

## Budget and Business Plan Basics

### The Importance of Budgeting:

- *What is a budget?*
  - A budget is a financial plan that lists all probable expenses and income for a given period, usually a fiscal year. It is a forecast of revenue, expenses and profit.
- *Why would I want one?*
  - Who wants to run out of money?!?
  - It's all about control!
    - It will help you prioritize your spending, grow your income and avoid unpleasant surprises.
- *How do I go about preparing one?*
  - First look at where your revenues come from.
    - What are your most and least profitable areas of practice?
    - What do you most enjoy and why?
    - What are your fees compared to those charged by others in your area?
    - Do your revenues change significantly from month to month or season to season?
    - Do you have sources of income other than professional fees and if so, what are they?
  - Having answered the above, estimate your likely income month by month and document the assumptions on which your estimates are based.
  - Write down a list of all your expenses. Refer to past records such as checks to compile your list.
    - Categorize your expenses into groups such as the following:
      - Office Supplies – postage, telephone, stationery, photocopying etc.
      - Property – rent, heat, light, insurance, cleaning etc.
      - Resources – books, subscriptions etc.
      - Staff – salaries, employee benefits, insurance, travel and training etc.
      - Training and Development – training fees, development costs OR
      - Simply itemize and alphabetize them.
  - Think about what other resources might help your firm if you can afford them.
  - Create an excel spreadsheet that lists all your expenses and income within a one-year time frame.
- *How could I use a budget to improve my practice or cash flow?*
  - By frequently reviewing your budget, you will be able to monitor whether or not you are following your planned budget.
  - If you find expenses are high, analyze their cause. Adjust expenditures to get back on track with your budget.
  - What areas provide the most income? What adjustments can you make to eliminate or minimize less profitable areas of work?
  - Does your income regularly exceed your expenses or are there periods when income is slow to come in and expenses are high? Can you defer expenses or change the way you bill and collect in order to improve cash flow?

- *What else should I be thinking about?*
  - Know the difference between gross and net income!
    - You are paid only out of net income (gross income less expenses). Debt is expenses that you cannot pay. Debt is not a good foundation on which to build your practice.
  - Budget for reserves.
    - “Reserves” are funds you keep on hand to pay both known expenses (such as accrued tax liability) and unknown expenses (emergencies, equipment failure, etc).
    - The higher the risk, the higher your reserves should be. The less detail in your budget, the higher your reserves should be. The less attention you pay to cash flow, the higher your reserves should be. Plan for the unexpected!
    - Know what you need to meet other budgets (family, retirement, etc.)

## **The Business Plan**

- *How is a business plan different from a budget?*
  - A business plan is broader than a budget. The Small Business Administration says that a “business plan precisely defines your business, identifies your goals and serves as your firm’s resume” ([www.sba.gov](http://www.sba.gov)). BPlans.com states that a “business plan is any plan that works for a business to look ahead, allocate resources, focus on key points, and prepare for problems and opportunities ([www.bplans.com](http://www.bplans.com)).
- *What are some reasons for writing a business plan?*
  - Define your partnership.
  - Evaluate a new service, promotion, or expansion.
  - Support a loan application.
  - Evaluate what is working and what is not.
- *Questions to consider before writing a business plan:*
  - Why are we in business?
  - Who are our potential clients?
  - What are their needs and interests?
  - How will we reach them?
  - How will we get the money we need to run a business?
- *How will a business plan help me?*
  - A business plan will help you decide what you can afford.
  - It will help you set a direction.
  - It will help you get credit.
  - It will help you recruit and retain staff.
  - It will help you evaluate your vendors.
- *What are the key components of a business plan?*
  - Mission statement
  - Vision statement
  - Goals and objectives for next year or two
  - Specific action plan for achieving goal or objective

- Description of each practice area
- Evaluation standard
- Budget and cash flow analysis
- Current and pro forma balance sheet
- Income statement
- *What else should I think about?*
  - Have an exit plan for your practice.
  - Think about how you would maintain or close your practice in the event of a disaster.

## **Monitoring Your Financial Health**

- *What other financial documents are useful for managing my business?*
  - Profit and loss statements
  - Taxes
  - Cash Flow
  - Aging Receivables

## **Online Resources**

<http://www.sba.gov/smallbusinessplanner/plan/writeabusinessplan/index.html>

[http://www.toolkit.com/small\\_business\\_guide/index.aspx](http://www.toolkit.com/small_business_guide/index.aspx)

[www.mystrategicplan.com](http://www.mystrategicplan.com)

The Missouri Bar. "Planning Ahead: A Guide to Protect Your Client's and Your Survivor's Interests in the Event of Your Disability or Death." 2006. online at [www.mobar.org](http://www.mobar.org)

## **Further Reading**

Brookson, Stephen. Managing Budgets. New York: Dorling Kindersley, 2000.

Foonberg, Jay G. How to Start & Build a Law Practice. USA: American Bar Association, 1999. Law Practice Management Section, Law Student Division.

Grella, Thomas C. and Michael L. Hudkins. The Lawyer's Guide to Strategic Planning: Defining, Setting, and Achieving Your Firm's Goals. USA: American Bar Association, 2004. Law Practice Management Section.

Poll, Edward. The Business of Law: Planning and Operating for Survival and Growth. USA: American Bar Association, 2002. General Practice, Solo and Small Firm Section.

Simmons, Jeffrey R. Flying Solo: A Survival Guide for the Solo Lawyer. USA: American Bar Association, 2001. Law Practice Management Section.