ACCOUNTING INFORMATION

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Learn about the four accounting methods that Soluno® supports.

Soluno offers four accounting methods for recording transactions to your general ledger:

1. Cash-based
2. Modified Cash (Hard & soft costs tracked as assets)
3. Modified Cash (Hard costs tracked as assets & soft costs tracked as expenses)
4. Accrual accounting

These methods are differentiated based on how and when your financial statements are impacted. The outlines of each function below can help you determine which accounting method is the most appropriate for your firm's needs, location, and financial laws.

THE DIFFERENCE BETWEEN HARD AND SOFT COSTS

HARD COST: When the firm has written a check, made an electronic payment, or used cash at the point of purchase on behalf of a file.

> *Example.* Paying for transportation with cash when working on behalf of a client.

SOFT COST: When a cost is associated with a file but not through a direct payment action.

Example. Matter-related costs: Your firm may charge for photocopies, long distance charges, or other matter-related costs. These would be entered as soft costs or "non-cash" disbursements on the file.

ACCOUNTING METHOD BREAKDOWN

1. CASH-BASED ACCOUNTING

Cash-based accounting is determined by when funds are spent or received. With this method, hard costs, soft costs, operating retainers, and fees are not recorded as revenue in the general ledger until payment is made. Matter-related hard costs are posted as an expense under a default 5010.hard account when the initial payment is made by the firm. Matter-related soft costs (prior to payment) are recorded with an offsetting expense entry, which will be balanced out when the actual payment is made. In Soluno, this soft cost is an expense account represented by default as 5010.soft.

2. MODIFIED CASH-BASED ACCOUNTING *(ALL COSTS TRACKED AS ASSETS)*

Modified Cash-based accounting is a mixture of Cash and Accrual. Like cash accounting, fees are realized at the time of payment. However, matter-related costs are handled like an accrual system and are recorded as assets once they are entered. Modified cash does not use an accounts receivable account.

3. MODIFIED CASH-BASED ACCOUNTING *(HARD COSTS TRACKED AS ASSETS, SOFT COSTS AS EXPENSES)*

In this form of Modified cash-based accounting, soft costs are treated as expenses, whereas hard costs (cash spent at the time of the expense), are treated as assets. This allows the firm to use any outstanding soft costs against revenue in their financial statements

4. ACCRUAL-BASED ACCOUNTING

Accrual-based accounting is notably different from cash-based accounting because fees are recognised as income at the time of billing, instead of at the time of payment. Matter-related hard costs (initially stored in 1210.hard) and soft costs (initially stored in 1210.soft) are recorded as assets.

If your firm is able to carry an operating retainer, they are recognized as assets in the general ledger as well, and are stored in the default account 1211. Then, once an invoice is created, these assets are credited, and accounts receivable account 1200 is debited.

Matter-related hard costs are posted as an expense under the default account 1210.hard when the matter expense is disbursed from Soluno. When the client pays the bill, the accounts receivable account 1200 is credited, and the bank account is debited.

SUMMARY

Regardless of the accounting system that you utilize, Soluno allows you to easily reconcile your general ledger with your client reports and journals. From the time you record the expense to the collection of the funds, your general ledger is constantly being updated to reflect the state of your accounts.

To quickly identify the key features of the four different accounting methods, please refer to the chart below. If you are not sure which accounting method is best for your firm, make sure to consult your accountant.

	CASH-BASED	MODIFIED CASH AA ALL COSTS TRACKED AS ASSETS	MODIFIED CASH AE HARD COSTS = ASSETS SOFT COSTS = EXPENSES	ACCRUAL-BASED
When fees are recognized as income	At client payment	At client payment	At client payment	At client billing
How hard costs are entered	Expense	Asset	Asset	Asset
How soft costs are entered	Expense	Asset	Expense	Asset

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