



## **Law firm financial reporting:**

4 must-review items on your financial statement and how QuickBooks can help

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## Introduction

You likely didn't launch your law firm because you have a passion for financial reporting or generally accepted accounting principles (GAAP). Running a successful law practice takes dedication, focus and a great deal of your time. So at the end of a long day, the last thing firm partners want to do is pour over detailed financial statements and analysis. However, while your true passion is for the law, it's critical to also have a working understanding of your firm's financial health at all times. QuickBooks can help you achieve this.

The key to maintaining a current and complete view of your firm's financial position is to review monthly financial statements, which include the balance sheet, profit and loss (P&L) report and income and cash flow statements. Packed with business intelligence and key financial insights, these reports help you better assess business sustainability and risk by identifying potential issues ahead of time—such as cash shortfalls, delinquent accounts and unnecessary expenses.

Committing time to financial statement review each month is essential to best understand current assets and liabilities, cash inflow and outflows, profitability, and year-end outcomes and potential tax burdens. While this sounds like a lot, keeping up with financial statement review doesn't have to take up a great deal of your time.

This eBook was created to provide you with an informative guide on the top KPIs (key performance indicators) for law firms. We offer several tips throughout to help you maximize the power of QuickBooks to better manage your financials and grow a highly successful practice.



## **Key financial data points made simple**

Accounting and bookkeeping expert to law firms, Lynda Artesani, owner of Artesani Bookkeeping, deeply understands the importance of reviewing monthly financial statements and the requisite data points to focus on.

As a QuickBooks ProAdvisor, Artesani provides added insight into core system features that can save you valuable time. From creating custom fields to pulling unique, information-rich reports, you'll learn how to dig deeper into the numbers to support informed business decisions and fuel business growth.

## Item 1: Accounts receivable

According to Artesani, “This is the number one item that firm owners should review first.” Accounts receivable (AR) provides a clear picture of accounts that are overdue, which essentially equates to money left on the table. Be sure to scan your financial statement for delinquent accounts: anyone 30, 60 or 90 days past due for example.

“When we have a new client come to us, it’s fairly common to find several accounts that are 90 days past due. This is the first issue we attack to help bring accounts up to date for the client and put cash back into the business,” said Artesani.

The goal is to ensure that all clients are paying on time, but for those who slip past even the 30-day mark, it’s important to put a collection plan in place. Often, after calculating past due accounts, it can be astonishing just how much cash is missing from the bottom line.

Artesani provided excellent advice to correct the common issue of outstanding invoices:

“Use your technology to set up an automated process to remind clients about past-due bills. In QuickBooks, you can easily set up the reminder email feature within workflows. The system allows you to schedule a series of emails that launch automatically. If someone doesn’t read the first email and the invoice remains unpaid, at a scheduled date, the next message will go out.”

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### QuickBooks Tips:

Past due invoices can quickly add up and over time create a large backlog of unaccounted cash. By automating payment reminders and overdue invoice notifications, business owners are better positioned to collect payments on time and keep cash flowing into the business from month to month.

Within the QuickBooks Workflow module, you can use the “Payment due reminder” and “Overdue invoice memo” options to automate the payment collection process. This relieves business owners of having to create custom reminders and keep up with payment cycles manually.

Both options are built into QuickBooks—complete with template copy. You can use the language as-is or tweak the content to create unique messaging. You can also schedule reminders to launch based on a custom cadence.

“I recommend that clients set up the first reminder to go out when payment is not received by the due date. Then set up the overdue reminder to go out 15 days later. For the messaging, I recommend keeping the tone light and friendly,” explained Artesani.

Beyond automated reminder emails, Artesani also recommends that firm leaders take the time to thoroughly evaluate [existing internal AR workflow](#) and then implement improvements. “A lot of times firms have multiple people handling AR and they don’t have a smooth workflow. Partners need to ensure the process is efficient and that everyone is processing work in the same way so that nothing falls through the cracks.”

Automatically send a reminder when payments are not received by the due date.

The screenshot shows the 'Edit Workflow' configuration page for a 'Payment due reminder'. The interface is divided into three main sections: Name, Conditions, and Actions.

