

The 1958 Lawyer  
and his  
1938 Dollar

Prepared by the Special Committee on Economics of  
Law Practice for the  
American Bar Association

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## FOREWORD

The Special Committee on Economics of Law Practice was appointed by President Charles S. Rhyne for the purpose of instituting a comprehensive program covering the economics and business phases of the practice of law as a part of the service of the American Bar Association to its members. It is cooperating with the Section of Bar Activities, the National Conference of Bar Presidents and Bar Secretaries, the Standing Committee on Coordination of Bar Activities, the American Bar Foundation, the Coordination Service of the American Bar Association, the Committee on Continuing Legal Education of the American Law Institute collaborating with the American Bar Association, and other sections and committees of the American Bar Association in analyzing the information now available reflecting the present economic condition of the legal profession. The committee is attempting to ascertain the causes which have resulted in the failure of lawyers to maintain an economic status comparable to that of persons in other professions, businesses and trades, and to propose definite remedial steps which may be taken by lawyers individually and through bar associations.

The legal profession is one primarily of service, and its success is measured by the benefits it confers upon the Nation, the state, the community and their citizens. Throughout the years our profession has maintained its high ideals of ethics and of devotion to the public interest without sufficient regard to the mundane matters of business, either from the viewpoint of business methods or reasonable compensation for services rendered. But the ideals of the profession not only will not be compromised by taking a business look at our economic status, but our profession will be enabled to more nearly fulfill its high ideals, if we take reasonably into consideration those factors which necessarily largely influence our ability to render service to the community and to bring within our ranks young men and women of ability and promise.

This pamphlet is the first of the "Economics of the Law Practice Series" and is being printed by West Publishing Company as a service to the legal profession, for distribution to every member of the American Bar Association. Other pamphlets will be distributed as the program develops. Work is now going forward in the preparation of pamphlets or articles including a resumé and analysis of the present economic status of the legal profession in relation to that of other professions, businesses and trades, and a study of the relative increases in income experienced in the last twenty-five years; a manual outlining activities and procedures by state and local bar associations calcu-

lated to aid in raising the economic status of the legal profession; a discussion of modern office equipment, law office management, efficiency methods and architectural lay-outs for law offices; the use of an "annual legal check-up" by professional men, businesses and individuals along the line of the Michigan Plan; partnership agreements for small and large firms, partnership procedures and management, and problems of income and estate taxation arising from the practice of law.

In order that competent speakers may be available to all state and local bar associations, the committee has set up a speakers' panel consisting of lawyers who are prepared to speak or act as panel leaders in the field of the economics and business phases of law practice. It consists of thirty-eight men located in all parts of the United States. A review has been made of articles, pamphlets and texts which are currently available in this field, and a bibliography prepared of material bearing upon the several phases of the problem. The listing of speakers' panel and the bibliography may be obtained from this committee at the American Bar Center without charge.

A listing of the speakers' panel and bibliography have been distributed to the 1400 state and local associations. The most helpful articles and pamphlets have been duplicated and compiled as a speaker's kit, its content being described in the bibliography, obtainable from American Bar Association headquarters at a cost of \$1.00, which is less than the expense of duplication.

The forms suggested in this pamphlet can be obtained either from the Professional Printing Company, New Hyde Park, New York, or from Time-o-graph, 503 Jackson City Bank Building, Jackson, Michigan, who are printing the forms commercially. Binders in which to maintain this and succeeding pamphlets ultimately will be available from American Bar Association headquarters at a small cost.

Individual efforts of lawyers can solve only one phase of the problem. Joint action through the American Bar Association, state associations and local associations is essential if any substantial degree of success is to be attained. Hence we urge you to become a member of the Section of Bar Activities of the American Bar Association, which is doing an excellent job in this field. We enclose an application for membership in that section for your consideration.

LUTHER BANG; Austin, Minnesota  
 PAUL CARRINGTON; Dallas, Texas  
 WILLOUGHBY A. COLBY; Concord, New Hampshire  
 PHILIP S. HAERMANN; Madison, Wisconsin  
 HARRY S. PETERSEN; Pueblo, Colorado  
 E. B. SMITH; Boise, Idaho  
 JOHN C. SATTERFIELD; Chairman, Yazoo City, Miss.

SPECIAL COMMITTEE ON ECONOMICS OF LAW PRACTICE

## THE DWINDLING DOLLAR

Your dollars, Mr. Private Practitioner, no longer come in the large economy size. Yours we need hardly remind you, are shrinking out of measure. Do you know that it not only costs you more to run your practice in terms of dollars and cents, but that a greater proportion of your income is consumed in these expenses today?

