



LAW FIRM FINANCIAL REPORTING

HOW MANY REPORTS DO YOU NEED?

Today's time/billing/accounting ("TBA") programs offer so many reports, users may find it overwhelming.

The best way to ensure accurate financial reporting is to use a law practice management system ("LPMS") that provides integrated accounting. What that means is that everything related to your firm's back office resides in one program. Often, when you look at the Reports menu, you could see literally hundreds of different report combinations. Reports can be sorted and totaled in many different ways, and those kinds of things can drastically change the results of the report. Programs typically sort reports into several categories.

TYPES OF REPORTS

PRODUCTIVITY

Productivity reports assess things such as hours worked, hours billed, realization, collections, matters opened, and many other statistics that help gauge a timekeeper's effectiveness.

Each software product will have different report names and slightly different options, but included below are some screenshots of different productivity and time summary report examples from TBA products PCLaw and Tabs3. Although the sample screenshots below originate from older programs, any strong accounting package, integrated into an LPMS or not, including more recent web-based options, provide variations on most of these reports.

Nov 2/2004	Alumni Law Firm - Cash Billing by Lawyer ALL DATES					
Categories/Fee Credit Lawyer	Billed	Hours(Hr)	Rate/Hr	Rcvd	Rcvd(%)	
corp - General Corporate						
AB - Al Borczak	9199.28	28.40	323.92	8950.88	97.30	
AC - Adam Cobb	3372.37	10.00	337.24	3104.79	92.07	
RS - Robert Skinner	588.35	3.00	196.12	466.83	79.35	
Total:	13160.00	41.40	317.87	12522.50	95.16	
est - Wills/Estates/Trusts						
RS - Robert Skinner	1450.00	8.25	175.76	750.00	51.72	
Total:	1450.00	8.25	175.76	750.00	51.72	
lit - Litigation						
AB - Al Borczak	2310.00	6.60	350.00	1703.63	73.75	
AC - Adam Cobb	2137.50	5.70	375.00	550.32	25.75	
RS - Robert Skinner	2550.00	9.00	283.33	681.05	26.71	
Total:	6997.50	21.30	328.52	2935.00	41.94	
mat - Matrimonial/Family						
AB - Al Borczak	11050.00	0.00	0.00	550.00	4.98	
AC - Adam Cobb	13500.00	0.00	0.00	0.00	0.00	
RS - Robert Skinner	6437.50	2.50	2575.00	0.00	0.00	
Total:	30987.50	2.50	12395.00	550.00	1.77	
re - Real Estate						
AB - Al Borczak	750.00	4.00	187.50	750.00	100.00	
AC - Adam Cobb	0.00	2.00	0.00	0.00	100.00	
Total:	750.00	6.00	125.00	750.00	100.00	
*** Firm Summary - All Categories ***						
corp - General Corporate	13160.00	41.40	317.87	12522.50	95.16	
est - Wills/Estates/Trusts	1450.00	8.25	175.76	750.00	51.72	
lit - Litigation	6997.50	21.30	328.52	2935.00	41.94	
mat - Matrimonial/Family	30987.50	2.50	12395.00	550.00	1.77	
re - Real Estate	750.00	6.00	125.00	750.00	100.00	
Total:	53345.00	79.45	671.43	17507.50	32.82	
*** Lawyer Summary - All Categories ***						
AB - Al Borczak	23309.28	39.00	597.67	11954.51	51.29	
AC - Adam Cobb	19009.87	17.70	1074.00	3655.11	19.23	
RS - Robert Skinner	11025.85	22.75	484.65	1897.88	17.21	
Firm Total-All Categories	53345.00	79.45	671.43	17507.50	32.82	

