TABLE OF CONTENTS

SECTION I

FUNDAMENTAL ACCOUNTING FOR LAW FIRMS

CHAPTER 1

Financial Reporting Concepts

\$ 1.01 \$ 1.02 \$ 1.03 \$ 1.04 \$ 1.05 \$ 1.06	Objectives of Law Firm Financial Statements Basic Financial Statements Partnership vs. Professional Corporation Accrual Basis vs. Cash Basis External vs. Internal Reports Net Income vs. Distributable Income	1-1 1-3 1-4 1-5 1-7 1-8
	CHAPTER 2	
	Cash Basis Financial Statements	
§ 2.01 § 2.02	Modified Cash Basis Accounting for Law Firms Partnership Financial Statements (Modified Cash	2-1
	Basis)	2-3
	[1] Statement of Net Assets	2-3
	Accounts	2-5
§ 2.03	[3] Statement of Cash Flows	2-6
§ 2.03	Statements	2-9
	Operations	2-9

vi	LAW FIRM ACCOUNTING/MANAGEMENT				
§ 2.04 § 2.05	 [2] Significant Accounting Policies [3] Commitments to Former Partners [4] Bank and Other Borrowing Arrangements [5] Lease Commitments [6] Retirement Plans [7] Segregated Assets Belonging to Others [8] Litigation [9] Subsequent Events Additional Financial Analysis Schedules Professional Corporation Financial Statements (Modified Cash Basis) [1] Statement of Net Assets [2] Statement of Revenues and Expenses and Statement of Changes in Shareholders' Equity 				
	[3] Statement of Cash Flows				
	CHAPTER 3				
	Accrual Basis Financial Statements				
§ 3.01 § 3.02	Accrual Basis of Accounting for Law Firms Partnership Financial Statements (Accrual Basis) [1] Balance Sheet				
§ 3.03	[4] Notes to Financial Statements Reconciliation of Accrual Basis Statements with Modified Cash Basis Statements [1] Asset Adjustments [2] Liability Adjustments				
§ 3.04	 [3] Capital Adjustments Professional Corporation Financial Statements (Accrual Basis) [1] Balance Sheet [2] Statement of Income and Statement of Changes in Shareholders' Equity [3] Statement of Cash Flows [4] Notes to Financial Statements 				
	CHAPTER 4				
	Revenue and Expenses				
§ 4.01 § 4.02	Net Income of a Law Firm Fee Revenue [1] Recording Time Charges				

	TABLE OF CONTENTS	vii
§ 4.03 § 4.04	[2] Billing Clients [3] Collecting Fees Compensation Costs [1] Associates' Compensation [2] Administrative Staff Salaries [3] Fringe Benefits and Other Employee Costs Operating Expenses [1] Occupancy Costs	4-3 4-5 4-6 4-6 4-7 4-8 4-8
§ 4.05	[2] Office Operating Expenses. [3] Professional Activities [4] General Business Expenses [5] Payments to Former Partners Cost Recoveries.	4-8 4-9 4-9 4-10 4-11
	CHAPTER 5	
	Assets and Liabilities	
\$ 5.01 \$ 5.02 \$ 5.03 \$ 5.04 \$ 5.05 \$ 5.06 \$ 5.07	Net Assets of a Law Firm Fees Receivable and Unbilled Fees Client Disbursements Receivable Cash and Short-Term Investments Due to/from partners Property and Equipment Liabilities	5-1 5-2 5-4 5-6 5-7 5-8 5-9
	CHAPTER 6	
	Partners' Accounts	
\$ 6.01 \$ 6.02 \$ 6.03 \$ 6.04 \$ 6.05	Law Firm Partnership Agreements Composition of Partners' Accounts Allocation of Partners' Income Partners' Current Accounts Partners' Capital Accounts	6-1 6-3 6-4 6-6 6-7
	CHAPTER 7	
	Internal Controls	
§ 7.01 § 7.02 § 7.03	Recent Evolution of Internal Control	7-1 7-3
§ 7.04	Components and 17 Principles	7-4 7-6

viii	LAW FIRM ACCOUNTING/MANAGEMENT	
§ 7.05	Control Objectives and Financial Statement	
§ 7.06 § 7.07	Assertions	7-8 7-10
	Law Firms [1] Cash Collections Cycle. [2] Cash Disbursement Cycle. [3] Payroll Cycle. [4] Partners' Capital Cycle. [5] Financial Reporting Cycle	7-11 7-14 7-16 7-18 7-20
§ 7.08	Other Internal Control Considerations [1] Information Technology General Controls [2] Business Performance Reviews [3] Budgetary Control [4] Organization Control [5] Insurance	7-21 7-21 7-22 7-22 7-22 7-23
§ 7.09	Conclusion	7-24
	SECTION II	
	FINANCIAL MANAGEMENT CONCEPTS FOR LAW FIRMS	
	CHAPTER 8	
	Business Concepts	
§ 8.01 § 8.02	Law Firm Profitability: An Overview Revenue Factors [1] Chargeable Hours [2] Billing Rates	8-1 8-3 8-3 8-3
§ 8.03	 [3] Realizations Expense Factors [1] Timekeeper Compensation [2] Direct Practice Support Expenses [3] Indirect Expenses 	8-4 8-6 8-6 8-7
§ 8.04 § 8.05	Leverage of Lawyers	8-8 8-9
	CHAPTER 9	
T		
E	nploying Project Management in the Law Firm	

	TABLE OF CONTENTS	ix
§ 9.03 § 9.04	What is Project Management?	9-4
v	Management?	9-5
§ 9.05	Establishing a Project Management Roadmap	9-8
v	[1] Processes	9-9
	[2] Organizational Structure	9-9
	[3] People	9-9
	[4] Strategies, Systems and Tools	9-10
	[a] Strategies	9-10
	[b] Systems and Tools	9-10
§ 9.06 § 9.07	What is Program Management? Project Management and Alternative Pricing	9-11
	Arrangements	9-13
	Aleternative Fee Arrangements (AFAs)	9-13
	[a] Growing Demand for AFAs	9-13
	[b] Greater Need to Budget and Monitor[c] AFA, Project Management	9-13
	and Change	9-13
	[2] Types of AFA and Project Management	9-13
	CHAPTER 10	
	Management Reporting	
§ 10.01	Management Reporting for Law Firms	10-1
§ 10.02	Executive Summary	10-3
§ 10.03	Operating Performance Analysis	10-8
o .	[1] Overview	10-8
	Operating Statement	10-8
	[3] Key Performance Indicators	10-9
	[a] Utilization of Attorneys	10-10
	[b] Realization of Billing Rates	10-12
	[c] Leverage of Lawyers	10-13
§ 10.04	Billed and Unbilled Fee Analysis	10-15
v	[1] Aged Summary of Uncollected Receivables	
	and Unbilled Fees	10-15
	[2] Speed of Billings and Collections	10-16
§ 10.05	Operating Cost Analysis	10-18
V	[1] Compensation Costs	10-18
	[2] Operating Expenses	10-20
§ 10.06	Financial Position Information	10-22
§ 10.07	Financial Charts	10-23
§ 10.08	Exception Reporting	10-28

CHAPTER 11

Profit Center Accounting

§ 11.01	Profit Center Accounting for Law Firms	11-1
§ 11.02	Cost Allocation	11-3
	[1] Imputed Equity Partner Compensation	11-3
	[2] Other Timekeepers' Compensation	11-3
	[3] Support Costs	11-4
	[4] Non-chargeable Activities Costs	11-4
	[5] Cost Allocation Calculations	11-4
	[6] Using the Percentage Method and	11.7
e 11.02	Cost-per-Hour Method	11-7
§ 11.03	Fee Classification	11-8
§ 11.04	Profit Determination	11-10
§ 11.05	Analyzing the Results	11-12
	CHAPTER 12	
	Budgeting	
§ 12.01	Budgeting for Law Firms	12-2
§ 12.02	Projecting Fees	12-3
§ 12.03	Estimating Personnel Costs	12-5
	[1] Timekeepers' Compensation	12-5
	[2] Administrative Staff Salaries	12-5
	[3] Fringe Benefits and Other Employee Costs	12-6
§ 12.04	Estimating Operating Expenses	12-7
	[1] Occupancy Costs	12-7
	[2] Technology Costs	12-7
	[3] Office Operating Expenses	12-8
	[4] Professional Activities	12-8
0.10.05	[5] General Business Expenses	12-9
§ 12.05	Responsibility Accounting	12-10
	[1] Functional Approach	12-10
	[a] Fees	12-10
	[b] Personnel Costs	12-10
	[c] Occupancy Costs	12-11
	[d] Office Operating Expenses	12-11
	[e] Professional Activities	12-11
	[f] General Business Expenses	12-11
e 12.00	[2] Profit-Center Approach	12-12
§ 12.06	Unit Cost Comparison	12-14
§ 12.07	Cash Requirements Budgeting.	12-16
	[1] Equity Partner Distributions	12-16
	[2] Property and Equipment Purchases	12-16 12-16
	[3] Cash Provided by (Used in) Operations	
	[4] Financing Arrangements	12-17
	[5] Cash Balances	12-17

