



Defining the Bottom Line

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INTRODUCTION

You're a lawyer, not an accountant. Why aren't financial statements in plain English? Come learn how to read them, what to look for and, when they are not always the true measure of the financial health of your firm. With better ways to measure your timekeepers' productivity, manage your accounts receivables and analyze collections, you can put your financial information to work for you and make better business decisions for your practice - and your life!

ACCOUNTING 101

The first thing to know in Accounting is to define what a General Ledger is. Essentially it is a Chart of Accounts, or categories if you will, of the different in flow and out flow of money. Essentially, the General Ledger IS your firm's accounting records. This formal ledger contains all the financial accounts and statements of a business. It is comprised of a series of debits and credits that offset one another completely to balance the company's financial standing. General Ledger accounts are broken down into five different account types, namely asset, liability, equity, income and expense.

The Basics: The Balance Sheet

The balance sheet, also known as the statement of financial position or condition, presents the assets, liabilities, and owners' equity of the company at a specific point in time. The assets are the firm's resources, financial or nonfinancial, such as cash, receivables, inventories, properties, and equipment. The total assets equal (balance) the sources of funding for those resources: liabilities (external borrowings) and equity (owners' contributions and earnings from firm operations). The balance sheet is used by investors, creditors, and other decision makers to assess the overall composition of resources, the constriction of external obligations, and the firm's flexibility and ability to change to meet new requirements.¹

So, the very basic accounting report is the balance sheet. The balance sheet, stated another way gives the owners of a firm an understanding that assets (what you have), less liabilities (what you owe), results in equity (what you are worth). Balance Sheets are true in ANY financial situation; it is as needed and true in your personal life as it is in your business life! Think about it. Your business, if you were to sell it, is worth your cash on hand, your furniture, your computers, your fixtures, your leasehold improvements (if you are a tenant), your real estate holdings (if you own your office), and the like. There is also a value in your accounts receivable, monies that you've billed and haven't yet collected (if you are using, what is known as "cash" accounting), and there is even more value in your accounts receivable if you are on what is known as "accrual" accounting. More on accounting methods momentarily.

Now *balance* out, what you "have" against what you "owe". Your business' assets are offset by your liabilities. Examples include your line of credit, your payroll liabilities, 401-K liabilities,

¹ <http://www.answers.com/Financial%20Statements>

long term debt (perhaps a mortgage on your office building, the loan you took out to improve the office suite), etc. And the difference between the two is your “worth,” or in accounting terms, your equity. To master Accounting 101, you have to do some algebra – A (Assets) minus L (Liabilities) = E (Equity) (A-L=E). If you grasp this...you’ve just passed Accounting 101. Congratulations. And, more importantly, you now understand what is reported to you when you read a “BALANCE SHEET” (see example...next page). A Balance Sheet is simply A-L=E.

Brown, Campos & Marshall (Cash), LLC Balance Sheet As at: December 31, 2008			
ASSETS			
<u>Current Assets</u>			
General Operating Account	3,088.25		
Client Disb Recov	(567.90)		
Trust Bank Acct 1	6,500.00		
Total Current Assets		\$9,020.35	
<u>Fixed Assets</u>			
Total Fixed Assets		\$0.00	
Total Assets			\$9,020.35
LIABILITIES			
<u>Short Term Liabilities</u>			
Trust Funds Owed	6,500.00		
Total Short Term Liabilities		\$6,500.00	
<u>Long Term Liabilities</u>			
Total Long Term Liabilities		\$0.00	
Total Liabilities			\$6,500.00
EQUITY			
Retained Earnings	2,520.35		
Total Equity			\$2,520.35
Total Liabilities & Equity			\$9,020.35

Notice in the example above that ASSETS – LIABILITIES = EQUITY

Next semester – Accounting 102 – Income vs. Expenses

So A-L=E is fairly easy to remember and apply. You can read your balance sheet! But, what about your regular operations? What about what you earn and spend daily, weekly and monthly? How does A-L=E play into your operations? Well this takes us to the concept of the Income

Statement or Profit and Loss Statement. (They are one in the same...some people call them Income Statements, others call them P&L's).

