Power Position: The six financial reports your law firm needs monthly

By Wendy Witt

When you review your monthly law firm financial reports, decision making transforms from a guessing game to powerfully strategic next steps. Those strong decisions propel you forward toward your goal of creating the law firm – and life – you want.

If law firm financial analysis is new to you, I invite you to start with these six basic monthly financial reports. A CPA or accountant, especially one who specializes in law firms, will be able to produce these for you. Once you get comfortable, you’ll be able to review and analyze these reports in 10 to 20 minutes a month. The information you glean from them: Pure gold.

Here’s where to start:
1. Rolling 12-Month revenue and expense report
2. Accounts receivable report, including receivables at 30 days, 60 days, and 90 days
3. Budget variance report by month
4. Cash flow forecast (six to eight weeks ahead)
5. Balance sheet
6. Billable employee collectibles (compared to total compensation package)

Rolling 12-Month Revenue and Expense Report

This trailing report shows what’s happened over the past 12-months. What revenue has been earned? What monies have gone out to keep the lights on? This report is used to feed cash flow reports, balance sheets, and income statements and make smart decisions about how to move your firm forward.

Accounts Receivable Report

“Accounts receivable” refers to the money your clients owe you. While I work with my clients to have this number at a big fat zero, many attorneys have a serious AR issue. You can eliminate AR by first tracking it so you know it exists and in what amount and then doing something about it.

To avoid AR, set clear client expectations, collect significant retainers, bill contem poraneously, send out bills in a timely manner via email, accept credit cards, use evergreen retainers with a credit card, and send reminders immediately if late. If AR hits 45 days, your billing person needs to start calling. If AR hits 60 days, you make the call. It’s your money; go after it – and do better with your billing practices next time.

Budget Variance Report by Month

Your monthly budget variance report shows how reality differed from your annual budget. A variance is not good or bad in and of itself; this report provides value by identifying variances; then, you must determine the cause. Did you have an influx of referrals from a new source? Did you close fewer of your consultations? Did you fail to bill contem poraneously and lose 40% of your billable hours? Make adjustments to either enhance or diminish the variance moving forward.

Cash Flow Forecast (six to eight weeks ahead)

Your cash flow forecast alerts you to any oncoming cash crunches. The more notice you have that a cash crunch is on the way, the more opportunity you’ll have to do something about it. Being able to produce cash when you need it is empowering. You’ll sleep better at night, make smarter decisions, absorb risk, and take advantage of awesome opportunities.

To avoid cash crunches, the ideal is to have one month of overhead in your operating account and two months of operating expenses in a safe interest-bearing account you can access quickly.

Balance Sheet

Your firm’s balance sheet is a statement of firm value and health at a given time. Your balance sheet will show: assets, liabilities, and capital. Assets refer to what your firm owns; liabilities are what the firm owes; and capital (or equity) shows your accumulated assets invested.
Billable Employee Collectibles Report

Employees need to produce value between four and five times their total compensation package. For billable employees, this is revenue. This report compares monthly compensation to monthly collectibles indicating whether the 4x – 5x threshold has been met. Bonuses would be invoked over that threshold.

Master Law Firm Business Strategist, Wendy Witt, JD serves solo and small firm attorneys by helping them create million-dollar+ law firms and the life they love while getting 15 to 20 hours back in their lives each week. She practiced estate planning law for 15 years. Learn more at MillionDollarAttorney.com.