- Name:** A text field containing 'Payment due reminder'.
- Conditions:**
  - Condition #1:** Set to 'Customer' with a dropdown arrow, followed by 'Within' with a dropdown arrow, and a text field containing 'All customers' with a dropdown arrow.
  - Condition #2:** Set to 'Amount' with a dropdown arrow, followed by 'More than' with a dropdown arrow, and a text field containing '0'.
- Actions:**
  - Action #1:** Set to 'Send Email' with a dropdown arrow, followed by a text field containing '1', a label 'day(s)', and a dropdown arrow set to 'After due date'.
  - Send to:** A text field containing 'QBO:Customer Email'.
  - Add CC Add BCC:** Two empty text fields.
  - Subject:** A text field containing 'Invoice QBO:Doc Number is overdue'.
  - Message:** A text area containing the following text:  
Hello QBO:Customer Name ,  
We would like to let you know that you have an overdue invoice # QBO:Doc Number . The outstanding amount due is QBO:Balance . Please reach out to us if you have any questions.  
Warm regards,  
QBO:My Company Name

## Item 2: Payroll

Payroll is typically the single biggest expense in a firm. As such, it's critical to review this data point regularly to identify and analyze such items as overtime and new hire needs. If a firm is in a state of growth, this data proves invaluable for evaluating staffing needs. It also helps assess benefit requirements. For example, as a firm gets bigger, does it make sense to move into a PEO where HR, retirement plan and health benefits are offered as a lower-cost package?

"For a firm that's in a growth stage, we would look at payroll data carefully and evaluate the need to bring on new staff," said Artesani.

She continued: "For example, if there's a lot of overtime, does it make more sense to hire a part-time person instead of paying the overtime? Or does it make sense to move up to a group benefit plan where HR is included, taking the onus of HR compliance off the firm and lowering costs. Evaluating payroll is one of the best ways to better control expenses."

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### QuickBooks Tips:

Conducting an analysis on wage and overtime expenses is an important task to help ensure law firms are operating as cost effectively as possible. This can be accomplished by [reviewing the Profit & Loss statement](#) on a regular basis (monthly is recommended).

"Pulling out wage/overtime data by employee and evaluating this information is key to keeping payroll costs in line. Dedicated analysis of this data helps firm leaders make

informed decisions such as when it's time to hire a new employee [e.g., if overtime exceeds a set threshold]. If payroll data is set up in QuickBooks, you can add this information to the P&L for review purposes. If the firm is using a separate payroll company, they should review the data independently within that system," explained Artesani.

## Item 3: Marketing expenses

In Artesani's experience, marketing is typically one of the larger expenses that shows up on the financial statement. Like any business, growth is a key objective and marketing is part of the formula to help accelerate financial success—a necessary operating expense for most law firms. In Artesani's experience, "Firms tend to just throw large amounts of money at marketing and then assume it's working. That's not always the case, so they really need to look more closely at this expense and compare it against results."

Marketing is not a set-it-and-forget-it effort. Results must be measured to ensure proper ROI. Artesani helps her clients automate this process.

She explained: "Using QuickBooks, you can create a custom field on the invoice that will capture the lead source. This data flows back into QuickBooks so that when you onboard the client it shows how they heard of the firm, for example, from a marketing campaign or online ad. Now you have data that connects the lead source with the dollar amount of the client account so you can intelligently evaluate if marketing efforts are working."

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### QuickBooks Tips:

Artesani highly encourages her clients to capture lead source information. This type of data provides deeper insight into what marketing initiatives are producing the best results for the firm. For example: Do Google Ads lead to more client conversions than Facebook? Are more new clients coming from referral sources over email campaigns or print ads?

In QuickBooks, [you can add a custom field](#) to capture lead generation information across documents—including invoices, sales receipts, estimates and more. The system enables you to create a drop-down list of the firm's top lead sources—making it easy for admin staff to update client accounts with important marketing data.



This function enables the firm to accurately track where leads are coming from and then review the data on a regular basis. Firms can mark the custom field as “inactive” so it’s not visible on client-facing documents (i.e., sales receipts, invoices, estimates and others).

Once lead generation data is input, the firm can track ROI of individual marketing efforts. Using the Sales by Class Detail report, you can group data for ease of review. In the example below, data is grouped by Lead Gen. This enables firm decision makers to compare client account value to a given lead source—and ultimately evaluate what marketing efforts are the most successful.

