Law Firm Cash Flow and Collections: The Complete Guide to Zero AR

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Title: Law Firm Cash Flow & Collections: The Zero AR Guide | TimeSolv

Meta description: Learn how law firms collect faster and keep cash flow predictable with DSO, aging AR reports, and smarter collections strategies.

When cash flow feels tighter than revenue says it should, accounts receivable is one of the first places to look.

High AR tells your firm two things:

- You're effectively extending an interest-free line of credit to clients.
- Your billing and payment process is giving that credit room to grow.

The longer an invoice goes unpaid, the longer your law firm is inadvertently financing its clients.

Getting that money moving again takes more than diligent collections. Stronger law firm accounts receivable management starts by measuring where cash is getting stuck, then addressing the cause: slow invoicing, payment friction, or inconsistent follow-up.

This guide shows you how to diagnose the problem using your AR aging and DSO, then make four changes that help shorten the distance between work performed and payment received.

First, Diagnose Your AR Problem

Before you change your collections process, find out exactly where your cash is getting held up.

If you're using a billing tool like TimeSolv, your AR aging report groups unpaid invoices by how long they've been outstanding, typically in 30-day increments.

Those increments, or "buckets," represent the level of attention your firm should give to overdue balances.

AR Aging Bucket	What It Means	What to Do Next
0–30 days	Earned revenue that has not become usable cash yet	Confirm the invoice was deliveredOffer online payment optionsMonitor any invoice approaching its due date
31–60 days	Cash your firm has gone a month or more without	Send a clear reminderCheck for billing questions or payment friction
61–90 days	A sign that payment delays are becoming a pattern	Escalate follow-upInvolve the responsible attorneyGet a payment commitment or resolution plan in place
90+ days	Long-term unpaid revenue at growing risk of collection difficulty	Review the account for direct outreachDecide whether to pursue, settle, or consider a

	write-off based on the circumstances

These AR aging report categories give your firm a revealing, historical view of billing and collections.

They show how long it typically takes to get paid, where balances tend to stall, which clients or matters are carrying the most aging AR, and how much earned revenue is still tied up outside the firm.

A growing 31–60 day AR bucket may mean that reminders are happening too late or clients are hitting friction in the payment process. A large 90+ day bucket is especially problematic. When that much earned revenue sits unpaid for extended periods, those balances only become harder and more expensive to collect.

You need a clear view of all four buckets to see not just which clients owe you money, but where that cash flow is actually slowing down.

Calculate DSO to Measure the Delay

With AR aging reports in hand, you can calculate your days sales outstanding (DSO): the average number of days it takes your firm to turn billed revenue into collected cash.

DSO = (Average accounts receivable ÷ Net revenue) × 365

That number puts the nature of your firm's cash-flow problem into much clearer terms.

If a $2.5 million firm has a 45-day DSO, roughly $308,000 of revenue is tied up in receivables at any given time. Reduce DSO to 15 days, and that figure falls to about $103,000, with roughly $205,000 in working capital freed.

There's no single DSO target that fits every law firm. As a general benchmark, Law Firm Velocity cites a DSO under 45 days as healthy for law firms. But your practice area, billing model, and client mix can all affect what's realistic for your firm.

The most important thing to monitor is how your firm's own DSO moves over time.

Want to put a dollar figure on the impact for your firm? Use TimeSolv's Zero AR Calculator to estimate how much more revenue your firm could collect by improving its collection rate and shortening the time it takes to get paid.

Look at Lockup for the Full Cash-Flow Picture

While DSO helps measure how long invoices take to become cash, it leaves out work your firm has performed but hasn't invoiced yet.

That's where total lockup comes in. It combines:

- WIP lockup: Work performed but not yet billed
- AR lockup: Invoices sent but not yet paid

Together, those figures show how long revenue waits between completed work and collected cash.

You can calculate total lockup by looking at both your unbilled Work in Progress (WIP) and outstanding AR, then comparing those balances against your firm's revenue for the same time period. If you're using a platform like TimeSolv, those figures are easy to access in the Invoice and WIP Aging report.

Total lockup helps you see where the cash flow delay really starts in your billing cycle: before the invoice goes out, after it's sent, or both.

That's your starting point for law firm accounts receivable reduction. When you know how much cash is waiting to be collected, how long it stays there, and whether the delay stems from WIP or AR, you can start fixing the systems that allow it to accumulate.

Why Most AR Problems Are Embedded in Your Process, Not Habits

Once you know where AR is building up, the next question is why. For many firms, persistent AR is the natural outcome of a process that gives invoices

too much time to age before payment is expected.

Potential causes to look for include:

- Invoice timing: Monthly billing cycles create unnecessary lag and work sits too long before it's billed to a client.
- Payment friction: Clients receive the bill, but paying it takes too many steps or requires them to come back and take action later.
- Follow-up failure: Overdue balances wait without clear reminders or a standard escalation process, allowing relatively new AR to become old AR.
- Retainer gaps: Retainers aren't replenished consistently and leave the firm to carry the cost of ongoing work.

