Legal*ite* in practice

Legal*ite* has been specifically designed to provide legal and business accounting for small legal practices. In addition fee earners are provided with tools for billing and extracting management information to assist in the effective operation of their legal practice.

Legal*ite* includes a number of manuals, accessible from the Help menu on loading **Legal***ite*. All manuals are in PDF format, which provides the ability to find (search) for particular words or phrases within each manual; to print, email and more.

Manual	Brief description
Bird's eye view	An overview of **Legal***ite* to get an objective view of the scope of the program.
Take on Legalite	For users who are converting from a previous system, whether manual or computerized. Not necessary for a brand-new practice with no take-on.
Starting out with Legalite	Detailed instruction for what is needed to get started once **Legal***ite* is installed.
User Guide	Detailed user guide, covering the operation of all modules in **Legal***ite*.
How do I?	Poses typical questions that arise in a small legal practice, with an explanation of an issue and how it can be addressed in **Legal***ite*. Includes non-technical key words that can be searched
Posting Examples	Some examples of how typical accounting transactions are posted in **Legal***ite*.
Under the hood	More in-depth explanation of the inner workings of **Legal***ite* for the more technically-minded (typically the accountant or consultant)
Symptom-Problem-Solution	Knowledgebase that can be searched; enter one or more key words and the problem will be explained, with a solution. If the problem cannot be found email support@legalite.co.za for assistance and the issue will also be added to the knowledgebase for future reference.

Importantly **Legal***ite* has been designed to incorporate much of the expertise required for effective trust and business accounting as it applies to legal practices, reducing the dependence on specialized accounting knowledge. Wherever possible **Legal***ite* generates the appropriate debits and credits, ensuring that a balanced double-sided bookkeeping system prevails, without requiring of the user to have a detailed knowledge of debits and credits. All accounts are updated immediately with the results reflected in all the standard reports.

This document provides a conceptual overview of the functionality provided by **Legal***ite*; other insights and operating instructions can be obtained from the above manuals.

In broad terms **Legal***ite* provides the following functionality: -

1. Record Client and Matter details. The obvious benefit of recording these details, with subsequent easy access, is that data from Clients and Matters is used repetitively throughout the system. Maintaining Client and Matter accounts reduces duplication, thereby enhancing efficiency and accuracy. The program also provides quick access to detailed Client and Matter information.

2. Matters can be diarized[1] and subsequently recalled on their due date. For example, if a Matter must be attended to next Thursday, next Thursday can be entered into the Matter diary and a note entered. When next Thursday arrives, the Matter can be displayed (select the 'today 'option) together with any other matters due on that day.

3. Fees and disbursements can be posted against a Matter; importantly these entries are recorded as unbilled transactions and do not form part of the accounting system – unbilled entries are nevertheless (generally) subsequently invoiced (see below). This design provides an effective cash-flow management tool.

4. Transactions posted to Matters can be viewed (with their accounting balances) and unbilled entries can be converted into invoices. During conversion:

    a. The unbilled transactions used in the production of the invoice are marked as invoiced and subsequently no longer appear when viewing transactions for the Matter.

    b. An invoice is generated and produced in Excel. The accounting entries <u>automatically</u> generated are:

        i. Debit the **Matters** business balances with the invoice total (including VAT if applicable, which is automatically calculated by the system). Also debits the **Debtors Control** account in the General Ledger with the same amount.

        ii. Credit the **Income** account (associated with the logged on Fee Earner as determined by the Practice settings) for fees or the **Disbursement** income for disbursements, in the General Ledger, with the invoice amount (less VAT if VAT applies. If VAT applies then the VAT account in the General Ledger is automatically credited with the VAT amount).

