QLD LEGAL FINANCE

BRIEFING · PROFITABILITY

Monthly financial reporting *for law firms.*

What a director should see each month, what the numbers should provoke, and what should never be buried inside a report pack.

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Most law practices do not suffer from a shortage of numbers. They suffer from a shortage of decision-grade information.

A profit and loss can be accurate and still be unhelpful. A debtor report can be complete and still conceal deterioration. A bank balance can look healthy while lock-up is rising and the next eight weeks are underfunded.

The purpose of monthly financial reporting is not to circulate accounting output. It is to give directors a consistent view of performance, liquidity, working capital and exceptions early enough to act.

> **QLF PERSPECTIVE**
> The best management pack is not the one with the most information. It is the one that makes the important decisions difficult to avoid.

1. One pack, one cut-off, one version of the truth

Scattered reports create scattered conversations. The P&L arrives on one day, debtors are reviewed when collections become uncomfortable, WIP is discussed separately, and cash is checked informally.

A stronger model brings the core information together at the same cut-off date and uses the same definitions every month.

That has three advantages:

1. The numbers can be reconciled against each other.
2. Trends become visible because the pack does not change shape each month.
3. Directors debate a common set of facts rather than different impressions of the practice.

> **DIRECTOR QUESTION**
> If two directors disagree about how the practice is performing, can the pack resolve the factual part of the disagreement quickly?

2. Start with a short profit and loss against budget

The P&L should answer whether the practice made money, where the result departed from expectation, and whether the variance is structural or temporary.

A useful monthly view should normally show:

- month actual;
- month budget;
- year-to-date actual;
- year-to-date budget;
- material variances in dollars;

- a short explanation of the few variances that matter.

The report should be stable. If the budget or line structure is continually revised to make the result look more comfortable, it loses its value as a control.

> **WHAT GOOD LOOKS LIKE**
> Fewer than 20 meaningful lines, a budget set before the period, and commentary limited to the two or three variances that actually require a management response.

> **DIRECTOR QUESTION**
> Which two variances matter most this month, and what decision produced each of them?

3. Separate office cash from trust — completely

A monthly finance pack should show the office cash position and the trust position separately and label them clearly.

Trust money is not liquidity available to the practice. It should never be aggregated into a headline 'cash at bank' figure for management purposes.

The office cash section may include:

- operating bank balances;
- undrawn facility or available working-capital headroom;
- known near-term tax and payroll obligations;
- the lowest projected cash point over the forecast period.

The trust line should confirm control, not available cash: trust bank, trust ledger position, reconciliation date and any unresolved exceptions.

> **RED FLAG**
> A management report that makes the practice look more liquid because client trust money has been included in total cash.

4. Make lock-up a board-level number

Profitability and cash are separated by time. In a law practice, much of that time sits in unbilled work in progress and unpaid invoices.

Lock-up should therefore be reported as a core management number, not buried in operational reports.

Show:

- WIP days;

- debtor days;
- total lock-up days;
- 12-month trend;
- the practice's agreed target;
- supporting WIP by fee earner and matter age where needed.

The value is not the industry benchmark. The value is consistent measurement and an explicit internal target.

> **QLF PERSPECTIVE**
> Every additional day of lock-up is another day the practice funds client work from its own capital.

> **DIRECTOR QUESTION**
> Where is the oldest material WIP, why has it not been billed, and what changes this month?

5. Debtor ageing should identify risk, not just totals

A flat debtor balance can conceal a deteriorating book if current invoices are replacing older unpaid balances.

A useful ageing view should show:

- current, 30, 60, 90 and 120-plus day balances;
- material balances beyond 90 days by client;
- a named owner for each significant overdue item;
- the next action and expected resolution.

The report becomes substantially more useful when it answers not only 'how much is overdue?' but 'who is responsible for moving it?'

> **RED FLAG**
> A 90-plus debtor list with no owner, no last action and no next step. That is a list, not a control.

> **DIRECTOR QUESTION**
> What changed in the 90-plus column since last month, and what action followed?

6. Include a forward cash view

Most monthly reporting explains the past. Directors also need one disciplined view of the near future.

A 13-week cash forecast is usually long enough to expose pressure and short enough to remain operationally useful.

Show, by week:

- opening office cash;
- expected receipts;
- payroll and superannuation;
- rent and major recurring costs;
- activity statement and tax payments;
- other known material outflows;
- closing cash;
- the forecast low point.

The most useful addition is forecast accuracy: show last month's forecast against what actually happened.

