



# Welcome to Practice Planning and Management

## 2011 Fall Forum

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Huizenga & Co, CPA, PC

# Randy Huizenga

## **A little about your presenter**

- CPA with more than 37 years of experience in public accounting and private industry
- Works with attorneys with their firm and individual tax and accounting needs
- Helps business owners and their companies manage their financial matters, cash flow and taxes
- Also works with attorneys in litigation support and forensic accounting
- Works extensively with accounting software used in most service businesses

Let me know  
something about  
yourselves

- Solo, small or large firm?
- Financial administrator in place?
- Are regular firm financial statements distributed to all partners?
- Involved in the billing and collection process of the firm?
- Do you regularly see Key Performance Indicators (KPIs)?
- Do you understand them?

Give me some  
specifics you want  
to get out of this  
session.....

- 1
- 2
- 3
- 4
- 5

## Entity types

- PLLC
- PLLP
- Sole proprietorship

### Advantages

- One level of tax
- Flexible
- Limited liability in all but unshielded proprietorship

## Entity Types

## Disadvantages

- S corp
  - Less flexible
- Sole proprietorship
  - no limitations on liability
- C corps
  - Two levels of tax
- PC (professional corp)
  - Needs planning and good financial controls to avoid 35% corporate tax

# Accrual basis accounting for internal reporting

Billed but unpaid fees  
are included in revenues

Incurred but unpaid  
expenses are counted as  
deductions

Standard for large corps  
and more sophisticated  
smaller firms

## Law Firm Profit & Loss - Accrual Basis January through December 2016

	◊ Jan - Dec 16 ◊
<b>Income</b>	
Legal Fee Income	327,003.75
Settlement Income	15,000.00
Markup on Reimbursable Expenses	485.25
Reimbursed Exp. (Income)	<u>5,072.50</u>
<b>Total Income</b>	<u>347,561.50</u>
<b>Cost of Goods Sold</b>	
Billable Time/Wages	48,519.46
Outside Consultants (Billable)	49,970.00
Settlements Out to Clients	6,970.00
Reimbursable Expenses	<u>5,753.22</u>
<b>Total COGS</b>	<u>111,212.68</u>
<b>Gross Profit</b>	236,348.82
<b>Expense</b>	
Practice development	8,216.26
Facilities	26,358.76
Car/Truck Expense	11,568.30
Conferences and Seminars	4,700.00
Contributions	2,500.00
Depreciation Expense	846.12
Insurance	16,689.08
Professional Fees	4,448.24
Travel	3,452.23
Wages - Unbillable	<u>35,243.43</u>
<b>Total Expense</b>	<u>114,022.42</u>
<b>Net Ordinary Income</b>	122,326.40
<b>Other Income/Expense</b>	
Other Expense	
Other Expense	<u>2,236.18</u>
<b>Total Other Expense</b>	<u>2,236.18</u>
<b>Net Other Income</b>	<u>-2,236.18</u>
<b>Net Income</b>	▶ <u><u>120,090.22</u></u> ◀

## Cash basis reporting

Only collected receipts are reported, including those billed in the prior year

Only disbursements paid during the current year and depreciation are deducted

Standard for tax reporting for most service companies

### Law Firm Profit & Loss - Cash Basis January through December 2016

	◊ Jan - Dec 16 ◊
<b>Income</b>	
Legal Fee Income	314,885.00
Settlement Income	15,000.00
Markup on Reimbursable Expenses	423.15
Reimbursed Exp. (Income)	<u>4,231.50</u>
<b>Total Income</b>	<b>334,539.65</b>
<b>Cost of Goods Sold</b>	
Billable Time/Wages	48,519.46
Outside Consultants (Billable)	45,970.00
Settlements Out to Clients	6,970.00
Reimbursable Expenses	<u>5,498.22</u>
<b>Total COGS</b>	<b><u>106,957.68</u></b>
<b>Gross Profit</b>	<b>227,581.97</b>
<b>Expense</b>	
Practice development	8,216.26
Facilities	26,358.76
Car/Truck Expense	11,568.30
Conferences and Seminars	4,700.00
Contributions	2,500.00
Depreciation Expense	846.12
Insurance	16,689.08
Professional Fees	4,448.24
Travel	3,452.23
Wages - Unbillable	<u>35,243.43</u>
<b>Total Expense</b>	<b><u>114,022.42</u></b>
<b>Net Ordinary Income</b>	<b>113,559.55</b>
<b>Other Income/Expense</b>	
Other Expense	
Other Expense	<u>2,236.18</u>
<b>Total Other Expense</b>	<b><u>2,236.18</u></b>
<b>Net Other Income</b>	<b><u>-2,236.18</u></b>
<b>Net Income</b>	<b>▶ <u>111,323.37</u> ◀</b>