Let's just call it a P&L for the purpose of this paper (easier to type). The P&L balances revenue (what you earn) vs. expenses (what you spend). Your revenue is your income. Cash accounting firms realize revenue when cash marches in the door. When you're paid, you have income. Accrual firms "accrue" income to the revenue portion of the income statement typically when a BILL is sent out the door. Their revenue is realized when billed and the income is balanced against Accounts Receivable

Cash Accounting

CASH (Asset)	1,000.00	
INCOME (Revenue)		1,000.00

Accrual Accounting

ACCOUNTS RECEIVABLE (Asset)	1,000.00	
INCOME (Revenue)		1,000.00

*The diagrams above are known by accountants as "T" cells. Everything on the left hand part of the "T" must be offset 100% by the right hand part of the "T". This is called double entry accounting and is part of world wide acceptance of "Generally Accepted Accounting Principles" or (GAAP).

But, on the P&L, we're really just talking about INCOME. You can slice income as CASH received or A/R REALIZED...either way, it posts to your Revenue Section of your P&L. Revenue is not only revenue for work billed (and collected), but also income revenue, miscellaneous revenue (some may post refunds for overpayments as revenue).

Revenue is logically offset by expenses. Expenses include things like payroll, rent, utilities, and the like. Revenue, less expenses, if a positive number becomes NET PROFIT. If negative, it is booked as a LOSS.

Now here's the trick. Your Profit on the P&L becomes what is known as "Retained Earnings" on your balance sheet in the equity section. Retained Earnings (or profit) at the end of the year, is typically what the government looks at when you are taxed (or when profits are distributed to owners or shareholders). In other words, your ENTIRE P&L is summarized in one number on the Balance Sheet.

Brown, Campos & Marshall (Cash), LLC
Income Statement
For the Period Ending: December 31, 2008

	Current Period		Year To Date	
	Amount	%	Amount	%
REVENUE				
Fees-Albert A. Howell	1,457.14	44.84%	1,457.14	44.84%
Fees-Allison S. Monroe	385.71	11.87%	385.71	11.87%
Fees-D. Brickley	1,257.14	38.68%	1,257.14	38.68%
Fees-Robert S. Brown	150.01	4.62%	150.01	4.62%
Total Revenue	\$3,250.00	100%	\$3,250.00	100%
EXPENSES				
Bad Debt Expense	1.25	0.17%	1.25	0.17%
Maintenance/Repair	425.00	58.25%	425.00	58.25%
Office/Gen. Expense	40.00	5.48%	40.00	5.48%
Travel	300.00	41.12%	300.00	41.12%
Fax Recovery	(13.25)	-1.82%	(13.25)	-1.82%
Photocopy Recovery	(17.75)	-2.43%	(17.75)	-2.43%
Postage Recovery	(3.40)	-0.47%	(3.40)	-0.47%
Telephone Recovery	(2.20)	-0.30%	(2.20)	-0.30%
Total Expenses	\$729.85	100%	\$729.85	100%
Net Income	\$2,520.35		\$2,520.35	

Brown, Campos & Marshall (Cash), LLC
Balance Sheet
As at: December 31, 2008

ASSETS			
<u>Current Assets</u>			
General Operating Account		3,088.25	
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Total Equity			\$2,520.35
Total Liabilities & Equity			\$9,020.35

As you can readily see above, the NET INCOME of Brown, Campos & Marshall becomes RETAINED EARNINGS on the firm's balance sheet.

Client Advances and Trust Accounting

CLIENT ADVANCES: Expense or Receivable?

Now, this would be a good place to talk about Client Advances. Always a topic of great discussion at most law firms. How do we "account" for monies that we advance for our clients?

Cash Accounting firms may consider those advances Expenses (which off set income) and then when (and if) the client pays us back some time in the future, receive that money back as Income. If you think about it, that sounds fairly logical, yet the Internal Revenue Service doesn't like it.