These process problems create the conditions for chronic AR. The most effective AR management strategies address them upstream.

Want billing and payments to run automatically?

Download **The Ultimate Guide to Automating Legal Billing and Payments** to send bills faster, get paid sooner, and improve cash flow.

Get Your Free Guide

Shorten the billing cycle by sending invoices sooner when work is completed. Make payment easier with online options. Send follow-ups and reminders automatically before balances have time to age.

You can use more structural tools, like evergreen retainers and autopay, to prevent matters from generating large outstanding balances in the first place.

That's how firms lay the groundwork for improving cash flow and collections.

The 4-Step Playbook for Improving Law Firm Cash Flow

With the source of your AR identified, it's easier to set the stage for stronger cash flow and faster collections.

These four steps are designed to shorten the time between doing the work and getting paid. The playbook starts upstream by tightening the billing cycle, then moves through stronger retainer structures, easier payments, and a clearer collections process for the smaller amount of AR that still requires active follow-up.

Step 1: Compress the Billing Cycle

The faster you bill, the sooner the payment clock starts. If your firm waits until the end of the month to review time, finalize invoices, and send bills, you may already be adding days or weeks to your collection cycle before the client ever sees an invoice.

That makes billing speed one of the first places to look when total lockup is high.

Start by tightening the gap between work performed and invoice delivery:

- Review and approve time entries on a rolling basis, not just month-end
- Bill more frequently for matters with steady activity
- Send invoices electronically as soon as they're ready
- Use scheduled or batch billing tools to keep invoice delivery consistent

Each step helps reduce WIP lockup and gets earned revenue into the billing cycle sooner.

For firms working on improving cash flow, this is one of the fastest places to make an impact. Every day you remove before an invoice goes out is one less day added to your total lockup.

Step 2: Revisit the Way You Manage Retainers

Faster billing only solves part of the problem. If your firm keeps working after a retainer runs low, you're still creating a gap between finished work and cash flow.

An evergreen retainer closes that gap by requiring the balance to be replenished when it falls below a set threshold. Instead of waiting for an invoice to age and then asking the client to catch up, the firm keeps funds available as work continues.

Evergreen retainers are especially worth considering for ongoing matters, clients with unpredictable workloads, or accounts where balances repeatedly grow faster than they're replenished. Your AR aging report can help identify those patterns.

When paired with auto-debit, evergreen retainers can help cut DSO by 18 days by keeping funds available as work continues and reducing the wait for clients to manually initiate payment.

That helps prevent new AR from accumulating. To make the model work, your firm needs to define:

- The retainer amount and replenishment threshold
- When and how clients are notified that additional funds are required
- How replenishment terms are written into the fee agreement
- How funds are deposited, held, and applied in accordance with applicable trust accounting rules

That's where retainer management tools can make the model much easier to sustain. TimeSolv helps automate that process with retainer balance tracking, replenishment thresholds, stored payment authorization, and auto-debit to keep retainers funded with less manual follow-up.

If you plan to change your firm's retainer replenishment strategy, introduce the change before the next billing cycle and explain exactly how it will work:

- The balance they'll be expected to maintain
- When replenishment is triggered
- How they'll be notified
- How payment will be collected

Update the fee agreement as required before putting the new retainer replenishment arrangement in place, and always check your state and local jurisdiction's applicable rules.

Step 3: Eliminate Payment Friction

Even with faster billing and stronger retainers, payment can still stall if it creates too much work for your clients.

Every extra step adds friction, whether that means finding the invoice, writing and mailing a check, logging into a portal, entering payment information, or simply remembering to come back and pay later.

That's why making your payment process simpler for clients can have a significant impact on your firm's cash flow and collections.

A flexible, convenient payment process may include:

- Offering online payment options directly from the invoice
- Letting clients choose from multiple payment methods
- Keeping an authorized card or ACH payment method on file when the client agrees

Auto-debit is especially useful because it removes one of the biggest variables in collections: waiting for the client to take action. With the proper authorization in place, payment can happen as part of the billing workflow instead of relying on another reminder or follow-up.

For firms using evergreen retainers, that can also make replenishment more consistent. When you use legal payment processing that allows auto-debit for retainers, you can automatically track the balance threshold, keep client authorization on file, and process ongoing payments on time so funds can be replenished with less manual intervention.

Tools like TimeSolv Pay give firms the payment infrastructure to support that process, including online payments and flexible payment options that make it easier for clients to pay the moment they open the invoice.

Step 4: Tighten Collections for Residual AR

The first three steps are designed to prevent as much AR as possible from accumulating. Step 4 is about dealing quickly and consistently with what still gets through so your firm can move closer to zero AR.

Residual AR needs a clear escalation process so balances don't sit untouched until they become much harder to collect. That process should define:

- When reminders go out and how often they escalate
- When an overdue balance needs partner involvement

- When work should pause until payment is resolved, where appropriate
- When a balance is unlikely to be recovered and should be considered for write-off

Your reminder schedule should become more direct as the balance ages, but avoid jumping immediately to aggressive collections language. Automated reminders can handle much of the early cadence so staff only need to step in when a balance is significantly overdue.

