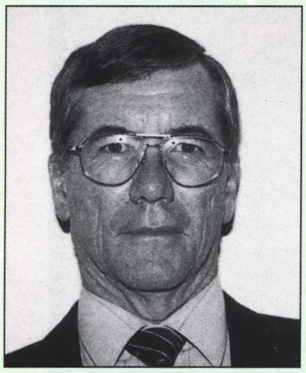

Dr G Hukins, Bsc, MBBCh, MMed, MPraxMed, DPH, DOH, DTM 7 H, CTBA (Certificate in the Theory of Business Administration), MCom. Department of Family Medicine, University of the Witwatersrand

Dr Graham Hukins is a senior lecturer in the Department of Family Medicine at the University of Witwatersrand. He has had both urban and rural family practice experience and has also worked in the university clinics in Alexandra township and Soweto. During his period of specialisation he spent time as a registrar at the National Centre for Occupational Health, the Johannesburg Municipal Health Department and the Epidemiological Section of the South African Department of National Health.

Graham has lectured on issues relating to quality health care and cost containment. These have included: the cost effective planning and implementation of occupational health services, managed health care options for South Africa, and the role of the providers in planning cost-efficient care.

He advises the South African Academy of Family Practice and regularly represents the South African Medical and Dental Council at disciplinary hearings.

ACCOUNTING FOR GENERAL PRACTITIONERS

It is no good being a superlative clinician yet a poor manager. Management skills in your life and practice will determine the amount of satisfaction that you derive from a medical career.

This series of articles addresses a number of practical issues in practice management.

Many general practitioners have a natural aversion to both bookkeeping and accounting. They do not realise that a basic understanding of accounting is a very useful tool within any business and particularly within their clinics or practices.

Some doctors feel that accounting should be left entirely to the bookkeeper or the accountant. If this is done, many of the important decisions that the doctor has to make within his/her practice on a daily basis are made without taking full advantage of the accounting data.

The basics of accounting are certainly not difficult to learn and if they are mastered, they should enhance a medical practice and contribute to the doctor's satisfaction.

The doctor's medical practice should be viewed as a business. Every type of business has its own rules and ethics. Such rules and ethics are relevant particularly in a medical practice and it is important that they be rigorously observed.

The reason for being in one's own business is the personal satisfaction and enjoyment that comes from managing the work "your way" and also taking responsibility for your own "profit" or income. A properly run business has a number of advantages for the doctor. It should, inter alia:

1. Increase one's standard of living;
2. Maximise time management efficiency so that the doctor has the opportunity to participate in family, social and recreational activities;
3. Create financial peace of mind so that the doctor is able to plan for holidays and retirement without the threat of always exceeding the limits on the overdraft and receiving regular calls from the bank manager; and, finally,
4. Allow the doctor to focus and concentrate on his/her patients so that the administrative function is minimised.

There are three accounting summaries which the doctor needs to know how to interpret and use. These are recommended as starting points for the introduction into accounting. These three financial statements are:

1. The Income Statement
2. The Budget
3. The Cash-Flow Statement

The Income Statement

The Income Statement is a summary of income and expenditure (costs) for the time period under review. The difference between the income and the expenditure or costs is the profit or "take home pay" of the practitioner.

In the example *(Table I)*, note that the doctor has a turnover in excess of R1-million per annum (R1 051 468). The expenses in this practice for the same time period are R896 189. The doctor therefore draws an annual "salary", "net income" or "profit" for the year, of R155 279.

It is sobering 'to realise that, with a turnover in excess of R1 000 000 per year, the doctor's monthly salary is just less than R13 000. If this doctor wanted to earn at least R18 000 a month before tax to meet his financial commitments, how would you go about advising the doctor to increase his monthly salary?

Most doctors have the natural tendency to recommend increasing either consultations, sale of medicines or the number of medical procedures performed in order to increase profit. The implications of these recommendations are that the doctor will have to increase the work load which will, of course, impact directly upon the doctor's time.

An alternative solution is to reduce costs. A review of the Income Statement shows that if bad debts could be reduced, finance charges eliminated and salaries and related expenses cut by 10%, then the doctor could increase his profit or "take home pay" by 40% to R18 115,88.

The latter recommendations are some suggestions which illustrate the use of the Income Statement for decision making. There are, of course, other possible solutions. It should be obvious from this example that a regular review of the Income Statement is an opportunity for the doctor to identify ways and means of increasing his/her "take home pay" without impinging on recreational time.