# Differences in accounting

## Accrual

- Legal fee and other income is \$347,561.50
- COGs is \$111,212.68
- Total expenses is \$114,022.42
- Net income is \$120,090.22

## Cash

- Legal fee and other income is \$334,539.65, lower by \$13,021.85
- COGS is \$106,957.68, lower by \$4,255.
- Total expenses are the same
- Net income is \$111,323.37, lower by \$8,766.85

# Dealing with the Differences

Accounts receivable are usually the biggest consumer of capital

Small (and large) firms may make the mistake of running undercapitalized, with little or no partner capital requirements. DO NOT get caught in that trap!

- Screen clients
- Insist on retainers
- Manage cash flow
- Use the trust account wisely
- Accept credit cards
- Insist on regular payments
- Pay liabilities promptly

# Other Accounting responsibilities

- Trust account
  - The trust account represents in effect a bank account for your clients
  - Your trust account is NOT income to the firm until fees are earned and transferred to the firm's operating account
  - Deposits should be marked with client and matter tags
  - Interest, if any, goes to the Bar Foundation
  - Removals from the trust account are either paid to the firm when fees are earned, or, returned the client

**Law Firm**  
**Balance Sheet**  
**As of December 31, 2016**

◊ Dec 31, 16 ◊ Dec 31, 15 ◊

**ASSETS**

**Current Assets**

**Checking/Savings**

General Business Checking Acct. ▶	13,410.69 ◀	19,170.00
Client Trust Account	9,610.00	0.00
Petty Cash Account	<u>500.00</u>	<u>0.00</u>
<b>Total Checking/Savings</b>	<b>23,520.69</b>	<b>19,170.00</b>

**Accounts Receivable**

Accounts Receivable	<u>27,192.15</u>	<u>14,170.30</u>
<b>Total Accounts Receivable</b>	<b><u>27,192.15</u></b>	<b><u>14,170.30</u></b>

**Total Current Assets**

**50,712.84      33,340.30**

**Fixed Assets**

Computer Equipment (Over \$500)	2,500.00	0.00
Accumulated Depreciation	<u>-846.12</u>	<u>0.00</u>
<b>Total Fixed Assets</b>	<b><u>1,653.88</u></b>	<b><u>0.00</u></b>

**TOTAL ASSETS**

**52,366.72      33,340.30**

	2016	2015
<b>LIABILITIES &amp; EQUITY</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
<b>Accounts Payable</b>		
Accounts Payable	<u>8,672.00</u>	<u>4,417.00</u>
<b>Total Accounts Payable</b>	<u>8,672.00</u>	<u>4,417.00</u>
<b>Credit Cards</b>		
Master Card Payable	<u>964.12</u>	<u>-204.91</u>
<b>Total Credit Cards</b>	<u>964.12</u>	<u>-204.91</u>
<b>Other Current Liabilities</b>		
Funds Held in Trust	9,610.00	0.00
Payroll Liabilities	2,753.59	0.00
Line of Credit	<u>36,302.60</u>	<u>20,154.02</u>
<b>Total Other Current Liabilities</b>	<u>48,666.19</u>	<u>20,154.02</u>
<b>Total Current Liabilities</b>	<u>58,302.31</u>	<u>24,366.11</u>
<b>Total Liabilities</b>	58,302.31	24,366.11
<b>Equity</b>		
Owner's Capital	-135,000.00	0.00
Retained Earnings	8,974.19	9,259.46
Net Income	<u>120,090.22</u>	<u>-285.27</u>
<b>Total Equity</b>	<u>-5,935.59</u>	<u>8,974.19</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>52,366.72</u></u>	<u><u>33,340.30</u></u>

# Dealing with long term assets and liabilities

- Furniture, office equipment and similar purchases are set up as long term assets
- They can be depreciated in as little as the year of purchase or over up to generally 10 years
- Tax law in effect at purchase usually determines the manner of depreciation
- Assets purchased with loans can still be depreciated quickly
- Balances on lines of credit need to be tracked and accounted

# Equity

- If partnership is offered to you, you may be required to add equity to the firm.