*Name the custom field and then add lead generation channels to create a standardized drop-down list.*

*When an invoice is open, staff can add the lead generation source with a few clicks.*

**Sales by Class Detail Report**

Report period: All Dates

Accounting method: Cash  Accrual

Group by: Class

**Demo Law Firm File**

**Sales by Class Detail**  
All Dates

DATE	TRANSACTION TYPE	NUM	PRODUCT/SERVICE	MEMO/DESCRIPTION	QTY	SALES PRICE	AMOUNT	BALANCE
11/21/2019	Invoice	1089	Filing Fees	Review and reply to emails from ...	3.00	250.00	750.00	750.00
11/21/2019	Invoice	1089	Copies	Copies per page	50.00	1.00	50.00	800.00
01/31/2020	Invoice	1107	Naturalization	Administrative Fee (10%)		205.00	205.00	1,005.00
01/31/2020	Invoice	1107	Filing Fees	0010- 0006- Arrest: acff	6.10	500.00	50.00	1,055.00
01/31/2020	Invoice	1107	Filing Fees	2010- 0006- Arrest: services	4.00	500.00	2,000.00	3,055.00
03/19/2020	Invoice	1048	Legal Income/Immigration Serv...	visa renewal	17.00	900.00	15,300.00	18,355.00
04/30/2020	Invoice	1102	Naturalization	Court fee		125.00	125.00	18,480.00
04/30/2020	Invoice	1102	Filing Fees	0006- Divultery/Child/Case ...	0.10	0.00	0.00	18,480.00
04/30/2020	Invoice	1104	Naturalization	Administrative Fee (10%)		67.50	67.50	18,547.50
06/20/2020	Invoice	1104	Filing Fees	0006- Business Litigation: Case	1.00	175.00	175.00	18,722.50
06/20/2020	Invoice	1104	Filing Fees	0006- Business Litigation: Meet...	1.00	250.00	250.00	18,972.50
06/20/2020	Invoice	1104	Filing Fees	0006- Business Litigation: Meet...	1.00	250.00	250.00	19,222.50
06/20/2020	Invoice	1106	Naturalization	Fax records	5.00	5.00	5.00	19,227.50
07/30/2020	Invoice	1112	Naturalization	07/30/20- Administrative Fee (1...		125.00	125.00	19,352.50
07/30/2020	Invoice	1112	Naturalization	07/30/20- Postage		10.00	10.00	19,362.50
07/30/2020	Invoice	1112	Advanced Client Costs	07/30/20- CHECK 7111 08335 ...		-88.43	-88.43	19,430.95
07/30/2020	Invoice	1112	Filing Fees	07/30/20- LA- 0009- Estate Plan ...	5.00	250.00	1,250.00	20,680.95
09/30/2020	Invoice	1117	Advanced Client Costs	08/28/20- CHECK 7111 08335 ...		125.00	125.00	20,805.95
09/30/2020	Invoice	1117	Advanced Client Costs	09/12/19- CHECK 7117 08362 ...		67.00	67.00	20,872.95
10/07/2020	Invoice	1118	Legal Income/Office Consult		1.00	500.00	500.00	21,372.95
<b>Total for Alex Jones</b>							<b>\$21,372.95</b>	

*For the month of December, the client account value is \$500, which was brought in via a lower-cost lead source (email campaign).*

“What should be happening is that when a prospective client walks through the door, the question of how they found out about the firm should be asked, but most often that does not happen. This means the firm has to collect this information after the fact. By setting up the invoice with a drop down for lead source, an admin person can reach out to the client, ask them the question, and record it. This is a great feature for capturing data in a uniform way,” explained Artesani.

With more visibility into lead source data and corresponding marketing costs, law firms are in a much better position to make smart, informed decisions about where to allocate marketing dollars.

## Item 4: Realization rates

This data point ties back to accounts receivable, offering insight into money that is actually collected. Firms have long adhered to the billable-hour pricing method with the assumption that hours billed equal cash inflow. After reviewing the financial statement, often the reality is that realization rates are lower than expected based on overdue or delinquent invoices. This can be an eye opener for partners and a big motivator in transitioning to a value-pricing model.

