

doing financial assessments of your year

WR healthcare article



Rosemary Smith offers advice on how to keep on top of your bottom line with frequent reviews.

How often should i review practice accounts?

You should at least be checking everything quarterly but ideally it should be monthly.

The worst thing you can do is not looking at any details of your practice accounts until the year end and waiting until your accountant has prepared your accounts and arranged a meeting. This is a one-way journey to potential disaster.

What should i be looking at?

Before you look at budgets or long-term plans it is important to know your figures are accurate. Whether computerised or not, the only way to be sure is by reconciling your bank account, making sure it shows your true financial position and takes into account what should have come in or gone out. You should never use your statements to enter items onto your accounting system because this does not allow for receipts and payments that have not gone through your bank account yet. Instead enter them from your chequebook, paying-in book and remittance advices received.

Once you have reconciled your account, take time to look at the outstanding items. On the income side you should not expect to see anything over a month old. So look into anything older – has the money not been received or has the item been duplicated? If not received, make sure someone chases it up. If it is duplicated it needs writing off. Income entered incorrectly can give you an inflated bank balance, which could be disastrous.

On the expenditure side, check anything over two months old. Again, check it hasn't been duplicated, but if it simply hasn't been cashed it might have been lost in the post.

How do i assess how the practice is doing?

First, compare reality against your budget.

One of the most important results of preparing your budget was that you spent time looking at your income and expenditure and analysing it closely.

Now review budget against actual, comparing each item of income and expenditure. If the figures are close, move onto the next item. You are looking for figures that differ substantially.

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If you have received less income than expected, ask why. Have you not been paid for something or has there been a deduction made to the monthly payment that you didn't know about? If it is an error, find out when this will be paid to you and adjust your future budget accordingly. If you have been paid more, is this a new income or normal income paid early? Either way, alter your future budget.

The same needs to be done for expenditure. Check whether a cost has gone up as a one-off or whether it will be an ongoing larger payment, in which case your budget should be changed. Often costs are lower because a payment that has been forecast is going to be paid later, so add this onto next month's expected budget.

Once your budget has been updated with real numbers it becomes your actual position. As you go through the year, remember that if your forecast has been understated each month it can have a damaging effect on your cash balance.

How can i respond to the findings?

If you can see this is going to happen, take action to rectify it. Sometimes it is only a matter of delaying payment of some invoices. Take care not to delay payments where you get a discount for early payment, as this will affect your bank balance.

Your main expense is wages, and these cannot be deferred. But, if you have enough warning, you can change the pattern that drawings are paid out. For example, paying equal amounts each month will make it easier for you to budget at home.

Next, assess your long-term plans.

See what effect your bottom line is when you have adjusted for the above. Do some 'what if' scenarios to determine the impact of, say, losing 10% off your QOF payment, or costs rising 5%. This will show you where you need to focus your attention. More importantly look at the results of two things happening together – say, income falling 5% and your wage bill rising 3%.

Your business plan can also be used if you have a retiring partner, as you can see the implications of taking on another partner or taking a salaried doctor or nurse practitioner on instead. The latter will increase your costs dramatically but makes the profit per doctor higher because it is shared between fewer partners.

What longer-term action should i take?

Having looked at your budget and long-term plans, you can now make decisions on your surgery's future. Do you need to:

- increase your income?
- streamline costs?
- improve the use of your assets?

You will probably need a combination of all three. Prepare some ideas and look at their costs. Often it is not cost-effective to take on some income streams, and sometimes cutting staff may reduce other income. Look into it properly rather than panicking and making a rushed decision.

If you have a cash problem looming, take advice from your accountant or bank manager. If you can show them a long-term plan or budget and demonstrate that this is a temporary problem, they are far more likely to help you and the cost of that help will be reduced. If the problem is severe, you can take a more gradual reduction in drawings that will make it easier than suddenly finding out you will have to cut substantially. Forewarned is forearmed.

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