Alternatives may include:

- Investing immediately with your own cash
  - Adding to equity through annual allotments
  - Borrowing outside personal funds to add to equity
  - Providing no equity at all
- The equity investment is NOT deductible. It may be recovered when you retire or leave that firm

# More Equity Issues

- As you add equity to the firm, you will generally be allotted a portion of the firm's profits through a K-1, which are generally taxable on your personal tax return
- You may also receive a salary from the firm, which is taxable to you
- Distributions to you throughout the year to pay you for your allotment of profits are generally NOT additional taxable income to you
- Receiving allotted income through a K-1 usually requires you to pay estimated taxes throughout the year
- You may be personally responsible for both sides of employment taxes

# Key Performance Indicators

- A law firm, large or small, should routinely develop and review their KPIs
- Common indicators are
  - Revenue per employee
  - Revenue per partner
  - Realized billing rates by firm and employee
  - Days revenues outstanding
  - New clients (numbers and billings) acquired by each partner
  - Earnings per partner
  - Billed hours by employee, associate and partner

# My Own Key Performance Indicators

Huizenga & Co., PC Key Metrics	Dec-09	Sep-10	Dec-10	Sep-11
Revenue for month	22,021	14,147	16,310	25,675
YTD Total Income from QB	155,266	141,123	173,969	148,407
Net reimb exp for month	1,338	853	354	2,637
YTD FC & Reimb exp, incl in Billings, but not Bill Adj	14,314	10,519	11,394	30,324
Billing adjustments for month	386	(1,098)	(1,734)	(1,257)
YTD billing adjustments	(39,688)	(22,947)	(25,885)	(16,941)
Billing Adj YTD: as % of gross billings	-18.6%	-14.8%	-13.6%	-10.9%
Billing Adj YTD: \$ per billed hour	(26.51)	(21.04)	(19.26)	(16.44)
Prospects during month (started 2/09) (from ProspectXX in Calendar)	3	2	1	3
Sources: existing, past clients		1	1	2
Attorneys				
Doc/other/ADP/Sleeter/QB lists	2	1		1
Wine groups/MofD/friends/past co-workers				
Chamber/ Rotary/ TMA/ UACPA	1			
Rolling 12 mo total prospects	29	43	33	24
New clients added during month	1	-	1	3
Rolling 12 mo total new clients (started 2/09)	20	25	19	16
Operating expenses for month	6,997	3,966	5,787	2,548
YTD Operating expenses	45,119	33,375	45,339	31,840
Receivables, net of credit bal	28,781	17,848	23,113	7,792
\$ over 60 days	22,450	11,687	15,269	2,396
Days sales outstanding	460.4	36.2	65.2	12.1
IT spending, as % of revenue (roll 12 mo)	3.6%	3.2%	0.7%	1.2%
Asset purchases, this month	-	-	-	-
IT spending (IT travel/Training, pubs, repairs, etc) (this mth)	435.00	-	451.00	(96.00)
Software (first purchase and not Lacerte) (this mth)	20.00	-	30.00	-
Asset purchases in past 12 months	3,551.0	3,256.0	-	423.0
Outside production hours (Lorie's Time Input & Billable)		-	-	-
Total hrs (incl non-billable-Time by Job-Summary&Outside)	206.80	192.60	212.70	191.20
Rolling 12 mo total hrs	2,515.60	2,505.00	2,466.20	2,421.40
Rolling 12 mo non-billable hrs, other than vacation	735.40	674.40	665.15	796.15
Vacation hours (Time by Job-Summary)	14.0	33.6	9.6	32.1
Rolling 12 mo vacation hrs	259.00	261.20	287.20	365.20
Billed Hours for Mth (from Sales by Item Summ, incl outside)	141.10	106.10	126.30	172.70
Production Hours for Mth	114.60	61.80	134.90	111.60
YTD Billed Hours, incl outside	1,497.30	1,090.65	1,333.65	1,030.50
Unbilled hours @ ME (Time by Job Detail)	64.9	67.4	46.9	51.7
Mthly Production Hr % (incl outside)	66.2%	47.2%	77.8%	64.3%
YTD Production Hr % (incl outside)	72.9%	68.1%	61.9%	66.3%
YTD Ave Rate, net of bill adj	116.16	119.75	121.66	134.97
Golden Number (12 mo rolling rev/gross less fin ,other chgs)/total time)	69.15	60.36	65.87	70.64
Est Full year BILLINGS, net of bill adj	181,492	171,001	168,291	176,968
YTD Operating Margin	74.4%	76.4%	73.9%	76.6%
Actl Comp+SEP/Simple YTD	120,600	105,600	125,400	103,200
Othr owner comp Mth (Both PDs, vehicles, othr)	2,311	1,228	2,178	1,673
Othr owner comp YTD (Both PDs, vehicles, othr)	10,540	6,873	13,544	8,658
Comp+SEP to (Est FY CASH coll, less Other Owner comp)	93.1%	107.7%	108.0%	95.0%
Est Full year CASH COLLECTIONS, net of bill adj	170,762	169,840	176,049	175,610
Monthly Cash collections, net of bill adj, LESS FC, etc	23,326	18,927	24,164	29,055
YTD Actual Cash basis collections,	171,169	135,302	175,274	147,337
Proj Billable Hrs to 12/31 (from Work left)->	-	270	-	229
Proj total Bill Hrs for Year->	1,487	1,363	1,316	1,264
Proj future Billings to 12/31->	-	32,332	-	30,907

