

## CLIENT COSTS ADVANCED

It is extremely important that a firm maintain a system of accounting for case disbursements. Not only do the rules of professional responsibility require that a lawyer accurately account to his client for funds expended in furtherance of the case, whether paid from the client trust account or advanced by the firm, but it is also in the firm's best interest to keep tight controls on all expenses advanced since they are, essentially, unsecured, non-interest bearing loans made by the firm to the client.

Any firm that advances costs for a client should maintain an unbilled client disbursements ledger. Each matter should have a listing for the costs which have been advanced, indicating the date the advance is made, to whom, the check number, and the purpose for the advance.

Each cost incurred on behalf of a client should be posted to the appropriate client matter as an unbilled disbursement as soon as the advance is made. Remember that there are internal expenses (sometimes known as soft costs) as well as external costs (sometimes referred to as hard costs) which must be accounted for. Examples of internal costs are things like photocopies, postage and long distance charges. External advances are items like filing fees, court reporter fees, and medical records.

When it is time to bill the client, the bookkeeper/billing clerk runs a statement combining lawyers' time records with the unbilled costs, for a full accounting of the activity since the last bill.

Because advanced costs are really like a loan to your clients, it makes sense for the firm to try to obtain repayment or retainers for cost advances from its clients whenever possible. Before advancing costs from the firm's operating account to pay a bill issued in connection with a client's case, the bookkeeper should always check to determine whether the client has a trust balance with the firm, and instead look to cut the cost payment from trust if they do.

Most CPAs advise law firms to show the running balance of unpaid costs on their general ledger as an asset to comply with IRS regulations (the [Attorney's Audit Technique Guide](#)). That asset represents the "loans" you have outstanding to your clients. When a check is cut from operating to pay for costs, it increases this loan and when a client pays you back for their costs, it decreases that loan. Therefore, at any given point in time, the outstanding balance in the asset account should equal the accounts receivable plus the unbilled costs (aka WIP costs). It is a best practice for firms to make this "check and balance" part of their month end procedures, to assure that those numbers do, in fact, balance. If costs are written off, then an adjustment should be made to the general ledger crediting the cost advance asset account and debiting an expense account called "Unrecovered Costs Advanced" or something along those lines. This allows your accountant, at year end to easily see what is deductible to you for lost costs on your taxes.