“Over the years, several law firms have done battle with the IRS over the deductibility of litigation costs related to contingent fee arrangements. The courts have repeatedly sided with the Service, holding that such costs were not deductible when paid, but rather represented loans or advances reimbursable by the client. Central to these decisions has been the fact that, although the law firm would receive no reimbursement of the litigation costs unless there was a recovery in the underlying cases, the law firm would (as would any prudent business person) generally not accept a case unless the likelihood of recovery was very high, thereby virtually eliminating the possibility that the litigation costs would not be reimbursed.” (See <http://www.allbusiness.com/accounting-reporting/corporate-taxes-corporate/409049-1.html>)

However, it’s really not just contingency fee firms that deal with this issue. Any firm that “advances” its own monies with the expectation that a client will repay the advance must carefully consider how to handle these types of cash outlays on their accounting books.

Most of the proprietary software packages made for our profession (PCLaw, TABS3, Juris, Amicus Accounting, Orion, etc.), do not clearly mandate how client advances should be handled, but rather, leave it up to the firm and it’s accountant and it’s internal ethical standards. There is still no clear mandate as far as the within writers can tell.

Let’s take LexisNexis-PCLaw as an example. When PCLaw is installed in your firm, you are asked whether you want to use Cash, Accrual or a hybrid method known as Modified Cash². PCLaw firms on Cash Accounting treat client advances as a direct expense when the cash leaves the office. Client Advances repaid during the fiscal year are received back to the same expense account leaving only UNPAID EXPENSES as a balance in that “expense” account at fiscal year end. That “number” is considered an expenses, offsets income and reduces profit (retained earnings) and, thus, reduces the owners taxable income. Firm owners happy – IRS – not so much.

Accrual Accounting, on the other hand, treats all client advances as accounts receivable (remember Accrual Firms accrue income upon billing...not upon receipt of cash) and, firms on an accrual basis, thus, do not consider any client advance an EXPENSE of the firm. Therefore expenses are lower which makes net profit higher...more profit, more tax liability. Firm owners, not so happy, IRS – happier (as if any of us would ever equate dealing with the IRS as a “happy” experience...I think most of us would use other adjectives).

Modified Cash, at least in the world of PCLaw (and its different in other programs, for example ORION doesn’t offer a Modified Cash method, but is so highly customizable that you can make it treat advances as a receivable) is simply where equate income with cash and client advances as receivable. This is the most popular accounting method among U.S. law firms. Client Advances end up on the balance sheet as receivable and net profit is higher because they are not expenses on your income statement.

² The definition of “modified cash” is not defined by any accounting authority. In the example, using PCLaw, modified cash is somewhat of a hybrid accounting method where income is based upon cash, but client advances are treated as receivables. This method is logically favored over “cash” by the I.R.S.

Let's build on that concept a bit, to make it a little easier to understand the benefits to keeping your advanced costs OFF your P&L. Let's say that you have a large contingency case that you open in 2008, and during the course of the year, you advance \$80,000 in costs for medical bills, experts, records, etc. If all of those advances are treated as expenses throughout the year, at the end of the year, you will have a Net Income that is \$80K lower than it would have been had you treated those advances as Accounts Receivable items. So, now maybe you can see why the IRS is not happy about that! To them, it translates to you not paying taxes on \$80K of revenue. But, let's forget about the IRS for a moment. For you, the lawyer/business owner, you need to be able to run reports that tell you how your firm is doing. If your firm is doing well on July 28th of 2008, and on July 30th you write checks on behalf of a client from your operating account totaling \$20K, your net income goes down that day by \$20K. Now, had you paid your rent that day, and your rent was \$20K, that would be correct, and would accurately reflect your expenses for that month. When you write cost checks like this, they are treated no differently than the rent check, or the check for the phone bill.

It does all wash out in the end though. Let's say in 2009, your case settles. You are getting your attorney fees (let's say \$50K for easy math) plus getting reimbursed for your \$80K in advanced costs. The day you make the transfer from your trust account to your operating account, your Net Income increases by \$130K. You will pay taxes on that 80K in reimbursed costs AND the 50K in fees, because when the costs went out, you counted them as expenses. So in a nutshell, you benefit in the first year when you are advancing the costs, but you pay the taxes in the year where you settle the case.

