



A FIELD GUIDE FOR SOLO & SMALL LAW FIRMS

# Top 5 Bookkeeping Mistakes Made by Small Law Firms

Five common mistakes we see at solo and small firms — why they matter, and the exact process we use to keep our clients audit-ready and court-compliant.

**5**

common, costly bookkeeping mistakes

**1**

page comparison: DIY vs. legal bookkeeper

**10**

minute read — pour a coffee

## — WHAT'S INSIDE

# Five mistakes, one *compliance* process.

Bookkeeping for a law firm isn't just expense tracking — it's trust, ethics, and compliance. The mistakes below show up at firms of every size, including ones with a CPA on the books. Here's what to look for and how to fix it.

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| 01 | <b>Commingling Trust &amp; Operating Funds</b><br>The fastest path to a bar complaint.                    | PAGE 03 |
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**How to read this guide.** Each mistake is broken into the same three pieces — *What it is*, *Why it matters*, *How to avoid it*. Read it linearly, or jump to the one you're worried about. The DIY vs. Professional comparison on page 9 is the one to share with your partners.

# 01 of 05

## Commingling Trust & Operating Funds

### 🔍 WHAT IT IS

Depositing client trust funds into the firm's operating account, or paying firm expenses directly from the trust account. The two pools of money touch when they should never share an envelope.

### ! WHY IT MATTERS

This violates legal ethics rules and can trigger bar complaints, fines, or even disbarment — even if it was unintentional. Bar examiners treat the act, not the intent.

### ✅ HOW TO AVOID IT

Maintain a separate trust account (IOLTA). Run a three-way reconciliation every month: bank balance, QuickBooks Client Trust Liability, and the Clio client ledger should all agree. If they don't, stop and investigate before issuing the next disbursement.

🏦 IOLTA

⚖️ ETHICS RULE

🚫 CAREER-ENDING IF IGNORED

# 02<sup>of 05</sup>

## Not Performing Monthly Trust Reconciliations

### 🔍 WHAT IT IS

Failing to match three numbers every month: the IOLTA bank balance, the Client Trust Liability in QuickBooks, and the sum of every individual client ledger in Clio.

### ! WHY IT MATTERS

Without reconciliation, you may not realize client funds are missing or that one client's ledger has gone negative — covering its activity with another client's money. That is commingling at the ledger level, and it's exactly what an audit will surface.

### ✅ HOW TO AVOID IT

Use Clio or LawPay for the trust detail and QuickBooks Online for the books. Reconcile all three every month — back out IOLTA interest and uncleared items — and document the process. If the three numbers don't tie, find the discrepancy that month, not next quarter.

↔️ THREE-WAY MATCH

☰ CLIO + QBO + LAWPAY

📅 MONTHLY CADENCE

## 03 of 05

# Misclassifying Owner Draws & Distributions

## 🔍 WHAT IT IS

Recording owner withdrawals — partner draws, distributions, personal expenses run through the firm card — as business expenses like "meals" or "travel."

## ! WHY IT MATTERS

It misstates net profit, which means every report based on that profit — tax filings, partner distributions, loan applications — is wrong. The IRS doesn't care if it was an accident; the penalty is the same.

## ✅ HOW TO AVOID IT

Clearly separate owner draws on the balance sheet — not the P&L. Personal expenses should never touch the business; if a partner uses the firm card for a personal charge, book it to a draw account the same week. Clean books beat year-end clean-up every time.

👤 OWNER DRAWS

📄 TAX ACCURACY

📊 P&L INTEGRITY

## 04 of 05

# DIY Bookkeeping Without Legal Accounting Knowledge

## 🔍 WHAT IT IS

Relying on a generic bookkeeper or stock QuickBooks setup without understanding the rules that are specific to law firms. The books "look fine" because the columns add up.

## ! WHY IT MATTERS

Legal bookkeeping has unique requirements: trust accounting, retainer handling, fee splits, contingency tracking, 1099s for opposing counsel and experts. Miss them and your books reconcile to the bank while quietly disagreeing with your practice management system for years.

