Accounting for General Practitioners
THE IMPORTANCE OF RECORDING FINANCIAL TRANSACTIONS

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Summary

In the first article in this series, focus was on accounting systems that can be used for decision making to promote a financially healthy practice. This article concentrates on the need to secure and ensure that the financial information that is presented is correct and accurate.

Many doctors believe in fudging, either because they do not wish to face financial reality or because they believe that fudging may have some tax advantages. The problems of fudging and the effect that this has on both the doctor's financial position and the staff are dealt with.

The systems the doctors presently use to record financial transactions are: no system, manual system, cigarette box, two receipt books and computerised systems. The advantages and disadvantages of these systems are briefly discussed and ultimately a proposal is made to acquire a system which is reliable, accurate and easy to operate.

The recording of financial transactions is often the weak link in general practice management, although this can be a critical factor for success and satisfaction in any practice. Bookkeeping is used to record all transactions that can be reduced to a monetary value within a business. Bookkeeping is the process of recording where money came from and where it went to. The books are an integral part of practice management.

Accurate financial data is essential for planning, organising, controlling and evaluating a business. Many of the decisions that have to be made in a business must be based on existing financial data and in turn have financial implications and consequences. These consequences need to be anticipated and considered in any planning. If not factored into the planning and decisions, they could spell financial disaster and ruin for an otherwise successful practice.

The aims and objectives of the bookkeeping system should be to record the transactions as accurately and efficiently as possible. The books are used to generate the financial statements which should be readily available to help with management decisions.

By convention, the double entry bookkeeping system is used to record transactions. A transaction can either generate an income or it can incur a cost for the practice. Every transaction, for example a patient consultation or the purchase of goods, can either be paid for in cash or it may be provided now, to be paid for at a later date (credit transaction).

Cash transactions are recorded in a cash book. Credit transactions are recorded in a journal. These transactions are then "posted" or transferred to the ledger which provides a summary of the main sources of income and expenditure.

Accuracy in Recording Transactions

In the previous article *(Vol. 18 No.1, February/March 1997)*, it was shown how the financial data was used as a management tool to help make informed business decisions to achieve objectives, for example to increase profit. This emphasises the necessity for financial accuracy. Accuracy will inevitably influence the quality of the business decision making.

A problem which can confront doctors, is whether or not "fudging" has any merits in

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practice. Fudging is the purposeful inaccurate recording of financial data. One problem with fudging is that it will detract from good business decision making. Fudging usually involves the blurring of either income or expenditure.

There are many ways to practise fudging within a practice. These include operating two receipt books, separate accounts and back-pocket accounting (no records at all). Besides the legal consequences of tax evasion, there are other detrimental effects on the practice. Not the least of these is the effect on the staff who sometimes also feel entitled to their share of the cash takings.

It is unfortunate that some medical practitioners do not recognise the fact that inaccurate financial records inevitably cause staff, financial, management and tax problems.

Bookkeeping systems

Selecting a bookkeeping system requires careful consideration. It should be comprehensive and easy to operate so that it is able to generate all the relevant financial statements readily whenever they are required.

In the early stages of a business or when a business is experiencing financial difficulty or even when it is expanding, it is necessary to make greater and more regular use of the financial statements. There are many options from which to choose. Essentially, the choice is between a manual and computerised system.

Manual systems are more prone to misuse and inaccuracy than computerised systems. However, computerised systems are not without problems. It is important that the staff who use the computerised system are adequately trained to do the job. A computer system obviously requires basic computer literacy and competence. In addition, computer systems require a backup of all financial transaction data stored on disc or tape just in case the originals get electronically destroyed.

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Accountancy

It is important to understand the language of accountancy and to recognise that accounting data is only one tool in the process of efficient practice management.

Accounting uses some terms found in every day English in a very specific manner. There are also some limitations with respect to accounting conventions. This can often be the reason for doctors not fully understanding accounting documents.