CHAPTER 13

Long-Range Planning

§ 13.01	Long-Range Planning for Law Firms	13-1
§ 13.02	The Strategic Plan	13-3
	[1] Market Identification	13-3
	[2] Growth Focus	13-4
§ 13.03	The Staffing Plan	13-5
	[1] Lawyer Projections	13-5
	[2] Support Staff Projections	13-6
§ 13.04		13-7
	[1] Revenue Projections	13-7
	[2] Compensation Cost Projections	13-8
	[3] Operating Expense Projections	13-9
	[a] Occupancy Costs	13-10
	[b] Other Operating Expenses	13-10
	[4] Net Income Projections	13-11
§ 13.05		13-14
	[1] Debt vs. Equity Financing	13-14
	[2] Equity Partners' Distributions	13-15
	CHAPTER 14	
	Systems and Data	
§ 14.01	Use of Information Technology by Law Firms	14-5
§ 14.02		14-7
v	[1] Defining the Firm's Requirements	14-7
	[a] Objectives	14-7
	[b] Expectations	14-7
	[c] Economics	14-7
	[d] Facts	14-7
	[2] Selecting the Appropriate Computer	
	Software and Hardware	14-8
	[a] Requesting Vendor Proposals	14-8
	[b] Evaluating Proposals	14-8
	[c] Choosing the Vendor	14-9
	[d] Contract Negotiations	14-9
	[3] Implementing the New System	14-9
	[a] Hardware Installation	14-9
	[b] System Conversion	14-10
	[c] User Training	14-10
§ 14.03		14-11
	[1] System Functions	14-11
	[2] System Features	14-12
	[3] Report Capabilities	14-13
	[a] Transaction Activity Reports	14-14
	[i] Transaction Registers	14-14

		[ii] N	Missing Diary Reports	
			(i.e., Time Sheets)	14-14
			Posting to General Ledger	14-14
	[b]		aintenance Reports	14-14
		[i] I	Report of Client and Matter	
			Information	14-14
		[ii] I	Report of Lawyer and Other	
			Timekeepers' Information	14-14
	[c]	Work-I	n-Progress Reports	14-14
		[i] V	Work-In-Progress Ledger Detail	14-14
		[ii] I	Billing Partner	
			Work-In-Progress Summary	14-14
		[iii] I	Billing Partner	
			Work-In-Progress Aging	14-14
	[d]	Billing	Reports	14-14
		[i] I	Billing Memorandum	14-14
		[ii] I	Oraft and Final Bills	14-15
		[iii] H	Billing Partner Billing Activity	14-15
		[iv] (Client Billing History	14-15
		[v] S	Statement of Unpaid	
			Bill Notice	14-15
	[e]	Receiva	able Reports	14-15
		[i] I	Billing Partner Uncollected	
			Bills Summary	14-15
		[ii] I	Billing Partner Uncollected	
			Bills Aging	14-15
	[f]	Cash R	eceipts Reports	14-15
		[i] I	Daily Cash Receipts Journal	14-15
		[ii] N	Monthly Cash Receipts	
			Summary	14-15
		[iii] S	Statement of Fee Income	14-15
	[g]	Practice	e Management Reports	14-15
			Client Investment Summary	14-15
		[ii] S	Summary Aging of	
			Work-In-Progress	14-16
		[iii] S	Summary Aging of Accounts	
			Receivable	14-16
		[iv] I	Billing Realization Report	14-16
			Staff Utilization Report	14-16
			Fee Analysis Report	14-16
§ 14.04	Payroll Acc	ounting S	System	14-17
			ions	14-17
			o Payroll Processor	14-18
§ 14.05			stem	14-19
~	[1] Syste	em Funct	ions	14-19
			res	14-20
			ilities	14-20
§ 14.06			ounting and Budget Reporting	
~				14-21
	-			

	TABLE OF CONTENTS	xiii
	[1] System Functions	14-21
	[2] System Features	14-22
	[3] Report Capabilities	14-23
§ 14.07	Management Information System	14-24
V	[1] System Functions	14-24
	[2] Report Capabilities	14-25
	[a] Reports Generated by the Client	
	Accounting System	14-25
	[i] Utilization Reports	14-25
	[ii] Realization Reports	14-25
	[iii] Speed of Billing and Collection	
	Reports	14-26
	[iv] Leverage Reports	14-26
	[b] Reports Generated by the General	
	Ledger Accounting and Budget	
	Reporting System	14-26
	[i] Budget Performance Reports	14-26
	[ii] Cash Flow Projection Reports	14-26
	[iii] Profitability Reports	14-26
	[iv] Financial Condition Reports	14-26
§ 14.08	Partners' Accounts System	14-27
	[1] System Functions	14-27
	[2] System Capabilities	14-28
§ 14.09	Auxiliary Systems.	14-29
	[1] Property and Equipment Records	14-29
	[2] Retirement Plans	14-29
	[3] Trust, Estate and Other Segregated Assets	14.00
0 1410	Held for Others	14-29
§ 14.10	Data Security.	14-31
	[1] Access Controls	14-31
	[a] Physical Security Controls (Computer	14 21
	Room Access)	14-31
	[b] Network Security Controls	14-31
	[c] Application Security Controls	14-31
	[d] Preventive Security	14-32 14-32
	2.3	14-32
		14-32
	[a] Written Data Security Policies	14-32
	[c] Violations Reporting Procedures	14-32
	[3] Management Controls	14-33
	[a] Security Awareness—Tone at the Top	14-33
	[b] Risk Profiles	14-33
	[c] Business Recovery Planning	14-33
§ 14.11	Data Security Appendix	14-34
3 111	[1] Data Security Policy Background	14-34
	[a] Glossary of Terms	14-34
	[i] Policy	14-34
	[ii] Standard	14-35
	F 3	

		[iii] Guideline	14-35				
		[iv] Procedure	14-35				
		[v] Information Technology	14-35				
		[vi] Availability	14-35				
		[vii] Confidentiality	14-35				
		[viii] Integrity	14-35				
	[b]	Managerial and Staff Responsibilities	14-35				
	[c]	Definition of Roles	14-36				
		[i] Information Security Officers	14-36				
		[ii] Information Security Advisory					
		Committee	14-36				
		[iii] Information Owners	14-36				
		[iv] System Administrator	14-37				
		[v] Users	14-37				
		[vi] Compliance Manager	14-37				
	[d]	Statement of Responsibilities Over	1.07				
	լայ	Information	14-37				
	[e]	Risk Analysis	14-38				
	[c]	[i] Loss-Fraud	14-38				
		[ii] Direct Value	14-39				
		[iii] Operational Impact	14-39				
		[iii] Compatitive Value	14-39				
		[iv] Competitive Value	14-39				
	L£1	[v] Compliance Impact					
	[f]	Information Sensitivity	14-39				
		[i] Confidential/Restricted	14-39				
		[ii] Confidential	14-40				
	r 1	[iii] Public/Non-critical	14-40				
	[g]	Network Privacy	14-40				
	[h]	Backup/Storage Determination	14-40				
		[i] Essential	14-40				
		[ii] Critical	14-40				
	_	[iii] Normal	14-41				
[2]		Security Standards	14-41 14-41				
	[a]						
		[i] Access to Computing Facilities					
		Standards	14-41				
		[ii] Component Protection					
		Standards	14-41				
		[iii] Computer Room Safety					
		Standards	14-42				
		[iv] Fire Protection	14-42				
		[v] Water Protection Standards	14-42				
		[vi] Air-Conditioning and Electrical					
		Systems	14-43				
		[vii] Backup of Data Storage	14-43				
	[b]	Personnel Security	14-44				
		[i] Prior to Employment	14-44				
		[ii] During Employment	14-45				
		[iii] Transfer or Termination	14-45				

	TABLE OF CONTENTS	XV
[c]	Information Security	14-45
F-3	[i] User Identification Code	14-46
	[ii] Password Management	14-46
	[iii] Device Identification	14-47
	[iv] Application Software	14-47
	[v] System Software	14-48
	[vi] Security Software	14-48
[d]	Network Security	14-49
	[i] Data Communication	
	Security	14-49
	[ii] Network Connectivity	14-50
	[iii] Network Operations	14-50
	[iv] Component Security	
	Standards	14-50
	[v] Network Access	14-51
	[vi] Internet Connectivity	
	Standards	14-51
[e]	Software Development	14-51
	[i] Project Planning	14-52
	[ii] System Design	14-52
	[iii] System Installation	14-53
	[iv] Testing	14-53
	[v] Maintenance Request	14-54
	[vi] Development Resources	14-54
	[vii] Software Evaluation	14-54
[f]	PC Security	14-55
	[i] Acquisition	14-55
	[ii] Off-Site Usage Standards	14-55
	[iii] Ownership of Software	14-55
	[iv] Purchased Software	14-55
	[v] Data Backup/Recovery	14-56
	[vi] Online Access	14-56
	[vii] Virus Prevention	14-56
	[viii] File Server Access	14-57
	[ix] Remote Access (VPN)	14-57
[g]	Third-Party Services	14-57
	[i] Vendor Selection	14-57
	[ii] Service Contracts	14-58
	[iii] Consultants/Contractors	14-58
[h]	Information in Hard Copy	14-58
	[i] Labeling	14-58
	[ii] Copying	14-59
	[iii] Distribution	14-59
	[iv] Storage	14-59
	[v] Disposal	14-59
[i]	Cloud Computing	14-59

