

The first few steps to improve financial management at your practice!

By the time you read this article most of you will have submitted your annual self assessment tax return and paid a hefty sum to the taxman!

Did you ever think that better financial management could reduce your tax bill?

Most of you being higher rate tax payers, have you ever thought how much tax you would have overpaid due to omission of expenses during the process of preparing your annual accounts?

To put this in the simplest form, an unaccounted invoice of £100 would have resulted in you paying an extra £40 of tax to the taxman. This is equally true with any unaccounted income - if you have understated your income you would have underpaid tax!

However, using a more systemised way of receiving income – especially where income is mainly received from the NHS - the practice owner's general awareness of the annual income and the accountant's focus on verifying the income figures could all result in a true and fair statement of income in your accounts.

The main reason for the omission of financial records during the process of preparing annual accounts is mainly due to a lack of proper record keeping systems at many dental practices.

Therefore, in my first article in a series of articles on the first few steps to improve financial management at your practice I will discuss how a bookkeeping system could improve your record keeping procedures.

Why you should systemise your accounting records?

The purpose of most businesses is to make a profit, unless it's for charitable purposes. In this context, it is important to ascertain how well your business has performed – mainly its financial performance. To achieve this it is necessary to have a system to record all the business transactions at your dental practice.

Although almost every dentist is aware of the gross revenue that he/she generates a month, most of the dentists are unaware of the monthly net profit of the practice having met all routine operational expenses such as materials, lab fees, salaries etc.

The main reason for this inability to figure out the monthly profit, or in other words your financial performance, is due to unavailability of a system to collate practice income and operational expenses in a systematic manner.

However, a bookkeeping system, ideally a computer based system, would help you to record transactions of your dental practice as and when they occur, thus providing you with management information on a timely basis.

Most dentists find out their financial performance only after their accountants have prepared the annual accounts for the purpose of filing the annual tax return. This will not serve the greater interests of the practice owner, although it will satisfy external reporting obligations that you have as a self employed individual in the form of submitting your self assessment tax return based on the annual accounts.

As a business owner, you need to know your financial performance on a more frequent basis, at least on a monthly basis and definitely not one year later when it is too late to take any corrective action. The only beneficial knowledge gained from your end of year accounts is an idea as to what needs to be done in the future.

A bookkeeping system provides vital management information, such as monthly financial performance, comparison of actual performance against your annual budget, analysis of various financial trends such as growth in revenue, profit and so on. In addition, a bookkeeping system could have a positive impact on your tax bill too!

Unless you are very methodical and keep records in a meticulous manner, there is always a possibility of missing out an invoice or two when preparing the annual accounts, which could prove costly to you. If you are the type of dentist who leaves the preparation of your accounts to the last minute, for example, December or January time, both you and your accountants would be hard pressed for time and possibly lack the time to go through every document to make sure that every single transaction has been accounted for.

If your accountant does not perform a bookkeeping exercise for you, they would rely on the information that you provide to prepare your annual accounts and tax return. Therefore the onus is for you to provide all relevant information to make sure that everything has been accounted for!

In most cases collating the information for one full year proves a tedious task to the practice owner, even if you have staff to assist you, and often the period of accounts preparation proves to be a nightmare for most of you.

In addition, with HM Customs and Excise increasing their emphasis on investigating a higher proportion of self assessment tax returns and recent emphasis on dental and medical professionals, the chances of your return being investigated has also increased.

In the event of your self assessment being subjected to a tax investigation, pulling together the necessary information and reconciling it to what you have declared in your tax return is a yet another tedious task. Although your accountants would likely undertake this task for you, you will need to provide information and they will charge a fee for this service, which, depending on the amount of work necessary and the method of charging, could run to thousands of pounds.

How could a bookkeeping system could help your record keeping?

The benefits of a bookkeeping system are numerous. Such a system will help you to obtain vital management information almost on a daily basis and improve the quality and accuracy of your annual accounts.

A simple computer based bookkeeping system could be easily implemented at your practice with adequate training to the personnel who are usually involved in day to day record keeping – ideally your practice manager.

Such a system could be used record all business transactions at your practice on regular basis. In addition to vital management information it will also help you and your staff to know to whom you owe money, when to pay your suppliers, how much money is owed to you by patients etc.

The most important aspect is chances of omitting transactions from your accounting records would be minimal, since you would update the system on a regular basis, in manageable chunks. This would ensure that your annual accounts would give a “true and fair” view of your financial performance and most importantly you pay the correct amount of tax!

On the other hand if your return is subjected to an investigation, the whole exercise of pulling together the necessary information and provision of explanations would prove a less tedious task. A bookkeeping system could help your accountants to prepare your accounts faster and lead to lower accountancy fees!

The whole accounts preparation process would prove a less tedious task for you and your accountant, allowing your accountant to focus more on value adding services such as tax planning.

Conclusion

In my opinion if you wish to run your dental practice in a more efficient manner, if you need to know your practice’s financial performance on a regular basis with a view of taking necessary management action to improve practice performance, if you want to reduce the administrative nightmare during the period of annual accounts preparation and if you are concerned with your recent heavy tax bill it is high time to implement a computer based bookkeeping system at your practice.

With ever increasing emphasis on the business-like operation of dental practices, with more dentists turning private and increased emphasis by the DOH/PCT on practice performances, strengthening your internal financial management systems has become an important aspect of running a successful dental practice.

Although it sounds complex, a simple bookkeeping system with training could help you no end in systemising your record keeping and management reporting.