Those checks that you are writing are really LOANS to your clients. If you record them as such, your P&L will be unaffected by any client advances. So, in the example above, during the time you are advancing costs, there is NO affect on the P&L, and when you settle the case, you increase your revenue by \$50K only.

The bottom line of this ever evolving discussion is to choose carefully as far as which method of client advances will work best for you. Discuss the options with a trusted CPA and your time/billing software consultant.

Trust Accounting

Another, possibly even more important consideration, is how your firm will handle TRUST. Trust accounts, as you well know, can become a nightmare for you if not handled properly either from not properly accounting for client funds internally, and/or not properly reporting your trust reports to the state bar should you ever become subject to an audit.

Most proprietary software programs made for our profession (see the list above), treat trust as a bank account (which it is), which is an ASSET on your Balance Sheet. But, it's not the firm's asset. Thus, these same programs offset your Trust Bank balance with an equivalent liability account.

Trust Accounting

TRUST ACCOUNT	100,000.00	
TRUST LIABILITY		100,000.00

It is the opinions of the authors herein that trust must be handled fastidiously and always be accurate. It almost goes without saying. For those of you who manage your finances manually or use generic software to handle trust, you are flirting with disaster. This is the very reason that we both advocate using proprietary accounting packages made for law firms. The latter software is made to handle trust accurately, efficiently and in compliance with most, if not all, state and provincial bar associations.

Other Financial Statements

- General Ledger – Often called a General Ledger statement or an Account Statement. This typically shows, for each General Ledger Account, for a stated date range (or just one day if you like), a starting balance, the amount of money into that account, the amount of money flowing out of that account and an ending balance.
- Trial Balance – A Trial Balance is a statement of all the “non-zero” debit and credit items in a double-entry ledger, made to test their equality. At the end of the trial balance, all debits should equal all credits so that the net result is ZERO. This is the report that proves your entire General Ledger is in balance. If the end result is NOT ZERO, that usually signals a problem.

WHAT IS PRODUCTIVITY AND HOW IS IT MEASURED?

- Billable Time – Hourly billers are often quite concerned with billable time – the amount of time that is billed on client/matters. It is inherent to most law firms that accounting for billable time is, in fact, our “inventory”. Accordingly, it must be tracked efficiently and accurately.

Organizations that invoice billable time must keep accurate track of that time. Small to mid-sized companies may use spreadsheets for billable work, expenses, and materials. The information is then reentered or manually imported from spreadsheet files into the company's accounting, payroll and project systems. This process is highly error prone and can result in significant payroll and billing errors and lost or duplicate entries; consolidating this kind of data later, frequently results in conflicts and errors that are often difficult to identify or address. A time tracking software that is integrated with your accounting system and provides point of entry data validation, policy-based approval, and notification setup will eliminate such errors. Studies have shown that eliminating duplicate systems, manual processes and entry/approval errors can save you up to

3% of total payroll costs and increase your billable hours by as much as 4%.³

In fact that 4% figure that is in the quote immediately above, could be as high as 15 to 20 percent if you think about it. If a technology investment that easily permits timekeepers to keep billable time themselves causes a firm of ten people who bill at an average of \$150.00 per hour to capture even 30 more minutes per day because of automation, then a firm that averaged 7 billable hours per day billing \$10,500.00 daily becomes 7.5 hours per day per timekeeper that becomes a net gain of \$750.00 per day, \$3,750 per week and \$195,000.00 MORE per year.

Ok – so that’s the plug for technology –after all this is TECHSHOW! But the bottom line is that you should insist that your timekeepers track their day and come up with a threshold amount for each timekeeper to post daily. Whatever that amount is (6 hours/7 hours/8 hours), insist that timekeepers track themselves constantly. It’s a pain in the a**, but it’s necessary. Lawyers not tracking time is like grocery stores not keeping inventory of what’s on their shelves. How many boxes of Cheerios do we have left based upon historical demand? Should we order more?

The same is true for billable time. And even if you are not one that bills by the hour – track your time and post your “case notes” to your billing system anyway. It’s your business’ inventory....track it and analyze it.

