and will use. • Quickbooks is the market leader and recently redesigned their user interface to be friendlier. But there are plenty of other options out there that are designed to work for small businesses. • When in doubt – default to your bookkeeper's preference.
Cash Flow Analysis and Forecasting	• Forecast, reforecast and then reforecast. Seeing the challenging months BEFORE you hit them is a huge advantage. Have a plan. • A good forecasting model or spreadsheet should only take you (or your bookkeeper) from 15-60 minutes each week to update. The discussions about these forecasts can (and should) last longer.
Client Payments	• Always collect some kind of retainer before you start working. It shows "skin in the game." • Payment plans are great ways of making a large legal bill more affordable over time – but don't confuse that with "credit" in the true sense of the term. Establish periodic payment terms UP FRONT and ensure your client understands what is due when. • Hourly billing and monthly invoicing makes forecasting more difficult than it needs to be – for you and your clients. • Don't be afraid to walk away for non-payment. Ethic rules certainly apply, but these rules do not preclude you from running a business.