



## **BUDGETING TIPS FOR THE SMALL LAW FIRM**

Setting up a budget helps create and sustain financial health. A well thought-out budget can help you control expenses and exert discipline over your spending as needed. It can also be an effective tool in the battle against cash flow fluctuations. Here are some tips for setting up a budget for a solo practitioner or small firm:

- Start by determining and setting up a draw for the amount you will need to pay your monthly bills at home.
- List all known expenses for the operation of your firm, and determine a reasonable yearly budget for each. Look at past expenditures and average costs for other firms, if needed.
- Use these figures to determine the amount you will need for a particular period, then compare with known or projected income figures to see if you can (or must) cut back in one or more areas at home, at the office, or both.
- Be sure to include regular cost-of-living increases to expenses and income in your calculations.
- For recurring items that are paid less frequently than monthly, such as estimated quarterly income tax payments, calculate the amount you will need on a monthly basis and be prepared to set it aside monthly.
- Put this monthly set-aside and all other income left over after paying your draw and office expenses into an interest-bearing reserve account.
- When you don't make the minimum necessary to pay yourself or take care of usual, or extraordinary bring the reserve account, Always bring the reserve back to its previous level before making additional distributions to yourself.
- Periodically look at your reserve account and pay yourself a "bonus" if you have enough profit. Calculate the "bonus" by figuring the amount you must keep in the account to pay office expenses and your draw over several months in a "worst case scenario." It's advisable to accumulate and maintain six months of expenses, if possible. Your bonus should be whatever is left after this calculation.
- Each year, review your budget and revise your personal salary expectations and expenses to fit the pattern shown by the previous year's figures. After several years you will be able to compare the data to make projections for the future and determine if additional client development efforts are required.

- Simple accounting software can help make the budgeting process easier. If you enter your data on a weekly basis, you will always be able to determine your year-to-date expenses in a given category. This is especially helpful for spotting areas where you can cut expenses by finding a lower cost supplier, buying in bulk or doing without.
- Minimize expenses, control cash flow, and maximize profit with these budgeting ideas.