



### Cash Flow: It's All In The Timing

Ideally, during a normal business cycle, your firm should have more money flowing in than flowing out. The following simplified example, however, illustrates clearly how a law firm can run into a cash flow crunch:

#### **Income Statement: Month 1**

Billings	\$75,000
Costs	\$65,000
Profit	\$10,000

<b>Cash flow relating to Month 1:</b>	<b>Month 1</b>	<b>Month 2</b>	<b>Month 3</b>	<b>Total</b>
Receipts	\$20,000	\$35,000	\$20,000	\$75,000
Payments (salaries, suppliers etc.)	\$40,000	\$20,000	\$5,000	\$65,000
Net cash flow	(\$20,000)	\$15,000	\$15,000	\$10,000

This shows that the cash associated with the reported profit for Month 1 will not fully materialize until Month 3 — and that

a serious cash shortfall will be experienced during Month 1 when inflows total only \$20,000 and cash outflows reach \$40,000.

### **Calculating Cash Flows**

A key tool, then, is *cash flow planning*, which entails forecasting and tabulating all significant cash inflows and then analyzing in detail the timing of expected payments relating to suppliers, wages, capital expenditures, loan repayments, taxes, interest payments, etc.

It is important to base initial billing forecasts on realistic estimates of not only what you think you'll bill, but also what you realistically think you'll be able to collect (this is discussed more in depth in the related billing realization article). Otherwise an acceptable method is to combine billings for the same period 12 months earlier, adjusted for predicted economic growth. Note that your cash flow forecast is a live entity. It will need adjusting in line with long-term changes to actual performance or market trends.

### **Aim High, Figure Low**

When preparing cash flow projections, there is merit in compiling "worst case" projections to complement "most likely" or "best case" forecasts, and to accept that the worst case might occur — and plan accordingly.

*No doubt, cash flow can make or break a practice. Contact the accounting professionals in our office for help in fine-tuning your projections and procedures.*