

Cash on hand, the money available to be withdrawn in a firm's operating bank account, is a comfort we all want during economic uncertainty – not to mention a global work stoppage.

A Statement of Cash Flow or Cash Flow Statement can show the movement of cash into and out of the bank account. If one understands how cash moves through your firm historically, we can forecast how much cash is needed to weather uncertainty.

Cash Flow Statements can be run for any time period; a monthly report is a solid starting point

Cash moves into & out of the firm's bank account for three general reasons:

Cash from Operations: Think profit & loss

- If an invoice has not been paid this month, it will not be shown in this report. Only those invoices that have been paid are reflected in the income line.
- Run a profit & loss report – on a cash basis. It's great to see how much was invoiced during the month, but it does not count as cash until the firm received the money.
- Review each expense – what bills are being paid every month. Pay attention to any auto payments made. These can often be 'forgotten about.'

Cash from Financing: Think short term loans

- This section of the report reflects the money we borrowed or the money being paying back, that we had borrowed in the past.
- Credit card balances and credit card payments are reflected in this section. When you use a credit card, you do not have to pay off the balance each month. The unpaid portion is a type of loan.
- Any line of credit (LOC) is reflected in this section also. But only the amount that has been borrowed not the amount available to borrow.

Cash from Investing:

- For law firms, this section typically is where partner capital investments fall.
- If partner(s) forgo taking their monthly salary or guaranteed payment, that is a form of investment. The money is being left in the firm to use for other purposes.

When times are prosperous, there is a tendency to look at the total invoices billed during a month, or maybe how much payroll costs were for the month. A Statement of Cash Flow is an excellent tool for understanding the ebb & flow of cash and providing the means for forecasting how much cash is needed every month. By projecting cash needs, we can see where cutbacks are possible.

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