LANCASTER CPA FIRM

April 22, 2025

Attention: [Name]
[Firm]
Via email only at: [insert email]

RE: Week of April 7, 2025 – Update

This is an Example Report for a Monthly Review for a Firm that expects to do roughly $3m of annual revenue. This assumes that the attorneys do not want me digging into their collection/AR/WIP reports.

Cashflow Review

Part I: Total Inflows & Outflows			
	Jan-25	Feb-25	Mar-25
All Cash Inflows	210,280	150,200	185,607
All Cash Outflows	220,506	148,000	210,500
Positive/(Negative) Cash Flow	(10,226)	2,200	(24,893)
Add back: Partner Draws	60,000	40,000	40,000
Adjusted Cashflow	49,774	42,200	15,107

Part II: Income & Expense Summary - Cash Basis					
	Jan-25	Feb-25	Mar-25		Annualized
Income	215,000	210,604	90,506		2,064,440.00
Expense (includes Partner regular wages, not draws)	105,610	110,500	108,880		1,299,960.00
Net Income	109,390	100,104	(18,374)		764,480.00
Add Back: Partner Regular Wages	30,000	30,000	30,000		360,000.00
Adjusted Net Income	139,390	130,104	11,626		1,124,480.00

Part III: Advanced Billable Costs			
	Jan-25	Feb-25	Mar-25
Estimated Advanced Billable Costs Incurred Transaction Review	15,000	17,406	18,603
Advanced Billable Costs Recorded In Billing/Legal Software	14,603	8,402	17,500
Estimated Advanced Costs Incurred that were not billed to clients	397	9,004	1,103

Assumptions | Footnotes

1. The cashflow review and resource allocation is provided on a cash basis.
2. Partner Wages and draws are reflected and excluded to show true cashflow flexibility.
3. This example assumes that the firm is taxed as an S-corporation.
4. Purpose: You know cash-in and cash-out; summary P&L top-line information; and the potential leak (billable expenses not recorded as billable expenses).
5. When your compensation model is based on collections and some attorneys record billable expenses, but others do not, the attorney who does not record his billable expenses has an artificially higher collection number.
6. At this point, you probably want to take a look at the prior year collection numbers to see if revenue is roughly the same for prior years in the early months (which would be normal).

Resource Allocation

I. Resource Allocation - Overview

	Target Range				Your Firm
Category	Low	Midpoint	High		
Non-Wage Related Expenses	25%	30%	35%		25%
Wage Related Expenses: Non-partners	35%	40%	45%		52%
Total	60%	70%	80%		77%
Remaining to Partners	40%	30%	20%		23%

Assumptions | Footnotes

1. "Remaining to Partners" is the output, not the input. The main purpose of the overview is to say that before any partner compensation is paid, 77% of cashflow has been allocated to items other than equity members. Part II and Part III review the Non-Wage and Wage Related expenses.

II. Resource Allocation – Non-Wage Spending Breakdown by Category

Core Non-Wage Related Expenses as a Percentage of Total Revenue (Annualized)			
	Target	Actual	(Over Target) / Under Target
Marketing	8.0%	5.50%	2.50%
Core Legal Software (PM, Legal Research, Doc Drafting)	3.5%	4.20%	-0.70%
Mortgage / Lease	6.0%	3.32%	2.68%
Managed IT Services	3.0%	2.52%	0.48%
Telephone Internet	1.0%	1.43%	-0.43%
Insurance - Firm & Professional Liaiblity	1.0%	0.38%	0.62%
Bar Dues, Professional Development, Subscriptions	2.0%	1.28%	0.72%
Accounting Operations	4.5%	4.20%	0.30%
Miscellaneous	1.5%	1.89%	-0.39%
Total Target	31%	24.72%	5.78%

Assumptions | Footnotes

1. If you are materially over the target percentage on your Core Legal Software expenses, that does not mean reduce your software expense, but probably to make sure you are getting everything you can from your software.
2. If you are materially under budget on Marketing expenses, that does not mean blindly start throwing money at sponsorship opportunities, but know you have room (assuming ample cashflow).

III. Cashflow Review (continued) Wage Breakdown Excluding Partners

Non-Partner Wage Related Expenses			
	Target	Actual	(Over Target) / Under Target
Admin Support Wages & Benefits		3.5%	
Admin Support Payroll Tax		0.3%	
Admin Third Party Wages (1099 Contractor Admin Support)		2.0%	
Subtotal	10.0%	5.8%	4.2%
Paralegal Support Wages & Benefits		3.7%	
Paralegal Payroll Tax		0.4%	
Subtotal	5.0%	4.1%	0.9%
Subtotal Admin & Paralegal Wages	15.0%	10.0%	5.1%
Non-Partner Attorney Wages & Benefits		31.2%	
Non-Partner Attorney Payroll Tax		2.7%	
Contract Legal Work (1099 Contractor Attorney Support)		8.5%	
Subtotal	20.0%	42.4%	-22.4%
Total Non-Partner Attorney & Admin Cost	35.0%	52.4%	-17.4%
Total Firm Outflows Except for Partner Wages & Draws as % of Revenue	66%	77.1%	

Assumptions | Footnotes

1. All Partner compensation (draws and wages) has been excluded.
2. Attorney expenses being over target and support staff wages under target is not abnormal for younger attorneys/firms. Just keep in mind that efficient means the attorney is likely the person doing the work and at some point, that becomes a cost constraint (assuming you have more work that you can do).
3. The contract legal work probably is worth taking a look at. If this is consistent work, it may have reached a point where you can hire someone internally.

Summary of Example Report

The accuracy of this report is fully dependent on the accurate and consistent recording of the underlying transactions.

If the underlying work is not correct, consistent, or timely, then by the time you receive this report, it has minimal value to you. Your practice management software has all of your revenue facing metrics (WIP, AR, Past Due Invoices, Bill Adjustments, etc) and we can pull those as needed as well.

Examples of what happens when you do not have this report:

- You see “Contract Labor” as a single line item on your P&L at 10+% of revenue for the first quarter of 2025. Are you going to (i) dig through the invoices to find that you have enough regular legal work to hire a new attorney or (ii) assume 10%+ on “Contract Labor” (IT Support, third party admin support, contract legal work, and the person who helps with your social media) is normal?
- You see “Software & Technology” as a single line item on your P&L which includes everything from IT Support Services & your core legal software applications to your accounting software and payment processor subscription.
- You see attorneys who may be on collections models that use flat fee pricing and regularly do not record billable expenses. Not recording their billable expenses overstates the legal fee collection number, origination number, and ultimately their variable compensation. On top of that, the other attorneys pay twice because not only have you overcompensated someone, you still have to pay the expense at the firm level.

When accounting ends at: “Attached are your financial statements for the month of x”, you're 90% of the way finished, but it doesn't uncover the above issues/opportunities.

Ask yourself, was the last 10% more helpful or 10x more helpful?

If it was 10x more helpful, then reach out to me and I will help you continue to build a practice that you are proud of.

B. Knight Lancaster

Knight Lancaster, JD, CPA