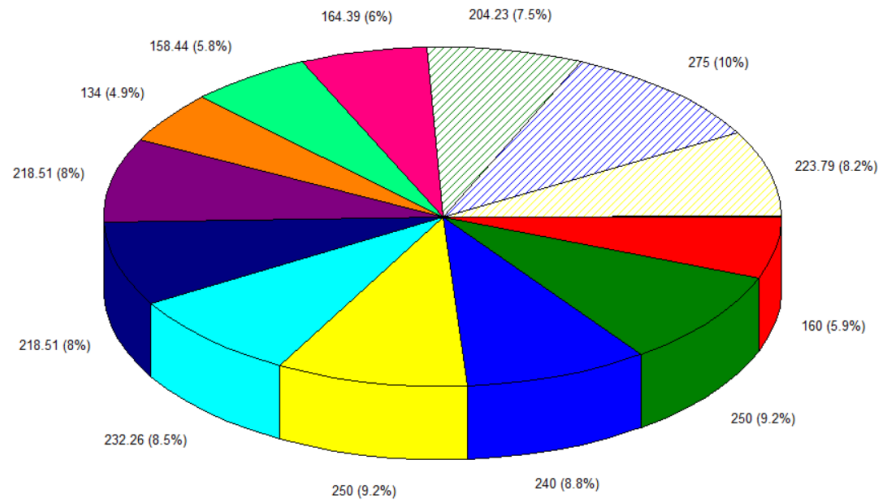
Date: 11/28/2016

Tab3 Timekeeper Productivity Report
Jensen, Martin & Anderson, P.C.

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	Aug 2016	Sep 2016	Oct 2016	Nov 2016	Total	YTD Total
1 Michael L. Jensen						
Billed						
Hours Worked	18.25	41.25	50.83	58.70	169.03	361.78
	19.9%	19.8%	35.7%	44.5%	29.4%	22.7%
Billed Hours	18.25	41.25	50.83	58.70	169.03	361.78
	19.9%	19.8%	35.7%	44.5%	29.4%	22.7%
Write-Up Hours	0.00	0.00	0.00	0.00	0.00	0.00
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-Down Hours	0.00	0.00	0.00	0.00	0.00	0.00
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Worked Value	8,745.00	17,670.00	18,694.10	19,125.00	64,234.10	160,609.10
	25.3%	22.5%	35.7%	46.8%	31.2%	26.4%
Billed Amount	8,745.00	17,632.50	18,156.60	19,125.00	63,659.10	160,034.10
	25.3%	22.5%	35.1%	46.8%	31.0%	26.4%
Total Write-Up	0.00	0.00	0.00	0.00	0.00	0.00
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Write-Down	0.00	37.50	537.50	0.00	575.00	575.00
	0.0%	0.0%	3.0%	0.0%	1.0%	0.0%
Worked Rate	479.18	427.45	357.20	325.81	376.61	442.35
Billed Rate	479.18	427.45	357.20	325.81	376.61	442.35
Effective Rate	479.18	427.45	357.20	325.81	376.61	442.35
Worked						
Billable Hours Worked	19.25	42.75	58.33	61.05	181.38	376.63
	93.7%	97.5%	99.7%	100.0%	98.6%	99.1%
Hours to Bill	19.25	42.75	58.33	61.05	181.38	375.13
	93.7%	97.5%	99.7%	100.0%	98.6%	98.7%
Worked Value	8,995.00	18,045.00	20,569.10	19,712.50	67,321.60	164,359.10
	97.6%	98.5%	99.6%	100.0%	99.1%	99.5%
Total Hours	20.55	43.85	58.53	61.05	183.98	380.23
	11.9%	25.3%	33.8%	35.2%	26.5%	19.9%
Total Amount	9,220.00	18,320.00	20,646.60	19,712.50	67,899.10	165,186.60
	26.3%	23.1%	36.8%	43.5%	31.5%	26.7%