- Non Billable Time – review what your staff is doing that’s NOT billable to your matters. And remember that sometimes time is billable at a rate of ZERO. Non Billable usually means time that is devoted to business development, client development, education and the like.
- Time Reductions/Write Off’s – If your staff is essentially spinning their wheels or “over billing” you may have to write time down. By insisting that your timekeepers track their day whether billable or non billable, you run the slight risk of timekeepers “fudging” their time a little bit, but that risk is outweighed by the positive aspect of reviewing what each person is doing, what is happening on a matter by matter basis, and you can also analyze productivity....how much time has it taken Debbie to research those two issues; did Steve really take 2.5 hours to draft documents, is Paul recording his time meaningfully? And time written off “costs” the firm in reduced revenue as well as increasing the expense of maintaining the employee.

Fee Structures for Various Clients

There are many ways you can choose to bill a client. Like everything else in life, they all have their pros and cons, and some are simply unacceptable in certain situations. This is another area that you must make sure you are following the rules of your bar association when it comes to billing your clients for legal services. Most commonly, you will bill a client in one of the following ways:

³ <http://glossary.tenrox.com/Billable.htm>

- Hourly
- Flat Rate (transactional work)
- Monthly (or some other time frame) Retainers
- Based on a RFP (bidding flat rates for work, mostly with government agencies)
- Project Billing (sometimes in phases)
- Value Billing (could also be success based fees or fee incentives)

Perhaps the most hotly debated subject in this area today is hourly billing vs value billing. There are so many resources out on the web related to the value billing vs hourly billing that you should check out. We will share our resource link with you on the day of the seminar so you can get access to this information, which is updated regularly. However, to highlight some of the debate, I quote Enrico Schaefer, The Great American Lawyer. His blog address is <http://greatestamericanlawyer.typepad.com>. Here is his definition of value billing and how it fits into the model of his small firm:

Value billing is a phrase which is often used in relation to professional services such as law. Value billing means different things to different professionals.

We are at a stage in our firm's growth where hourly billing is becoming less and less apart of our model. While many of our legal projects are purely flat fee, we continue to do hourly billing on a modified and "value" basis. We always talk about and obtain approval on monthly budgets from our clients even on those matters where we are billing by the hour. On many matters, we agree to a maximum spend by the client or charge the hourly fee, which ever is less. This maximum budget or hourly fee approach ensures that the firm has the proper incentives to get the job done efficiently, but also caps the cost to the client for the services. A key part of this approach is documenting the tasks and deliverables, which are going to be performed by the firm on the front-end. Setting the client's expectation by documenting those expectations is a key feature of our billing system.

The next step for us is to move more of our work into a pure "value-billing" system. This involves defining the client's subjective goals, analyzing the value of obtaining those goals from the client's point of view and putting a correlated value on the legal services driven by client value. Essentially, the client agrees to pay a flat fee over a period of time for a given project irrespective of hours. While this sounds traumatic to many law firms, let me assure you it is both achievable and preferable. It results in benefits for both the firm and the client.

When law firms start talking about hours and start focusing on results, good things happen. Lawyers can document and define legal projects upfront, measure the value to the client for those defined services and charge a defined fee for performing the same.

For those interested in taking a look at our firm's current "value-billing" statement, it is set forth below:

Value-Based Billing Policy

Some of Traverse Legal's customers prefer to be billed on a time-based system, where hours are tracked and billed to the client at a specific hourly rate. Some cases are best suited for time-based billing. Unlike most other firms, Traverse Legal does not bill for every activity and task associated with the handling of a matter for a client.

The following is a list of items that we do not charge to clients:

- Transmittal letters which do not contain significant legal analysis or recommendations.
- Short phone calls that do not lead to immediate legal work.
- Update or general information calls to or from client.
- Any activity that does not add value to client's immediate matter.
- Any activity which deals with general information about the client.
- Any activity which does not work towards resolution of the client's problem.

Things that we do bill for:

- Any activity which provides specific value to a specific client problem.