The reason is simple:

In the last seven years alone:

Your Payroll Expenses . . . . .	Jumped 52%
Rent and Other Costs . . . . .	Jumped 65%
Your Gross Income? . . . . .	It increased—45%

Taking a long range view over the past quarter of a century, the record is poorer still. The percentage of the national income spent for legal service has dwindled to about one-third of what it was 25 years ago, in spite of the increased complexities of business and taxation<sup>1</sup>. Do you know that the national average income of self-employed persons (excluding farmers) rose 144 percent during that period? Incomes of dentists rose 83 percent. Our colleagues in the medical profession have enjoyed a steep climb in net earning of 157 percent. Yet during that same period the income of lawyers in private practice has risen a mere 58%.

Of every dollar earned today, 39 cents never sees your pocket-book. It goes for rent, payroll and other practice needs. Do you know that it now costs you 19 percent more of your gross income to operate your law office than it did 25 years ago?<sup>2</sup> Since overhead expenses consume only 3 percent more of a doctor's gross receipts than they did at the beginning of that period, the implication is that lawyers, for all their training, are the worst managers of money.

The conclusion is two-fold:

To maintain their status in society, lawyers must increase their net earnings.

Economical office operation is one of the ways this may be done.

<sup>1</sup> "Income of Lawyers in the Postwar Period" Survey of Current Business, December, 1956, United States Department of Commerce.

<sup>2</sup> "Incomes of Physicians, Dentists, and Lawyers", *ibid.*, July, 1952.

## The Dwindling Dollar

The legal profession is one of service, and its success is measured by the benefits it confers upon our Nation and its citizens. Zealous of maintaining professional ideals, lawyers hesitate to utilize techniques that smack of commercial enterprise. However, without compromise, we can learn much from our business brother in these days of increasing complexity and rising costs. In the interest of professional service, lawyers must free themselves of the inefficiency and lack of planning notable in the business aspects of practice.

## OUTLINING THE CURE

Your Economics of Law Practice Committee has formulated a program to aid each practitioner in bettering his financial status. This presentation is directed to the individual practitioner, and partnerships of two or three, since 90.8% of all independent lawyers fall within these categories.<sup>1</sup> Simple, specific proposals are given and the business aspects of practice are stressed.



Time being the lawyer's sole expendable asset, the economic worth of his ability, training and experience is determined by the use made of the hours available for the practice of his profession. Analysis of office operations and continual review of time and overhead expenditures preclude careless waste of this capital asset. These procedures not only increase efficiency, but enable the practitioner to allocate fees with accuracy.

As proposed in this pamphlet, such methods include cost analysis (determination of overhead costs, working hours chargeable to clients and the hourly chargeable rate, and the maintenance of basic time and cost records); methods of determining fees and billing clients; accounting records; and a simple double-entry system of books. These are the tools. Each individual lawyer must take the initiative in applying and adapting them to his particular needs.

There is no magic formula which will increase a lawyer's income. The law of supply and demand, the varied elements entering into the determination of the fees actually charged, and the willingness of the public to pay proper compensation for services rendered, combine with other factors to prevent the use of a rigid formula.

Unilateral action by an individual lawyer or a firm will not be sufficient to remedy the situation. Greater activity by bar associations in public relations, in adopting minimum fee schedules and encouraging compliance therewith, in preventing the unauthorized practice of law and in similar activities will be discussed in the next pamphlet of the Economics of the Law Practice Series.

<sup>1</sup> "Income of Lawyers in the Postwar Period" Survey of Current Business. December, 1956. United States Department of Commerce.

## COST ANALYSIS

### OVERHEAD EXPENSES

The realistic lawyer who wishes to plan for an upward adjustment of income must first compute his overhead expenses, rent, telephone, books, equipment, secretarial and other salaries. It has been found that costs of practice approximate 40 percent of the lawyer's gross income. Assuming a three-to-five ratio between net and gross incomes, the lawyer who wishes to establish a net of \$12,500 must gross \$20,800. A net income of \$15,000 requires a gross of \$25,000. The young practitioner must do \$10,000 worth of business if he is to take home a minimum net of \$6,000.

Operating expenses should be determined from a trial period of ninety days, with later determinations made from cumulative records at the end of the year. National averages may be helpful as a guide in the absence of current records.

In 1954, lawyers in private practice expended an average 38.6 percent of their gross income on overhead expenditures; 16.7 percent went for payroll, 5.6 percent covered their rent, and 16.4 percent was expended for other practice needs.

The table which follows shows the breakdown of practice costs for 1947 and 1950-54 as related to gross and net income. The net incomes were startlingly low. Overhead expenditures increased both in terms of both dollars and percentages.

