QLD LEGAL FINANCE

FIELD GUIDE · PROFITABILITY

Law firm matter *profitability.*

How to measure margin properly, and why billings alone can mislead — the true cost of a fee earner, where write-offs hide, and what actually moves the number.

VERSION 2.0 · SEPTEMBER 2026

QLD Legal Finance Pty Ltd

ABN 44 697 013 906 · ACN 697 013 906
PO Box 25, Bald Hills QLD 4036 · 07 3261 2833 · enquiries@qldlf.com.au · qldlf.com.au

A CPA practice · Registered BAS Agent 26365265 · Liability limited by a scheme approved under Professional Standards Legislation

A busy matter is not necessarily a profitable matter.

Law firms are unusually good at measuring activity: time recorded, bills raised, WIP, recoveries and cash collected. The harder question is whether the work generated an acceptable commercial return after the resources required to deliver it are considered.

That distinction matters because a matter can look successful through almost every traditional operating measure and still underperform economically.

Matter profitability is therefore not an accounting exercise at the end of the year. Used properly, it is a management tool for pricing, resourcing, scope control and practice-area strategy.

> **QLF PERSPECTIVE**
> The purpose is not to reduce legal work to a spreadsheet. It is to identify where the economics of delivery no longer match the commercial assumptions on which the matter was accepted.

1. Start by separating billings, revenue and cash

These numbers answer different questions.

MEASURE	WHAT IT TELLS YOU	WHAT IT DOES NOT TELL YOU
Billings	What the practice has invoiced	Whether the work was economically efficient
Revenue	What the practice has recognised as income	Whether the client has paid
Cash received	What has actually been collected	Whether the matter generated an acceptable margin

The first mistake in matter profitability is treating one of these as a proxy for all three.

> **DIRECTOR QUESTION**
> When the practice says a matter was 'good', does it mean it billed well, collected well, or delivered a strong margin?

2. Define the unit of profitability before measuring it

A firm can analyse profitability at several levels:

- individual matter;
- client;
- matter type;
- practice area;

- responsible principal;
- fee earner;
- fixed-fee product or service line.

The matter is usually the most useful starting point because it is where price, scope, time, staffing and write-down decisions converge.

But the analysis becomes strategically valuable when repeated across groups of similar matters.

> **IN PRACTICE**
> One poor matter may be an exception. Twenty similar matters with the same margin problem usually indicate a pricing or delivery model issue.

3. Cost the legal work consistently

Profitability cannot be measured credibly if labour cost is treated inconsistently.

The practice needs a repeatable internal cost methodology for the people delivering the work.

That may include:

- salary and wages;
- superannuation;
- employment on-costs;
- an appropriate allocation of leave and non-productive time;
- a rational share of support or overhead where the analysis requires it.

The objective is not false precision. It is consistency.

A partner costed one way this month and another way next month produces a number that looks sophisticated but cannot be relied upon.

> **QLF PERSPECTIVE**
> A practical cost model that is consistently applied is usually more useful than a theoretically perfect model nobody can maintain.

4. Do not confuse charge-out rate with economic value

A fee earner's charge-out rate is a pricing measure. It is not their cost to the practice.

Likewise, a high recorded value of time does not automatically indicate high profitability if:

- a large portion of time is written down;
- the matter is fixed fee;

- senior resources are doing work that could be performed more efficiently elsewhere;
- rework is occurring;
- scope has expanded without price movement;
- the bill is raised but not collected.

> **RED FLAG**
> A matter reported as highly productive because it carries a large WIP value, when the practice already knows a significant part of that WIP will never be billed.

5. Write-downs are not merely billing adjustments

Write-downs are commercial information.

A recurring write-down pattern may indicate:

- the original price was wrong;
- the scope was not controlled;
- too much senior time was used;
- work was duplicated or re-performed;
- the client was not warned about additional work;
- the matter type is structurally underpriced.

The most useful reporting distinguishes between isolated judgement calls and recurring margin leakage.