Another interesting observation about Value Billing from Mr. Schaefer talks about the biggest mistake a value biller makes:

One of the big mistakes that people who attempt value billing make is that they attempt to keep the bill down. Instead of providing value, their goal becomes doing less.

Value billing is not, under any scenario, about doing less. Value billing is about providing more value. In many instances, it may involve doing much more than a traditional hourly billing firm.

We are all aware that hourly firms sometimes just go through the motions. Because the emphasis is on billing an eight to ten-hour day, lawyers get lazy. They don't stop and focus on what is important. They don't have a sense of client goals or documented deliverables. We are all aware that many clients spend tens of thousands of dollars and yet achieve little if anything at the end of a case.

In contrast, a value billing approach ensures that the clients' goals are fully documented at the beginning of the matter. Further, a return on investment matching those goals against the documented costs (preferably on a flat-fee basis) of the attorney's services is analyzed at the outset. Sometimes, a value-biller will do more work and charge more money than an attorney simply going through the motions on an hourly basis. The difference is the end zone. A value-billing attorney knows exactly where the end zone is, understands the value that end zone provides to the client and gets the ball in the end zone at the end of the day.

But still, even with all the controversy that surrounds hourly billing these days, most law firms are still right on track with it. The debates are endless...some have even gone so far as to call

hourly billing unethical. Scott Turow, acclaimed author of Presumed Innocent, wrote an article for the ABA Journal called “The Billable Hour Must Die”. Here is an excerpt where he calls hourly billing unethical:

But at the end of the day, my greatest concern is not merely that dollars times hours is bad for the lives of lawyers—even though it demonstrably is—but that it’s worse for clients, bad for the attorney-client relationship, and bad for the image of our profession. Simply put, I have never been at ease with the ethical dilemmas that the dollars-times-hours regime poses, especially for litigators....

But from the time I entered private practice to today, I have been unable to figure out how our accepted concepts of conflict of interest can possibly accommodate a system in which the lawyer’s economic interests and the client’s are so diametrically opposed.

Looking again to the Model Rules [of Professional Conduct], Rule 1.7 provides in part that “a lawyer shall not represent a client if the representation involves a concurrent conflict of interest,” which the rule defines as occurring when “there is a significant risk that the representation of one or more clients will be materially limited by ... a personal interest of the lawyer.”

I ask you to ponder for just a few minutes whether that rule can really be fulfilled by hourly based fees.

You can read the entire article here:

http://www.abajournal.com/magazine/the_billable_hour_must_die/

Other resources on this topic from Jay Shepherd, author of the blog titled “Gruntled Employees (http://www.gruntledemployees.com/gruntled_employees/):

<http://www.lukegilman.com/blawg/2007/08/17/more-on-the-billable-hour-charting-your-own-course/>

Key quote: "The overriding incentive of the billable hour regime is to bill as many hours as you can get away with. When you have a fiduciary duty to your client and a minimum billable hour requirement from your firm, the conflict is inevitable."

http://www.concurringopinions.com/archives/2007/08/bye_bye_to_the.html

Key quote: "The billable hour does little to measure and reward quality of work. It simply measures how long it took an attorney to complete a particular task."

<http://blogs.law.harvard.edu/ethicalesq/2007/08/18/broadening-the-hourly-billing-debate-consider-yourself-your-clients-and-your-ethics/>

This is a thorough and comprehensive post on the different sides of the argument from an ardent defender of hourly billing.

Good reasons to track all your time

The key word here is tracking ALL your time. Many people think about tracking just billable time, and some even only track billable time associated with a file that is billed hourly and rather, skip all the contingency based time. Here are some reasons you should consider tracking all your time – billable or not.

Once time tracking is discretionary, time will be missed. Deciding whether to track the time you just spent or are about to spend complicates the process. Tracking everything takes that all away. You just simply track the time you spend each day – and track all of it.

Where does the time go? How often have you looked at your time at the end of a long day and thought, "5 hours? I have been here for 11 hours. What did I do all day?" Often, the gap is our non-billable time – be it administrative time or even firm marketing time. Instead of wondering if you got it all, if you track everything you will not be wondering if you missed something billable

All that non-billable time adds up! Track the time you spend on Firm Administration, Firm Marketing, Bar Association related activities, CLE, community related activities, etc. It is very important to know how much of your time you spend on these types of things.

