



Five Common Legal Bookkeeping Mistakes and How to Avoid Them

SECURE YOUR FIRM'S COMPLIANCE ON SRA
ACCOUNTS RULES & HMRC BEST
PRACTICES

Managing legal bookkeeping is more than just **balancing numbers**

However, it's not a simple task. It involves different aspects, such as specific adherence to regulations, compliance with SRA Accounts Rules, and maintaining trust with your clients. Taking care of these specific aspects is necessary for law firms because even a small error in bookkeeping can result in severe legal, financial and reputation-related consequences.

This guide dives into some of the most overlooked yet critical legal bookkeeping mistakes that small law firms make. Moreover, it provides actionable strategies to address the issues that you face on a day-to-day basis. So, if you are handling your firm's finances internally or you have given the matters in the hands of an external accountants, these insights will help you maintain the robust bookkeeping practices.





Mistake # 1

Choosing the Inappropriate Accounting Software

Generic accounting software cannot cater the unique needs of legal practices and choosing them is one of the common mistakes that firm make. Firms that resort to such software often face inefficiencies and compliance issues. Thus, choosing the right accounting software is paramount.

Solution

- Choose such software that are specifically designed for dealing with the complexities of law firms. A few examples include, such as Insight Legal, LEAP, Dye & Durham, Clio, or Actionstep.
- Before finalising the software, make sure that it supports key features like Client Accounting, Office Accounting, VAT management, MTD Complaint, Client Billing.
- Keep on regularly updating the software to the latest version for better security and functionality.

Lastly, using the wrong software makes it difficult to comply with Client Account Regulations and accurately track client funds, and this can lead to potential SRA Accounts Rules breaches.



Mistake # 2

Misusing the Client Account

The trust of clients can only be retained by not misusing the client account funds. For instance, if you deposit non-client funds into a client account or if you use client funds for operational expenses, then this breaches SRA Accounts Rules for Client Account operations. So, law firms need to take care to avoid such mismanagement.

Solution

- Make sure that you are restricting client accounts strictly to client money.
- Make sure to educate your team on what qualifies as client money (e.g., retainers, advance payments) and what is non-client money.
- Keep on regularly reconciling client accounts to identify and rectify discrepancies.

Improper management of client account results in penalties, loss of professional licenses, and can cause reputational damage. Hence, avoiding such mismanagement is imperative.



Mistake # 3

Failing to Record Advance Payments of Disbursements Correctly

Many law firms incorrectly record advance payments which are made for disbursements. For instance, incorrect record of court fees or expert witness comes under that. This discrepancy of record leads to accounting inaccuracies.

Solution

- You have treated advance disbursements as liabilities in your accounts until they are billed to the client.
- You can also use a software that helps you allocate advance payments to the relevant client matter.
- Make sure to reconcile disbursements regularly to ensure accuracy.

It is a vital step because incorrect recording of disbursements can distort your firm's financial position and can lead to compliance issues during SRA Audits.



Mistake # 4

Managing VAT on Legal Services Ineffectively

Calculation of VAT and then reporting the VAT on legal services is an overly complex step. However, if someone incorrectly calculates and reports it, they will have to face significant fines and penalties.

Solution

- Many accounting software supports VAT reporting and can track VAT transactions automatically. So, it's better to use those.
- Make sure that you are clearly differentiating between VAT-inclusive and VAT-exclusive charges in your records.
- Working with a tax advisor is of a great advantage because through this you can make sure that your VAT returns are accurate and timely.

Keeping your VAT records clean and up to date are important because non-compliance with VAT regulations results in audits, penalties, and unexpected tax liabilities.



Mistake # 5

Neglecting Bank Reconciliations for Office and Client Accounts

Don't neglect the importance of bank reconciliations of your office and client accounts because failing to reconcile bank accounts regularly can result in undetected errors. This includes overdrafts, missed payments, or misallocated funds.

Solution

- Schedule monthly bank reconciliations for both office and client accounts.
- Cross-check your reconciliations against invoices, receipts, and other supporting documents.
- Investigate and resolve discrepancies promptly.

Regular reconciliation is one of the sureties that your financial records are accurate, compliant, and that they are free from errors.

Additional Tips



- 01 > Classify consultant payments separately from employee wages for accurate tax reporting.
- 02 > Ensure compliance with payroll tax and RTI reporting requirements.
- 03 > Narration on Entries should be very clearly written and need to be detailed enough.
- 04 > Include references to invoices, client names, and case reference numbers for better traceability.
- 05 > Record-Keeping for Drawings by Owners and Directors should be maintained in separate nominals and must give a clear picture of their salaries, loan accounts and dividends separately.

Conclusion

Legal bookkeeping is complex, but with the right tools, practices, and mindset, law firms can make sure their adherence to compliance, transparency, and financial stability. By avoiding these common mistakes and implementing best practices, your firm can achieve full compliance on SRA Accounts Rules as well as HMRC best practices.

Work with us !



www.mmba.co.uk



info@mmba.co.uk



[0203 355 0841](tel:02033550841)

Need help navigating the complexities of legal bookkeeping? Contact MMBA Accountants for precise solutions and expert guidance to streamline your financial processes and ensure compliance.



[Book a Free Meeting Today!](#)