LAW FIRM ACCOUNTING/MANAGEMENT

CHAPTER 15

Organizing the Finance Function

§ 15.01	Organizat	tion Structure of Law Firms	15-2
§ 15.02	Organizat	tion Charts—Law Firm Administrative	
	Function	ons	15-4
	[1] Sn	nall Law Firms	15-4
	[2] Mo	edium Law Firms	15-5
	[3] La	arge Law Firms	15-6
	[4] Mo	egasize Law Firms	15-7
§ 15.03	Organizat	tion Charts—Law Firm Finance Function	15-9
	[1] Sn	nall Law Firms	15-9
	[2] Mo	edium Law Firms	15-9
	[3] La	arge Law Firms	15-10
		egasize Law Firms	15-11
	[a]	Accounting Operations	15-12
	[b	Financial Reporting	15-12
§ 15.04	Branch O	Office Coordination	15-13
		entralized Approach	15-13
	[a]	Technology Systems	15-13
	[b		15-13
	[c]	Controls	15-13
	[d	Reports	15-14
	[2] De	ecentralized Approach	15-14
		omparison of Centralized vs.	
		Decentralized Approach	15-14
	[4] Co	ombination Approach	15-15
§ 15.05	Responsib	bilities of the Chief Financial Officer	15-17
	[1] Co	ontroller Responsibilities	15-17
		easury Responsibilities	15-18
		formation Technology Responsibilities	15-18
§ 15.06	Key Task	s of Finance Function Supervisors	15-20
	[1] Bi	Illing and Collections Supervisor	15-20
		yroll Supervisor	15-21
	[3] Ac	ccounts Payable Supervisor	15-21
	[4] Tre	reasury/Cash Supervisor	15-22
		nancial Reporting Supervisor	15-23
	[6] Ge	eneral Ledger Supervisor	15-23
		artners' Accounts and Tax Matters	
		Supervisor	15-23
		nancial Analyst	15-24
		formation Technology Supervisor	15-25
	[10] Int	ternal Audit	15-25
§ 15.07		Finance Agenda	15-26
	[1] Pro	ocess standardization and simplification	15-26
		usiness Partnering & Analytics	15-26
		igital in Finance	15-27
		perating Model Changes	15-28
		=	

TABLE OF CONTENTS

SECTION III

TAX PLANNING AND REPORTING

CHAPTER 16

Tax Information Reporting

§ 16.01	Law	Firm Partnership or Corporate Tax Returns	16-5
	[1]	IRS Structure	16-6
	[2]	Electronic Filing	16-7
	[3]	Reporting Payments to Attorneys	16-10
	[4]	Filing Tax Returns for Law Firms and	
		Partners	16-11
		[a] Filing in General	16-11
		[b] Extension of Time to File	
		a Tax Return	16-12
		[c] Timely Filed Return	16-12
		[d] Signing Tax Returns	16-13
	[5]	Reportable Transactions	16-14
		[a] Participation	16-14
		[b] Definition of Transaction	16-14
		[i] Listed Transactions	16-15
		[ii] Confidential Transactions	16-15
		[iii] Transactions with Contractual	
		Protection	16-15
		[iv] Loss Transactions	16-15
		[v] Transactions of Interest	16-16
		[vi] Significant Book-Tax Differences	16-16
		[vii] Brief Holding Period	16-17
		[c] Obligation to Retain Documentation	16-17
		[d] Material Advisors	16-18
		[e] Minimum Fee	16-18
		[f] Disclosure of Reportable Transactions	16-19
		[g] Penalties for Nondisclosure	16-19
		[h] Other Provisions	16-19
		[i] Accuracy-Related Penalty	16-19
	[6]	Circular 230	16-20
		[a] Covered Opinion	16-21
		[b] Other Written Advice	16-22
		[c] Penalties	16-22
	[7]	Tax Return Preparer Penalties Under	
		Section 6694	16-23
		[a] Tax Preparers' Obligations in	
		Preparing Tax Returns	16-23
		[b] Client Accuracy-Related Penalties	16-24

xviii	LA	W FIRM ACCOUNTING/MANAGEMENT	
		[c] Tax Return Preparer: Defined[d] What Constitutes Adequate	16-24
		Disclosure	16-26
		[e] Application of the Penalty	16-29
		[f] Defenses Against the Preparer Penalty	16-29
§ 16.02	Reco	[g] Impact on State Returnsnciliation of Book Net Income with Ordinary	16-30
3		come for Tax Purposes	16-31
	[1]	Nontaxable Income and Nondeductible	16.21
		Expenses	16-31
		[a] Nontaxable Income.	16-31
	503	[b] Nondeductible Expenses	16-32
	[2]	Timing Differences in Reporting	16-32
	[3]	Separately Stated Items	16-32
		[a] Rental Income or Loss	16-32
		[b] Portfolio Income and Investment Interest Expense	16-33
		[c] Capital or Section 1231 Gains	10 33
		or Losses	16-33
		[d] Guaranteed Payments to Partners	16-34
		[i] In General	16-34
		[ii] International Arrangements	16-37
		[e] Charitable Contributions	16-39
		[f] Section 179 Expense Deduction	16-40
		[g] Other Deductions	16-41
	[4]	Ordinary Income	16-41
	[5]	Ordinary Deductions	16-42
		[a] Bad Debt	16-42
		[b] Abandonment Losses	16-43
		[c] Impact at the Individual Partner Level	16-44
		[i] Background	16-44
		[ii] Ordinary or Capital Loss	16-44
		[iii] Burden of Proof	16-45
§ 16.03		Partnership Return of Income (Form 1065)	16-48
	[1]	Income and Deduction Items Comprising	
		Ordinary Income	16-48
		[a] Adjustments	16-48
		[b] Reclassification	16-48
	[2]	Partners' Shares of Income, Credits,	16.50
	[2]	Deductions, etc. (Schedule K)	16-50
	[3]	Balance Sheets (Schedule L)	16-51
	[4]	Reconciliation of Income per Books with	
		Income per Return (Schedules M-1 and M-3)	16-53
		[a] Schedule M-1	16-53
		[b] Schedule M-3	16-54
	[5]	Analysis of Partners' Capital Accounts	10 54
	[-]	(Schedule M-2)	16-56

	,	TABLE OF CONTENTS	xix
§ 16.04	Individual Par	tner's Share of Income, Credits,	
		, etc. (Schedule K-1)	16-58
	[1] Partner	's Share of Income and Deductions	16-58
		's Share of Items Relevant to	16.50
	Com	putation of Tax Credits	16-58
	[a]	Foreign Tax Credits	16-58
		Other Credits	16-59
		's Share of Items Relevant to Other	16.50
		Computations	16-59
		Investment Interest	16-59
		Self-Employment Earnings	16-60
		Adjustments and Tax Preference Items	16-60
		Other and Supplemental Information	16-60
		lle K-1 Reporting for a Deceased	16.60
		ner	16-60
		ding for Schedules K-1	16-61
		Bank and Financial Account	16.62
	Kepo	orting	16-62
		ions in an International Boycott	16.60
0.16.05		ntry	16-62
§ 16.05		al Income Taxes	16-64
		f Tax Return	16-64
		Individual Tax Returns	16-64
		Combined/Composite Tax Returns	16-64
		Unincorporated Business Tax Returns	16-65 16-65
		Personal Property Tax Returns Sales and Use Tax Returns	16-65
			16-65
		Withholding Taxes	10-03
		me Tax Purposes	16-67
		Nexus Based on Presence in State	16-67
		Economic Nexus Based on Services	10-07
	[0]	Rendered in State	16-68
	[c]	Apportioning Taxable Income	16-68
		Tax Credits	16-68
§ 16.06		ne Tax Returns for Partnership and	10-00
y 10.00		Returns for Farthership and	16-69
	[1] Partner	ship Returns	16-69
		Fransparent Entity	16-70
		Taxable Entity	16-70
		Returns	16-71
		ithholding	16-72
			16-73
§ 16.07		come Tax Rules	16-75
5 10.07	_	tional Tax Rules	16-75
	L 3	Foreign Tax Credit Carryover and	10 /3
	[4]	Limitations	16-75
	[b] [']	Franslation of Foreign Taxes	16-75
		elter Disclosure	16-75

		[a]	Penalties for Failure to Disclose	
			Reportable Transactions	16-76
		[b]	Accuracy-Related Penalty	16-76
		[c]	Statute of Limitations for Non-	
			Disclosed Listed Transactions	16-77
		[d]	Denial of Interest on Certain Tax	
			Shelter Deficiencies	16-77
		[e]	Tax Shelter Exception to	
		[-]	Confidentiality Privileges	16-77
		[f]	Reporting Obligations and Penalties	10 , ,
		[1]	for Material Advisors	16-77
	[3]	Exec	eutive Compensation.	16-78
	[2]	[a]	Nonqualified Deferred Compensation	10 70
		լаյ		16-79
		ГЫ	Plans Deferral Elections and Distributions	16-79
		[b]	Offshore and "Financial Health"	10-79
		[c]		16.70
	F43	D:	Trusts	16-79
	[4]		llowance of Certain Partnership Loss	16.00
	553		ansfers	16-80
	[5]		ognition of Cancellation of Indebtedness	16.00
	F.63		come	16-80
	[6]		vidual Partner Taxation	16-80
		[a]	Itemized Deduction for State and	4 6 00
			Local General Sales Taxes	16-80
		[b]	Donations of Motor Vehicles, Boats	
			and Airplanes	16-81
		[c]	Partner's Tax Home and Duplicate	
			Living Expenses	16-81
		[d]	When a Partner's Return is	
			Inconsistent with the Partnership's	
			Return	16-83
	[7]	Tax	Administration	16-83
		[a]	Deposits to Avoid Interest on	
			Deficiencies	16-83
		[b]	Partial Payment Installment	
			Agreements	16-84
		[c]	Private Tax Collection Authorized	16-84
	[8]		ellaneous Provisions	16-84
		[a]	Deduction for Attorney's Fees in	
			Discrimination Lawsuits	16-84
		[b]	Donor Reporting for Non-Cash	
		[-]	Charitable Contributions	16-85
		[c]	Amortization of Start-Up and	
		[-]	Organizational Expenditures	16-85
		[d]	Depreciation of Leasehold	10 00
		[4]	Improvements	16-85
		[e]	Small Business Expensing	16-85
		[f]	Additional Considerations	16-86
16.08	Deter		g U.S. Income Tax Residency for an	10-00
y 10.00			lividual	16-87
	All	C11 1110		10-0/

