

MSBA



Law Office Technology
Series

TIME, BILLING AND ACCOUNTING SOFTWARE

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Time, Billing and Accounting Software

It is rare for a start-up law firm to choose to maintain the firm's accounting books and records manually. With so many affordable small business accounting software applications available to help firms with the unique tasks associated with tracking the flow of money, it no longer makes sense for a firm to manage money simply using checkbooks and a ledger. The question for lawyers is, "What is the best billing and accounting system for me?"

For modern law firms, effective and efficient use of technology can be the difference between thriving and struggling. Nowhere is that more apparent than in a firm's approach to time and billing. In particular, technology can help a firm fully capture all hours worked on a given matter or client, bill clients promptly and accurately, and collect payments reliably.

Understanding the various types of accounting and billing software products will help determine what the best fit is for the firm when it is time to make a purchasing decision. The following includes an overview description of the types of software options that are available for firms, and information for helping you to narrow down your software choices.

Accounting and Billing: Know the Difference

Not all software tools that manage money are the same. Most software tools available for law firms are basic accounting tools that were created to help small businesses track the flow of income and expenses. These off-the-shelf accounting software programs are basically the checkbook of the firm, making it relatively easy for a small firm to pay bills while tracking every expense detail in an electronic ledger. Accounting software programs go beyond what a small business would ordinarily get from a manual bookkeeping set-up by incorporating tools to make time-consuming tasks easy. Tasks such as reconciling a monthly bank statement can go very smoothly using the special tools available in accounting software programs.

Although these basic off-the-shelf accounting tools are very good, they usually are not equipped with billing features that will meet the needs of a busy law firm with two or more attorneys. The manufacturers of these accounting tools do not necessarily have in mind the sophisticated billing needs of lawyers. Off-the-shelf accounting tools that do come equipped with billing tools tend to be a simplified bill generator that covers labor and inventory – like the kind that would be used by someone who is a building contractor.

Billing software tools are separate and unique from basic accounting tools because all they do is track billable hours and create invoices. These tools were created specifically for the enhanced billing and time-tracking needs of certain professionals, such as lawyers. For example, the billing features in basic off-the-shelf accounting tools won't usually be able to handle the multiple billing rates that most law firms have for each lawyer. Additionally, a firm that would like the flexibility of creating unique billing terms for individual clients will find the billing tool in an off-the-shelf accounting product to be too limiting.

A software billing tool is made to work with a basic accounting program. That means that if something is recorded in the accounting program—say, for example a payment is made by a client—that information is automatically recorded in the billing program, so the next client invoice will reflect the fact that the client recently made a payment. The manufacturers of software billing programs create their programs to work with popular off-the-shelf accounting programs and include set-up and support information to make sure the critical software programs are adequately sharing information.

Firms that would like lawyers to track their own billable hours using a software program also find that billing tools are easier to use. A lawyer, paralegal, or any other member of the firm can track time quickly by using an electronic time sheet that collects information on the matter, the amount of time it took to complete the task, and the client being serviced. After entering the basic time tracking information and pushing a button, the data is passed on to the back-office invoicing tool and the employee tracking their time can quickly move on to other tasks.

Full-Integration Accounting: Software Tools Just for Lawyers

Accounting and billing tools work very well and can often meet the needs of small law firms; however, there is a class of software that combines both of these tools and is specifically designed for lawyers. Full-integration accounting tools are robust accounting programs that have included billing and time tracking tools that are satisfactory for the needs of a busy law firm. Moreover, these full-integration accounting tools have taken on some features that usually only come in high-end accounting programs, and depending on the complexity of your accounting situation, you may want to have in your firm.

Life is easier if you are using a software tool that is made just for lawyers. A full-integration accounting tool for lawyers comes out-of-the-box equipped with the reports and features that only a law firm would need. The initial set-up “interview” process for configuring the software is somewhat different because the software program already knows that your business is a law firm. Additionally, without having to “hook-up” the software to a separate software billing tool, the ability to share information within the various features is already there and its data sharing capabilities are much more robust.

Because a full-integration accounting tool is performing the work of two or more software programs, you can count on it being more expensive than an off-the-shelf accounting product. Whereas an off-the-shelf accounting software program may range from \$50 to \$250 (usually depending on how many people can use the product and whether it needs to share data with other third-party programs) a full integration accounting product can range from \$400 to \$1000 for the first user license.