Tabs3 Category Productivity Report - Effective Rate



Nov 2/2004		Alumni Law Firm - Cash				
		Time Summary				
		ALL DATES				
Categories/Fee Credit Lawyer		Value	%(Value)	Hours(Hr)	%(Hrs)	Rate/Hr
*** Billable ***						
BW - Billable Work						
Al Borczak		12995.00	54.97	39.70	47.75	327.33
Adam Cobb		6187.50	26.18	19.70	23.69	314.09
Robert Skinner		4456.25	18.85	23.75	28.56	187.63
Total:		23638.75	100.00	83.15	100.00	284.29
*** Write Up/Downs ***						
WD - Write Down						
Al Borczak		-635.72	59.14	0.00	100.00	0.00
Adam Cobb		-327.63	30.48	0.00	100.00	0.00
Robert Skinner		-111.65	10.39	0.00	100.00	0.00
WU - Write Up						
Al Borczak		10500.00	34.85	0.00	100.00	0.00
Adam Cobb		13450.00	44.64	0.00	100.00	0.00
Robert Skinner		6181.25	20.51	0.00	100.00	0.00
Total:		29056.25	100.00	0.00	100.00	0.00
*** Non-Billable ***						
NBW - Non-Billable Work						
Al Borczak		0.00	100.00	9.00	90.00	0.00
Adam Cobb		0.00	100.00	1.00	10.00	0.00
nc - **No Charge**						
Al Borczak		0.00	100.00	0.30	100.00	0.00
Total:		0.00	100.00	10.30	100.00	0.00
*** Time Summary - Summary by Task ***						
*** Billable ***						
Billable Work		23638.75	44.86	83.15	88.98	284.29
Total Billable		23638.75	44.86	83.15	88.98	284.29
*** Write Up/Downs ***						
Write Down		-1075.00	-2.04	0.00	0.00	0.00
Write Up		30131.25	57.18	0.00	0.00	0.00
Total WriteUps/Downs		29056.25	55.14	0.00	0.00	0.00
*** Non-Billable ***						
Non-Billable Work		0.00	0.00	10.00	10.70	0.00
No Charge		0.00	0.00	0.30	0.32	0.00
Total:		0.00	0.00	10.30	11.02	0.00
*** Summary by Working Lawyer ***						
AB - Al Borczak		22859.28	43.38	49.00	52.43	466.52
AC - Adam Cobb		19309.87	36.64	20.70	22.15	932.84
RS - Robert Skinner		10525.85	19.98	23.75	25.41	443.19
Firm Total:		52695.00	100.00	93.45	100.00	563.88

Tab3 Recap of Hours Report
Jensen, Martin & Anderson, P.C.
From November 01, 2016 Thru November 28, 2016

001 Michael L. Jensen

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total
Billable			Nov 1, 2016	2	3	4	5	
Non-billable								
Total								
Billable	6	7	8	9	10	11	12	
Non-billable								
Total								
Billable	13	14	15	16	17	18	19	
Non-billable		8.20	7.50		3.50	4.25		23.45
Total		8.20	7.50	8.00	3.40	4.25		11.40
				8.00	6.90			34.85
Billable	20	21	22	23	24	25	26	
Non-billable		7.85	12.10	8.90	6.40	8.30		43.55
Total		7.85	12.10	8.90	6.40	8.30		43.55
Billable	27	28						
Non-billable		2.25						2.25
Total		2.25						2.25
GRAND TOTALS:								
						Billable		69.25
						Non-billable		11.40
						Total		80.65

COLLECTION SUMMARY

The collection summary demonstrates a great combination report. This report displays the number of hours billed (a measure of productivity), the dollar amount of fees billed (a billing measure), amount collected (a collections measure), how collections were allocated, and A/R balances. You could run this report to analyze firm activity month by month, attorney by attorney, at a high-level with relevant detail.

