

**SAMPLE**

## **How to Prepare a Cash-Flow Budget for a Start-Up Law Practice**

### **Introduction**

With the aid of low-cost electronic spreadsheet applications the budgeting process has become less of a dreaded task. These software applications substantially reduce the work required to summarize and analyze financial data. However, the thought process, which produces the data to be entered into the spreadsheet, remains the same.

There are two basic types of budgets. The accrual budget, which takes accounts receivable, accounts payable, depreciation and amortization and other non-cash items into consideration, and the cash budget.

For purposes of this document we will only work with the cash budget.

By establishing your cash income and cash outflow budget you will be better able to direct where you do and do not spend your funds. The budgeting process will also focus your thoughts on how much it will cost to operate and manage your practice. Use your budget as a management tool, as well as an internal control tool. On a monthly basis you should compare your actual numbers with your budgeted numbers. Monthly revisions will enable you to change directions and to be prepared to meet your anticipated needs when events do not occur exactly as you had anticipated. Therefore, making and monitoring your budget can make the difference between success and failure!

The format of your budget is very similar to that of an income statement. You use the same categories as an income statement does. The following examples will assist you in gathering your estimates:

### **Cash-Flow Budget Worksheet**

#### **Cash In-Flow:**

	Budgeted:	Actual:
Proceeds from start-up loans:	\$ _____	\$ _____
Fee Income:	\$ _____	\$ _____
Other Income:	\$ _____	\$ _____
<b>Total Cash Available:</b>	<b>\$ _____</b>	<b>\$ _____</b>

#### **Cash Out-Flow:**

##### **Payroll:**

Attorneys	\$ _____	\$ _____
Paralegals	_____	_____
Other Timekeepers	_____	_____
Secretaries	_____	_____
Administrative	_____	_____
<b>Total Payroll Exp.:</b>	<b>\$ _____</b>	<b>\$ _____</b>

**Taxes and Benefits:**

Payroll Taxes	\$ _____	\$ _____
Group Insurance	_____	_____
Parking	_____	_____
Other	_____	_____
<b>Total Taxes &amp; Benefits:</b>	<b>\$ _____</b>	<b>\$ _____</b>

**Office Expenses:**

Telephone	\$ _____	\$ _____
Equipment Rental	_____	_____
Equipment Maint.& Reps	_____	_____
Rent	_____	_____
Utilities	_____	_____
Dues & Subscriptions	_____	_____
Taxes	_____	_____
Insurance-Prof. Liability	_____	_____
Insurance - Other	_____	_____
Advertising	_____	_____
Library Expenses	_____	_____
Office Supplies	_____	_____
Travel Expenses	_____	_____
Prof.Expenses(CPA,etc.)	_____	_____
Bank Charges	_____	_____
<b>Total Office Expenses:</b>	<b>\$ _____</b>	<b>\$ _____</b>

**Client Related Expenses:**

Client Development	\$ _____	\$ _____
Filing Fees	_____	_____
Court Reporters	_____	_____
Expert Witnesses	_____	_____
Travel	\$ _____	\$ _____
Parking	_____	_____
Other	_____	_____
<b>Total Client Related Expenses:</b>	<b>\$ _____</b>	<b>\$ _____</b>

<b>Total Cash Out-Flow:</b>	<b>\$ _____</b>	<b>\$ _____</b>
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<b>Surplus or Shortage:</b> (cash available less cash out-flow)	<b>\$ _____</b>	<b>\$ _____</b>
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**Conclusion**

The objectives when preparing this budget are:

1. To calendar all items by month
2. To compute all quarterly values
3. To calculate all subtotal and total values.

Very few law offices are equally busy throughout the year. Therefore, building a seasonal pattern into your budget, and taking into consideration the delay in billing and collecting is crucial. With the exception of fixed costs such as rent, lease payments, etc. most expenses are related to the generation of revenue and therefore fluctuate with the level of revenue produced.

The more thoughtful the preparation of this budget, the more meaningful the result!

Once you have decided on the actual revenue and expense categories the task becomes easier if you utilize an electronic spreadsheet. A spreadsheet software allows you to enter mathematical formulas into specific fields. These formulas then perform your calculations automatically as you enter your numeric data.

To use such a spreadsheet application simplifies the process of adjustments as you move from month to month comparing your budgeted items with the actual numbers. This is an important process of follow up, and turns your budget into a live management tool.

You will find that with time, your variances between budgeted and actual numbers become increasingly smaller, as the knowledge and experience in managing your law practice increases.

Knowing what it costs to operate your firm will help you manage it better and ultimately increase profits!