Item	1947	Per- cent of 1947 gross income	1950	1951	1952	1953	Per- cent of	
							1954	1954
							gross	gross
							income	income
Nonsalaried Lawyers								
Average or mean amount:								
Gross Income.....	\$11,498	100.0	\$13,264	\$14,185	\$14,700	\$15,444	\$16,719	100.0
Payroll expenses..	1,835	16.0					2,786	16.7
Rent .....			4,915	5,330	5,679	6,052	941	5.6
Other costs of practice	2,226	19.4					2,734	16.4
		35.4						38.7
Net income	7,437	64.6	8,349	8,855	9,021	9,392	10,258	61.4

In 1954 more than half of the lawyers in the United States received a net income of less than \$7,382. When we realize that from "net income" the lawyer must pay federal and state income taxes and other personal taxes, it is apparent that the average lawyer in this country does not receive a living wage.

### FEE-EARNING HOURS AND HOURLY RATE

Each lawyer is urged to make a tabulation showing the specific number of his days and hours actually spent on clients' busi-



ness. In the absence of current records reflecting individual habits and firm practices, the averages which follow may be helpful.

There are only approximately 1300 fee-earning hours per year unless the lawyer works overtime. Many of the 8 hours per day available for office work are consumed in personal, civic, bar, religious and political activities, general office administration and other non-remunerative matters. The results of numerous studies indicate that the average amount of time chargeable to specific clients ranges from 4.2 hours to 7.2 hours per day. Either 5 or 6 remunerative hours per day would be realistic, depending upon the habits of the individual lawyer or the practices of the particular office. Assuming that chargeable time will average 5 hours per day, the following is a typical computation:

Number of days in year.....	365
Deduct: Sundays .....	52
½ Saturdays .....	26
Legal Holidays .....	8
Vacation .....	12
Sickness, meetings, etc. ....	7
	<u>105</u>
Fee earning days left per lawyer .....	260
Average fee earning hours per day per lawyer .....	<u>5</u>
Total net fee earning hours per year per lawyer .....	1300

This figure divided into the gross income gives income-per-hour or the hourly rate. To maintain a gross income of, for example, \$20,800, an hourly charge of \$16.00 must be made. Maintenance of a gross income of \$25,000 requires an hourly charge of \$19.23 rounded out to \$20.00. A gross income of \$10,000 requires an hourly charge of \$7.70 rounded out to \$8.00. If a practitioner desires to increase his gross, but is not in a position to charge the higher rate that will give it to him, then he must secure additional business and increase his number of working hours, the greater number of chargeable hours at the present hourly rate giving him the desired gross.

The hourly rate is not necessarily the figure that will be charged clients in each instance since other factors enter into determining fees. The hourly rate is your basis for evaluating profit or loss on each item of business, and, taken as a whole, your fees should average the predetermined hourly rate.

#### TIME RECORDS

Lawyers should evaluate each item of business on the basis of its consumed time element. This is of great help in setting fair and adequate fees. Time records need not be laborious or volu-

minous. Indeed, they may be combined with the usual day-book or memorandum of conferences and appointments. Below is a simple form which may be utilized as a pad of single sheets or in a loose-leaf or bound ledger.

TIME RECORD

LEGEND

DATE: _____	CHARGE:	NO CHARGE:
LAWYER: _____	B - Briefing or preparation	A - Administrative
	C - Conference	O - Lost Time
	Ct - Court	P - Personal
	D - Dictation	Pub - Professional, civic and religious
	T - Telephone	

Engagements	Hour	File No.	Client	Matter	Nature of Service	Hrs. & Min.
	8:00					
	9:00					
	10:00					
	11:00					
	12:00					
	1:00					
	2:00					
	3:00					
	4:00					
	5:00					
	Other					

RECAPITULATION

File No.	Daily Time Charges Client	Hrs.	Dollars	Total	Hrs. & Min.
				Lost Time	
				Personal	
				Public	
				TOTAL NO CHARGE	
				TOTAL CHARGE	
				Adm	

Actual Time Charged \$ \_\_\_\_\_  
 Daily Quota - Time Basis \$ \_\_\_\_\_  
 Profit or (Loss) \$ \_\_\_\_\_

The file number, client and matter identify the case and facilitate ready transfer of the charges to the client's ledger. The services should be noted in sufficient detail so that appropriate charges may be made. The suggested abbreviations are, of course, optional, and others may be developed.

At the end of the day, total time spent on each item should be summarized. This task may be entrusted to the secretary. The recapitulation appended to the Time Record Form may be printed separately and set up as a separate file, if desired. The total charged time, and items for which no charge is made, are later transferred to a monthly record.