> **DIRECTOR QUESTION**
> Which matter types generate the highest write-downs, and is the cause price, scope, staffing or process?

6. Fixed-fee matters need time data more, not less

Fixed fees can improve client certainty and simplify billing, but they remove the natural relationship between time recorded and amount billed.

That makes accurate time capture commercially important.

Without it, the practice cannot reliably determine:

- the true delivery cost;
- which stages consume the most resource;
- whether scope assumptions are holding;
- whether process improvements are working;
- whether the fee should change on the next matter.

QLF PERSPECTIVE

On a fixed-fee matter, time recording is not primarily about billing the client. It is management information about the economics of delivery.

7. Separate disbursements from professional margin

Matter-level reporting should distinguish professional fees from disbursements and recoveries.

A large matter can appear commercially stronger than it is if pass-through costs inflate the headline revenue or cash figure.

The analysis should make clear:

- professional fee revenue;
- disbursement recoveries;
- unrecovered disbursements;
- direct external costs attributable to the matter.

RED FLAG

A matter appears to have strong revenue growth because disbursement throughput increased, while professional fee margin did not.

8. Contribution margin is often the most useful operational measure

For management purposes, a practical matter contribution measure can be more useful than attempting to allocate every dollar of firm overhead.

A simple framework is:

Professional fee revenue

less direct labour cost

less directly attributable external costs

= matter contribution

This shows whether the matter is contributing appropriately before broader practice overheads are considered.

A fuller profitability model can then allocate occupancy, administration, technology and other overheads where that level of analysis is useful.

GOOD CONTROL

Use the same definition every month. Margin trend is only meaningful when the underlying methodology does not move.

9. Matter profitability should expose resource mix

Two matters can produce the same fee and very different economics because of who performed the work.

A useful review asks:

- Was partner time used where judgement genuinely required it?
- Could parts of the work have been delegated earlier?
- Was the matter staffed at the level assumed when priced?
- Did complexity genuinely increase, or did process inefficiency increase?
- Was specialist external input used efficiently?

DIRECTOR QUESTION

If the same matter were opened tomorrow, would you staff it the same way?

10. Scope creep should appear in the numbers before it appears in the write-off

Scope creep is often visible operationally long before anyone formally acknowledges it.

Indicators include:

- WIP increasing faster than matter progress;
- repeated unplanned senior involvement;
- additional correspondence or conferences outside the original assumption;
- work moving across teams without a price review;
- increasing write-down expectation.

A matter profitability process should create a trigger for commercial review before the work is complete.

QLF PERSPECTIVE

The best time to identify an underpriced matter is while there is still an opportunity to manage scope, staffing or client expectations.

11. Cash collection still matters

A profitable matter on paper can still create working-capital pressure if billing and collection lag.

Matter profitability should therefore be read alongside:

- WIP age;
- billing cycle;
- debtor age;
- trust funds available for authorised costs transfers where applicable;
- expected collection timing.

Commercial return is affected by both margin and the time taken to convert that margin into cash.

> **DIRECTOR QUESTION**
> Would this matter still look attractive if the cash took 90 additional days to arrive?

12. Use cohorts, not anecdotes

The strategic value of matter profitability comes from patterns.

Compare similar matters by:

- fee structure;
- matter type;
- responsible principal;
- resource mix;
- duration;
- write-down percentage;
- contribution margin;
- lock-up and collection period.

This helps distinguish a difficult individual matter from a recurring commercial problem.

> **IN PRACTICE**
> The question is not 'Did we make money on Smith v Jones?' It is 'What do the last 30 matters of this type tell us about how we price and deliver the work?'

