

A firm or partnership split is a bit like a divorce. Once the emotional decision is made there are the practical steps to go through. In a relationship it may be “Who takes the children and who gets the record collection?” but in a firm the largest assets are your staff and client database and records. This article will help you through the practical steps needed to split your practice management system.

Karyn Close was the CEO of a large law firm for 18 years, and has invaluable experience helping firms navigate through tricky business changes. Her step-by-step guide to firm partnership splits will help you do the same.

Like all things in life a little bit of planning can make all the difference to a successful outcome. Take the time to brainstorm and discuss all the things you need to do.

“I have developed the checklist below to help with this process and to keep you focused on making the decision quickly and easily. I hope you find it helpful.”

- Karyn Close

Through her business (Organise It Limited) Karyn consults to law firms on business systems and mentoring of partners, particularly in small firms that want external professional help to achieve their business goals. During her time as CEO of a large Dunedin law firm she managed several mergers, office shifts and building projects and fully understands the pressures law firms are under to stay up to date.



FIRM SPLITS: WHAT YOU NEED TO CONSIDER WHEN SPLITTING YOUR PRACTICE MANAGEMENT DATABASE IN 12 STEPS



1. CONSIDER YOUR OPTIONS

This is an ideal opportunity to move to a new system. Check out OneLaw and see how easy it is for the team to make this happen. We have had many new firms come to us when they are in the process of a firm split. It is a good time to make a change and there is a team of experienced experts who will help you through the process.

2. CLEAN OUT YOUR DATABASE

Do as much cleaning up as you can before the split. Close files, write off stale balances, bill WIP and chase those debtors. Often we leave things on files “just in case” the client turns up and pays.

3. TRUST ACCOUNT

Are you setting up from scratch or keeping your existing trust account? The old trust account may need to be operated for a while as there may still be funds paid into this account by clients or other solicitors. Funds from the old trust account can be transferred and receipted into your new trust account. OneLaw can have both trust accounts managed within your new system. When you are finished with your old trust account this can be made inactive.

Give your local Law Society inspector a call as there are rules you must follow and client approvals to obtain when moving client funds.

4. ON CALL & TERM DEPOSIT ACCOUNTS

If you are changing trust accounts or banks, you will have to close existing deposits and open new ones. There may be timing issues with term deposits to consider, and client approval to move funds is also required.

OneLaw can set up your old trust and deposit accounts, then make them inactive once all funds have been transferred to the new trust and deposit accounts.

5. HISTORY

How much historical data do you want to keep? You can convert the whole database and archive any matters and clients that have transferred with the partner that is leaving the practice, or you can just transfer the clients with current balances and start afresh.



6. TRUST BALANCES

You need to decide how the various balances are to be split between partners and managed going forward. Keep a printout of all balances at the time of the split for audit purposes.

The total credit balances held in the trust account equals the float account plus credit client balances. The total debt balances held in the trust system are accounts receivable plus unbilled debit balances.

7. WIP

You will need to consider the following:

- + Is this to be billed or written off prior to the split?
- + Is each partner taking their share?
- + What about the time spent by other authors?
- + Is there anything in the partnership agreement about WIP on retirement or cessation?
- + Is there any WIP value carried in the financial statements of the practice?
- + Will there be any tax effect of transferring WIP?

You should seek advice from your external accountant, as this can have major implications depending on the size of your practice. OneLaw are able to transfer all or just some of your client WIP.



8. ACCOUNTS RECEIVABLE

- + What is going to happen to the bills outstanding at the time of the firm split?
- + Who is responsible for the collection?
- + What happens to subsequent bad debtors and write-offs?

You should have an agreement on these points and a process to manage the collection going forward.

OneLaw can transfer the accounts receivable balances. Notes can be added to identify these as belonging to the previous partnership. If the accounts receivable is subsequently written off, the credit note can be identified with specific write off categories.



The beauty of having your documents scanned and linked to your practice management system is easy access as you may be in temporary premises if the firm split happened quickly. Consider long-term secure storage with easy access for your important documents.

Karyn Close BCOM CA
Former law firm CEO
Director at Organise It Limited

Karyn has over 30 years of experience as a Chartered Accountant, CEO of a law firm and adviser to law firms. Karyn has also been involved in the development of OneLaw from its inception.

9. UNBILLED DEBIT BALANCES

Ongoing files may have some unbilled debit balances as a result of office expenses or disbursements on matters. At the time of the split, debit balances should be considered as debtors to the old partnership. It is far easier to get as much billed as possible (or written off if necessary) before any merger or split of a practice. If the matter cannot be billed then the person leaving the practice may have to send a cheque from their new firm to be receipted to these matters to cover the debit balances. They can then be billed through their new practice.

10. FLOAT ACCOUNT

The balance of the float account at the time of a split belongs to the old firm. As discussed above, there needs to be a clear agreement on accounts receivable collected after the split.

11. CREDIT BALANCE

If you are holding funds on behalf of a client, you must get approval to transfer these to a new trust account. These are withdrawn from the old trust account and receipted to the new trust account.

12. DEEDS, WILLS & OTHER DOCUMENTS

If you have deeds and other documents attached to your practice management system then at the time of a merger or split you need to consider the transfer of these. Who has custody of these files and documents?