From the daily recapitulation and monthly or other periodic record, the lawyer may readily discern profit or loss for the period and determine whether he is spending too much or too little time within the classifications noted. Using a daily time record, the lawyer catches those small and sundry items, such as telephone calls, which might otherwise escape his notice and not be reflected in his fee.

#### COMPARISON OF FEES WITH TIME COST

Charges are entered in the clients' ledgers, a proposed form of which appears below. The time record is posted to the two columns at the left to show the number of hours expended and their dollar value. These columns are for cost-analysis only and do not become part of the financial records of the office. Proper designations should be made to avoid the appearance that the books are kept on an accrual basis. In the case of partnerships, it is well to note the name of each attorney who has worked on the matter. Individual practitioners may note the hours only, except when subtotals are entered.



## SPECIAL PROBLEMS OF SMALL PARTNERSHIPS

The foregoing discussion is applicable to solo practitioners and partnerships. Supplementary comments for the small law firm are offered here. For more comprehensive treatment, see *The Practical Lawyer's Law Office Manual*<sup>3</sup>, *Law Office Organization*<sup>4</sup>, *Personal and Business Conduct in the Practice of Law*<sup>5</sup> and *Law Office Management*<sup>6</sup>. These publications include detailed analyses from which firms may easily work out comprehensive formulas to suit their particular needs.

### HOURLY CHARGES, INCOME AND EXPENSES

The relative hourly charges to be made for the services of each partner or salaried associate involve numerous problems. Among them are: the allocation of overhead expenses; adjustment of income of the younger attorneys because of non-remunerative matters assigned to them; additional value of the senior partners' time because of greater experience; the element of non-remunerative time spent in administrative work by the managing partner; time consumed in bar association work; and the percentage of the associates' or junior partners' hourly rates which is to be assigned as an item of profit to the senior partners. The estimated earning power of the younger men should include an anticipated profit to be realized from their services.



No rule of thumb will fit all cases. The diagram below illustrates a simple allocation, which is not weighted for the variable factors mentioned.

Lawyer	Expected Net Income	Prorated Expense	Total Gross	Divide by 1300 Hours	Hourly Rate
	Proportion—Amount				
Smith	$\frac{1}{2}$ \$15,000	\$10,000	\$25,000	19.23	\$20.00
Jones	$\frac{1}{3}$ 10,000	6,667	16,667	12.82	13.00
Brown	$\frac{1}{6}$ 5,000	3,333	8,333	6.41	6.50
Total	\$30,000	\$20,000	\$50,000		

<sup>3</sup> Published by the American Law Institute collaborating with the American Bar Association. Obtainable from the Committee on Continuing Legal Education, 133 South 36th Street, Philadelphia 4, Pennsylvania. This is a 157-page comprehensive treatment by five authors and covers most problems in the field. (1956)

<sup>4</sup> By Reginald Heber Smith (1943), obtainable from the American Bar Association Journal for 50c. This contains 47 pages and has been the leading authority for many years.

<sup>5</sup> By Francis Price (1952), published by the American Law Institute collaborating with the American Bar Association. Obtainable from the Committee on Continuing Legal Education, 133 South 36th Street, Philadelphia 4, Pennsylvania. This contains 104 pages and includes other problems of the practice.

<sup>6</sup> By Dwight G. McCarty (1955), obtainable from Prentice-Hall, Inc., 70 Fifth Avenue, New York. This contains approximately 561 pages, was first printed in 1926 and should be used as a text for an extended study of the entire field.

## TIME RECORDS AND TIME-VALUES

The daily maintenance of time sheets scarcely differs from the procedure to be observed by the solo practitioner. Each entry, however, should include an initial designating which lawyer rendered the service.

The recapitulations from the time sheets may be developed into monthly reports, or production records, as the form below is called. Such periodic records are invaluable, reflecting not only the firm's financial status, but the monetary value of each firm member. They enable one to spot inequitable divisions of the work load, the extent to which firm time may be wasted, and other factors affecting staff efficiency. With this check, problems may be anticipated—and remedies applied—before serious situations develop.

PRODUCTION RECORD FOR MARCH, 1958

	Rate	Hours Charged	Value	Quota	Gain or (Loss)	Actual Fees Charged	Cumulative Annual Comparison	
							Actual Fees Charged	Thru Month
Smith	\$20.00	90	\$1,800	\$2,167	\$ (367)	\$2,975	\$7,125	\$6,250
Jones	13.00	120	1,560	1,408	152	1,215	4,750	4,350
Brown	6.50	130	845	704	143	510	2,350	1,857
Total		340	\$4,205	\$4,279	\$ (75)	\$4,700	\$14,225	\$12,457

The client's ledger sheets may be utilized in the same manner as those of the independent practitioner, with the addition of initials designating which lawyer rendered the service. When the fee charged is not equivalent to the monetary value of the time consumed, it may be desirable to allocate the excess or deficit to the firm members who participated in the service. This may be done in proportion to the number of hours expended by each attorney or to the monetary value of his time. The latter method seems preferable.