Based on years of experience working with law firms, Artesani stated: "Typically, when we really dig into realization rates, often we find it's only about a third of what the firm billed that has actually been collected."

This data alone is a strong incentive to get out of what Artesani calls "time mode."

"The goal is to move firms away from billable hours and get them to adopt a subscription model. They can make so much more money this way."

She added: "If you look at the Clio 2020 Legal Trends Report under realization rate, stats show that, on average, attorneys only bill 2.5 hours of a typical 12.5-hour day."

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### QuickBooks Tips:

QuickBooks streamlined integration with LeanLaw (a leading time tracking solution within the legal profession) supports thorough tracking of realization rates.

Artesani stated: "I have many clients who think they are billing for all their time, but that is often just not the case. When they can see the actual numbers of billed versus unbilled, they are surprised."

LeanLaw's Timekeeper Productivity reporting feature allows a law firm to track billable versus non-billable hours—providing a clear visual on the true number of hours worked but not billed.

In the example below, attorney Mike Ross billed 197 hours, yet left 103 hours unbilled. The firm should have billed a total of 300 hours for this period. That is a huge discrepancy—resulting in a lot of money left on the table.

USER	BILLABLE HOURS TOTAL	NON-BILLABLE HOURS	TOTAL HOURS	BILLABLE HOURS VALUE	EXPENSES
Alex Jones	0.0	0.0	0.0	\$0.00	\$127.00
Alicia Florick	1.5	0.0	1.5	\$292.00	\$0.00
Aly McBeal Attorney	1.75	0.0	1.75	\$612.50	\$0.00
Dennis Flanagan	4.0	0.0	4.0	\$0.00	\$75.00
Donna Paulson	237.4	41.0	278.4	\$18,902.00	\$21.75
Fred Wilenski	211.4	50.0	261.4	\$43,510.00	\$0.00
Harvey Specter	118.8	83.3	202.1	\$35,640.00	\$201.00
Jessica Pearson	111.6	62.9	174.5	\$33,480.00	\$129.00
Jonathon Fishman	5.5	0.0	5.5	\$2,200.00	\$0.00
Louis Litt	122.2	88.1	211.3	\$24,440.00	\$0.00
Lynda Artesani	32.15	0.0	32.15	\$13,425.00	\$0.00
Marge Williams	0.1	0.0	0.1	\$0.00	\$10.00
Mike Ross	197.0	103.0	300.0	\$39,400.00	\$0.00
Rachel Zane	296.8	23.3	320.9	\$39,980.00	\$67.00
<b>Total</b>	<b>1300.0</b>	<b>452.6</b>	<b>1752.6</b>	<b>\$251,919.50</b>	<b>\$626.75</b>

Get a quick snapshot of billable versus non-billable hours by employee.

"I like to tell clients that we need to get real with the rates. A lot of attorneys think they are billing out 40 hours a week but when we actually look at the data, they are not. This is where I like to go back to LeanLaw and pull billed hours out of the Timekeeper Productivity report," said Artesani.

Confronted with real-time data, it pushes firms to give realization rates the attention required. For example, is Mike Ross performing work that could be delegated to admin staff in order to free his time to perform higher-billable work? Overall, it offers a full view into the productivity of the firm's professional staff.

LeanLaw is one of Intuit's [premium partner apps](#) for the legal profession. The ability to show realization rates based on individual attorneys' billable versus non-billable hours in combination with accounts receivable data (overdue invoices) offers a panoramic view of a firm's financial status. It also shines a light on operational weakness so that firm partners can put measures in place to boost cash inflow and attorney productivity.

## Final thoughts...

While not an exhaustive list, the tips offered in this eBook provide law firms with sound advice on key areas of financial statement review. Tips on using QuickBooks and LeanLaw more effectively offer additional insight on how to leverage valuable business intelligence to make informed, profit-driving decisions.

By reviewing key performance indicators regularly and maximizing the powerful features in both systems, partners and other decision makers can stay in the know about the firm's financial health, sustainability and potential areas of risk.

- ▶ **Learn more** about how QuickBooks can provide you with better data and insights to grow your law firm:

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