

Zero AR: What is 'Zero AR' and How Can It Help Your Law Firm in 2021?

Accounts Receivable (AR) is the amount of revenue due to a law firm for legal services that have been rendered but for which payment has not yet been received. In simple terms, AR represents money owed to a law firm by its clients. Lawyers often work within a compensation arrangement where legal services are provided to clients under the expectation that they will pay for those services once completed and invoiced. When those bills go unpaid, they become AR.

Think of it as a line of credit that the firm extends to the client. They agree to provide services and the client agrees to pay as the services are completed. Once tasks are done and billed, firm leaders have a right to expect payment. Unfortunately, that expectation goes unmet far too often as clients fail to pay the bills. When these outstanding invoices add up, it can leave a firm with a high AR.

From an accounting standpoint, AR is essentially seen as an IOU from the client to the firm. As such, it is recorded as a firm's asset because of the client's legal obligation to pay the debt. Accountants consider AR as current assets due to the firm within one year. But many law firms consistently carry high AR with invoices that are more than a year overdue.

The Disadvantages of a High AR

Law firms need to be careful about carrying a high AR. When these outstanding invoices grow too high, it can result in financial difficulties. Expenditures like payroll, insurance costs, taxes, and office overhead can quickly overrun actual firm revenue, leaving a practice without the cash flow it needs to thrive.

Collections processes can take up a lot of valuable time and resources, as firm members use hours and energy to collect these payments. This is time that could be better spent on more profitable tasks. Additionally, collection processes can put a strain on the client relationship, which is why many lawyers choose not to pursue collections aggressively.

Collection rates represent the rate at which law firms collect on outstanding invoices. The average rate for law firms sits around 85%. That 15% of uncollected rates can easily represent tens and even hundreds of thousands of dollars for a law firm. Moving into 2021, a significant amount of uncertainty still remains surrounding the pandemic and the economy as a whole. Attorneys need to be fully compensated for their services, which is why it's so important for law firms to take steps towards achieving zero AR in 2021.

Strategies for Achieving Zero AR

There are effective strategies that lawyers can implement within their firms to promote the move towards zero AR. Let's examine some of them:

- **An Established Collection Plan** – Be sure to have standard policies in place for collection procedures. There should be detailed and clear policies that all staff members can follow in order to standardize the process. An effective policy would include:
 - Accepted payment methods
 - Billing schedules
 - Retainer policies
 - Payment due dates
 - Past due notifications
 - Late payment penalties
- **Expand Payment Method Options** – Limited payment options are a surefire way to decrease the likelihood of clients paying their legal bills. We live in a society where consumers expect various payment options – especially ones that save them time and inconvenience. Law firms need to accept electronic payment options like credit cards, debit cards, and bank account drafts. It's even more effective if clients are able

to independently remit these payments online for ease and convenience.

- **Be Selective with Matters** – Lawyers need to consider a client's ability to pay before agreeing to handle a matter when seeking to reach zero AR. As such, law firms need to give advanced thought about if and how they will handle clients with limited resources so that these matters do not become the bulk of the firm's business, which can potentially lead to low collection rates.
- **Offer Payment Incentives** – Clients do respond when firms provide incentives for early bill payment. Consider these potential offers:
- **Early Payment Discounts** – Just make sure that the discounted rate still provides adequate compensation for services rendered.
- **Payment Plans** – Clients like the ability to pay their legal fees in smaller increments. It may take a little longer to reach payment in full, but it can still result in 100% collection over time.
- **Automatic Withdrawals** – Clients provide the law firm with a credit card or bank account to be kept on file within the law office. The payment method is automatically used to secure payment on a predetermined date, which promotes full and timely compensation.
- **Provide Excellent Legal Services** – Satisfied clients are generally more likely to pay their legal fees on time and in full. By providing each and every client with quality legal services, law firms can effectively promote zero AR.
- **Choose the Right Technology** – A key part of achieving zero AR is choosing legal billing software that includes the features you need for effective payment procedures. TimeSolv legal billing software offers some of the most innovative e-payment features on the market, including integration with LexCharge, a company that specializes in electronic payment processing for law firms. With this integration, law firms can securely store client payment methods and quickly process client payments in batches.

Law Firms Benefit from Zero AR in 2021

Law firms need zero AR in 2021. By taking the time to develop a payment processing plan and implementing some of these effective strategies, lawyers can get their firms to zero AR in the new year. To learn more about TimeSolv and LexCharge, click [this website link](#) for a free, no-obligation trial.