Nov 2/2004		Alumni Law Firm - Cash Collection Summary ALL DATES									
Month	Hrs	Net Billed Fees	Disb+Tax	Total	Cash In Retainers	Receipts	Total	Payment Used Fees	Disb+Tax	Total	A/R Balance
AB - Al Borczak											
Dec 99	0.00	550.00	50.00	600.00	0.00	0.00	0.00	0.00	0.00	0.00	600.00
Jan 00	5.90	2065.00	20.00	2085.00	0.00	2252.27	2252.27	2202.27	50.00	2252.27	432.73
Feb 00	1.50	525.00	0.00	525.00	0.00	0.00	0.00	0.00	0.00	0.00	957.73
Nov 03	14.60	4007.61	185.43	4193.04	0.00	0.00	0.00	0.00	0.00	0.00	5150.77
Apr 04	9.70	3270.00	181.00	3451.00	0.00	6817.61	6817.61	6616.61	201.00	6817.61	1784.16
Jul 04	4.30	1400.00	90.50	1490.50	1500.00	1882.16	3382.16	1635.66	246.50	1882.16	1392.50
Aug 04	3.00	991.67	90.50	1082.17	0.00	799.97	799.97	1499.97	90.50	1590.47	884.20
Nov 04	0.00	10500.00	10.00	10510.00	0.00	0.00	0.00	0.00	0.00	0.00	11394.20
Tot:	39.00	23309.28	627.43	23936.71	1500.00	11752.01	13252.01	11954.51	588.00	12542.51	11394.20
AC - Adam Cobb											
Jan 00	0.30	112.50	0.00	112.50	0.00	82.73	82.73	82.73	0.00	82.73	29.77
Feb 00	2.50	887.50	55.00	942.50	0.00	380.00	380.00	325.00	55.00	380.00	592.27
Nov 03	8.90	2322.37	20.17	2342.54	0.00	0.00	0.00	0.00	0.00	0.00	2934.81
Apr 04	0.00	0.00	0.00	0.00	0.00	859.87	859.87	859.87	0.00	859.87	2074.94
Jul 04	5.00	1875.00	0.00	1875.00	0.00	1867.84	1867.84	1867.84	0.00	1867.84	2082.10
Aug 04	1.00	312.50	0.00	312.50	0.00	519.67	519.67	519.67	0.00	519.67	1874.93
Nov 04	0.00	13500.00	0.00	13500.00	0.00	0.00	0.00	0.00	0.00	0.00	15374.93
Tot:	17.70	19009.87	75.17	19085.04	0.00	3710.11	3710.11	3655.11	55.00	3710.11	15374.93
RS - Robert Skinner											
Dec 99	0.00	800.00	0.00	800.00	0.00	0.00	0.00	0.00	0.00	0.00	800.00
Jan 00	4.25	750.00	0.00	750.00	0.00	400.00	400.00	400.00	0.00	400.00	1150.00
Feb 00	5.00	1050.00	111.60	1161.60	0.00	525.00	525.00	525.00	0.00	525.00	1786.60
Nov 03	12.50	2280.02	61.48	2341.50	0.00	0.00	0.00	0.00	0.00	0.00	4128.10
Apr 04	0.00	0.00	0.00	0.00	0.00	267.52	267.52	267.52	0.00	267.52	3860.58
Aug 04	1.00	145.83	0.00	145.83	0.00	805.36	805.36	705.36	100.00	805.36	3201.05
Nov 04	0.00	6000.00	0.00	6000.00	0.00	0.00	0.00	0.00	0.00	0.00	9201.05
Tot:	22.75	11025.85	173.08	11198.93	0.00	1997.88	1997.88	1897.88	100.00	1997.88	9201.05
*** Summary by Collecting Lawyer ***											
Lawyer											
AB	39.00	23309.28	627.43	23936.71	1500.00	11752.01	13252.01	11954.51	588.00	12542.51	11394.20
AC	17.70	19009.87	75.17	19085.04	0.00	3710.11	3710.11	3655.11	55.00	3710.11	15374.93
RS	22.75	11025.85	173.08	11198.93	0.00	1997.88	1997.88	1897.88	100.00	1997.88	9201.05
*** Firm Summary ***											
Tot:	79.45	53345.00	875.68	54220.68	1500.00	17460.00	18960.00	17507.50	743.00	18250.50	35970.18