The Budget

It is surprising, particularly in our present economic climate, how quickly we lose touch with the effect of inflation on our monthly expenditure.

The running of a practice inevitably entails certain goods and services having to be purchased on a regular basis. Some of these goods and services are regular expenditure items independent of practice activities (fixed costs), while certain others are variable costs.

We can make choices about some of the costs incurred, e.g. the costs of motor vehicles, insurances, retirement annuities, employment of staff, etc. Budgeting at the beginning of the year promotes a financial discipline which will, hopefully, prevent the practice manager or doctor from incurring unnecessary costs which ultimately will reduce the net profit or take home pay for the doctor.

It is important when we budget to distinguish between the items of expenditure. Firstly these items need to be classified as:

1. Absolutely essential now.
2. Essential in the future.
3. Useful to have.
4. Time saving.
5. Nice to have.
6. Important to have, they improve my status.
7. Deserved, I've worked for it.
8. Extravagant, but I will treat myself anyway.

The next step in the budgeting process is to determine a realistic amount that one should spend on each of these items. The "three quote" method is one way to go about doing this. Firstly, the item of expenditure has to be clearly defined. If the goods are to be purchased, the specifications need to be clearly written.

Goods that need to be purchased within a practice include: motor vehicles and electronic equipment, such as telephone answering machines, faxes, computers, ECG machines etc.

With respect to the purchase of services, it may be more difficult for the untrained professional to describe in detail the service requirements for the staff and advisors, e.g. insurance, retirement annuities etc. However, there are many personnel consultants who are able to appraise and select these services.

Once you have a completed budget, the next step in the process is to decide when these items are going to be purchased. For this purpose we require a Cash-Flow Statement.

The Cash-Flow Statement

One of the most important attributes of a Cash-Flow Statement is that it prevents the unnecessary purchase of goods and services on credit.

Buying on credit, particularly with our current high finance costs, is an extremely expensive option. Credit purchases will often double the price of the goods purchased in just under four years. The cost of a R50 000 overdraft, which is fully utilised at a 20% interest rate, amounts to R10 000 per annum. If one could save this R10 000 per annum and invest it at 16% over 25 years, then the income that would accrue from this investment would be approximately R2.5-million.

In addition, the Cash-Flow Statement can act as a motivator to both doctors and staff to ensure that all outstanding money is timeously collected. Once again, assuming that the doctor's book value amounts to approximately R50 000 worth of work per month and that these debts are only collected on average at 60 days, then the monthly cost to the doctor for allowing this credit is R1 828,00 per month or R21 938,00 per year.

Compare this to investing R10 000 per annum in the example above.

Some doctors believe that the Receiver of Revenue pays for the credit. This of course is a complete myth. A call to your local Receiver of Revenue inviting him/her to come and see patients in your practice to earn the money to pay for this credit will quickly dispel the illusion that the Receiver of Revenue pays for it. You earn the money. You make the decision to either pay it to the Receiver of Revenue or to the financial institution that lent you the money.

You are often much better off paying the Receiver of Revenue than borrowing money in the present economic climate.

Better insights into the principles of accounting are useful tools for decision makers within any business. The doctor, too, can benefit by acquiring basic skills and implementing accounting principles within a general practice.

We have briefly considered the advantages and use of three financial statements in a general practice. Doctors do not need to become highly skilled in accounting to make a major impact on their practices and financial position. Appropriately applied accounting techniques will enhance the practice and promote increased financial peace of mind and job satisfaction. ●

Table I: Dr XYZ's Income Statement for the year ended 28th February 1995

INCOME		
Fees received		
- services		282 397
- medicines		768 508
Interest received		563
		1 051 468
EXPENDITURE		**896 189**
Accounting fees	10 000	
Answering services	1 642	
Bad debts	13 801	
Bank charges	6 794	
Cleaning	712	
Computer expenses	9 640	
Depreciation	53 781	
Electricity & water	1 470	
Entertainment/ staff refreshments	7 018	
Finance charges	44 308	
Insurance	2 472	
Interest paid	8 338	
Locum fees	9 832	
Medical requirements	533 007	
Motor vehicle expenses	16 254	
Printing & stationery	4 230	
Rent		
- rooms	22 555	
- office equipment	560	
Repairs & maintenance	25 470	
RSC levies	1 690	
Salaries and related expenses	101 571	
Security	4 267	
Subscriptions	2 285	
Telephone and postage	14 492	
NET INCOME for the year		**155 279**

The Cash-Flow Statement can act as a motivator to both doctors and staff to ensure that all outstanding money is timeously collected.