1. Once again it is necessary to emphasise that accounting/bookkeeping only involves transactions with a monetary value. Some events or "transactions" defy expression in monetary terms. This is particularly so in a medical practice. It should be understood therefore that those events or transactions that are not capable of being expressed in a monetary unit of measurement are omitted in accounting. Therefore, accounting should not be the only "tool" used to make decisions about the practice.
2. One of the important reasons for failing to understand the income statement is the confusion between income and profit. In common terminology, income means "take home pay". In accounting, "take home pay" is the difference between income and expenses, namely profit.
3. The values placed by an accountant upon any item in the balance sheet do not always represent the true worth of the item at today's monetary value. Only actual cash on hand or on deposit has today's monetary value. The practice could be worth more or less than the value shown in the financial statements.
4. Some figures seen in the financial statements may be an approximation. All units of measurement of value have some degree of approximation. This is particularly so for many of the fixed assets in a general practice.
5. Figures may reflect opinions. Just as two doctors may differ in their diagnosis of the same symptoms in a patient, so too, accountants may differ in the value that they place on assets or the interpretation of financial statements. By nature, accountants are conservative in their outlook. Most assets are therefore undervalued within the business. This should not deceive the doctor into thinking that he/she is financially better off than the "books" reflect. It is preferable to be pleasantly surprised when selling the practice, than to be shocked and disappointed.
6. The figures reflected in your books should not be regarded as scientific facts which can be depended upon under any circumstances. Environmental change, political instability, severe economic conditions, etc., can all influence the price of an asset. This is particularly so with respect to debtors and creditors. If the economic situation deteriorates, bad debts and the interest on overdrafts are likely to increase. Sudden changes in an economically unstable environment can have a significant effect on your net worth.

The Books of Account

Although it seems almost too obvious to mention, it is important to remember that the set of books of the practice should only reflect practice transactions. They should not include any private business transactions that the doctor may have incurred in his/her personal capacity.

The double entry bookkeeping system must have two entries for every transaction. The basic rule of thumb to remember is that if the account receives the commodity it is debited. Conversely if it loses the commodity it is credited. For example, if cash is received from a patient, the cash book is debited while the patient's account is credited.

The Cash Book
The cash book records the inflow and outflow of cash either on hand or in the bank, to or from the practice. Received cash is debited in the cash book, while cash that is paid out is credited in the cash book.

The Journal
Any transaction that takes place on a non-cash basis, but which has monetary value, is recorded on the day of the transaction in the journal.

The Ledger
The ledger summarises and regroups all the transactions within the practice for a given period of time. The ledger summarises who owes money to the business and to whom the business owes money. The ledger accounts are often referred to as T accounts.

The financial statements which the business generates:
The Trial Balance
At the end of any given period the difference between the debit and credit entries in each ledger account is calculated. These balances are recorded in the trial balance. The trial balance is used to ensure that every transaction has been recorded twice (the double entry bookkeeping system).

The Income Statement
The income statement summarises all the business transactions that have resulted in either an income or an expenditure for the business within a specified time period. The income statement reflects the profit or loss arising from these business transactions as well as the source of such profit or loss.

Use of the Income Statement
Income statements can be used to draw up and evaluate the practice budget. The budget can be used to estimate expenditure for any given period of time, usually one year. The incremental budgeting system takes each item in the income statement and any other additional items that could possibly incur a cost for the practice, and tries to quantify the amount of money that is likely to be spent on them for the coming year.

Budgets are used to make one aware of how much money one is spending on each item and also offer an opportunity to address problem areas. Budgets can also be used to evaluate how efficiently the practice is being financially managed.

The Balance Sheet
The balance sheet is a summary of the assets and liabilities of the business at a particular point in time. The difference between the assets and the liabilities is known as the owner's equity (Equity = Assets - Liabilities).

In the next article in this series, we will discuss how the financial manager makes use of the financial statements in order to calculate the important financial ratios that can be used to establish the profitability and the efficiency of the various business (practice) activities. ●

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