Finally, a periodic review of the client's ledgers is a ready method of determining whether the experience of older attorneys is fully utilized or whether they are spending time on less-important matters which might be delegated to junior members of the firm.

**JAMES BARRISTER, ATTORNEY-AT-LAW**

**RECEIPTS AND DISBURSEMENTS FOR THE MONTH OF \_\_\_\_\_ 19\_\_.**

**CLIENTS FUNDS**

	Special Bank Account		Regular Bank Account		Operating Expenses Description
	Deposits (Dr.)	Checks (Cr.)	Deposits (Dr.)	Checks (Cr.)	
<b>1958 PAYEE, SOURCE, ETC.</b>					
Jan. 2 N. Y. Life Ins. Co. — Check Deposited			2,100.00		
9 Jane Smith Ck. #1				65.00	Salary — wk ended 1.11.58
10 Robt. Lee — escrow deposit	200.00				
11 James Barrister — withdrawal Ck. #2				100.00	
13 Office Supply Co. Ck. #3				150.00	Office expense — supplies
15 ABC Co. — Fee paid			500.00		
16 Chancery Clerk — Hinds Co. — costs Ck. #4				36.40	
18 Jane Smith Ck. #5				65.00	Salary — wk ended 1.18.58
18 First Nat. Bank — loan			2000.00		
18 James Barrister — withdrawal Ck. #6				100.00	
21 James Barrister — reimbursing petty cash box Ck. #7				39.10	Office expense — postage Travel to New Orleans Client entertainment Rent — Parking lot
21 First Realty Co. Ck. #8				50.00	Rent — January
21 Southern Telephone Co. Ck. #9				21.40	Telephone
24 J. D. Smith — Fee			125.00		
24 Moore & Co. — Fee			200.00		
25 Jane Smith Ck. #13				65.00	Salary — wk ended 1.25.58
28 Mrs. Robt. Lee — % Robt. Lee Ck. #S-1		200.00			
	200.00	200.00	3935.00	701.90	

**DISBURSEMENTS**

**RECEIPTS**

Amount (Dr.)	Reimbursable Expenses (Dr.)	Miscellaneous Disbursements Description	Amount (Dr.)	Fees Collected (Cr.)	Expenses Reimbursed (Cr.)	Miscellaneous Receipts Description	Amounts (Cr.)	Balance of Accounts For Month	
								Debits	Credits
						Loan on Policy	3000 00	3981 00	701 90
								303 50	10 00
65 00								46 40	975 00
		Personal	100 00					301 00	3000 00
		Desk	150 00					4686 90	4686 90
10 00				600 00					
	36 40								
65 00						on 1st Note	2000 00		
		Personal	100 00						
00									
80									
4.30									
7 00									
50 00									
11 40	10 00								
				125 00					
				250 00	10 00				
65.00									
05.50	46.40		350.00	975.00	10.00		3000 00		

**Income and Expense  
For Month**

Fees Collected	975.00
Operating Expenses	
Salaries	195.00
Office exp.	16.00
Travel	21.80
Client entertainment	4.30
Rent	57.00
Telephone	11.40
<b>Net</b>	<b>669.50</b>



## DETERMINING FEES AND BILLING CLIENTS

Overhead costs, time expended, the hourly rate, and expenses chargeable to clients, suggest in a provisional way some basis for determining the fee to be charged. However, they do not in themselves usually comprise the fee. These charges have prime use in cost-analysis and as measures of profit or loss on particular items of business.

Canon Twelve of the American Bar Association Canons of Ethics enumerates other professional and economic factors which should be considered when determining fees. In addition to time and labor, the following guides are suggested:

Novelty and difficulty of the case and the skill requisite to conduct it;

Whether acceptance of a case involves the lawyer's loss of other employment or precludes his appearance for others;

Customary charges of the Bar;

Contingency or certainty of compensation;

Character of the employment, whether casual or for an established and constant client;

Amount involved in controversy and benefits resulting to the client.

The use of the last element has been questioned by some courts.

As the Canon states, no one of these considerations is in itself controlling. They serve merely as guides to ascertaining the value of services rendered.