August 2016 Thru November 2016

		Billed Hours	Original Hours	Billed Amount	Original Value	Write Offs	Fee Receipts	Billed Rate	Effective Rate
August									
001	Michael L. Jensen	18.25	18.25	8,745.00	8,745.00	0.00	0.00	479.18	479.18
002	Paula Ann Martin	28.75	28.75	12,937.50	12,937.50	0.00	250.00	450.00	450.00
003	Ronald P. Anderson	7.50	7.50	2,947.50	2,947.50	0.00	0.00	393.00	393.00
004	Robert O. Burns	3.00	3.00	2,250.00	2,250.00	0.00	0.00	750.00	750.00
005	Kendra I. Michaels	4.00	4.00	1,400.00	1,400.00	0.00	0.00	350.00	350.00
006	Daniel H. Brady	0.00	0.00	0.00	0.00	0.00	17.00	0.00	0.00
007	Cheryl Bradley	14.75	14.75	2,655.00	2,655.00	0.00	0.00	180.00	180.00
008	Jennifer A. Noonan	6.25	6.25	1,562.50	1,562.50	0.00	0.00	250.00	250.00
010	Jimmy P. Praum	9.25	9.25	2,035.00	2,035.00	0.00	0.00	220.00	220.00
	Subtotal	91.75	91.75	34,532.50	34,532.50	0.00	267.00	376.38	376.38
September									
001	Michael L. Jensen	41.25	41.25	17,632.50	17,670.00	0.00	24,883.04	427.45	427.45
002	Paula Ann Martin	40.75	40.75	17,736.25	17,736.25	0.00	27,067.12	435.25	435.25
003	Ronald P. Anderson	20.00	20.00	7,310.00	7,310.00	0.00	5,411.98	365.50	365.50
004	Robert O. Burns	20.75	20.75	15,562.50	15,562.50	0.00	24,244.92	750.00	750.00
005	Kendra I. Michaels	7.25	7.25	2,537.50	2,537.50	0.00	1,041.33	350.00	350.00
006	Daniel H. Brady	10.05	10.05	1,666.00	1,666.00	0.00	2,017.57	165.77	165.77
007	Cheryl Bradley	22.25	22.25	4,005.00	4,005.00	0.00	6,760.81	180.00	180.00
008	Jennifer A. Noonan	17.30	17.30	4,205.00	4,205.00	0.00	9,332.75	243.06	243.06
009	Jason I. Masterson	11.25	11.25	3,937.50	3,937.50	0.00	5,206.64	350.00	350.00
010	Jimmy P. Praum	17.25	17.25	3,795.00	3,795.00	0.00	5,898.21	220.00	220.00
	Subtotal	208.10	208.10	78,387.25	78,424.75	0.00	111,864.37	376.68	376.68

BILLING

An invoice journal shows total fees billed and costs billed. The report summarizes totals by timekeeper, responsible attorney, and more.

Nov 2/2004			Alumni Law Firm - Cash Invoice Journal To Nov 2/2004							
Date	Entry #	Inv #	Client No	Name	Description	Fees	Disbs	VAT	Write-offs	Total
			Matter No	Cl	Int	Mat	Int	Resp	Law	Type
Apr 9/2004	209	29	1	ABC Company	AB	AB		AB	corp	
			00100	General Matters	AB	AB		AB	corp	
Apr 22/2004	218	30	1	ABC Company	AB	AB		AB	corp	
			00100	General Matters	AB	AB		AB	corp	
Apr 22/2004	223	31	7	DEF Company	AC	AC		AC	corp	
			99238	Incorporation	AC	AC		AC	corp	
Apr 22/2004	226	32	2	Doe, John	AC	AC		AC	re	
			00101	Purchase - 35 Main St	AC	AC		AC	re	
Apr 28/2004	239	34	1	ABC Company	AB	AB		AB	corp	
			00100	General Matters	AB	AB		AB	corp	
Jul 1/2004	258	35	1	ABC Company	AB	AB		AB	corp	
			00100	General Matters	AB	AB		AB	corp	
Aug 12/2004	292	37	7	DEF Company	AC	AC		AC	corp	
			99238	Incorporation	AC	AC		AC	corp	
Aug 25/2004	317	38	1	ABC Company	AB	AB		AB	corp	
			00100	General Matters	AB	AB		AB	corp	
Nov 2/2004	329	39	5	Goodenough, John	AB	AB		AB	mat	
			99236	Separation Agreement	AB	AB		AB	mat	
Firm Total:						53345.00	875.68	0.00	0.00	54220.68
*** Invoice Journal - Summary by Fee Credit Lawyer ***										
						Fees	Disbs	VAT	Write-offs	Total
				AB	- Al Borczak	43.70	23309.28	627.43	0.00	23936.71
				AC	- Adam Cobb	35.64	19009.87	75.17	0.00	19085.04
				RS	- Robert Skinner	20.67	11025.85	173.08	0.00	11198.93
				Total:		53345.00	875.68	0.00	0.00	54220.68
*** Invoice Journal - Summary by Responsible Lawyer ***										
						Fees	Disbs	VAT	Write-offs	Total
				AB	- Al Borczak	80.33	42852.50	627.43	0.00	43479.93
				AC	- Adam Cobb	5.19	2770.00	75.17	0.00	2845.17
				RS	- Robert Skinner	14.48	7722.50	173.08	0.00	7895.58
				Total:		53345.00	875.68	0.00	0.00	54220.68
*** Invoice Journal - Summary by Client Introducing Lawyer ***										
						Fees	Disbs	VAT	Write-offs	Total
				AB	- Al Borczak	79.63	42477.50	619.25	0.00	43096.75
				AC	- Adam Cobb	6.55	3495.00	87.35	0.00	3582.35
				RS	- Robert Skinner	13.82	7372.50	169.08	0.00	7541.58
				Total:		53345.00	875.68	0.00	0.00	54220.68

