

2022 Year-end Financial Close Checklist for Canadian Law Firms

You may be ready to throw out the old and ring in the new—but that's no excuse for your law firm to neglect key end-of-year tasks! Plan to review your firm's financials ahead of time so tasks feel more manageable and you can prevent them from cutting into your holiday plans.



Having clear and correct information will save you time and money because it will enable your accountant to prepare accurate tax filing on a timely basis, with less need to meet with you to resolve questions. It also means that if you get audited by the Canada Revenue Agency (CRA), you can easily produce the needed records to respond.

While these procedures should be used throughout the year, we recommend paying extra attention at year-end. As you embark on your year-end accounting—consulting your CPA as needed—use the checklist below to help you get started. And when you've have everything in order, we hope you take a moment to enjoy the final days of 2022 and raise a glass to 2023!

Please note: The checklist below assumes your law firm has a calendar year-end.

INVOICE CLIENTS THROUGH DECEMBER 31

ACCRUE EXPENSES FOR CURRENT YEAR DEDUCTION.

RECONCILE OPERATING BANK ACCOUNT (MONTHLY THROUGH DECEMBER 31)

- ↳ Confirm that all bank accounts, both separately and individually, are reconciled for all months (January 2022 - December 2022).
- ↳ Enter all monthly bank plan fees, service charges, and overdraft interest (as applicable).
- ↳ Enter any interest expenses on a business loan or line of credit or any other credit facility. For accrued interest, ensure supporting documentation (i.e., an official statement from your financial institutions and/or schedules showing your calculations) within your year-end reporting package.
- ↳ Ensure Canada Emergency Wage Subsidy is correctly recorded.
- ↳ Tie out transactions between bank statement/s and the firm's general ledger
- ↳ Review cheques that have not cleared.
 - ↳ Less than 30 days: were the transactions near the statement closing date?
 - ↳ Greater than 31 days: determine why transactions have not cleared.
 - ↳ Contact parties, e.g. outstanding checks
 - ↳ Confirm entries are correct, e.g. duplicate entries
- ↳ If there are uncleared transactions for an extended duration (usually greater than a two-statement cycle), determine whether "stop payment" is necessary.
- ↳ Review and confirm that client costs are linked to correct matters to avoid leakage.

MAKE OTHER ACCRUAL ACCOUNTING ADJUSTMENTS (AFTER CONSULTING WITH YOUR CPA).

Reconcile trust bank account (monthly through December 31)

- ↳ Confirm that trust bank accounts, both separately and individually, are reconciled for all months (January 2022-December 2022).
- ↳ Confirm that trust bank accounts are completed and reviewed within the provincial Law Society timeline.
- ↳ Review and understand any unusual or incorrect transactions.
- ↳ Confirm that trust bank deposits were deposited on the next business day.
- ↳ Uncleared cheques are appropriately followed up on to determine whether stop payment is required, then deposit funds with the Law Society's Unclaimed Trust Fund.
- ↳ Ensure appropriate Law Society documentation is prepared and reviewed (by the lawyer-in-charge of the trust account) for electronic trust disbursement. Some systems, like CosmoLex, have certain provinces' built-in with the ability to prepare these forms on a real-time basis.
- ↳ Confirm appropriate documents are filed with the Law Society relating to opening or closing a trust account.
- ↳ Prepare/run three-way bank reconciliation.
- ↳ Print and archive reconciliation reports separate from monthly reconciliation reports; have ready in the event of a spot audit.
- ↳ Ensure all reports required by the Law Society are completed, reviewed, and filed (or saved) within provincial Law Society timeline.
- ↳ Confirm that the documents can be made easily available to your law society's auditor.

Year-end payroll activities

- ↳ Reconcile payroll sub-ledger accounts
- ↳ Prepare December 31 payroll remittance (taxes withheld, CPP, EI) to CRA.
- ↳ Determine which forms are required – T4, T4A. Then, download the forms and guides from CRA website and/or Revenue Quebec (RQ).
- ↳ Ensure all boxes in the form are completed accurately and completely (tie out to employee payroll stubs).
- ↳ Ensure CRA filing is completed within the deadline (to avoid non-compliance or penalties)

Establish (if not already in place) the process for amending and/or cancelling reported forms.

Reconcile credit card statements

- ↳ Enter finance charges, interest, and late fees, if any.
- ↳ Enter any cash rewards.
- ↳ Match transactions between credit card statements and books.
- ↳ Review and confirm that client costs are linked to matters.

Client retainer balances, as of December 31:

- ↳ Are there open invoices? Pay them first (ensure the client is aware and signed-off on this approach).
- ↳ Is the matter active? If not, formulate a plan to issue refunds.

Client trust ledger:

- ↳ Confirm client retainer balances:
 - ↳ If the client has account receivable balance, pay from their retainer (provided the invoices are generated and delivered to the client prior to transfer of funds).
 - ↳ Identify closed matters with retainer balances; determine whether the funds should be refunded to the client.
 - ↳ Identify required retainer replenishments and issue invoices.
- ↳ Check client trust activities:
 - ↳ Identify balances
 - ↳ Ensure there are no overdrawn client trust accounts.
 - ↳ Ensure all trust activities are accurately posted.
 - ↳ Identify closed matters and ensure balances are zero.