	TABLE OF CONTENTS	xxi
§ 16.0	Organization for Economic Cooperation and Development ("OECD") Base Erosion and Profit Shifting ("BEPS") [1] Background [2] Overview of Transfer Pricing. [3] Overview of BEPS [a] Summary [b] Applicability to Law Firms [c] The Master File [d] The Local File [e] Country-by-Country Report ("CBCR") [f] The U.S. Gap Year [g] Source of Data	16-88 16-88 16-89 16-90 16-91 16-92 16-94 16-94
	CHAPTER 17	
	Retirement and Pension Plans	
§ 17.0	[1] Objectives of Retirement Arrangements [2] Types of Retirement Arrangements	17-2 17-2 17-3 17-3 17-3 17-3
§ 17.0	[3] Limitations on Tax Deductions Unfunded Partner Retirement Programs [1] In General [a] Scale-Down Approach [b] Deferred-Equity Approach	17-3 17-4 17-4 17-4 17-4
	[c] Retirement-Allowance Approach. [la Plan Features. [la Profit Participation Arrangements. [la Profit Payment Arrangement Arrangements.	17-5 17-5 17-5 17-5 17-6
§ 17.0	[d] Defined Benefit Annuity	17-7 17-8 17-9 17-10
§ 17.0 § 17.0 § 17.0	"Cross-Testing" for Nondiscrimination Other Retirement Programs [1] Partner Life Insurance Arrangements	17-10 17-12 17-15 17-16 17-16
	[2] Individual Retirement Savings Arrangements (IRAs)	17-17
	[3] Post-Retirement Benefits Other Than Pensions	17-17

xxii	LAW FIRM ACCOUNTING/MANAGEMENT	
	[4] Roth IRAs	. 17-18
	[5] Education IRAs	
	[6] Annuities	. 17-19
	[7] Health Savings Accounts ("HSAs")	. 17-19
§ 17.07	Financial Disclosures by Law Firms About Their	
	Retirement Programs	. 17-20
	[1] Unfunded Retirement Programs	. 17-20
	[2] Funded Retirement Programs	. 17-20
§ 17.08	Financial Reporting by Retirement and	
	Pension Plans	
	[1] Standards of Financial Reporting	
. 15.00	[2] Examples of Financial Information	
§ 17.09	Government Compliance Reporting (Form 5500)	
	[1] Annual Report	
	[2] Plan Financial Statements and Schedules	
0 17 10	[3] Examples of Financial Information	
§ 17.10	Professional Tax Advice	. 17-32
	CHAPTER 18	
	Tax Planning	
§ 18.01	Tax Planning for Law Firms	. 18-4
§ 18.01 § 18.02	Accounting Methods	
g 10.02	[1] Alternative Tax Accounting Methods	
	[2] Financial Statements vs. Tax Reporting	
	[3] Changing Tax Methods of Accounting	
§ 18.03	Income Recognition	
3 10.05	[1] Billing and Collection Accounting	
	[2] Client Deposits/Deferred Income	
	[a] Generally	
	[3] Alternative Fee Arrangements	
	[4] Tenant Improvement Allowances	
	[5] Valuing Property Received in Exchange for	
	Services Rendered	. 18-18
§ 18.04	Year Expenses Are Deductible	
o	[1] General Rule	. 18-20
	[a] Cash Basis Law Firm	
	[b] Accrual Basis Law Firm	
	[2] Client Disbursements vs. Firm Expenses	. 18-23
	[a] Categorizing Disbursements	
	[i] Soft Disbursements	
	[ii] Hard Disbursements	
	[iii] Litigation Disbursements	
	[b] Distinguishing Firm Expenses from	
	Client Disbursements	
	[3] Depreciation Accounting	. 18-29

		TABLE OF CONTENTS	xxiii
	[a]	Depreciation of Furniture and	
		Equipment (Section 1245	
		Property)	18-29
		[i] Qualified Property	18-30
		[ii] Original Use	18-31
		[iii] Acquisition of Property	18-32
		[iv] Placed-in-Service Date	18-35
		[v] Calculation of Bonus	
		Depreciation	18-38
	[b]	Accounting for Like-Kind Exchanges	18-39
	[c]	Depreciation of Leasehold	
		Improvements	18-41
	[d]	Retired or Abandoned Improvements	18-44
	[e]	Election to Deduct Certain	
		Depreciable Business Assets	18-46
	[f]	Depreciation Limitations Re: Listed	
		Property	18-47
	[g]	Alternative Minimum Tax (AMT)	
	101	Calculations and Straight-Line	
		Election	18-49
[4]	Repa	airs and Maintenance Expenses	18-50
	[a]	Unit of Property ("UOP")	18-50
	[b]	Capital vs. Repair Expenditures	18-51
	[c]	De Minimis Capitalization	
		Safe-Harbor	18-53
	[d]	Partial Disposition of Property	18-53
		[i] Dispositions	18-54
		[ii] Asset disposed of	18-54
		[iii] Partial disposition	18-55
		[iv] Disposition in General Asset	
		Account (GAA)	18-55
[5]	Purc	hase vs. Lease Accounting	18-56
	[a]	Purchase Option and Accounting	18-56
	[b]	Lease Option	18-57
		[i] True Lease	18-58
		[ii] Purchase vs. Lease Analysis	18-58
		[iii] Conditional Sale	18-59
	[c]	Financial Accounting Considerations	18-60
[6]		rest Capitalization on Leasehold	
		nprovements	18-60
[7]		ritable Contributions as Business	
	Ex	xpenses	18-62
[8]		hasing vs. Developing Computer	
		oftware	18-63
	[a]	Purchased Software	18-63
	[b]	Costs to Develop Software	18-63
	[c]	Training Costs	18-69
[9]	Prep	aid Rent	18-70

xxiv	LAW FIRM ACCOUNTING/MANAGEMENT

	[10]	Estab	olishing and Maintaining a Web Site	18-71
		[a]	Developing Web Site Content	18-71
		[b]	Creating Web Site Software	18-73
		[c]	Maintaining a Web Site	18-73
		[d]	Cost of the Server	18-73
	[11]	Real	Estate Operations	18-73
		[a]	Potential Benefits	18-74
			[i] Depreciation Deduction	18-74
			[ii] Leverage Using Debt	18-74
			[iii] Appreciation Income Deferral	18-74
			[iv] Capital Gains Tax Rate	18-74
		[b]	Potential Risks and Other Matters	18-75
			[i] Cost Considerations	18-75
			[ii] Operating Considerations	18-75
			[iii] Partnership Considerations	18-75
			[iv] Alternative Minimum Tax	
			(AMT)	18-75
		[c]	Landlord Concessions	18-76
		[-]	[i] Deferred Rental Agreements	10 70
			and Rent Holidays	18-76
			[ii] Contributions Toward	10 70
			Leasehold Improvements	18-77
			[iii] Cancellation of an	10 //
			Existing Lease	18-78
			[iv] Reimbursements for Moving	10 70
			Expenses	18-79
		[d]	Passive Activity vs. Normal	10 //
		լայ	Operations	18-79
	[12]	Δmo	rtization of Start-Up Costs	18-80
	[13]		est Relating to Tax-Exempt Income	18-80
	[14]		atives	18-81
	البا		Incentive Payments	18-81
		[b]	Government Incentives	18-82
		[c]	Deferral Stipends	18-83
	[15]		ods of Financing Capital	10-03
	[13]		ntributions	18-84
		[a]	Cash or Property Contributions	18-84
		[a] [b]		18-84
			Debt Financing	18-85
	F167	[c]		
s 19.05	[16]	_	alization of Internal Projects	18-85
§ 18.05			Periods	18-87
	[1]			18-87
		[a]	Natural Business Year	18-88
		[b]	Section 444 Election	18-90
		[c]	Advantages of a Fiscal Year	18-91
			[i] Deferral of Income	18-91
			[ii] Ease of Administration	18-91
		F 13	[iii] Accuracy of Tax Estimates	18-91
		[d]	Disadvantages of a Fiscal Year	18-91

