

FINANCE IS FUN !

*The Basics of Law Firm Financial
Statements and Management
Reporting*

by

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Program Outline

Financial Statements

- Cash v. Accrual
- Balance Sheet
- P & L
- Cash Flow
- Net v. Distributable Income
- Capital Accounts

Management Reporting

- R.U.L.E.S.
- Trend Analysis

Cash Basis v. Accrual Basis

Cash Basis

- Revenue/Expense recognized when received or paid

Accrual Basis

- Match revenue with expenses
- Revenue: billable fees generated
- Expense: despite when paid

Balance Sheets

Cash v. Accrual

CASH Balance Sheet

- Assets:
 - Cash, client advances, fixed assets
- Liabilities:
 - Loans, employee w/h

ACCRUAL Balance Sheet

- Assets:
 - Cash, client advances, fixed assets
 - (un)/billed time aka. WIP and A/R
- Liabilities:
 - Loans, employee w/h
 - AP, accruals

P & L

Cash v. Accrual

Cash:

- Income: cash in door
- Expense: cash out door

Accrual:

- Income: recognize when generated- WIP
- Expense: recognize when used to generate revenue (despite when paid)
- “Match revenue with expenses”

Net Income v. Distributable

- How much should be distributed?
- Taxable v. cash distributions
- Look at cash flow and operating agreement

Cash Flow Statement

- Purpose: Information about \$ in and \$ out in 3 areas:
 - Operations
 - Investing (capital assets)
 - Financing (partner contributions/distributions and loan activity)

Example:

P & L

Rev: \$10,000
Exp: (7,000)

Net \$ 3,000

Cashflow

Net income from operations	\$3,000
Adjustments: depreciation	<u>\$1,000</u>
Cashflow from operations	\$4,000
Purchase of Fixed Assets	(1,000)
Repayment of Bank Debt	(1,000)
Distributions to Partners	<u>(2,000)</u>
Net Change in Cash	<u>-0-</u>

Capital Accounts

- Contributions
- Distributions
- Allocation of income/loss
- Some firms:
 - Change in ownership %

Part 2: Management Reporting

- R.U.L.E.S.
- Trends

R.U.L.E.S.

- **R ealization** (client, atty., group, office location)
 - Effective billed
 - Effective collected
- **U tilization**
- **L everage**
- **E xpense Control**
- **S peed of billing and collections**

Trends

- Partner income - *N.I.P.P.*
- Revenue Trends
 - Client level
 - Firm
 - Area of law
- Expense Trends
- Leverage Trends
- Profit Trends
- Per Lawyer (fee earner)