A practical matter-profitability model

MEASURE	WHY IT MATTERS	MANAGEMENT USE
Agreed/expected fee	Original commercial assumption	Compare estimate with outcome

MEASURE	WHY IT MATTERS	MANAGEMENT USE
Recorded time	Resource consumed	Test efficiency and staffing
Value of time	Billing-value reference	Identify write-down exposure
Fee billed	Price ultimately charged	Assess recovery against work performed
Write-down	Margin leakage	Identify pricing/scope/process problems
Direct labour cost	Internal delivery cost	Calculate contribution
External/direct costs	Matter-specific cost burden	Prevent headline fee distortion
Contribution margin	Economic return before general overhead	Compare matter types and pricing
WIP/debtor days	Capital tied up	Assess cash conversion

Worked example: why the headline fee can mislead

Consider two matters that each bill $25,000.

	Matter A	Matter B
Fee billed	$25,000	$25,000
Direct labour cost	$9,000	$15,500
Direct external cost	$1,000	$1,500
Matter contribution	$15,000	$8,000
Contribution margin	60%	32%

The billing result is identical. The economics are not.

The useful question is then why Matter B consumed more resource: complexity, staffing mix, scope movement, rework, pricing or some combination of those factors.

> **QLF PERSPECTIVE**
> Matter profitability does not tell management what decision to make. It tells management where a decision is worth making.

How often should a firm review matter profitability?

Not every matter needs a monthly forensic analysis.

A proportionate approach is:

- live review of large, fixed-fee or higher-risk matters;
- monthly exception reporting for material write-down or WIP movements;
- quarterly cohort review by practice area or matter type;
- post-matter review for significant matters or new pricing models.

The purpose is to create a feedback loop between actual delivery and future pricing.

Eight questions for principals

1. Which matter types produce the strongest contribution margin?
2. Which matter types produce the largest write-downs?
3. Where is senior time being used below the level originally intended?
4. Which fixed-fee matters are consistently exceeding the assumed delivery effort?
5. Which matters show scope growth without a corresponding commercial review?
6. Where are disbursements or external costs eroding margin?
7. Which matters are profitable but convert to cash too slowly?
8. What have we changed in pricing or delivery because of what the data showed us?

Where QLD Legal Finance fits

Matter profitability sits between accounting information and management judgement.

QLD Legal Finance can support Queensland law practices with:

- matter-profitability reporting design;
- internal cost-rate methodology;
- WIP, write-down and recovery analysis;

- practice-area and matter-type margin reporting;
- fixed-fee performance reviews;
- lock-up and cash-conversion analysis;
- commercial interpretation of the results with principals and directors.

The objective is not to score lawyers or turn legal judgement into a mechanical KPI.

It is to show whether the way the practice prices, resources and delivers work is producing the commercial return management intended.

Important information

This guide is general information only and does not take account of the circumstances of any particular law practice. It is not legal, income tax or financial product advice.

Matter-profitability methodologies are management frameworks. There is no single prescribed method for allocating internal labour cost or practice overhead. The methodology adopted should be appropriate to the purpose of the analysis and applied consistently.

The worked example is illustrative only and does not represent a benchmark or target margin for any law practice or matter type.

QLD Legal Finance supports Queensland law practices with trust accounting, financial control and advisory services. It is not affiliated with or endorsed by Queensland Law Society.

Source basis

This draft has been developed from the matter-level profitability framework prepared for the QLD Legal Finance resource project, together with the project's broader management-reporting approach. It has been refined for a principal and director audience.

WHERE THIS CAME FROM

This guide is part of the QLD Legal Finance resource library — practical material written for the people who run Queensland law practices, not for other accountants. If something here raises a question about your own firm, write to **enquiries@qldlf.com.au** or call **07 3261 2833**. A director will answer personally.

General information only. This document is general in nature and does not take account of your firm's circumstances. It is not legal advice, income tax advice or financial product advice, and it is not a substitute for the *Legal Profession Act 2007* (Qld), the *Legal Profession Regulation 2017* (Qld) or current Queensland Law Society guidance. Rates, thresholds and lodgement dates change — confirm them before you rely on them. QLD Legal Finance Pty Ltd supports law practices with trust accounting, financial control and advisory services; it does not act as an external examiner and is not endorsed by, or affiliated with, the Queensland Law Society. Current as at September 2026.