	TABLE OF CONTENTS	XXV
	[i] Prepayment of Taxes	18-91
	[ii] No Interest on Deposit	18-92
	[iii] Complications of Tax Filings	18-92
	[e] Termination of Fiscal Year Election	18-93
	[f] Change in Accounting Period	18-93
	[2] Timing of Qualified Pension Plan	
	Contribution Deduction	18-93
§ 18.06	Federal Tax Credits	18-95
	[1] Work Opportunity Tax Credit ("WOTC")	18-95
	[2] Research & Experimentation Tax Credit	18-95
	[3] Child Care Credit	18-96
	[4] Empowerment Zone Credit	18-97
§ 18.07	Partner Profit/Loss Sharing Arrangements	18-98
	[1] Sharing Firm Income	18-98
	[a] Allocating Income	18-98
	[b] Guaranteed Payments	18-98
	[2] Active Partners	18-100
	[a] Equity Partners	18-100
	[b] Salaried-Equity Partners	18-103
	[c] Non-Equity Partners	18-103
	[3] Retired Partners	18-105
	[4] Former Partners	18-112
	[5] Reasonable Compensation for PC	
	Shareholders	18-113
	[6] Partnership Loans to Partners	18-121
	[7] Transfers of Partnership Interests	
	for Services	18-121
	[8] Personal Service Corporations	18-124
§ 18.08	Operations in Multiple States and Cities	18-126
	[1] Income Allocation Methods	18-126
	[2] Retired Partners	18-127
	[3] Determining Presence and Nexus	18-127
	[4] Sales Taxes on Library and Equipment	
	Purchases	18-128
	[5] Sales Taxes on Professional Services	18-129
	[6] Personal Property Tax	18-129
	[7] Other Taxes	18-129
	[8] State Credits	18-131
	[9] The TCJA SALT Cap and State	
	"Workarounds"	18-132
	[10] Tax Compliance Issues—Market-Based	
	Sourcing Rules	18-133
	[a] Summary	18-133
	[b] The Difficulties of Complying with	
	Market-Based Sourcing Rule	18-134
	[i] States Shift from Cost of	
	Performance Rule to Market-	
	Based Sourcing Rule for	
	Service Receipts	18-134

xxvi	LAW FIRM ACCOUNTING/MANAGEMENT	
	[ii] The Impact of the Wayfair Decision – Economic Nexus and Law Firms	18-135
	CHAPTER 19	
	Business Expenses and Fringe Benefits	
§ 19.01	Partner and Employee Business Expense	
	Deductions	19-2
	[1] Travel, Meal and Entertainment Deductions	19-3
	[a] Travel Expenses	19-3
	[i] Temporary vs. Indefinite	
	Travel	19-4
	[ii] Infrequent Work Locations	19-8
	[b] Business Meals	19-8
	[c] Entertainment Expenses	19-9
	[d] Limitation on Meal and	
	Entertainment Deductions	19-10
	[e] Exceptions to the 50 Percent Haircut	19-11
	[f] Mileage Reimbursements	19-17
	[g] Unreimbursed Partner Expenses	19-18
	[h] Club Dues	19-18
	[i] Duplicate Housing Costs	19-19
	[2] Reimbursement "Accounting"—	
	Substantiation Requirements	19-21
	[a] Cost	19-21
	[b] Time and Place	19-21
	[c] Business Relationship	19-21
	[d] Business Purpose	19-21
	[e] Accountable Plan	19-22
	[3] Expense Reimbursement Policy Statement	19-23
	[4] Expense Reports	19-24
§ 19.02	Employee Relocation Costs	19-26
	[1] Expenses for a Temporary Transfer	19-26
	[2] Moving Expenses for a Permanent Transfer	19-26
	[3] Purchase of Transferee's Home	19-27
§ 19.03	Employee Fringe Benefits	19-31
	[1] In General	19-31
	[2] Parking, Transit Passes and Vanpooling	19-31
	[a] Evolution of Benefits: Moratorium to	
	Present Day	19-32
	[b] Parking	19-33
	[i] Qualified Parking Benefit—	
	Current Law	19-33
	[ii] Qualified Parking Benefit—	
	Historic Perspective	19-33
	[c] Transit Passes and Vanpooling	19-35

		TABLE OF CONTENTS	xxvii
		[i] Transit Passes and	
		Vanpooling—Current Law	19-35
		[ii] Transit Passes and	
		Vanpooling—Historic	10.26
	F21	Perspective	19-36
	[3]	Working Condition Fringe Benefits	19-37 19-38
	[4]	De Minimis Fringe Benefits	19-38
		[b] Overtime Meals and Cab Fares	19-39
		[c] Special Rule for Employer-Provided	17-37
		Transportation	19-40
		[d] Special Valuation Rule Re: Unsafe	
		Travel Conditions	19-41
		[e] Other De Minimis Fringe Benefits	19-42
	[5]	Employee Cafeterias	19-43
	[6]	Dependent Life Insurance	19-45
	[7]	Educational Assistance Program	19-46
	[8]	Annual Physical Examination	19-47
	[9]	Employer-Provided Retirement Planning	10 40
	F101	Services	19-48 19-48
	[10] [11]	Frequent Flyer Program	19-48
	[12]	Partnership's Contributions to a Partner's	17-47
	[12]	Health Savings Account (HSA)	19-51
	[13]	Taxability of Disability Benefits	19-51
	[14]	Summary—Tax Effects of Fringe Benefits	19-52
§ 19.04		Employed Accident and Health Insurance	
·		duction	19-54
§ 19.05	Home	Office Deduction	19-55
		CHAPTER 20	
		Law Firm Structures	
§ 20.01	Expar	nding Sphere of Operations	20-2
§ 20.02		s of Doing Business	20-3
O	[1]	Partnership Structure	20-3
	[2]	Corporate Structure	20-4
	[3]	LLC Structure	20-6
	[4]	Limited Liability Partnerships (LLPs)	20-7
	[5]	Electing S Corporation Status	20-9
	[6]	Incorporating a Partnership	20-10
	[7]	Choosing Between a Corporate Structure	20.11
		and a Partnership or LLP Structure	20-11
		[a] Advantages of Corporate Form Over Partnership or LLP Form	20-11
		[b] Disadvantages of Corporate Form	20-11
		Over Partnership or LLP Form	20-12
	[8]	Check-the-Box Regulations	20-13
		<u> </u>	

xxviii	LA	W FIRM ACCOUNTING/MANAGEMENT	
§ 20.03		tures of U.S. Firms Operating Outside the	
		ited States	20-16
	[1]	Branch Structure	20-16
	[2]	Hybrid Global Partnership	20-17
	[3]	Parallel Structure	20-18
	[4]	Umbrella Structure	20-18
§ 20.04		U.S. Firms Operating in the United States	20-21
§ 20.05		er Considerations	20-23
	[1]	Partnership Merges into Partnership	20-23
	[2]	Partnership Merges into a	
	527	Corporation or PC	20-24
	[3]	PC Merges into PC	20-25
	[4]	PC Merges into Partnership	20-26
0.20.06	[5]	Tax Accounting for Merger-Related Costs	20-27
§ 20.06		Firm Affiliation.	20-30
§ 20.07	Multi	disciplinary Practice.	20-32
		CHAPTER 21	
		Global Operations	
§ 21.01	Globa	ilization of Law Firms	21-3
§ 21.02		Based Law Firms Practicing Outside the	
		ited States	21-6
	[1]	Location of Permanent Establishment	21-6
	[2]	Registering for Business	21-6
	[3]	Bar Restrictions	21-7
	[4]	Structure	21-7
	[5]	Accounting Periods	21-8
	[6]	Accounting Methods	21-9
	[7]	Sourcing and Allocation	
		of Partnership Income	21-10
	[8]	Allocation/Apportionment of Expenses—	
		Transfer Pricing	21-12
	[9]	Value Added Taxes	21-14
	[10]	Foreign Tax Credit	21-16
	[11]	Guaranteed Payments	21-17
	[12]	Foreign Currency Gain or Loss	21-18
		[a] Functional Currency	21-19
		[b] Translation Gains or Losses	21-19
		[c] Transaction Gains or Losses	21-19
		[d] Branch Currency Transactions	21-21
	[13]	Filing Requirements—Partnership	
	_	and Partners	21-22
	[14]	Withholding on Distributions	21-23
	[15]	Withholding on Transfers	
	_	of Partnership Interests	21-26

	TABLE OF CONTENTS	xxix
	[16] Certification of U.S. Residency	
	(Form 6166)	21-28
	[17] Social Security Totalization Agreements	21-30
	[18] Tax Equalization/Protection	21-30
	[19] Operating an International Law Firm	21-32
§ 21.03	Non-U.SBased Law Firms Practicing in the	
	United States	21-34
	[1] Structure	21-34
	[2] Accounting Methods	21-35
	[3] Accounting Periods	21-35
	[4] Allocation of Income	21-36
	[5] Allocation and Apportionment of Expenses	21-37
	[6] Treaty Considerations	21-37
	[7] Employee Considerations	21-38
	[8] Withholding on Effectively Connected	
	Income	21-38
	[9] U.S. Tax Obligations of Foreign Entities and	
	Their Owners	21-39
	[a] When Foreign Entity Does Not File a	
	U.S. Tax Return	21-39
	[b] When Foreign Entity Does File a U.S.	
	Tax Return	21-42
	[10] Filing Requirements—Partnership and	
	Partners	21-43
§ 21.04	United States Partners and Associates Assigned to	
	Foreign Countries	21-45
	[1] Tax Planning for Lawyers Assigned Abroad	21-45
	[2] Tax Policy for Lawyers Assigned Abroad	21-45
	[3] Protection vs. Equalization	21-46
	[4] United States Taxation of U.S. Citizens	
	Residing Abroad	21-48
	[5] Foreign Income Exclusions	21-50
	[a] Foreign-Earned Income	21-51
	[b] Qualifying for the Exclusions	21-51
	[c] Bona Fide Residence	21-52
	[d] Physical Presence	21-53
	[e] Tax Home Requirement	21-54
	[f] Maximizing the Exclusion	21-55
	[g] Housing Exclusion	21-56
	[h] Reasonable Housing Expenses	21-58
	[i] Housing Amount	21-58
	[j] Qualified Second Household	21-59
	[k] Separate Exclusion for Husband and Wife	21-59
§ 21.05	Foreign Tax Credit	21-61
3 21.00	[1] Overview	21-61
	[2] Foreign Tax Credits vs. Foreign-Income	_1 01
	Exclusions	21-62

