

## STARTING A PRIVATE PRACTICE: ACCOUNTING SYSTEMS

# Your numbers need crunching

Ian Tongue figures out the key requirements of your private practice accounting system

ENSURING YOU have a robust accounting system is a vital part of running your private practice business. As with running any business, you have obligations to keep adequate records and HM Revenue and Customs (HMRC) has powers to perform a records check and penalise those who do not comply.

In addition, inadequate systems can lead to errors in the figures declared which can be an expensive mistake to make.

The accounting system is not just for tax compliance and is an integral tool to understanding where you are with your practice at any time and to prevent financial loss.

Making the system work efficiently will ensure that you have useful information for decision-making and help ensure that you are being paid for all work performed.

## The basics

When starting out, it is common for a simple spreadsheet to be adopted and this is perfectly acceptable, provided that the system is complete and accurate. We never recommend manual records and the days of the old manual ledger systems are largely gone.

A private practice can receive income from a variety of sources and it is common to have more than one person acting as secretary for different private practice locations.

It is vital that your records bring these sources together in an efficient and accurate way. In addition, for those performing medico-legal work – or other standard-rated work – you may need to VAT register and therefore this income needs to be separated out from exempt clinical work to monitor the level and ultimately account for the VAT, where applicable.

## What do I need?

The key requirements are for the system to be complete and accurate, and a significant part of the work your accountant should perform will verify this – for instance, preparing a balance sheet. If your system is lacking, your accountant should bring this to your attention to help you make improvements.

The minimum that the system must be able to is:

- Record fees on a 'work performed' or 'earnings' basis;
- Record cash received from patients, insurers, solicitors;
- Record sundry 'other income' – for example, a Bupa award;
- Allow you to view who owes you money at any time;
- Assist you in identifying slow payers;
- Provide you with the information to chase those that have not paid;
- Identify bad debts;
- Record expenditure.

In order to keep things transpar-



ent, it is always advisable to run your practice through a separate bank account. Ultimately, you may be charged for this, but most of the high street banks offer periods of free banking and if your practice is modest, you may find that a separate personal current account will suffice for a period of time.

## Electronic accounting packages

Beyond the basic spreadsheet system are various forms of electronic accounting packages. There are a number on the market and if you are considering this option, you should generally focus on the practice management packages rather than over-

complicated off-the-shelf accounting packages.

Generally speaking, the off-the-shelf accounting packages require a level of bookkeeping experience that is beyond a typical medical secretary's remit.

The practice management packages usually tick all of the boxes in relation to the accounting information required but also assist you in running the practice itself.

They can contain patient and clinical data together with diary management, which can greatly improve efficiency.

These packages usually pay for themselves in a short space of time and the one-off and on-going costs of such packages are tax-

deductible and therefore the real cost is reduced.

It may be that your secretary already has experience or a preference of a particular package, which would usually steer in that direction. But it is always recommended to obtain demonstration versions or, better still, have an in person demonstration before you buy.

## Are my records different for a limited company?

Many consultants are now trading as limited companies and, generally speaking, the accounting systems are largely the same. The company must have a separate bank account and maintain completely separate accounting records.

The key thing to remember here is that, if you have moved from being a sole trader to a limited company, you maintain separate accounts for each and avoid overlap between them.

During the transitional phase this can be difficult, as insurance companies in particular often pay the wrong business – that is to say, money belonging to the old private practice is paid to the company and vice versa.

It is important that your systems can identify these monies to ensure that they are accounted for in the correct business.

There is also additional paperwork involved in extracting profit and this falls under the heading of accounting systems. Speak with your accountant if you are in any way unclear about profit extraction from your limited company.

## Are my records different if I am a VAT-registered business?

Being VAT-registered requires a higher standard of record keeping and it is highly likely that you will be subject to a compliance visit at some point to run through the systems.

They take an audit approach, walking through your accounting systems from diary through to payment and vice versa.

As most VAT-registered consultants perform a mixture of supplies, it is vital that the accounting system not only records the transaction but also its VAT status.

With the uncertainty surrounding VAT on purely cosmetic or aesthetic work, it would be a good idea to identify any work performed that was purely for cosmetic reasons.

You should discuss your circumstances with your accountant and ask them to keep you informed in this area.

## What is the process for an HMRC inquiry?

If you are subject to a full inquiry, it is common for HMRC to ask for all of the books and records for the year they are looking into. A period of time elapses and they

raise any queries they have with underlying records. They can ask questions about specific invoices and receipts in the bank account and therefore it is vital that your accounting system is robust to declare the correct amounts in the first place.

If HMRC identifies problem areas – for example, underdeclared income – they will go back into earlier years and it becomes an expensive mistake.

Having an adequate accounting system is an essential part of running your private practice and avoiding problems later on.

Therefore, investing time and money in a robust system not only provides you with a more efficient practice but the comfort that the transactions recorded are complete and accurate. ■

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