## ✅ HOW TO AVOID IT

Work with a bookkeeper who understands law-firm trust compliance and the Clio + QuickBooks integration specifically. A generalist will get the operating account right and the trust account very wrong — the part of the books that actually carries career risk.

🏠 LEGAL-SPECIFIC RULES

📁 CLIO + QBO SYNC

🧠 SPECIALIST, NOT GENERALIST

## 05 of 05

# Ignoring 1099 Reporting Requirements

## ? WHAT IT IS

Not tracking payments to vendors, contractors, or co-counsel who require a 1099-NEC during the year — and trying to back-fill everything in January.

## ! WHY IT MATTERS

Missed or late 1099s mean IRS penalties per form and, more importantly, raise audit risk on the rest of the return. Law firms also have attorney-specific reporting rules (gross-proceeds reporting on settlement payments) that compound the exposure.

## ✓ HOW TO AVOID IT

Collect W-9s from vendors and co-counsel *before* you cut their first check — not in January. Use QBO's vendor-tracking flags to mark 1099-eligible payments as they happen, so year-end is a review, not a scramble.

[📄 W-9 FIRST](#)[📅 JAN 31 DEADLINE](#)[⚠️ IRS PENALTIES](#)

## — A FEW MORE WORTH WATCHING

# Honorable *mentions.*

These didn't crack the top five, but we see them often enough at small firms that they belong on the list. Each one quietly compounds until it isn't quiet anymore.



## Confusing profits with cashflow

A healthy revenue month doesn't always mean you have cash in the bank. Receivables, retainers held in trust, and payroll timing can mask a real cash crunch under a profitable P&L.



## Missing estimated tax payments

Forgetting quarterly taxes creates IRS penalties and the kind of April surprise that derails a firm's whole year. Calendar the four due dates and pay from operating, not trust.



## Trying to do everything alone

Bookkeeping can quickly become too complex to manage alone. Delegate early — the cost of a specialist is dwarfed by the cost of cleaning up two years of misclassified entries.

— DIY VS. LEGAL BOOKKEEPER

# A side-by-side, in *plain English*.

Same firm, same books, two different futures. Here's what changes when a specialist owns the monthly process.

FEATURE / RISK	DOING IT YOURSELF	HIRING A LEGAL BOOKKEEPER
Trust account compliance	✗ May overlook the three-way reconciliation or miss errors that offset each other.	✓ Expert review ensures monthly compliance and audit-ready documentation.
Time spent on admin	✗ 5–10 hours per month, often more during reconciliation week.	✓ Near zero. You review the reports; we handle the work.
IRS & 1099 readiness	✗ Often filed late or incorrectly when W-9s weren't collected up front.	✓ Tracked throughout the year. Fully prepared and filed on time.
Clio + QBO sync issues	✗ Manual fixes and guesswork when client ledgers and the GL drift.	✓ Automated, monitored, and corrected on a monthly cadence.
Stress during tax season	✗ High. Scrambling to catch up or explain prior-year entries to a CPA.	✓ Low. Clean books, CPA-ready, no fire drills.
Opportunity cost	✗ "Free" in dollars — expensive in time and exposure.	✓ Predictable monthly fee with measurable ROI.

— NEED A SECOND SET OF EYES?

# Get clarity, compliance, and *peace of mind.*

You've just seen the most common bookkeeping mistakes small law firms make. If you're ready to stop worrying about your trust accounting and get back to working for your clients — let's talk.

## Free 30-minute book review.

We'll look at your trust setup, run a sample three-way match, and tell you straight what we see. No strings attached.

 [Schedule a free review](#)

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ERRORS IN 5  
YEARS

### A real example.

Recently we cleaned up five years of trust reconciliations for a two-attorney firm. The previous bookkeeper — a CPA — had been running the books the whole time. On the surface, everything looked fine. *The three-way match revealed 25 separate errors stretching back five years.*



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