Here's what a simple payment reminder automation sequence might look like.

Automated Reminder Schedule	Reminder Content
On due date	Friendly reminder with invoice and payment link
15–30 days past due	Clear follow-up checking for billing questions or payment difficulty
31–60 days past due	Firmer reminder with a specific request for payment or response
61–90 days past due	Direct outreach from the responsible attorney or billing contact
90+ days past due	Review the account for a payment arrangement, formal demand letter, settlement, or write-off decision

Keep the message short and make the next action obvious. These past-due invoice templates include full past-due letter examples and escalation language to help keep collections moving without damaging client relationships.

With a defined process, collections become more consistent and less reactive. Everyone involved should know what happens at 30, 60, 90, and 90+ days, who owns the next action, and when a collection issue becomes a partner decision.

That keeps older receivables from drifting into bad debt and helps your firm focus active collections on the smaller number of balances that truly need attention.

If your firm charges interest or late fees, or is considering formal collection action, check the rules that apply in your jurisdiction before escalating. Requirements for fee agreements, interest, late fees, and collection time limits vary by state.

The Cash Flow Math of Getting to Zero AR

The impact of lowering your firm's AR compounds as revenue grows. If your firm cuts 30 days from its collection cycle, the working capital freed could look like:

- $1 million in annual revenue: About $82,000 in working capital freed up
- $2.5 million in annual revenue: About $205,000 freed up
- $5 million in annual revenue: About $411,000 freed up

That's the financial case for shortening the distance between billing and payment. But maintaining those gains depends on having a process you can actually see and manage.

The important part is to keep measuring. Review DSO alongside your aging report regularly, watch which balances continue to move into older buckets, and compare those trends against the changes you've made.

Know When Aging AR Becomes Bad Debt

Once an invoice reaches the point where routine reminders are no longer effective, your firm needs a consistent way to decide what happens next. Writing it off as bad debt should be a final resort.

Bad debt is money your firm has earned and billed, but no longer reasonably expects to collect. Before reaching that point, make a deliberate decision about whether the balance is still worth pursuing, a negotiated resolution makes more sense, or it should be written off your books.

- Pursue the balance when the amount is material, the client is responsive, and there is still a realistic path to full payment.
- Consider a payment plan or settlement when the client acknowledges the balance, but cannot reasonably pay it in full at this time.
- Consider a write-off when a client is unresponsive or continued collection efforts are unlikely to recover enough to justify the time, cost, or disruption involved.

The age of the invoice matters, but it isn't the only factor to consider. Look at the total amount owed, collection history with the client, likelihood of recovery, documentation of prior follow-up, and the cost of continuing to pursue the balance before deciding how to move forward.

Keep two things in mind before writing off a balance.

First, a write-off does not automatically mean a tax deduction. If your firm uses cash-basis accounting, uncollected fees generally can't be deducted as bad debt because that income was never included in gross income.

Second, don't treat a billing dispute as bad debt. An unpaid balance and a disputed balance are not necessarily the same thing.

If your firm is holding funds in trust that are subject to a dispute, ABA Model Rule 1.15(e) requires the disputed portion to remain separate until the dispute is resolved, while undisputed funds should be distributed promptly.

This is general information, not legal, ethics, or tax advice. Check your jurisdiction's rules and confirm tax treatment with your CPA before finalizing any write-off decision.

Turn Billed Work into Cash Faster with TimeSolv

Once you've seen where cash gets stuck, TimeSolv can help you fix the process behind it.

TimeSolv brings time, billing, and payments into one platform so you can bill sooner, keep retainers funded, make payment easier, and track it all with built-in reports that keep cash flow and AR patterns clear.

That turns collections into a smooth, repeatable process your firm can use for every balance.

See what that can mean for your firm's cash flow. Try TimeSolv free for 10 days to explore your own AR aging reports, set up automated reminders, and build a faster collections process around your actual clients and balances.

Frequently Asked Questions

What is a good DSO for a law firm?

There is no universal target, but a DSO under 45 days is commonly cited as a healthy benchmark for law firms. Your own trend over time is more important than any single target number.

How do I reduce accounts receivable at my law firm?

Start by billing sooner when the work is completed, making payment options easier to access, keeping retainers funded automatically, and following up consistently before invoices move into older AR aging buckets.

Can a law firm charge interest on unpaid bills?

Possibly, but the rules vary by jurisdiction. Any interest or late-fee policy should be disclosed clearly to the client in your fee agreement and comply with any applicable state rules.

When should a law firm write off an invoice?

Consider a write-off only after reasonable collection efforts are unlikely to recover enough to justify continued pursuit. Confirm any tax treatment with your CPA and check applicable ethics rules before writing off any balance as bad debt.

See how TimeSolv help you get paid faster and more accurately.

Schedule your demo today!