

Financial Statements 101



Understanding your firm's financial health is essential to its long-term success, but with so many different financial statements to review, it can be difficult to know where to start. (Or what to do with financial information once you have it in hand.)

Let's get back to the basics.

Here are the essential reports that contain the data you need to manage your firm's finances with more clarity and confidence.



Account Receivable and Collections Reports

What they track

How much money is owed to your firm and by which clients

How to use them

- Flag outstanding invoices that require additional collections measures
- Identify trends in receivables, so you can take steps to improve your collections process



Trust Accounting Reports

What they track

Transactions and funds that your firm holds in trust for clients

How to use them

- Request trust replenishments before they run out
- Ensure client funds are being managed ethically
- Maintain compliance with all applicable laws and regulations



Profit and Loss Statements (P&L)

What they track

Income, expenses, and profits over a period of time, such as a month, quarter, or year

How to use them

- Determine whether your firm is functioning profitably
- Identify trends in your firm's financial performance, i.e. changes in revenue



Work in Progress (WIP) Reports

What they track

Time and expenses incurred on unfinished legal matters

How to use them

- Flag projects at risk of going over budget, so you can make adjustments to spending
- Identify opportunities to improve the project management process
- Anticipate upcoming collections



Balance Sheets

What they track

Your firm's assets, liabilities, and equity at a specific point in time

How to use them

- View a "snapshot" of your firm's financial status
- Review recent changes to debt or equity to make more informed decisions



Cash Flow Statements

What they track

The flow of cash into and out of your law firm over time

How to use them

- Identify potential problems to intervene as soon as possible
- Evaluate the way your firm manages billing and collections
- Determine whether adjustments to your firm's budget may be necessary

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