5. All other transactions are posted from the Bookkeeper form. Notice that the various posting do not request which account to debit or credit; this is automatically managed by **Legal**_ite_. **Legal**_ite_ also controls whether trust, investment trust or business is applicable based on the type of transactions and selections made. Options are automatically disabled or enabled by **Legal**_ite_ to improve accuracy and efficiency. Also note that the 'Reversal' option will post to the opposite accounts specified below, and an adequate narration should be entered so that the entry can be clearly understood by the auditor in the future.

    a. **Receipts**: all money received must be recorded via this module – whether business or trust – and deposited by the practice via direct deposit by the client or EFT. Trust receipts are monies received where any part of the receipt is not covered by an existing debit on the clients matter – whether invoices for work done or a disbursement incurred and invoiced to the client. NB! If a disbursement is paid via a trust cheque on behalf of the client to a third party, this must not be recorded as a disbursement (would be processed as a trust payment). An example of a disbursement raised is a Sheriff's Return or Advocate's account, where the Sheriff or Advocate bills you, and you in turn bill the Client (Matter). In this instance you will

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[1] The difference between the 'dynamic' diary provided by **Legal**_ite_ and a normal diary is that the dynamic diary is attached to each individual Matter, making it possible to manage the entire database of Matters extremely effectively.

ultimately pay the Sheriff's[2] account – normally at month-end – with a business cheque. Also note that where a 'deposit' is received for work to be done – and is therefore received in trust – when the fee and/or disbursement is raised the money is recovered from the trust (deposited into business) by way of a trust transfer. See the Trust Transfer functionality described in more detail below.

b. Receipts generate the following entries:

   i. Debit the selected bank.

   ii. Credit the Clients (Matter/s) from who the money was received for trust receipts or Clients (Matters), Business Creditor or General Ledger account for Business receipts[3].

c. **Payments**: all payments made, whether business or trust, by cheque or EFT. Note that trust payments from an account – i.e. made on behalf of the client to a third party – can only be made to the extent that funds exist in that account (as reflected in the trust balance).

   i. Debit the client's Matter (business or trust) or the Business Creditor or General Ledger account (business only) of the account paid.

   ii. Credit the selected bank account.

d. **Journals**: This is one instance where the account to be debited and the account to be credited must be selected. Journals are usually used only for the auditors or accountants adjustments, in which instance they will indicate what to debit and what to credit. Importantly all other posting options have a reversal option which should be used for correcting any errors (remember to enter an adequate, meaningful narration).

e. **Section 78(2A)**: All trust monies received from a client must be received into the general trust account, even if the client requests you to invest the money on their behalf in an interest-bearing account. In this instance the money will be moved from General Trust into a Section 78(2A) account on their behalf; this module is used to record this movement, as well as record any interest earned and the eventual withdrawal of the funds (back into General Trust). The various transactions generated are as follows: -

   i. **Investments**: The Matter General Trust is debited and the Investment account[4] credited. The General Trust Bank is credited and the Investment account (created) is debited.

   ii. **Interest**: The Investment account is debited and the Client (Matter) Investment balance credited.

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[2] The Sheriff (and Advocate, Tracing Agent and Expert Witnesses) are all Business Creditors.
[3] It would be unusual to receive money from a Business Creditor or against a General Ledger account – but it is possible.
[4] **Legal**ite provides the facility to automatically create an investment account for any new investment; there must be a separate investment account for each Client (Matter).

iii. **Withdrawal**: The opposite entries to an investment take place. Generally the amount will be the amount invested plus the interest earned (and posted above).

Note that any administration fee should be posted as a normal fee, which when invoiced will generate a trust transfer against the available trust.

f. **Invoice – Clients:** Generally client invoices are produced by the fee earner in the manner described above, but this facility is provided for when an invoice has already been produced outside of **Legal**_ite_ (and must be recorded). The accounting entries are the same as described in 'invoicing' above.

g. **Invoices – Suppliers**: Suppliers or Business Creditors include Sheriff's, Advocates, Tracing Agents and Expert Witnesses as well as office suppliers such as Walton's. Some suppliers – like Telkom or MTN – are often not recorded as suppliers because their invoices are processed directly from the Payments module; i.e. they do not go through the full process of first processing the invoice and then paying the invoice. The accounting entries for a supplier's invoice are

   i. Credit the supplier (Business Creditor) with the full amount of the invoice

   ii. Debit disbursement cost for disbursements or the appropriate expense account (e.g. Stationery) for office expenses with the amount ex VAT (if VAT is applicable, in which instance debit the VAT account with the VAT In).

Importantly all transactions are automatically balanced and update all appropriate accounts on acceptance[5]. The effect is that all reports are always in sync with all postings.