When preparing the bill, it is necessary to state your charges in a manner that will convey the full extent and import of your services. Experience has shown that, for most clients, a statement of the dates on which services were rendered and the specific nature of the service is extremely helpful. A listing of all dates on which work was done is especially valuable when a matter has extended over a number of months. After detailing items of reimbursable expense, dates and nature of services, the amount due may be broken down into two items; the first, sixty percent of the total fee, to be shown as "Professional fees for services rendered"; the other, forty percent of the total, shown as "Overhead cost of performing services including expense of library, office equipment, stenographic help, taxes and other office maintenance costs attributable to the above services".

Care must be taken, however, not to over-itemize the bill or show fees on an hourly basis since this affords too much latitude for client dissatisfaction over small details. In any event, the form of bill submitted will vary with your prior contact with the client and particular type of case. The entries on the bill are, of course, derived from the information shown on the client's ledger. It may even be feasible to send the client a copy of the ledger sheet itself, *omitting the time-basis columns*.

The time charge data is very useful in resolving the puzzling question of reasonable charges for retainer fees. Further, if a bill shows the detailed itemization of services that appear on the client's ledger, it will be a convincing demonstration of the reasonableness of the charges in relation to time spent and the factor of office cost.

The practice of law is competitive in many respects. Should one lawyer increase his charges to amounts reasonable and proper, but which materially exceed charges of other attorneys in the same locality, the resultant loss of business could more than offset profits on any individual item. In such instances, state and local bar associations can be of great assistance. Through cooperative efforts of individual practitioners, and their bar association, proper increases in the general level of fees may be attained. Active participation in the work of the organized bar is strongly recommended as a means of bettering the economic status of the profession. For an excellent and detailed discussion of suggested bases of fee computation, see article by Herman S. Merrell in the March, 1958, issue of *The Practical Lawyer*.

## MINIMUM ACCOUNTING RECORDS

**I**t is recommended that every law office, large or small, maintain a complete double entry system of books. Should this not be feasible for some individual practitioners, minimum accounting records may consist of check stubs, deposit slips, bank statements, petty cash records and clients' ledgers. If maintained accurately and in detail, these records will meet the bare minimum for income tax purposes. To so serve, all office transactions must be handled through these records.

Check stubs and deposit slips must identify the client or account to which the item is charged. The identifying notations on deposit slips may be transferred to the back of check stubs of approximately the same date so there will be one composite record of receipts and disbursements other than those handled through the petty cash fund.

For all practitioners, two bank accounts are necessary, (1) a trust account or special account for handling clients' funds such as collections, closing of loans and sales and (2) a regular account utilized for the operation of the office. It goes without saying that it should not be utilized as a personal account as well.

*The trust account.* Checks should be drawn on the trust account only to clients, to third persons for the account of clients, to associate attorneys, or to the regular account. When a collection or recovery is made the funds should be deposited in the trust account; a check should be drawn to the regular account covering fees or reimbursement of expenses theretofore paid; a check should be drawn to the forwarding or associate attorneys, if any; and a check drawn to the client or to third parties for the account of the client. Fees and reimbursement of expenses theretofore paid should always be run through the regular account. An itemization of all disbursements arising from each deposit in the trust account should be typed upon or attached to the deposit slip, and the receipt and disbursement balanced.

*Regular account.* This account is used as the account for carrying on the business of the law office. It is in addition to any personal or household bank account which should never be mixed with the business accounts. If it is found convenient to occasionally violate this rule, any check drawn on the regular account for

an item which is not properly a law office expenditure should be marked "Personal" and handled as a withdrawal by the individual or partner. This would include such items as charitable contributions, personal investments, life insurance premiums, payment of insurance or repairs on the home, etc. Regular withdrawals should be by check to the lawyer or partner. Costs and expenses advanced should be deposited in and expended from the regular account. If there is any balance, it should be scrupulously accounted for, and credited upon the fee when the bill is rendered. Clients expect and appreciate a strict accounting for advances made.

*Charge and credit tickets.* These should be used as original entry records to be posted to the ledger. They are far more accurate than oral instructions. The following form of charge or credit ticket is recommended when authorizing checks or deposits, and entering items chargeable to the client, such as long distance telephone calls.

**CHARGE OR CREDIT TICKET**

Account No. \_\_\_\_\_ Ticket No. \_\_\_\_\_

Client \_\_\_\_\_ Date \_\_\_\_\_

CREDIT the above account with ( ) check ( ) cash in the amount of \$ \_\_\_\_\_

Explanation \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

DEBIT the above account with the following:

Telephone Call ( ) Telegram ( ) to \_\_\_\_\_ at \_\_\_\_\_ \$ \_\_\_\_\_

Expenses or fees itemized: \_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ \$ \_\_\_\_\_

DRAW CHECK AND DEBIT the above account as follows:

\_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ \$ \_\_\_\_\_

( ) Check drawn ( ) Posted to Client's Ledger ( ) Posted to Journal

The charge ticket should be used for all out-of-pocket expenses, cost of trial, mileage, taxi fares, business meals and similar office expense deductible for income tax purposes. It is well to write out the charges immediately upon returning to the office, while they are still fresh in your mind. Those chargeable to clients

will be transferred from the ticket to the client's ledger. When the ticket is used to authorize or record operating or capital expenditures not chargeable to clients, the nature of the item should be noted next to "Account No." and the word "Client" stricken.

