Changing from Partnership to Corporation

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About Changing from Partnership to Corporation
The equity section of a partnership’s balance sheet contains separate accounts for lawyer equity and retained earnings. A corporation contains only firm capital and retained earnings accounts. This document outlines the steps involved to switch the accounting type from a partnership to a corporation.

It is not mandatory to change the firm’s accounting type at the end of a fiscal year, but it is highly recommended. The directions in this document presume the firm has completed its fiscal year.

Comparing Partnership and Corporation Terminology
A partnership uses the terms equity and income for allocation whereas a corporation uses the terms capital and retained earnings for equivalent accounts.

<table>
<thead>
<tr>
<th>Account Nickname</th>
<th>Account Type</th>
<th>Account Name - Partnership</th>
<th>Account Name - Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3000</td>
<td>Equity</td>
<td>Equity</td>
<td>Capital</td>
</tr>
<tr>
<td>3000-abc</td>
<td>Equity</td>
<td>Equity - lawyer’s initials</td>
<td>account does not exist</td>
</tr>
<tr>
<td>3500</td>
<td>Retained</td>
<td>Income for Allocation</td>
<td>Retained Earnings</td>
</tr>
<tr>
<td>3500-abc</td>
<td>Retained</td>
<td>Retained Earnings - lawyer’s init.</td>
<td>account does not exist</td>
</tr>
<tr>
<td>3501</td>
<td>Retained</td>
<td>Drawings</td>
<td>Drawings</td>
</tr>
</tbody>
</table>

Producing a Balance Sheet

<table>
<thead>
<tr>
<th>Pull-down menu</th>
<th>G/L &gt; Statements</th>
<th>Quick Step</th>
<th>End of Month/Year &gt; G/L Statements</th>
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If the balance of the lawyers’ individual equity accounts are to be reallocated, then it is necessary to produce a balance sheet to display the value of these accounts prior to changing the accounting type.

Always refer to the balance sheet for current balances of the lawyers’ retained earnings accounts. The trial balance does not display current balances as net income for open months is not calculated. The balance sheet does calculate the current value of retained earnings accounts although months may be open and end of year adjustment have yet to be posted.

1. Uncheck General Ledger.
2. Check Balance Sheet.
3. Type in the **Current Report Period** area, the start and end dates of the last calendar month.

4. Check **Printer**.

5. Click **OK** to produce the balance sheet.

### Allocating the Capital and Retained Earnings Accounts

By definition, a corporation does not have individual equity, retained earnings or draw accounts for individual lawyers. Therefore the balance of the lawyers’ individual equity, retained earnings and draw accounts need to be transferred to the equivalent firm account.

**Pull-down menu**

- **G/L > General Journal > G/L Adjustment**

**Quick Step**

- **End of Month/Year > G/L Adjustment**

**Note**: In the summary at the bottom of the window, **Debits** must equal **Credits**. The value in the **Balance** box should read 0.00.

6. Click **OK** to post the adjusting entry.

7. A revised balance sheet should be produced to verify the new balances.

**Note**: It is optional to change the name of Equity (3000) to Capital and Income for Alloc to Retained Earnings.
Closing the Month and Year

Perform the End of Month procedure after completing the adjusting entry. A G/L Statement is required to immediately prior to starting the End of Month procedure. You should be the only user in PCLaw when performing this procedure. End of Year is performed after the last month of the fiscal year is closed.

1. Select on the G/L pull-down menu, End of Month.
2. Follow the prompts accordingly to close the months.
3. Repeat the above procedure for each month to be closed.
4. Select on the G/L pull-down menu, End of Year.
5. Follow the prompts accordingly to close the year.

Note: Running End of Year is not mandatory but it is highly recommended. Specifically if an Income Allocation Percent is to be used for one or more partners, the year should be closed and the corporation started in a new fiscal year. End of Year can be performed with less than 12 months closed.

Contacting LexisNexis PCLaw Technical Support

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<tr>
<th>Pull-down menu:</th>
<th>Help &gt; About Lexis Back Office Powered By PCLaw</th>
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The PCLaw system next needs to be reconfigured from a partnership to a corporation. A PCLaw Technical Support representative is required to perform this change. To find out how to contact PCLaw Technical Support:

1. Click the Tech Support button to display the Technical Support window.
2. Contact technical support using the provided phone number for your location.