

Financial Reports for Managing Your Small Firm

by Arthur G. Greene

Do you underestimate the value of basic monthly financial reports? While bookkeepers will input the information necessary for essential matters: sending bills, recording receipts, managing payables and making payroll, other financial data is needed to manage the firm. Without more data, the managing partner is at a serious disadvantage.

There are several financial software programs designed for small law firms, in addition to QuickBooks. All of these programs provide similar opportunities to create reports that are essential to the management of a law firm. Many small firms underutilize the reporting functions of these programs by failing to understand the benefits or by failing to invest the time. The following basic reports should be reviewed by managing partners of small firms on a monthly basis. Assessment of the reports should be useful in decision making and strategic planning.

- Profit & Loss Statements

The Profit and Loss Statement should track both revenue and expenses. In some firms, it is useful to track revenue broken down by practice area. On the expense side, it is important to group expenses into logical categories and maintain the same categories from year to year. A report that shows the prior year for comparison purposes is recommended.

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If Walls Could Talk



If your walls could talk, what would they say about the financial state of your firm? Would you have the ability to produce useful financial reports at the press of a button? What if you wanted to look at current monthly billable hours of all firm timekeepers or the amount of outstanding receivables?

Managing partners of small law firms may think that having the ability to produce and review monthly financial reports only applies to large firms and that it is not a function that deserves their time, attention or concern. The availability of monthly financial reports, however, can serve many critical purposes for small firms. Managers can rely upon them to help with decision making. For example, as firms grow and contract in size, managing partners face inevitable hiring decisions. At-a-glance financial reports, such as those that can depict profits, those that serve as forecasters for profit and others that can compare numbers with years past can help with the decisions.

This is one example of how financial reporting can help a managing partner confidently make the best choices possible and maybe even relieve undue worry. Managing partners can feel the future of the firm is in their hands.

Kathy Fortin

- Productivity Reports

Productivity reports should reflect billable hours, billings, receipts and originations. These reports can be sorted by individual lawyer, responsible (billing) lawyer, and originating lawyer. If billable hours are down in a given month, that will forecast lower revenues over the next 30-60 days. Advance warning allows for corrective action. Without corrective action being taken, the decline is likely to continue.

- Aged Work-in-Process

Aged Work-in-Process should be reviewed monthly to make sure that all matters that can be billed are billed. Failure to bill timely often results in unnecessary write-downs or in some cases write-offs. Many firms lose 20-30% of their potential revenues by delays in billing.

- Aged Receivables

Aged Receivables that show outstanding invoices

deserve monthly attention. Immediate action on an overdue invoice is key, as the likelihood of payment is low once the account reaches 90 days.

- Realization Reports

Realization Reports are the least used reports, but the most important reports in small firms. A Realization Report identifies the profitability of work performed, and can be sorted by individual lawyer or by practice area. The report will show what percentage of the time invested on billable matters are recovered as cash in the door. Realization rates in small firms vary dramatically, anywhere from around 50% up to 95% or more. The realization rate is the key difference between financially strong firms and those that are struggling.

Final Thoughts



While small firms may not focus on productivity goals, it is still important to have a financial model in place. Productivity goals can be set at a modest level to allow for balance between work and lifestyle. However, the lack of goals or aspirations and the failure to track results on a monthly basis usually results in declining firm performance.

Activities

- Come visit us at the Maine and New Hampshire Winter Bar Association Meetings.
- The 2nd Edition of Arthur Greene's "Increasing Revenue: Unlocking the Profit Potential of Your Firm," first published in 2005, has been released by the American Bar Association.
- Arthur co-authored, with CPA Bill Howell, a two-part article about Succession Planning. Both parts have appeared in the NH Bar News. The articles have been accepted for publication by several other State Bar Associations.
- Arthur is a principal in Boyer Greene, LLC, located in Ann Arbor Michigan, serving the consulting needs of law firms outside of New England.
- Arthur's book, "A Practical Guide: Retirement Planning for Lawyers and Succession Planning for Law Firms," will be released this spring.

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