*Petty Cash Fund.* When the fund is first opened, its cash contents are considered as original contributions to working capital. Thereafter, whenever the attorney makes small disbursements from his own funds for expenses properly chargeable to his office, he is repaid from the cash box and a notation is made (by charge ticket on a pad in the cash box itself) of the date, amount and nature of the expenditure, and, if reimbursable, the client to whom it is to be charged. When the funds in the cash box are low, the petty cash expenditures are recapitulated and classified by general headings such as telephone, postage, client entertainment, travel expense, etc. These headings are entered on the check stub drawn to replenish the fund, or if a journal is used, may be entered in the journal directly.

Large items should be reimbursed to the attorney by check rather than through the petty cash fund. If the records are to remain simple, funds to cover reimbursable expenses should never be advanced, but should be repaid when charge tickets are prepared. Accurate petty cash records will help substantiate tax deductions, as well as to indicate correctly the net income of the office.

*Accounts receivable and accounts payable.* When statements are rendered to clients, the copies should be placed in an "Accounts Receivable—Current" file. When paid they should be transferred to the "Accounts Receivable—Paid" file. At the end of the month, the total of these unpaid statements will give the outstanding accounts receivable. Whenever a fee is paid or expenses reimbursed by a transfer from the trust account without a bill having been rendered therefor, a credit ticket should be placed in the "Accounts Receivable—Paid" file so that the total will reflect all collections.

Similarly, an "Accounts Payable—Current" file should be maintained which when paid should be transferred to "Accounts Paid—Operating" and "Accounts Paid—Capital", according to their nature. At the end of each month, bills payable can be totaled and compared with bills receivable by running an adding machine tape on the two "Current" files. Notes payable and paid may be retained in a separate file.

*Capital Expenditures—Depreciation.* The file entitled "Accounts Paid—Capital" may be used as the record of capital investments, and as a basis for a depreciation schedule maintained in such file. This may be summarized or recorded on a ledger sheet, if desired. Any depreciable capital asset should be added to the depreciation schedule when the account is paid. The schedule is utilized for income tax purposes.

## SIMPLE DOUBLE ENTRY BOOKKEEPING FOR THE INDIVIDUAL PRACTITIONER

The above records, if maintained accurately and in detail, will be sufficient for the preparation of income tax returns, and afford the basis of an annual or periodic recapitulation. However, the committee recommends that every law office, large or small, should maintain a regular detailed double entry system of books. Such a system should be set up by an accountant, and their use explained to the employee charged with keeping the books. A discussion of such a bookkeeping system is beyond the scope of this article. For a detailed discussion of the subject see The



Practical Lawyer's Law Office Manual, mentioned above.

Perhaps the most economical method of maintaining books in a small law office is to have a public accountant review the above minimum records monthly and prepare detailed books therefrom. However, a minimum double entry bookkeeping record sufficient for a single practitioner or a small partnership may consist of one page with five double columns and three single columns.

*Cash Receipts and Disbursements Journal.* A typical cash receipts and disbursements sheet, which will be called a journal for convenience, appears on pages 16-17. This journal, combined with the above records, will provide a simple double-entry self-balancing system of bookkeeping from which needed data may readily be compiled. This will be a simple record of funds deposited and funds withdrawn from banks. It will serve adequately only if all law office receipts are deposited in the bank and all law office disbursements (except those from the petty cash box) are made by check.

The first two columns show trust account deposits and withdrawals. There is no double entry for this account, since it is maintained as a temporary conduit for funds which do not become part of the assets of the office. If desired, an off-setting double column entitled "Trust Account" may be added, and broken into debit and credit columns for specific clients for whom collections are handled. Whether this is done is purely a matter of convenience, as any balance on hand in the trust account will simply represent undistributed collections or recoveries.

The next two columns reflect deposits, shown as debits, and checks, shown as credits, to the bank through the regular account. For each entry there is an off-setting entry or entries in succeeding columns, classifying the receipts and disbursements passing through the regular account.