xxx	LA	W FIR	M ACCOUNTING/MANAGEMENT	
	[3]		ation of Foreign Taxes in Accordance	21. (2
	[4]		h Partner Income Allocationst for Taxes Paid to Foreign Countries	21-62
	נין		Possessions of the United States	21-63
		[a]	When Credit For Taxes Paid May Be	
		ГЫ	Taken	21-63
		[b]	Partnership Computations of Foreign Taxes	21-64
	[5]	Foreig	gn Tax Redetermination	21-64
		[a]	Notification to the Internal Revenue	
		E1 3	Service	21-65
		[b]	Foreign Currency and Exchange Rates	21-66
§ 21.06	Mov	ing Exne	enses	21-67
§ 21.00			s Principal Residence	21-68
§ 21.08			Tax	21-69
§ 21.09			ity Liability	21-70
§ 21.10	Total		Agreements	21-71
	[1]		nt Double Taxation/Preserve Benefits	21-71
	[2]		oriality Rule/Detached-Worker Rule	21-72
	[3]		Employer	21-73
	[4]		gn Affiliate for Partners	21-73 21-73
§ 21.11	[5] Nonr		Alien Partners and US Taxes	21-75
y 21.11	[1]		eneral	21-75
	[2]		Far Could this Attribution be taken by	21 /6
			IRS?	21-77
	[3]	State	Taxes.	21-77
			SECTION IV	
		ADV	ANCED ACCOUNTING	
			FOR LAW FIRMS	
			FOR LAW FIRMS	
			CHAPTER 22	
			Risk Management	
§ 22.01	Over	view		22-2
§ 22.02			ement Team	22-4
§ 22.03	Polic	ies and	Procedures Manual	22-6
§ 22.04	Risk	s to be N	Managed	22-8
	[1]	Perfor	rmance Risks	22-8
		[a]	Professional Conduct	22-8
		[b]	Client Base Vulnerability	22-9
		[c]	Partnership Composition	22-10

		TABLE OF CONTENTS	xxxi
		[d] Business Dealings With Clients/	
		Directorships	22-10
	[2]	Operational Risks	22-11
		[a] Office Security	22-11
		[b] Confidentiality	22-11
		[c] Client Files	22-11
		[d] Procedures and Using Calendars	22-12
		[e] Information Technology	22-13
		[i] Electronic Word Processing	
		and Transmission	22-13
		[ii] Discretion	22-14
		[iii] Computer Vulnerability	22-14
		[f] Branch Office Operations	22-15
	[3]	Financial and Accounting Risks	22-15
		[a] Accounting Software Risks	22-15
		[b] Accounting Department Procedural	
		Risks	22-17
		[i] Accounting Department Risks	22-17
		[ii] Safeguard of Assets	22-19
	[4]	Trust Account Risks	22-20
	[5]	Employee Risks	22-20
		[a] Payroll and Human Resources Risk	22-20
		[b] Workplace Rules Risk	22-21
22.05	Strate	egies to Manage Risks	22-23
	[1]	Policy Manual or Management System	22-23
	[2]	Quality Control	22-23
		[a] Accepting New Client Matters	22-23
		[i] Checklists	22-23
		[ii] Engagement Agreement	22-24
		[b] Performing the Engagement	22-25
		[i] Assigning and Supervising	
		Timekeepers	22-25
		[ii] Documentation and Opinion	
		Letter	22-25
		[iii] Second-Partner Review	22-26
	[3]	Operational Safeguards	22-26
		[a] Physical Plant	22-27
		[b] Client Files	22-28
		[c] Internal Controls	22-29
		[d] Using Calendars and Checklists	22-29
	[4]	Internal Auditor	22-30
	[5]	Independent Audit or Review	22-30
	[6]	Peer Review	22-31
	[7]	Malpractice Insurance	22-31

§

xxxii LAW FIRM ACCOUNTING/MANAGEMENT

CHAPTER 23

Financial Modeling

§ 23.01	Financial Modeling for Law Firms	23-2
§ 23.02	Types of Financial Models	
	[1] Long-Range Profit-Planning Models	
	[2] Merger and Acquisition Accounting Models	
	[3] Office Occupancy-Cost Models	
	[4] Other Financial Models	
§ 23.03	Creating an Office-Occupancy Cost Model	
	[1] Analyzing the Decision-Making Process	
	[a] Lease Option	
	[b] Purchase Option	
	[2] Developing Input Data, Assumptions and	
	Statistics	23-7
	[a] Rent Expense	
	[b] Purchase Cost and Depreciation	
	[c] Financing Arrangements and Interest.	
	[d] Leasehold Improvements	
	[e] Other Occupancy Expenses	
	[f] Income Taxes	
	[g] Factors Not Quantified	
	[3] Processing Calculations	
	[a] Occupancy-Expense Calculations	
	(Lease Option)	23-9
	[b] Occupancy-Expense Calculations	
	(Purchase Option)	23-10
	[c] Tax-Benefit Calculations	
	[d] Cash-Flow Calculations	
§ 23.04	Using an Office-Occupancy Cost Model	
y 23.0 i	[1] Base Case	
	[a] Lease-Option Projection	
	[b] Purchase-Option Projection	
	[2] Alternative Scenarios	
	[a] Purchase Price Variation	
	[b] Interest Rate Variation	
	[3] Comparison of Base Case vs. Alternative	. 23-10
	Scenarios	23-18
	[a] Year-by-Year Cash-Flow Comparison [b] Discounted-Cash-Flow Comparison	
8 22 05		
§ 23.05	Interpreting the Results	23-20
	CHAPTER 24	
	Merger and Acquisition Accounting	
§ 24.01	Articulate a Strategy for Growth	24-3
§ 24.02	Merger Action Plans	

	TABLE OF CONTENTS	xxxiii
§ 24.03	Form a Merger Team	24-6
§ 24.04	Strategic Considerations	24-8
	[1] Financial Measurements	24-8
	[a] Gross Fees	24-8
	[b] Gross Operating Expenses	24-10
	[c] Net Operating Income	24-11
	[2] Firm Name and Governance	24-11
	[a] Firm Name	24-12
	[b] Governance	24-12
	[3] Partner/Shareholder Considerations	24-13
	[4] Practice Areas and Client Strategies	24-14
	[a] Practice Areas	24-14
	[b] Client Strategies	24-15
	[5] Personnel Considerations	24-16
	[6] Geographic Strategies	24-17
	[7] Accounting Considerations	24-18
	[8] Tax Considerations	24-20
	[9] Operational Considerations	24-22
	[a] Structure of Entity	24-22
	[b] Information Technology	24-23
	[c] Office Space and Operating Costs	24-24
§ 24.05	Target Identification	24-26
§ 24.06	Evaluate the Deal	24-27
	[1] Strategic Considerations	24-27
	[2] Financial Due Diligence	24-28
	[a] Lead Firm's Results of Operations	24-28
	[b] Target Firm's Results of Operations	24-29
	[c] Merger Adjustments	24-29
	[d] Pro Forma Operating Results of	
	Merged Firm	24-30
	[3] Financial Projections	24-32
	[a] Developing Base Case Projections	24-32
	[b] Creating Alternative Projections	24-33
	[i] Synergy Assumption	24-33
	[ii] Client Conflicts Assumption	24-34
	[iii] Economies of Scale	
	Assumption	24-34
	[iv] Compatibility of Rates	
	Assumption	24-34
	[v] Merger Costs Assumption	24-34
	[c] Comparing Base Case with	
	Alternative Projections	24-36
	[4] Communication and Focus	24-36
§ 24.07	Negotiate and Close the Deal	24-38
	[1] Structure of the New Firm	24-38
	[2] Governance of the New Firm	24-40
	[3] Transition Period for Full Implementation	24-41
	[4] Documents and Protecting the Name	24-42
§ 24.08	Implement the Deal.	24-43

xxxiv	\mathbf{L}_{I}	AW FIRM ACCOUNTING/MANAGEMENT	
	[1]	Communication	24-43
	[2]	Timetables	24-44
	[3]	Co-location	24-44
	[4]	Choose the Best Practices	24-46
	[5]	Accounting Policies	24-46
	[6]	Accounting and Reporting Systems	24-47
	[7]	Monitor Results	24-48
24.09		Iblocks and Deal Breakers	24-49
	[1]	Independent Consultant	24-49
	[2]	Firm Name	24-49
	[3]	Governance	24-49
	[4]	Compensation and Benefits	24-50
		[a] Associate Compensation Packages	24-50
	563	[b] Partner Compensation	24-50
	[5]	Capitalization	24-51
	[6]	Conflicts and Risk Management	24-51
	[7]	Identification of Surviving Firm	24-52
0.0410	[8]	Unfunded Deferred Compensation Plans	24-52
§ 24.10		essing the Benefits and Risks of a Merger	24-54
§ 24.11		ure and Fit	24-55
	[1]	Beyond the Financial Aspects	24-55
		[a] Measuring Success	24-55
		[b] Capturing Synergisms and	24.55
	[0]	Maintaining the Same Fit and Feel	24-55
	[2]	Absorbing a Smaller Firm	24-55
		[a] Taking Over Smaller Firms	24-55
		[b] Loss of Identity	24-56
	[2]	[c] Risk of Losing Partners	24-56
	[3]	Risk of Losing Culture When Too Many	24-56
		Firms Combine	24-56
		[a] Too Many Acquisitions	24-30
		[b] Culture Changes Whether Planned or Not	24-57
		[c] Risk of Changing Values and Feel of	24-37
		the Firm	24-57
	[4]	Creating a New Culture When Large Firms	24-37
	ניין	Combine	24-57
		[a] Size Does Matter	24-57
		[b] Capturing the Best of Both	24-57
		[c] Opportunity to Drive Change	24-58
§ 24.12	Com	bination Example	24-59
y 21.12	[1]	Background	24-59
	[2]	Facts	24-59
	[3]	Questions	24-60
	[4]	Analysis & Conclusions	24-60
	[5]	A Note about Taxes	24-62
	[6]	Conclusion	24-62