# Important Specifics

- Realized billing rate by individual
  - Firms need to track realized rates after billing write-offs
- Billed hours
  - No billed hours, no billings
- Golden number
  - A firm-wide number that shows tracks revenue divided by paid hours. Helps you track improvements in efficiency and competence
- Days revenue outstanding
  - Tracks your ability to collect billings. Receivables usually consumes the largest share of capital
- Revenue per partner
  - Firms don't add partners without adding revenue...
- New clients and their billings
  - Firms don't grow without new clients to replace natural attrition
- Take the time to understand your practice

# Role of the Financial Administrator

- Oversees billing and collection process
  - Prepares regular financial statements
  - Involves their CPA to prepare annual firm tax return and related K-1s for partner individual returns
  - Develops individual or firm-wide Key Performance Indicators for distribution to all employees that bill
  - Plans and executes acquisitions of capital assets
  - Negotiates and manages bank lines of credit and loans
  - Plans and manages cash flow and annual budgets for firm, practice groups and individuals
- 
- In a small firm, YOU may be it!

# Tax-savings ideas

- One level of tax
- Cash basis for tax reporting
- Take advantage of fast depreciation
- Plan and make retirement plan contributions
- Use flex spending or health savings accounts for medical costs
- Provide enough capitalization to reduce yearend payables without harming financial condition
- Create financial flexibility by keeping the lid on partner distributions
- Insist that partners are current with their personal taxes

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## LAW PRACTICE MANAGEMENT SOFTWARE

TRYIN' BEFORE YOU BUY IN



A law practice management software system can be the principal organizing feature of your law firm, a full-scale repository and collaboration tool and a hedge against malpractice. But, with so many options available, how do you choose the one that's right for you? Today Jared Correia, law practice advisor at the Massachusetts Law Office Management Assistance Program, helps us sift through the options, with links to more than a dozen of the most popular products for lawyers

... [CLICK HERE TO READ THE REST](#)

# Practice/Case Management Aids

- Abacus
- Amicus
- Clio
- PracticeMaster
- TimeMatters
- Dozens more

# Billing Aids

- Billquick
- QuickBooks
- Timeslips
  - Amicus
- TimeMatters
  - PCLaw
- Tabs3 Billing
- 100s others

# Questions

The image features a dark gray background with a large, light gray diamond shape centered on it. Inside the diamond, there is a white geometric pattern consisting of several nested, slightly offset diamond shapes, creating a sense of depth and movement. The word "Questions" is written in a clean, black, sans-serif font at the top center of the image.

# Thanks!

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