For example, if an invoice is generated and posted: -

1. Accounts are updated and the transactions are posted with the result that:

   a. The Audit Trail includes entries for the invoice to the Matter and the Fee, Disbursement, VAT Ledger (where fees, disbursements and VAT are applicable) and Debtors Control account in the General.

   b. The 'View Transactions' module reflects the updated business balance with aging and the invoice transaction (and not the unbilled fees and disbursements from which the invoice was derived).

   c. The Clients Statement will reflect the Invoice transaction and updated balances

   d. The Client Matter report will reflect the updated Client's Matter business balances and aging.

   e. The Income and Expense Report will reflect the net Fees and/or Disbursements raised in the invoice.

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[5] The 'Update' button in each posting program is disabled until the entire batch balances.

f. The Trust Transfer report will reflect the Client's Matter if there is correspondingly available trust, with the updated business balance.

g. The Trial Balance includes General Ledger accounts updated by the invoice; the Debtors Control account with the full debit, the income account with the amount ex VAT and the VAT account with the VAT portion.

h. The Balance Sheet reflects the invoice amount in Assets in the Debtors Control account with the contra amount in calculated profit or loss.

i. The VAT report (if registered for VAT) will include the invoice.

> One entry – without having to determine which account should be debited and which should be credited – results in all the above reports simultaneously being updated. A similar situation applies to all other postings.

And lastly a word on month and year end. Most organizations operate on a month and annual cycle; **Legal**_ite_ includes a month and year-end update. It is important to run all reports that you require before running month-end (e.g. your income and Expense report will therefore show your income and expenses and consequently your profit for the month and year-to-date). The month-end performs the following major functions: -

1. Automatically generates a Month-end backup before proceeding with the month-end process

2. Rolls balances for Client's Matters and Business Creditors.

3. Updates the accounting period.

In addition the year-end:

1. Journalises all General Ledger Income and Expense accounts to 'Retained Profit or Loss'.

Note on Trust Transfers

All Clients Matters have Business, Trust (General) and Investment Trust balances. Invoices (from fees and/or disbursements) typically make up the business balance, which is a debit balance.

The trust balance is typically made up of trust receipts from the client, receipted against the Clients Matter. Trust receipts can either be a deposit for work to be done/not yet complete or for payment to a third party, or a mixture of the two. In the latter case it is wise to 'reserve'[6] the portion that is intended for the third party so that it cannot be inadvertently transferred.

The Trust Transfer analyses all Clients Matters to establish whether a transfer (or reverse transfer) applies (the business balance should never be a credit[7] or trust a debit[8]): -

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[6] The Matter record has a field for 'Reserve trust'; enter the amount here to prevent unintended transfers.
[7] A Business credit would imply that monies were received into business where no corresponding business debit existed for the Matter; the receipt should have been into trust.

1. If the Matter has available trust (trust credit less reserve – if any) with a business debit, then the lesser of the amounts (or the full amount if equal) will be identified as transferable.

2. If the account has a business credit or trust debit then the relevant amount will be identified as a reverse transferable amount.

Each individual Matter is updated by posting the transferable amount (opposite for reversals)

1. Credit business
2. Debit Trust.

The sum of all transferable amounts will be indicated as the total to be transferred from the trust bank account to the business bank account (or opposite for reversals). The actual transfer is performed by drawing and posting a trust payment (cheque or EFT) in favour of the practice (posted to the account generated by the system and explained below), and subsequently receipting this amount in the business bank account. Use the Payments and Receipts posting modules.

To facilitate posting the payment and receipt of the trust transfer the Trust Transfer module automatically generates a Trust Transfer account, which is deleted once both entries have been completed. In the Matter filter in the posting program enter 'Trust' for both Payments and Receipts.

Note on Trust Creditors

Importantly **Legal***ite* maintains all trust transactions in such a way that the sum of trust commitment (Clients Matters) is equal to trust investments (money in the trust banks). This can be verified from Bookkeeper ►Reports & Updates ► Trust Creditors. Separate totals are maintained for general trust and Section 78(2A) investments.

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[8] A Trust debit implies that a payment has been made on behalf of the Matter from trust where no funds exist in the particular Matter (the common phrase is 'robbing Peter to pay Paul').