RUN AND REVIEW END-OF-YEAR REPORTS

Balance sheet - as of December 31:

- ↳ Tie out general ledger balances to balance sheet line items.
- ↳ Liabilities:
 - ↳ HST/GST (receivables/payables).
 - ↳ Review all transactions on which HST/GST was received or paid and ensure that they are appropriately recorded on the balance sheet.
 - ↳ Did the firm incur any new liabilities during the year?
 - ↳ Add to the balance sheet – short-term vs. long-term.
 - ↳ Short-term (normally, less than a year):
 - ↳ Review opening date/terms.
 - ↳ Check that payments reflect debt service.
 - ↳ Determine that principal (unless interest-only debt) has been reduced
 - ↳ Long-term (generally exceeding one year):
 - ↳ Review opening date/terms.
 - ↳ Check that payments reflect debt service.
 - ↳ Determine that principal (unless interest-only debt) has been reduced.
 - ↳ Canada Emergency Business Account
 - ↳ Did you receive this loan? If so, ensure it's recorded correctly.
- ↳ Assets:
 - ↳ Review work-in-progress (WIP):
 - ↳ Ensure time reporting is current, accurate, and complete.
 - ↳ Ensure unbilled WIP is invoiced (where possible).
 - ↳ Review unbilled WIP for "bottlenecks."
 - ↳ Ensure that it is updated for changes to Section 34 of the Income Tax Act.
 - ↳ Review accounts receivable:
 - ↳ Look for invoices aged more than agreed-upon terms.
 - ↳ Matter owner should follow up with client for collection.
 - ↳ Review outstanding accounts for bad debts.
 - ↳ Revalue receivable in non-Canadian funds.

- ↳ **HST/GST (receivables/payables):**
 - ↳ Review that all transactions on which HST/GST was received or paid are appropriately recorded on the balance sheet.
- ↳ **Did the firm acquire any new assets during the year?**
 - ↳ Add them to balance sheet.
 - ↳ Post accrued depreciation/amortization journal entry for CCA (check with your CPA).
- ↳ **Advanced client costs, if applicable:**
 - ↳ Review transactions for accuracy.
 - ↳ Check for unrecoverable expenses and write off.
- ↳ **Partner's equity: prepare a partner equity reconciliation for each partner. Ensure each partner signs off on their equity account.**
- ↳ **Partner's draw:**
 - ↳ Review to ensure appropriate owner non-business expenses are allocated correctly, e.g., personal expenses charged to business credit card.
 - ↳ Review to ensure firm expenses incurred by the owner are not allocated to this account.
 - ↳ Reconcile all amounts paid to the partner.
- Profit and loss - fiscal year, e.g., January 1 - December 31:**
 - ↳ Tie out general ledger balances to profit and loss line items.
 - ↳ **Income accounts - review transactions in the following categories (as applicable):**
 - ↳ Fee income - total.
 - ↳ Reimbursed client costs (if tracking matter hard costs on your income statement instead of the balance sheet).
 - ↳ Reimbursed client costs - soft.
 - ↳ Discounts - negative, as reduces fee income.
 - ↳ **Expense Accounts**
 - ↳ **Review the chart of accounts:**
 - ↳ Review expense categories – do they make sense? Is this consistent with the structure and service offering of the firm? Are changes required to align with evolving business?
 - ↳ Update for any sub-accounts.
 - ↳ Ensure expenses have been recorded in the appropriate category.
 - ↳ Delete or merge overlapping accounts.

↳ **Reimbursable client costs expenses (if tracking matter hard costs on income statement instead of the balance sheet).**

↳ Review to ensure transactions are properly tracked, recorded, and posted.

↳ Check for unrecoverable expenses; write off.

↳ Note: It is unlikely this expense and its counterpart in income will be equal.

↳ **General Expense Accounts**

↳ Review and ensure no client reimbursements are posted to expenses.

↳ Record all monthly accruals (payroll, staff benefits, rent, software, insurance, professional dues, any other office cost)

↳ Record any year-end accruals (as applicable).

↳ Record any cross charges (i.e., management fees)

↳ Quickly review for overall accuracy of transaction postings.

TASKS FOR YOUR LAW FIRM'S CPA

Run trial balance report.

↳ Make adjustments (at a later date, post your accountant's review).

Move "Income and Expense Summary" or "Net Income" on balance sheet by journal entry dated December 31 to:

↳ Retained earnings or

↳ Owner's equity

Ensure net income on profit and loss and balance sheet (also called, "income and expense summary") match.

Close books effective December 31 to avoid accidental edits/changes to books. However, changes might be needed as your accountant reviews.

Review performance and patterns with the practice owners. Understand the numbers and the trends and look at what you can do to help make the next year even better.

Prepare a detailed variance analysis for lawyer's review. Commentary on balances and trends will help understand the performance of the business.