The disbursements are debit entries and are divided into Operating Expenses (with a column for description of the item), Reimbursable Expenses (whose nature is not material and hence not noted) and Miscellaneous Disbursements (with a column for the description of the item). Capital expenditures, withdrawals, repayment of principal on notes, etc., are entered under Miscellaneous Disbursements. Of course, columns may be added to provide as many classifications as are desired: salaries, travel, rents, telephone and telegraph, interest, withdrawals, etc. For the individual practitioner, however, these break-downs can be recapitulated from the journal at the end of each month. Withholding taxes, social security payments, etc., are entered when paid under "Operating Expenses". In partnerships, columns should be provided for withdrawals by each attorney.

The receipts are credit entries and are divided into Fees Collected, Expenses Reimbursed and Miscellaneous Receipts (with a descriptive column for the last). Miscellaneous Receipts includes proceeds of loans to the attorney, dividends on stocks, and, in the case of an individual practitioner, income from sources other than fees. Only firm receipts of that nature should be included by a partnership. Additional columns may be added to break the receipts down into whatever detail may be necessary.

At the end of each month, a recapitulation of operating expenses, and a separate recapitulation of receipts, should be made. Operating statements may be prepared monthly or yearly. As shown on the illustrative journal, the books are balanced by adding all of the debit columns and adding all of the credit columns. Trust Account entries are not included since they do not affect the records of the business transacted by the office through the regular account. Finally, outstanding bills receivable may be compared to bills payable simply by running an adding machine tape on the "Accounts Receivable—Current" file and the "Accounts Payable—Current" file.

#### EXAMPLES OF TYPICAL ENTRIES

*A will is written.* A telephone bill of \$2.15 is incurred and a fee of \$150 charged. Charge tickets are written for both items and debited to the proper clients' ledger. On the first of



the month, a statement is mailed the client and a copy placed in the "Accounts Receivable—Current" file. No entry is made on the journal until a check is received from the client. However, if the telephone bill is paid before receipt of client's check, when the check is drawn to pay the telephone bill including this item, the regular bank account is credited with the amount of the check paying the monthly bill. The \$2.15 item (with any other reimbursable calls) is debited to "Reimbursable Expenses". Any remaining calls are debited to "Operating Expense". Upon receipt of check from the client the bank is debited with \$152.15, "Fees Collected" is credited with \$150 and "Reimbursable Expenses" is credited with \$2.15.

*A personal injury claim is settled for \$10,250.* Reimbursable expenses and costs in the amount of \$250 have been incurred and paid. These expenses are paid through authorization by charge tickets and when the checks are drawn they are debited upon the proper clients' ledger. They are also credited on the journal to the regular bank account and debited to "Reimbursable Expenses". The agreed fee is twenty-five percent of net recovery. When received, the check for \$10,250 is deposited in the trust account, which is debited with that amount. The following checks are drawn thereon and credited thereto: (1) a check to the regular account of \$2,750 which is deposited in and debited to the regular bank account; \$2,500 is credited to "Fees Collected", and \$250 is credited to "Expenses Reimbursed"; and (2) a check to the client for \$7,500. The check to the client appears in the journal as a credit to the special bank account and is not included in the monthly recapitulation of the office operations. The recapitulation is limited to transactions through the regular bank account. The disbursements should be balanced with the receipts by entry of all disbursements upon the reverse side of the deposit slip, or by slip attached thereto.

*A loan to a client is closed for \$10,000.* Reimbursable expenses of \$100 have been authorized by charge tickets, debited on the client's ledger and paid from the regular account prior to the closing. The checks have been credited to the regular bank account and debited to "Reimbursable Expenses". The agreed fee is \$200. The full \$10,000 is deposited in the trust account, which is debited with that amount. The following checks are drawn thereon and credited thereto: (1) separate checks payable for the taxes, recording fees, federal stamps, survey, title insurance, etc.; none of these appear on the journal except as a credit to the trust account; (2) a check to the regular account for \$300, deposited in and debited to the regular

bank account; \$200 is credited to "Fees Collected" and \$100 to "Reimbursed Expenses"; and (3) a check to the client for the balance. The checks for taxes, recording fees, etc., and the check to the client do not appear in the journal except as a credit to the special bank account, and again are not included in the monthly recapitulation of office operations.

In the case of the personal injury recovery and the closing of the loan, these transactions may be entered in full upon the client's ledger, if desired, by proper debits and credits. However, care must be taken not to make a duplicate entry by showing the full amount of the deposit as a credit in addition to the check transferring the fees and reimbursable expenses from the special to the regular account. The amount represented by this transfer simply appears on the client's ledger as a detail of the receipt and disbursement of the collection. Accounting, record-keeping and systems of cost analysis should become a routine part of every law office. It is sincerely hoped that this pamphlet will stimulate lawyers to modernize the business aspects of their practice, and establish office operations on a more efficient basis. The rewards will speak for themselves.

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