TABLE OF CONTENTS	xxxv
CHAPTER 25	
Partners' Compensation	
Overview	. 25-2
[1] General Goals of Partner	. 252
Compensation Plans	. 25-3
[a] Rewarding Quality Partner	
Performance	. 25-3
[b] Recognizing "Star" or "Fast Track"	
Partners	. 25-3
[c] Retaining the Best Partners	
[d] Recruiting Highly Rated New	
Partners	. 25-4
[e] Assuring Fair Treatment Among	
Partners	. 25-4
[2] Specific Objectives of Partner Compensation	
Plans	
[3] Components of Partner Compensation Plans	
Measuring Partners' Performance	
[1] Performance Measurement Criteria	
[a] Professional Competence	
[b] Practice Development	
[c] Productivity	
[d] Profitability	
[2] Performance Measurement Programs	
[3] Performance Measurement Reports	. 25-8
Evaluating Partners' Performance	
[1] The Autocratic Approach	. 25-11
[2] The Democratic Approach	
[3] The Formula Approach	
[4] The Lockstep Approach	
[5] The Modified Lockstep Approach	
[a] Advancement to the Next Level	
[b] Bonus Pool	
[c] Modified Lockstep Example	
[6] The Committee Approach	
[1] Assigning Rating Factors	
[3] Preparing a Point Schedule	
Choosing a Partnership Definition of "Profits"	. 25-19
Choosing a rarmership Dennition of Fronts	. 23-21

Types of Accounting Methods.....

Comparison of Allocable Partnership Profits Under Alternative Accounting Methods

Developing a Partnership Profit-Sharing Formula

Cash Basis Accounting Method

Accrual Basis Accounting Method

Hybrid Accounting Methods

25-21

25-21

25-21

25-22

25-22

25-24

§ 25.01

§ 25.02

§ 25.03

§ 25.04

§ 25.05

§ 25.06

[a]

[b]

[c]

[1]

[2]

xxxvi	LAW FIRM ACCOUNTIN	NG/MANAGEMENT	
	[1] Allocation Base		25-24
	E 3	ons to the Allocation	
			25-24
	[b] Expense Elimina		25.24
		se	25-24 25-25
	[2] Allocation Concepts [a] Prospective vs. I	Retrospective	23-23
			25-25
	[b] Fixed vs. Percen		
			25-25
	[c] Profit-Sharing vs	s. Return on Capital	
			25-25
			25-25
		Programs	25-26
		ograms	25-26
		and Branch Office	25.26
		xroma	25-26 25-26
§ 25.07	[d] Bonus Pool Prog Comparing Partners' Compens	grams	23-20
8 23.07	Alternative Scenarios		25-27
			25-27
		Compensation	25-28
		e Allocations	25-29
§ 25.08	Assessing and Addressing Par		
	Trends		25-31
	[1] Compensation Goals		25-31
			25-31
		ng Trends	25-31
		ting Trends	25-33
			25-34
	[a] Rewarding Qual		25.24
		"East Tract."	25-34
		ar" or "Fast Track"	25-34
	raitheis		23-34
	СНАРТЕК	₹ 26	
	Capital Structure a	nd Financing	
§ 26.01	Capital Structure of Law Firm	os: An Overview	26-3
y 20.01		ons	26-4
		tions	26-4
		S	26-5
§ 26.02	Alternative Financing Methods		26-6
			26-6
		al	26-7
		arnings	26-8

		TABLE OF CONTENTS	xxxvii
	[c]	Equity in Unbilled and Uncollected	
		Fees	26-9
[2]	Borr	owing	26-9
	[a]	Short-Term Bank Loans	26-9
		[i] Demand Note	26-10
		[ii] Floating-Interest Rate	26-10
		[iii] Revolving Credit	26-10
	[b]	Long-Term Bank Loans	26-11
		[i] Fixed Note	26-12
		[ii] Interest Rate Alternatives	26-12
		[iii] Multiple Bank Financing	26-12
	[c]	Private Placements	26-12
		[i] Term Note	26-12
		[ii] Multiple Maturity Dates	26-12
		[iii] Multiple Interest Rates	26-12
		[iv] Offering Document	26-13
	[d]	Borrowing Agreements	26-16
		[i] Terms of the Loan	26-17
		[ii] Representations and Warranties	
		of the Firm	26-17
		[iii] Liability of Partners	26-17
		[iv] Events of Default	26-18
		[v] Definition of Accounting Terms	26-18
	[e]	Documents Provided by Borrower	26-18
	L-3	[i] Partnership Agreement	26-19
		[ii] Historical Financial Statements	26-19
		[iii] Opinion of Counsel	26-19
		[iv] Evidence of Insurance	26-19
		[v] Name and Percentage Interest	20 1)
		of Each Partner	26-19
	[f]	Financial Covenants and Ratios	26-19
	[+]	[i] Minimum Capital	20 17
		Requirements	26-20
		[ii] Minimum Cash Flow	20 20
		Requirements	26-21
		[iii] Minimum Coverage Ratio	26-21
		[iv] Minimum Gross Revenue	26-21
		[v] Minimum Current Ratio	26-22
		[vi] Limitations on Additional	20-22
		Borrowings	26-23
		[vii] Limitations on Partner	20-23
		Distributions	26-24
			20-24
		[viii] Limitations on Capital	26-24
		Expenditures	20-24
			26-24
		Partners	26-24 26-24
	[~]	[x] Other Covenants	20-24
	[g]	Financial Reporting Required by	26.24
		Lenders	26-24

xxxviii	LA	W FII	RM ACCOUNTING/MANAGEMENT	
			[i] Annual Audited Financial	
			Statements	26-24
			[ii] Quarterly Unaudited Financial	
			Reports	26-25
		[h]	Compliance Letters and Waivers	26-25
			[i] Management's Compliance	
			Letter	26-25
			[ii] Auditors' Negative Assurance	26.25
			Letter of Compliance	26-25
	[2]	Ι	[iii] Lender's Waiver of Compliance	26-26
	[3]		ing	26-26
		[a]	Lease Agreements	26-26
			[i] Operating Terms	26-26
			[ii] Economic Terms	26-26
		Γ1 - 1	[iii] Partners' Liability	26-27
		[b]	Financial Conditions and Ratios	26-27
			[i] Minimum Net Worth	26-27
		[-1	[ii] Minimum Coverage Ratio	26-27 26-28
e 26.02	Dama	[c]	Compliance Letters	20-28
§ 26.03			a Suitable Capital Structure and	26.20
			g Plan Paguiromenta	26-29
	[1]		erstanding Financing Requirements	26-29
		[a]	Office Space	26-30
		[b]	Property and Equipment	26-30
		[c]	Working Capital	26-30
		[d]		26-30 26-30
	[2]	[e]	Partners' Retirement	
	[2]		tifying Appropriate Financing Methods	26-31 26-31
		[a]	Using Leases to Finance Office Space	20-31
		[b]	Using Borrowing to Finance Property	26 21
		[-1	and Equipment	26-31
		[c]	Using Partners' Capital to Finance	26-31
		[4]	Working Capital	20-31
		[d]	Using Partners' Memorandum	
			Equity to Finance Unbilled and	26-31
		[a]	Uncollected Fees	20-31
		[e]	Using Partners' Funded Retirement Plans to Finance Partners'	
				26-32
	[2]	Moto	Retirement Obligations	20-32
	[3]		ching Financing Requirements with	26.22
		F1	nancing Methods	26-32
			CHAPTER 27	
	The	Law	Firm and Business Development	
§ 27.01	Over	view		27-1
§ 27.01 § 27.02			rm Marketing Process	27-8
8 27.02		tino a l		27-12

