Getting to Zero AR: A Cash-Flow Playbook for Law Firms Under $5M in Revenue

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:

1. You're effectively extending an interest-free line of credit to clients.
2. 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. Reducing AR starts with finding out where the delay is coming from and what it's already costing your firm in working capital.

This 4-step playbook gives you a practical way to do both.

You'll diagnose the problem using your AR aging and DSO, then work through four structural changes designed to shorten the distance between work performed and payment received: compress the billing cycle, strengthen retainer architecture, remove payment friction, and tighten the process for residual AR.

The result is more predictable law firm cash flow management and a realistic path toward zero AR.

For a growing firm, that doesn't mean never having an outstanding invoice. It means creating a steady state where balances rarely age beyond 30 days and overdue AR is the exception.

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 more than overdue balances:

- **0–30 days:** Revenue that's been earned and billed, but hasn't become usable cash yet.
- **31–60 days:** Cash your firm has now gone at least a month without—but payroll, rent, software, and other expenses continue to add up.
- **61–90 days:** A sign that payment delays are becoming a persistent problem rather than an occasional exception.
- **90+ days:** Revenue that has spent months outside the firm and deserves immediate attention before an old receivable becomes increasingly difficult to collect.

AR aging reports 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.

That forms the bigger picture behind rising AR: not just who owes you money, but where your cash flow is slowing down.

Calculate DSO to Measure the Delay

With these reports in hand, 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, freeing roughly $205,000 in working capital.

That's your starting point for law firm accounts receivable reduction: knowing how much cash is waiting to be collected, how long it stays there, and which aging buckets account for the delay.

Once you can see where AR is accumulating, 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:

- Monthly billing cycles that create unnecessary lag between work performed and invoices sent.
- Retainers that aren't replenished consistently and leave the firm to carry the cost of ongoing work.
- Too much friction in the payment process, especially when clients have to manually find an invoice, initiate payment, and choose how to pay.

These process problems create the conditions for chronic AR.

The most effective AR management strategies start upstream. Shorten the billing cycle. Structure retainers to stay funded. Make payment as automatic and frictionless as possible. Then use collections for the smaller amount of AR that still remains.

The 4-Step Playbook for Reducing Law Firm AR

With the source of your AR identified, it's time to remove the delays built into your billing and payment process.

These four steps are designed to shorten the time between doing the work and getting paid. The playbook starts at the beginning of the billing cycle and works downstream to the smaller amount of AR that still requires active collections.

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 has had a chance to pay.

Start by tightening the gap between work performed and invoice delivery. That may mean:

- Billing more frequently for matters with steady activity.
- Reviewing and approving time entries on a rolling basis instead of waiting for month-end.
- Sending invoices electronically as soon as they're ready.
- Using scheduled or batch billing tools to keep invoice delivery consistent.

Each helps compress the billing cycle to reduce the amount of time earned revenue sits before it's billed.

For firms working toward lower AR, this is one of the fastest places to make an impact because it shortens the collection cycle at the very beginning. Every day you remove before an invoice goes out is one less day added to your DSO.

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 work performed and money available to pay for it.

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.

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 in the first place. 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

With a properly structured retainer, more of the money needed to cover legal work is already available before the balance becomes overdue. But a common challenge is keeping that system consistent.

Someone has to know when a retainer drops below the threshold, notify the client, track replenishment, and make sure the funds are handled correctly. If that process depends on manual monitoring, it can easily become another source of delay.

That's where [retainer management tools]() can make the model much easier to sustain.

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.

Reducing AR often means making payment as easy, flexible, and automatic as possible.

That may include:

- Offering online payment options directly from the invoice
- Letting clients choose from multiple payment methods
- Using stored payment information or autopay where appropriate

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 TimeSolvPay give firms the payment infrastructure to support that process, including online payments and flexible payment options that make it easier for clients to pay promptly.

Give clients fewer reasons to pay late.

See how TimeSolvPay helps clients pay promptly with secure, convenient payment options built into your billing process.

Book a Demo

Step 4: Tighten Collections for Residual AR

The first three steps are designed to prevent as much AR as possible from forming in the first place. Step 4 is about dealing quickly and consistently with what still gets through.

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

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.

The Cash Flow Math of Getting to Zero

The value of lower AR shows up in working capital. If a firm improves its billing cycle, retainer structure, payment methods, and collections process enough to reduce DSO from 45 days to 15 days, it can bring 30 days of revenue back within reach.

At different revenue levels, that looks 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.

Firms use billing tools like TimeSolv to bring time entry, invoicing, AR reporting, retainer management, and payments into one connected workflow. That makes it easier to spot where cash is slowing down, act before balances age, and track whether changes to your billing and payment process are actually reducing DSO over time.

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.

Lower AR becomes sustainable when your firm can see what's working and catch new delays before they become familiar ones.

Build Zero AR Into the Way Your Firm Works

Reaching zero AR is about building a system that gives receivables fewer opportunities to accumulate. When billing, retainers, payments, and reporting work together, steadier cash flow becomes easier to achieve and easier to maintain.

TimeSolv gives firms the tools to connect those pieces and see how changes to billing and payment workflows affect AR over time.

See how much working capital your firm could recover. Book a demo to uncover where cash is getting tied up and see how TimeSolv tools can help you lower AR, improve cash flow, and make getting paid more predictable.