It seems understandable that any software program with lots of features is often more difficult to use. A full-integration accounting tool—like any other robust accounting software program—can be complex and difficult to learn. Basic, off-the-shelf accounting programs are

typically designed for users who run their own business and accounting is not their strong suit. Many of the features in an off-the-shelf program are simplified and designed to be more intuitive so that the user can walk through the bill paying, invoice producing process. However, full-integration accounting tools are designed for bookkeepers to use, and so unless you plan to take the time to learn some principles of accounting, the software can be more difficult to use.

Choosing the Right Accounting and Billing Software

Choosing the right accounting and billing software can take into account many factors. There are many important considerations such as:

- Who will be using the software tool? Do they have experience using it?
- Is the firm “starting from scratch” or is the software part of an office set-up that is already in place?
- How big is the firm and how many employees will be using the tool?
- Does the firm have a limited budget, and will software training be necessary?
- Does the firm currently use other third-party software applications that need to share data with the accounting program?

When I am making a software recommendation for a law firm one of the first things I want to know is who will be using the tool. The best accounting software in the world will not be a good fit if the firm’s bookkeeper is not equipped with an understanding of how to use it. Moreover, the bookkeeper may be especially adept at using a respected accounting tool such as *QuickBooks* by Intuit. Such special knowledge of a particular accounting tool may take years to learn, so a firm would be wise to identify the knowledge assets of the person whose job it will be to handle the firm’s accounting, and take that information into account when choosing a software tool.

My software recommendation also involves a determination of whether the firm has other program applications in place that they intend to continue using. For example, if a firm is already using a basic accounting program but would like some flexibility in the way invoices are produced, it is probably not necessary to look at a full-integration accounting program as a replacement tool. An invoicing/time tracking tool that will share data with the accounting program that is already in place may be all that the firm needs.

By examining the other software tools that the firm uses, sometimes it becomes apparent that certain accounting tools are the best match. For example, if a firm uses a case management program such as *Practice Master* by Software Technology, Inc. (STI) for managing client data and calendar programs, STI’s *TABS 3* accounting program would be a logical first step for the firm to consider when looking for an accounting program that will fully-integrate with the firm’s client database.

If the firm is “starting from scratch” looking for new software, and the bookkeeper is capable or willing to learn how to use a new accounting program, a full-integration accounting program that handles all the accounting and billing needs is probably the best place to start. A brand new start-up law firm has the unique opportunity to envision the most efficient way to set up the firm’s financial systems and set the plan into place, unencumbered by dependencies on other software systems or employee experience.

When trying to find the right software for a firm, common scenarios often begin to emerge. The following are some hypothetical law firms and the analysis used to determine which accounting and billing software would be the best fit for the firm.

- **Solo attorney with no payroll obligations.** *Quicken* may actually work for this lawyer but *QuickBooks* is a better option for all solos. Although the invoicing feature in *QuickBooks* is limited, the solo attorney may not have a need for robust invoicing systems.
- **Small 2-4 lawyer firm using QuickBooks.** Assuming the firm is satisfied with *QuickBooks*, they may want to look at enhancing their billing capabilities by adding *Timeslips*. If they are open to using a full-integration program, they should check out *Tabs 3* or *PC Law*.
- **Small 2-4 lawyer firm using MS Word for invoices.** The amount of work it takes for one or more staff members to create invoices from a word processor is so great that the firm is operating very inefficiently if it continues to do so. The firm is strongly urged to choose an accounting system the bookkeeper can manage. *QuickBooks* might be a good start because it is easier to learn and there are so many resources available for the employee to learn the program.
- **Firm with 10 attorneys using QuickBooks and Timeslips.** The combination of these two programs is a very popular match-up in many small law firms, but the 10 lawyer firm is getting to the size where they should be encouraged to check out a full-integration accounting tool that can handle all of the firm’s needs. *QuickBooks* and *Timeslips* share data, but their compatibility is limited.
- **Firm with 25 lawyers using PC Law.** The full-integration accounting programs purport to handle the needs of a larger law firm, but the database capabilities can sometimes limit their ability to do so. Larger firms should look into software tools made for handling their database need. *Juris* by LexisNexis is one such tool.

