



**KORBICOM**

Saturday, 26 March 2011

Pages: 3 (including this one)

## **Cash Flow – the Lifeblood of Practice Management?**

---

Cash is the most important resource in any business. It is therefore surprising that it is generally the most poorly managed aspect of many legal practices. Cash flow management tends to take the form of crisis control at the end of each month. A common scene that plays out in thousands of practices every month is the partner or partners running around interrogating various staff members about which fees can be invoiced and what money can be collected. Then it is off to the bookkeeper to make sure that every possible cent has been transferred from the trust account to the business bank account...what stress! How can you manage this better? Where do you start?

The good news is that GhostPractice (Korbitec's Practice Management and Accounting Solution designed specifically for attorneys), goes beyond software, beyond accounting and will ensure that you can manage cash flow proactively, with a minimum of effort!

### **Building Blocks to better Cash Flow**

Correct cash flow management does not start at the end of the month. It does not start with a desperate call to your bank. Proactive cash flow management starts with managing your fees and your business creditors properly, by planning ahead. You can only plan ahead if your management reports are automatic and meaningfully representative of your business. This can only be the case, if the building blocks (fee management systems and business creditor management systems) are in place and functioning properly.

### **The common mistakes we see when consulting to firms who choose to upgrade to GhostPractice are:**

1. **Total lack of fee management:** Most firms only know what has been invoiced. Unfortunately invoices represent only a small percentage of work done (therefore fees generated). Most of the firms fees (and future cash flow) exists in physical files; manual fee books; peoples heads; word documents or excel spreadsheets. Very few firms are able to generate one report which will show them by branch; fee earner and department, what the value of the unbilled (un-invoiced) fees is?
2. **Poor management of business creditors:** It is quite common that firms will pay all/most business creditors out of the trust account. The lack of control over which money is for fees and which money is for disbursements is quite scary and at best is manually kept on record by the overworked bookkeeper! Mistakes happen and the consequences

can be dire! Another issue with paying creditors out of the trust account is the fact that there is no attempt to "time" paying of creditors in line with invoicing the client for that disbursement. There is no link between the two and no reports to manage either of these aspects. The illusion seems to persist that attorneys are acting as a conduit between the creditor and client. This is simply not the case. If the client does not pay for the disbursement, the creditor will come to the firm for payment and not to the client!

3. **Crisis Management versus Planning:** The lack of management information is purely a result of the fact that the building blocks that make proper management reporting possible, are not in place. If there is no system in place that can manage fees and no system in place that can manage your creditors then drawing reports from your accounting system is a pointless exercise!

### **GhostPractice provides the Building Blocks to assist you in managing your cash flow:**

#### **First and foremost you have to manage your fees:**

- GhostPractice allows each user to record fees as "unbilled fees". Disbursements can be captured as "Pending Disbursements". Neither of these transactions attracts any VAT liability, BUT the transactions can be managed, collated and reported on!
- Naturally the bookkeeping department may still retain the right to post all disbursements OR the load could be spread to increase efficiency (example: it is not uncommon for secretaries to post their own sheriffs returns – there are specific controls to eliminate the possibility of errors and mistakes).
- With each staff member in your practice able to capture all fees and disbursements, without being fearful of a premature VAT liability, you will now be able to draw various reports, which will help you plan your cash flow methodically. Just looking at these powerful, accurate reports, will ensure that you run a better managed, better performing business!

#### **Here is a typical chain of simple, easy to read reports (which are available in GhostPractice), that can help you to plan for better cash flow:**

1. Firstly you need to look at fees in totality. The report will show you (by branch; fee earner; department and for the entire practice):
  - a. Fees and Disbursements Invoiced this Month.
  - b. Fees and Disbursements Invoiced in Total.
  - c. Fees and Disbursements Not Invoiced (Unbilled & Pending) this Month.
  - d. Fees and Disbursements Not Invoiced (Unbilled & Pending) in Total.
2. Next you will draw a report showing you total invoices owed by clients to you; total invoices owed by you to creditors; the status of your business bank accounts and the current VAT liability as well as the total of Unbilled Fees and Pending Disbursements.
3. Two more reports allow you to dig deeper and will give you an Ageing Report for Fees + Disbursements and an Ageing Report for all Business Creditors. These detailed Ageing reports will tell you the age of:
  - a. All outstanding Invoices (your clients and your creditors)
  - b. All unbilled fees.
  - c. All Pending Disbursements.
  - d. All Trust Money on matters.
4. Finally you will ensure that your trust transfer has run. If not you can run it or establish what amount will be transferred when it is run.



The above reports can be run; read and analysed in a matter of minutes. You can rely on the accuracy of the reports because the building blocks which lead to these reports being generated automatically are fully and correctly utilised (a fact which can be corroborated by running a separate set of audit reports!).

## So...what will you have learnt from these reports?

1. You will know how much **cash you have**.
2. You will know exactly how much **money you owe**.
3. You will know what cash **is owed to the business and by the business on an aged basis**.
4. Most importantly you will know what the **POTENTIAL value of invoices** is (Unbilled), what the age of that Unbilled work is and when you are likely to collect those fees.
5. On a practical level, the above allows me to project possible cash flow shortages and plan to avoid such shortages by ensuring that all staff invoice whatever is realistic and possible to collect over the period – **so that I have cash when I need it!**

If you routinely have cash flow stress at month end and you would like to be able to manage your business more easily, feel free to call us and we can arrange an obligation free presentation of GhostPractice. We will show you how this amazing system combined with your staff can lead to less stress; more money and better Practice Management!