10/01/2016 to 10/31/2016				
	Billed Hours	Billed Amount	Write Offs	Current Amount Due
GRAND TOTALS				
1 Michael L. Jensen	50.83	18,156.60	0.00	18,216.78
2 Paula Ann Martin	37.30	13,692.50	0.00	7,266.98
3 Ronald P. Anderson	8.25	1,296.25	0.00	568.02
4 Robert O. Burns	18.20	13,650.00	0.00	4,765.74
5 Kendra I. Michaels	0.80	125.00	0.00	0.00
6 Daniel H. Brady	3.00	540.00	0.00	1,021.23
7 Cheryl Bradley	14.25	2,392.50	0.00	2,189.98
8 Jennifer A. Noonan	9.05	1,812.50	0.00	813.23
9 Jason I. Masterson	0.90	135.00	0.00	135.00
Total Fees	142.58	51,800.35	0.00	34,976.96
0 Miscellaneous		142.04	0.00	128.04
1 Phone		108.50	0.00	81.00
2 Photocopies/Faxes		90.00	0.00	52.65
Total Expenses		340.54	0.00	261.69
0 Miscellaneous		169.00	0.00	190.00
1 Filing Fees		225.00	0.00	75.00
2 Processor Fees		157.50	0.00	0.00
Total Advances		551.50	0.00	265.00
Finance Charge		22.26	0.00	0.00
Totals	142.58	52,714.65	0.00	35,503.65

Many law firms pay their attorneys based upon fees collected. The collections report shows all payments received and how the payments received relate to the person who did the work.

Done

7

Remember that a law firm is a business. You benefit from reviewing a summary of your financial situation at least weekly. In a nutshell, you need to ensure that your cash on hand (or coming in) exceed what's going out. Not all software products display this information in one Cash Flow report for you, but below is a sample to illustrate the

report's value. If your product does not directly produce this report, it should provide the numbers necessary to assemble this quickly, even if it requires a bit of manual effort.

	A	B	
1	<u>Weekly Financial Status Report</u>		
2			
3	Cash on Hand	\$22,433.77	
4	Accounts Receivable Total		
5	Current	\$41,225.77	
6	30-60 Days	\$23,443.11	
7	60-90 Days	\$10,763.34	
8	Over 90 Days	\$8,349.08	
9			
10	Payables due by next Friday	\$11,988.45	
11	Payables due within 30 days	\$24,990.45	
12			
13	Work In Progress (from last months billing cutoff)	\$125,987.43	
14			
15	Bills sent month to date	\$52,222.67	
16			
17	Cash in month to date	\$48,311.98	
18	Cash In - Fees	\$41,876.09	
19	Cash In - Costs	\$6,435.89	
20			
21	Next Payroll Date	December 14, 2004	
22	Approximate Amount	\$21,654.99	
23			
24	Balance on Line of Credit	\$0.00	
25			

Let's breakdown each of the line items above.

CASH ON HAND

Cash on hand displays the balance in your cash accounts, excluding your trust or IOLTA accounts.

ACCOUNTS RECEIVABLE

This report tells you what money your firm is due from clients during the next 30 days, and makes you aware of overdue receivable balances by three additional time periods.

PAYABLES

Your payables total plus your next payroll (see below) comprise the forecasted amount of cash you will need available in the short term.

WORK IN PROGRESS

Work-in-Progress (WIP) includes all time and fees that have not billed to clients yet.

