

Brief Instructions on how to use a Bookkeeping Package

Introduction

The energies of most Dentists are, quite rightly, concentrated on the clinical aspect of their practices. Though it might appear a hassle, keeping your practice's records in a methodical manner will help you to monitor the financial outcome of your efforts on a monthly basis.

The procedure involved is known as bookkeeping in accountancy parlance. This can be done either manually or by using a bookkeeping software package. A bookkeeping software package will significantly reduce your administration efforts in this regard and you can buy a package for less than £150 in the market.

The Benefits

As in the case of any business, it's essential to know your dental practice's financial performance. This can only be possible if you record your transactions on a timely basis. Amongst numerous benefits of using a bookkeeping system, the following are few to note.

- Access to timely information on your practice's financial performance.
- Know how your practice has performed in comparison to a preset plan.
- Know what your main overheads are.
- Know how much money you owe to and owe from third parties.
- Know when your bills are payable and how much is payable.
- Take necessary corrective actions if the practice performance is below the plan.
- Access to management information tools that are based on your monthly accounts.
- Reduce your administration and accountancy fees.

The above benefits definitely outweigh the initial trouble of learning how to use bookkeeping software and the initial steps involved in setting it up. However, once it's set up you or your practice manager can easily update the system, perhaps on a daily basis. This will enable you to produce your accounts even on a daily basis!

The help you need

It is important to select the right software, because for a typical dental practice a very basic bookkeeping package will be more than enough. This will enable you to keep the initial investment to a minimum and importantly by selecting the right software the difficulties of using a complicated software package can be avoided.

Secondly, you need a brief introduction to the concept of bookkeeping. Also, you need to install the software and set up an appropriate "chart of accounts" to represent all your practice transactions. Then you need a little bit of training on how to post different transactions and how to run the monthly reports etc.

In most cases your Dental Accountant will be able help you in selecting the right software and provide you with the initial training and advice you need to operate the package.

A basic introduction to double entry bookkeeping system

In accounting, all transactions can be classified into the following four categories.

- Income – Such as income from NHS, private patients etc.
- Expenses – Such as lab fees, staff salaries etc.
- Assets – Such as fixed assets, stock of dental materials, bank balance etc
- Liabilities – Such as loans, NI & PAYE tax deducted from staff & yet to be paid to the IR etc.

In recording commercial transactions, always two “categories” of accounts are involved. This is known as the “double entry bookkeeping” system. For example, the fees received from your private patients should be “credited” to the account titled “Fees from private patients” under your profit and loss account, whilst the monies received will have to be debited to the “bank account” in your balance sheet. If these patients are yet to settle the fees due, then instead of “bank account” you will debit “debtors” account in the balance sheet as receivable.

Similarly in recording expenses, you will have to debit the respective expense account in the profit and loss account and credit the relevant balance sheet account. For example, when paying your employees you will have to debit “salaries and wages” account under profit & loss account and credit the “bank account” in the balance sheet. If you have not actually paid the employees, then instead of the “bank account” you have to credit “other creditors” as payable in the future. When you actually pay the employees, obviously you have to debit the “other creditors” account and now credit the “bank account”.

This is a very brief introduction double entry book keeping.

What need to be done if you are in the middle of an accounting year?

If you are in the middle of an accounting year, you should first record the closing balances of the latest available balance sheet in your new bookkeeping software system as opening balances. For example, if your last accounting year ended on 31st March 2004, then record the balances of all balance sheet items as at 31st March 2004 (obtained from your accounts prepared by your external accountants) as opening balances as at 01st April 2004.

Therefore, a bank balance of £10,000 as at 31st March 2006 will automatically become the opening bank balance as at 01st April 2006. This process should be done only in respect of the balance sheet accounts since these account balances should continue into the future. The best example is your bank account balance or an outstanding loan.

Once you do this, then you have to record all your commercial transactions at your practice from the beginning of the accounting year. In our example from 01st April 2006 onwards you have record the transactions in your new system, till your books become up-to-date. Though this may sound daunting, this will produce the best from your bookkeeping package in the form of up-to-date accounts that can be obtained even on a daily basis. This can lead to many practice evaluation techniques such as evaluating your actual performance against the budget, monitoring critical success factors or key performance indicators etc.