

STARTING A PRIVATE PRACTICE

Financial software adds up to savings

Sooner or later, the modern and successful independent practitioner will need to invest in an accounting system. **Ian Tongue** suggests how to ensure you get the most from it

THE ACCOUNTING process is frequently viewed by some as a bean-counting exercise.

However, significant efficiencies can be gained by ensuring the system is working for you to help manage your day-to-day practice. There is a fundamental link between managing your practice and the recording of financial information.

What do I need?

When starting out, many consultants will adopt spreadsheets to record their income. This type of system works fine for lower-volume practices where clinical information is not needed to be linked to accounting transactions.

For those who have an intermediate understanding of spreadsheets and databases, filters and reports can be set up to extract vital information such as your income level and who owes you money and so on.

As a firm of specialist medical accountants, we always recommend electronic systems are used, because manual records are usually inadequate and time-consuming to maintain.

What information is most important?

An accounting system must be able to extract the income on an 'earnings basis'. The 'earnings basis' is how you are taxed and represents work performed rather than work where payment has been received.



Many consultants who do not have an accountant get this wrong and declare income on a receipts basis.

Being able to extract any outstanding amounts is extremely important to ensure payment is received for all work undertaken.

A system to chase overdue payment is essential and details of dates when debts were chased are extremely important, in particular if these debts become irrecoverable. HM Revenue and Customs frequently ask for evidence that debts were chased when a bad debt expense is included within your accounts.

The recording of expenses is also extremely important. This enables you to gauge your overall profitability for a period, which is useful for decision-making.

Frequently, your defence body will ask for your income/profit figure over a different period to your financial year end, and this can cause problems if you are not on top of your income and expenditure recording.

Do I need practice management software?

I have attended several demonstrations of practice management software and personally feel these would benefit the majority of consultants.

The big difference between these packages and simple spreadsheets is the automation of many processes and link into clinical patient data.

Put simply, these packages make the running of your practice smoother. It is not just about improving the recording of financial information. This investment should ultimately save you time and money.

Each package has specific features, but almost all of them perform the following features:

- Recording of income and expenditure;
- Patient database;
- Records of clinical information and history;
- Diary;
- Links to electronic payment

systems used by the insurance companies (EDI);

- Automated document production – for example, invoices and GP letters;
- Pricing menu;
- Powerful reporting and statistical tools;
- Assists in VAT responsibilities (where applicable);
- Offsite hosting.

When investigating such systems, cost is always a consideration, but this should be balanced with the time saved and the opportunity cost of not having such efficiencies.

Do not forget that the costs of these systems are tax-deductible, which significantly reduces the real cost.

When deciding which system to go for, you should obtain trial versions and discuss experiences with colleagues. Your secretary may have a preference for a particular

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WHAT ABOUT VAT?

If you are VAT registered, it is essential that adequate accounting records are maintained. Failure to maintain up-to-date and accurate records can result in significant penalties being imposed by HM Revenue and Customs where errors are discovered.

The main practice management software available can account for VAT on an invoice or cash basis and will greatly reduce the burden of being VAT registered.

It is worth noting that you are only required to be VAT registered if your 'standard rated' income is in excess of £70,000.

For the majority of consultants, their 'standard rated' income would relate to producing reports – for example, medico-legal work.

However, certain purely cosmetic work may be affected, but this will depend on individual circumstances. Clinical work is usually 'exempt' from VAT.

If you feel you may be affected by VAT, your accountant will be able to advise you further in this area.

system and therefore involving her or him in the process is also important.

It is extremely important that an adequate accounting system is maintained. Linking this process to the day-to-day management of your private practice will inevitably result in efficiencies.

Investing in this process will save you time, money and should make your life easier.

■ **Next month: Top tips for starting out**

Ian Tongue is a partner at Sandison Easson & Co, specialist medical chartered accountants

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