BILLING MONTH-TO-DATE

This item shows what bills have gone out from the first of the month to the report date. Some accounting modules further break down this number into fees and costs.

PAYROLL

Gives you the next payroll date plus the estimated amount required for cash planning.

BALANCE ON LOC (LINE OF CREDIT)

Here you can track any short-term liabilities. Assuming the firm has a line of credit, this line item is the amount owed to the bank.

The above screenshot merely serves as an example. You could include nearly anything you want on this report. This is a good option if you need not see full details each week. For example, you can get this on Fridays and then once or twice a month, get the in-depth reports that give you the details. Of course, if a number looks irregular, you can also produce detailed reports behind the numbers.

YOUR FINANCIAL STATEMENTS

Your firm should focus on two core reports: the balance sheet and the income statement (aka Profit & Loss). A balance sheet shows what you own (assets), what you owe (liabilities), and any equity value in your law firm. The income statement shows total income minus total expenses, giving you a net income (or net loss).

Balance sheet totals carry forward from year to year, while the income statement starts over each year. These two reports are closely related. The balance sheet line item called “Net Income” or “Retained Earnings” represents revenue less expenses. Any change made to the income statement affects the balance sheet.

A trial balance is a consolidated financial statement that basically combines the balance sheet and the income statement into one report, showing everything together.

Each transaction made in your accounting system results in two or more equalizing entries, referred to as debits and credits. This system is called “double entry” accounting.

The debits and credits for any transaction must equal one another. For example, if you write a check to pay rent, the resulting transaction is a credit to cash (which is an asset (*i.e.*, something you own) and therefore reported on your balance sheet) and a debit to the expense account called rent (which is an expense (*i.e.*, something you owe) and therefore reported on your income statement).

If you review a balance sheet before that transaction, and then after, you will see the cash balance and net income change. On the income statement, the total rent paid and net income change.

Balance sheets, along with income statements, are the most basic elements in providing financial reporting to potential lenders such as banks, investors, and vendors who are considering how much credit to grant the firm.

Let’s explore each in greater detail:

BALANCE SHEET

A balance sheet is a snapshot of your law firm’s financial condition at a specific moment in time. Firms typically run this report at the end of an accounting period, such as a month, quarter, or year. A balance sheet comprises assets, liabilities, and owners’ or stockholders’ equity. Assets and liabilities are divided into short- and long-term obligations, including cash accounts such as checking, money market, or government securities. At all times, assets

must equal liabilities plus owners' equity. An asset is anything of monetary value that the business owns. Liabilities are the claims of creditors against the assets of the business.

ASSETS

Assets are subdivided into current and long-term assets to reflect the ease of liquidating each asset. Cash, for obvious reasons, is the most liquid of all assets. Long-term assets, such as real estate or machinery, are less likely to sell overnight or have the capability of being quickly converted into a current asset like cash.

CURRENT ASSETS

Current assets are any assets that can be easily converted into cash within one calendar year. Examples of current assets would be checking or money market accounts, accounts receivable, and notes receivable that are due within one year's time.

Although accounts receivable is a common thing to see on balance sheets, most law firms do not include it on their balance sheets because they are run on a cash basis (as opposed to accrual-based accounting). When you run your business on a cash basis, you do not count income until you receive the cash, so billing has no effect on accounting.

- **Cash** – Money available immediately, such as in checking accounts, is the most liquid of all short-term assets.
- **Notes Receivables** – Notes receivables that are due within one year are current assets. Notes that cannot be collected on within one year should be considered long-term assets.

FIXED ASSETS

Fixed assets include land, buildings, machinery, and vehicles used in connection with the business.

- **Land** – Land is considered a fixed asset but, unlike other fixed assets, is not depreciated, because land is considered an asset that never wears out.
- **Buildings** – Buildings are categorized as fixed assets and are depreciated over time.
- **Office Equipment** – This includes items such as copiers, printers, servers, computers, etc. used in your business.
- **Vehicles** – This includes any vehicles used in your business.
- **Total Fixed Assets** – This figure is the total dollar value of all fixed assets in your business, less any accumulated depreciation.