Risk Management

For a law firm interested in streamlining their general office systems, taking a look at the time and billing programs and what they have to offer is usually a good step. Attorneys enjoy the convenience of filling out time slips electronically, staff personnel appreciates the clarity and efficiency of an electronic time keeping system, and clients are very appreciative of the level of detail that accompanies each invoice.

Although it is a part of a firm's overall accounting system, time and billing systems are treated as a separate category of software that is whole and distinct from general accounting software. One reason for this is that, while many manufacturers have created comprehensive accounting systems, there have been very few who have taken the time to put together an electronic time-keeping device that has the opportunities and features that a time keeper will require.

The manufactures of time and billing products claim that if you track your time electronically it will pay for itself because it will track all those lost dollars that are eliminated in the rounding-off process that occurs when you track your time manually.

One thing is for sure, from a risk management perspective, electronic time tracking is a good idea because it provides the clients with a level of detail and information about their matter that they previously were not accustomed too. Clients tend to not argue about a bill if the invoice shows not only the precise activity that was billed to them, but the exact time, duration, and day that the activity took place.

Ethics

For lawyers in private practice, billing is an essential part of the business side of running a firm. Billing is also an area where disputes can arise with clients and, if they do, lawyers are subject to close scrutiny flowing from the fiduciary duties that apply along with their purely contractual obligations. It pays, therefore, in both a monetary and a practical sense, to devote the same care to billing that lawyers bring to their legal work itself.

Any discussion of billing and timekeeping practices must start with the recognition that the relationship of the attorney to client is of the highest fiduciary character. As such, attorney fee agreements must be fair, reasonable, and fully explained to the client. Attorneys have a professional responsibility to make sure clients understand their billing procedures and rate, and an attorney may not recover a fee in excess of that which was explained to the client, and to which the client has consented. Several of the ABA Model Rules are applicable to billing and timekeeping.

Rule 1.5 provides that a lawyer's fee "shall be reasonable." One of the factors listed in Rule 1.5 for determining the reasonableness of a fee is "the time and labor required."

Also relevant are Rule 7.1, which provides that a lawyer "shall not make a false or misleading communication about the lawyer's services," and

Rule 8.4(c), which provides that "it is professional misconduct for a lawyer to engage in conduct involving dishonesty, fraud, deceit, or misrepresentation."

Many attorneys dislike timekeeping and view it as a necessary evil. As a result, they treat the recording of their time as an afterthought, put off recording their time until the last minute, and/or record their time in a cursory or non-descriptive manner. Sloppy and undisciplined

timekeeping practices can create serious client-relations and other problems down the road. Moreover, attorneys who bill by the hour are ethically required to provide accurate and detailed descriptions of the time that they have actually expended on behalf of their clients.

Resources

The following is a list of some of the top finance software programs used by small to mid-size law firms. A few accounting programs for small firms have been specifically excluded from this list because they are untested, or critical product reviews indicate the software is problematic on certain common operating systems.

See also *Law Office Technology Series: Cloud Computing*

	URL	Manufacturer	Type	Description
Bill4Time (Cloud-based application)	www.bill4time.com	Bill4Time	Billing	Cloud based invoicing system that can connect to QuickBooks Pro. Cloud-based platform is convenient, but is more costly over time.
PC Law	www.pclaw.com	LexisNexis	Full-Integration Accounting	One of the first full-integration accounting tools to price affordably for small firms. Has case management module for firms seeking all-in-one software solution.
Quicken	www.intuit.com	Intuit	Accounting	Home finance system only recommended for a sole attorney with no payroll and tax responsibilities. A very minimal system that is better than not using any software system at all.
Quickbooks Pro	www.intuit.com	Intuit	Accounting	The most common small business accounting tool. Often recommended by CPA's. Works very well for law firms but has limitations in invoicing features. Many firms use this tool with Timeslips for full accounting and billing options.
Tabs 3	www.stilegal.com	Software Technology, Inc.	Full-Integration Accounting	One of the first accounting tools for law firms. System has many modules to custom build the firm's needs. Great reputation for service and support.
Timeslips	www.timeslips.com	Sage Software, Inc.	Time and Billing	The most popular stand-alone billing software tool in small to mid-size law firms. Often used by firms with QuickBooks Pro. Easy to use timekeeper.