Speaking of CLE ... If you track your time spent on CLE just like you track time on a billable matter, you can always look to see how many hours you have/need.

Tracking all your time will help you to set realistic billable hour goals. My experience shows that in a small firm, for every billable hour logged, there is 20-30 minutes of non-billable time spent. So, is it realistic to have a goal of 10 billable hours a day? Not unless you are willing to work between 13 and 15 hours a day.

Maybe the most convincing reason... a little translates into a lot. Using conservative estimates, if you bill at \$150 an hour, and you neglect to track a quarter hour a day (just 15 minutes), you lose \$37.50 a day, \$187.50 a week, \$787.50 a month, and \$9,450.00 a year – PER TIMEKEEPER! If you lose more time per day, or you bill more per hour, those numbers all go up. I don't know about you, but I would love an additional \$10,000 a year in my bank account.

ANALYZING YOUR FIRM AS A BUSINESS

What is the bottom line? Cash Flow.

Cash Flow is the most important tool to analyze overall as your business/firm continues to operate. In a nutshell, "CASH FLOW" not only analyzes how much cash has been deposited into the firm's bank accounts, but how much we expect to receive based upon receivables, how much is on the slate to be paid in this period and next period? How much time have we written down/written off? What's our inventory (Work in Progress...i.e. unbilled time), etc?

CASH FLOW....(even if you're on the ACCRUAL BASIS of accounting – cash flow is equally as important). As you can see from the example below...this is the information that you truly need to analyze your firm as an on going business.

Mar 5/2009	Brown, Campos & Marshall (Cash), LLC	
	Cash Flow Planner	
	To Mar 5/2009	
<hr/>		
Cash on Hand	54792.54	
1 - General Operating Account		54792.54
Accounts Payable	0.00	
Due Now		0.00
Due In 7 Days		0.00
Due In 8 - 30 Days		0.00
Due Over 30 Days		0.00
Accounts Receivable	3714.16	
Current		0.00
31-60 Days		0.00
61-90 Days		0.00
Over 90 Days		3714.16
Work in Progress	32618.55	
Current		0.00
31-60 Days		0.00
61-90 Days		0.00
Over 90 Days		32618.55
Bills sent month to date	0.00	
Fees		0.00
Disbs		0.00
Taxes		0.00
Cash in month to date	0.00	
Fees		0.00
Disbs		0.00
Taxes		0.00
Retainer		0.00
Firm		0.00

How Do I Make More Money?

Now, that is the million dollar question. There are really only 2 ways to make more money – Increase Revenue or Decrease Expense. What is interesting is that most firms spend the majority of their time analyzing expenses and trying to find a way to reduce them. If you look at your financial statements, you will find that, in most cases, salaries are the largest expense, and unless you are overstaffed, making a big dent in reduction of expenses is normally not likely to happen. The long standing debate over how many newspaper subscriptions you should have, or if you should cancel the coffee service is generally a big waste of time.

On the flip side, you can make a significant impact to increasing revenue by actively perusing the following goals:

- Require all of your timekeepers to contemporaneously track their time, with no excuses to why they cannot do that.
- Have timekeepers set goals for billing, or for finishing work product (if you do not bill hourly for your time)
- Keep your marketing skills sharpened – never stop talking about who you are and what you do (in a tactful way)
- Don't be afraid to ask for referrals
- Make 4 new marketing contacts a month
- Read the book 'Never Eat Alone' by Kevin Ferrazzi

CONCLUSION

While it is easy to focus on the substantive side of running your practice, it is fair to say that everyone who manages the finances of a law firm – and we use that term “manage” very loosely – needs to be well versed in understanding the dollars in and the dollars out. Being successful on purpose should be the goal. Too many firms are on the “fly by the seat of your pants” program and have since become ‘Accidentally Successful’. If you struggle in this area, take your own advice, and hire a professional to help you map out a plan for managing your firm’s finances. Understanding the concepts of financial statements and productivity will lead you down the path of success – on purpose!