TOTAL ASSETS

This figure represents the total dollar value of both the short-term and long-term assets of your business.

LIABILITIES AND OWNERS' EQUITY

This includes all debts and obligations owed by the business to outside creditors, vendors, or banks that are payable within one year, plus the owners' equity. Often, this side of the balance sheet is simply referred to as "Liabilities." As with accounts receivable above, because most law firms operate on a cash basis, accounts payable will not appear on a balance sheet. Similarly, expenses are not counted (or "recognized") as expenses until the bills are paid.

- **Notes Payable** – This item represents money owed on a short-term collection cycle of one year or less. Examples include bank notes, mortgage obligations, and vehicle payments.
- **Accrued Payroll and Withholding** – This item includes any earned wages or withholdings that are owed to or for employees but have not yet been paid.

- **Total Current Liabilities** – This is the sum total of all current liabilities owed to creditors that must be paid within a one-year time frame.
- **Long-Term Liabilities** – These are any debts or obligations owed by the business that are due more than one year out from the current date.
- **Owners' Equity** – Sometimes this entry is referred to as stockholders' equity. Owners' equity combines the initial investment in the business as well as retained earnings that are reinvested in the business.
- **Common Stock** – This is stock issued as part of the initial or later-stage investment in the business.
- **Retained Earnings** – These are earnings reinvested in the business after the deduction of any distributions to shareholders, such as dividend payments.

TOTAL LIABILITIES AND OWNERS' EQUITY

This comprises all debts and monies that are owed to outside creditors, vendors, or banks and the remaining monies that are owed to shareholders, including retained earnings reinvested in the business.

INCOME STATEMENT

An income statement, also known as a profit and loss statement, summarizes your firm's profit or loss during any one given period of time, such as a month, quarter, or year. The income statement records all revenues for a firm during this given period, as well as the operating expenses for the firm.

Use an income statement to track revenues and expenses to determine the operating performance of your firm over a period of time. Small business owners use these statements to find out which areas of their business are over budget or under budget. The income statement helps pinpoint specific items causing unexpected expenditures, such as phone, mail, or supply expenses. Income statements can also track increases in expense accounts or reductions in income accounts.

FEE REVENUE (ALSO KNOWN AS INCOME)

This figure represents the amount of revenue generated by the business. Oftentimes, law firms further break down this line item by attorney or practice area.

OTHER REVENUE

This item can include things like interest income, referral fees, and any other sources of income for your firm.

OPERATING EXPENSES

These are the daily expenses incurred in the operation of your business. Generally speaking, you should use the income statement as a management tool to help you make better business decisions. There are no right or wrong answers as to specific expense categories. Therefore, you should track the expense categories that will help you to make decisions to improve the firm. All accounting systems come with sample categories (called the chart of accounts) as a starting point that you can modify. Below are sample categories you will see in all expense sections of an income statement.

- **Salaries, Benefits, and Employee Related Expenses** – These are the salaries, bonuses, payroll taxes, benefits, etc. paid to or on behalf of your employees, including yourself. Often, you will want to break this down in subcategories, such as attorneys, paralegals, and support staff.
- **Advertising/Marketing** – These represent all costs involved in creating and maintaining your brand, whether it be in print, web or elsewhere. This may include sponsorships and other rainmaking activities as well.
- **Rent** – These are the fees incurred to rent or lease office or industrial space.

- **Utilities** – These include costs for heating, air conditioning, electricity, gas, phone service, internet, etc.
- **Depreciation** – Depreciation is an annual expense that considers the loss in value of equipment used in your business. Examples of depreciating equipment include copiers, computers, printers, and office furniture.
- **Office Expenses** – These types of expenses may include insurance, office supplies, and cleaning services.

TOTAL EXPENSES

This is a tabulation of all expenses incurred in running your business, exclusive of taxes or interest expense on interest income, if any.

NET INCOME

This is the amount of money the business has earned after deducting expenses from revenue

SUMMARY

Any decent TBA system provides a wealth of information available myriad reports. The key is understanding what you are looking at and what it means for the financial health of your firm. You don't need to be an accountant to understand the basics and be able to spot positive and negative trends, as this will allow you to know when you are doing well and when to take corrective action, before it is too late, to put you back on track.