> **DIRECTOR QUESTION**
> What is the lowest projected cash balance in the next 13 weeks, and what happens if the three largest expected receipts arrive 30 days late?

7. Put the exceptions list first

The other sections report position. The exceptions list reports control.

It should capture matters that are overdue, unresolved or outside the agreed operating standard, for example:

- unreconciled accounts;
- late lodgements or payments;
- trust items requiring a decision;
- material write-offs or write-downs;
- unresolved finance-system issues;
- material debtor or WIP exceptions;
- irregularities or other matters requiring escalation.

Keep the list short enough that every item receives attention. Once resolved, the item should disappear.

> **DIRECTOR QUESTION**
> What has appeared on this list for three consecutive months, and why does it still not have closure?

8. Resist the temptation to add every available KPI

Modern practice systems can produce a large number of metrics. Availability is not a reason to include them.

A number earns a place in the director pack only if it helps answer one of three questions:

1. Are we performing as expected?
2. Is cash or working capital moving in the wrong direction?
3. Is there an exception requiring a decision?

Utilisation, realisation, matter profitability, enquiry conversion and fee-earner metrics can be valuable, but they should be added because the practice intends to manage them — not because the software can report them.

> **GOOD CONTROL**
> Every addition to the pack should displace something or justify why the pack can still be read quickly.

9. The pack should land early enough to change the month

A management pack delivered late may be accurate but strategically useless.

The reporting timetable should be fixed. The month-end process, bank feeds, billing cut-off, payroll coding and reconciliations should all be designed backwards from that date.

For a practice with trust accounting, aligning management reporting with the trust month-end discipline creates a natural close process.

> **QLF PERSPECTIVE**
> A reporting deadline that moves whenever the month is busy is not a reporting deadline.

> **DIRECTOR QUESTION**
> If the pack routinely lands late, what upstream process owns the delay?

The six-page monthly pack

For many small and mid-sized law practices, the core director pack can be kept to six sections.

SECTION	WHAT IT SHOWS	PRIMARY SOURCE	TEST OF A USEFUL NUMBER
P&L vs budget	Month/YTD actual vs budget and material variances	General ledger	Same structure each month; budget not rewritten
Cash & trust position	Office liquidity and trust control shown separately	Bank records and trust reconciliation	Trust never included in office liquidity
Lock-up & WIP	WIP days, debtor days, total lock-up and trend	Practice management system	Calculated consistently; target explicit
Debtor ageing	Ageing profile, major old balances and ownership	Practice management system	Every material 90+ item has an owner/action
13-week cash view	Expected office cash movement and low point	Ledger, payroll and payment calendar	Prior forecast compared with actual
Exceptions	Overdue, unresolved or out-of-standard items	All above	Items close out; nothing persists unexplained

How the directors should use it

The pack is not the meeting.

Circulate it before the discussion. Directors should arrive having read it.

The meeting should focus on:

- the two or three material variances;
- the decisions required from the exceptions list;
- the movement in lock-up and old debtors;
- the cash low point and any funding response;
- actions, owners and dates.

> **IN PRACTICE**
> Fifteen minutes to read and 30–45 minutes to discuss is a better design target than a 30-page pack nobody properly absorbs.

Five questions the pack should answer every month

1. Did the practice perform as expected — and if not, why?
2. Where is cash tied up, and is the position improving or deteriorating?

3. What is the near-term cash low point?
4. What is materially overdue or unresolved?
5. What decisions or actions are required before the next reporting cycle?

Where QLD Legal Finance fits

A useful management pack is not primarily a reporting product. It is the visible output of a disciplined finance function.

QLD Legal Finance can support Queensland law practices with:

- month-end close and reconciliations;
- management accounts and budget reporting;
- law-practice-specific lock-up and debtor reporting;
- cash-flow forecasting;
- exception reporting and follow-up;
- integration of trust-control information into the director view;
- commercial interpretation of the numbers with principals and directors.

The objective is not to give directors more reports.

It is to give them a compact, reliable view of what changed, why it matters and what requires a decision.

For practices without a dedicated internal finance lead, that is often the missing layer between bookkeeping and management.

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.

The reporting structure described is a management framework, not a prescribed statutory reporting format. Practices should adapt it to their size, operating model and information needs.

Trust money must remain clearly distinguished from the practice's own funds. Law practices should refer to the Legal Profession Act 2007 (Qld), the Legal Profession Regulation 2017 (Qld) and current Queensland Law Society guidance for trust-accounting obligations.

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

Source basis

This draft has been developed from the monthly director-reporting example supplied for the QLD Legal Finance resource project and refined for a director-level law-practice 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.

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