	TABLE OF CONTENTS	xxxix
§ 27.04	Law Firm Websites	27-13
§ 27.05	Measuring and Demonstrating Marketing	2, 10
	Effectiveness	27-18
§ 27.06	Marketing Budgets	27-20
§ 27.07	Developing Relationships	27-22
	CHAPTER 28	
	Pricing Strategies	
§ 28.01	Law Firm Pricing Strategies: An Overview	28-2
§ 28.02	Cost-Based Pricing Using Hourly Rates	28-3
3 20.02	[1] Pricing Factors	28-3
	[a] Staff Mix	28-3
	[i] Staff Classifications	28-3
	[ii] Staff Levels	28-3
	[iii] Staff Leverage	28-3
	[b] Compensation and Support Costs	28-4
	[i] Imputed Equity Partner	
	Compensation	28-4
	[ii] Associate and Staff	
	Compensation	28-5
	[iii] Support Costs	28-5
	[c] Lawyers and Other Timekeepers'	20.5
	Utilization	28-5
	[2] Pricing Methodology for Staff Services	28-6
	[a] Cost Determination	28-6 28-6
	[b] Rate Setting	28-0
	Services	28-7
	[4] Pricing Model	28-8
§ 28.03	Value-Based Pricing Using Hourly Rates	28-11
§ 28.04	Alternative Pricing	28-12
3 20.0 .	[1] Concerns with the Hourly Rate System	28-12
	[2] Reasons for Adopting Alternative Pricing	28-12
	[a] Distorted Incentives in Hourly Rate	
	System	28-13
	[b] Suitability of Alternative Pricing	28-13
	[c] Acceptance of Alternative Pricing	28-13
	[d] Available Information on Alternative	
	Pricing	28-13
	[3] Relationship to Corporate Planning and	
	Budgeting	28-14
	[4] Considerations in Adopting Alternative	
	Pricing	28-14
	[a] Understanding Implications	28-14
0.20.05	[b] Implementation Considerations	28-15
§ 28.05	Pricing Goals: Adapting to Competitive and Client	20.16
	Challenges	28-16

CHAPTER 29

[Reserved]

CHAPTER 30

Management Information

§ 30.01			t Information for Law Firms	30-2
§ 30.02	Interi		nagement Information	30-3
	[1]	Firm	Management	30-3
	[2]	Pract	rice/Office Leaders	30-7
	[3]		ners	30-11
§ 30.03			t Information Requested by	
o .			rties	30-13
	[1]		mation Requested by Clients	30-13
	[2]		mation Requested by Banks and	
	[-]		ssors	30-14
§ 30.04	Mana		t Inquiry Tools	30-17
y 50.0 i	[1]		t are Management Information	30 17
	[1]		stems?	30-17
	[2]		Management Information Systems and	30-17
	[4]			30-17
	[2]		ols are Used	30-17
	[3]		antages of Management Information	20.20
	F43		stems	30-20
	[4]		itating Project Management	30-20
	[5]		em Security	30-20
	[6]		ibuting Management Information: Law	20.21
			m Intranet or Portal	30-21
	[7]		ning the Portal	30-21
§ 30.05	Benchmarking			30-23
	[1]		hmarking: An Overview	30-23
	[2]	Appr	oach to Benchmarking	30-23
		[a]	Determine the Evaluation Criteria and	
			Benchmark Population	30-23
		[b]	Perform the Benchmarking Study	30-24
		[c]	Analyze Current Performance and	
			Identify Areas for Improvement	30-24
		[d]	Develop Goals Related to the	
			Benchmarks	30-25
		[e]	Develop an Action Plan	30-25
		[f]	Implement the Action Plan	30-25
		[g]	Evaluate the Success	30-25
	[3]		ces of Benchmarking Information	30-26
	r., 1	[a]	Published Surveys	30-26
		[b]	Surveys Conducted as Part of the	0
		[-]	Benchmarking Project	30-27
			Deficilifiatking Project	30-27

	TABLE OF CONTENTS	xli
	 [c] Best Practices Data Maintained by Industry Consultants and Others [d] Benchmarking Studies Conducted by 	30-27
	Other Firms	30-28 30-28
	CHAPTER 31	
	Property and Equipment Acquisition: The Lease or Buy Decision	
§ 31.01 § 31.02 § 31.03	Overview Anticipated Useful Life of Asset Sources of Capital. [1] Purchase Transactions. [2] Lease Transactions	31-1 31-3 31-4 31-4 31-4 31-4
§ 31.04 § 31.05	[a] Capital Leases [b] Operating Leases Term of Lease or Financing Maintenance and Related Issues [1] Maintenance Costs [2] Asset Tracking	31-4 31-5 31-6 31-6 31-6
§ 31.06	[3] Insurance and Appraisals [4] Prepayment, Assignment and/or Cancellation Example Modeling [1] Model Assumptions [2] Lease/Buy Model	31-6 31-7 31-7 31-9
	[3] Analysis of Model	31-11
	CHAPTER 32	
	Law Firm Governance	
§ 32.01 § 32.02 § 32.03	The Importance of Governance Definition of Law Firm Governance The Executive Committee [1] Role [2] Composition. [3] Size [4] Key Governance Responsibilities. [a] Strategy [b] Risk and Crisis Management [c] Ethics [d] The Firm's Performance [e] Transformational Transactions	32-1 32-3 32-4 32-4 32-5 32-6 32-6 32-7 32-9 32-10 32-11

xlii	LAV	W FIR	M ACCOUNTING/MANAGEMENT	
		[f]	Management Evaluation, Compensation and Succession Planning	32-12
§ 32.04 § 32.05 § 32.06	Interna	Commational	ngs	32-13 32-15 32-16 32-17
			CHAPTER 33	
			Outsourcing	
§ 33.01			sourcing?	33-3
	[1]		ition	33-3
	[2]		e is Outsourcing Used?	33-4
	[3]		curcing Terms	33-6
		[a]	Core and Non-Core Capabilities	33-6
		[b]	Onshoring, Offshoring and	22 6
	Γ / 1	Outco	Near-Shoring.	33-6 33-8
	[4]		urcing Agreements	33-0
		رما	and Incentives	33-8
		[b]	Vendor Personnel	33-8
		[0]	Data Protection, Privacy and	33-9
		[C]	Intellectual Property	33-9
		[d]	Price Protections	33-10
		[e]	Third-Party Assignments	33-10
		[f]	Ownership of Assets Used or Created	33 10
		[+]	by an Outsourcing Collaboration	33-10
		[g]	Legal Venue and the Conflict	22 10
		[9]	Between Different Legal Systems	33-11
		[h]	Contingency Management and	00 11
			Planning for Change	33-11
		[i]	Notice of Material Adverse Impact	33-11
		ΪίΪ	Right to Audit	33-11
		[k]	Termination	33-11
	[5]	Busin	ess Process Outsourcing (BPO)	33-12
	[6]		its of Outsourcing	33-12
		[a]	Reduce Operating Costs	33-12
		[b]	Improve Quality	33-12
		[c]	Avoid Future Costs	33-13
		[d]	Gain Access to Global Talent	33-13
		[e]	Convert Fixed Costs Into Variable	
			Costs	33-13
		[f]	Allows Organization to Focus on	
			What it Does Best	33-14
	[7]		of Outsourcing	33-14
		[a]	Security and Privacy	33-14

			TABLE OF CONTENTS	xliii
		[b]	Quality and Operational Risk	33-14
		[c]	Organizational Culture and Change	33-15
		[d]	Proximity	33-15
		[e]	Political Issues	33-15
§ 33.02	Dete		y Value	33-16
V	[1]		Down Business Case	33-17
	[2]	_	om's-up Business Case	33-17
	[3]		hmark Your Performance Against	
			dustry Leaders	33-18
	[4]	Deter	rmine Sourcing Alternatives—Lift and	
			ift, Automate and Eliminate, Fix and	
		Sh	ift	33-18
	[5]		te a Business Case That Includes	
		Po	tential Benefits, Costs and Risks	33-19
§ 33.03	Imple	ementat	ion	33-20
V	[1]		Vendor Selection Process	33-20
		[a]	Conduct Primary and Secondary	
			Market Scan to Create a List of	
			Qualified Vendors	33-20
		[b]	Determine Key SLAs, Deal Points	
			and Contractual Provisions	33-21
		[c]	Conduct a Request for Proposal	
			(RFP) Process	33-21
		[d]	Narrow the Field to a Short List	33-21
		[e]	Perform Due Diligence on Short List	
			Vendors	33-21
		[f]	Rank Short List and Enter Into	
			Negotiations With Top Choice	33-21
	[2]	The 1	Internal Process	33-22
		[a]	Designate a Sponsor, Create a	
			Steering Committee and Project	
			Team	33-22
		[b]	Research What Other Firms	
			Have Done	33-22
		[c]	Understand and Focus on Critical	
			Success Factors	33-22
		[d]	Develop a Project Plan and Budget	33-23
		[e]	Communicate, Communicate and	
			Communicate	33-23
		[f]	Institute and Involve a Vendor	
			Management and Vendor Risk	
			Function	33-23
		[g]	Gather Data on Costs and	
			Performance	33-23
	[3]	Why	Deals Don't Work	33-24
		[a]	Lack of Executive Leadership and	
			Commitment	33-24
		[b]	Inadequate Qualification of	
			Outsourcing Vendors	33-24
			-	

xliv	LAW FIRM ACCOUNTING/MANAGEMENT			
	[c]	Ineffective Management of Culture	22.24	
	[d]	and Change Inadequate Vendor and Risk	33-24	
	[4]	Management	33-24	
	[e]	Turnover of Outsourcing Vendor's Personnel	33-24	
	[f]	Loss of Focus During Contract and	33-24	
		SLA Negotiation	33-25	
INDEX			I-1	