



these two institutions. 'By pooling our strengths, experience and resources, we are creating a win-win scenario for both state and private patients in the Western Cape,' said Riel du Toit, CEO of UCT Private Academic Hospital.

FNS

PRACTICE MANAGEMENT

FINANCIAL MANAGEMENT PART I

Note: The following words are interchangeable throughout the course: Firm, business, organisation, company and practice; product and service; customer, client and patient.

Introduction

Most people who have not been trained in finance or accounting are under the impression that it is a difficult subject requiring advanced training. This elementary course will enlighten the student in the terms and definitions used, the principles of finance in business, and the interpretation of basic financial accounts.

There is nothing mysterious about accounting; it simply involves the routine recording of business transactions, where transactions are defined as the exchange and the payment for both goods and services in money values. Finance on the other hand, is the process of allocating resources across time.

Let us look at an example of shifting resources across time: A new digital camera is launched, and because you are a technophile you decide that you want one. Economic logic tells you that if you had the resources or money to buy it, you would, because your satisfaction would increase by exchanging cash for the camera. But suppose that you neither have the cash nor other assets that you can sell or swap to obtain the camera. If you are able to borrow the money, you can shift some of your future resources back to the present. In other words, you can spend money now that you will only be earning in the future. For the lender the opposite will be true; he is giving up resources now in exchange for money that you are expected to refund him in future as you pay off the loan.

In other words, both you and the lender are shifting resources across time; you are shifting your future resources to the present, and the lender is shifting his current resources to the future. If the lender is a bank you will be charged interest for the favour.

Accounting is necessary because we buy on credit all the time, and without some form of accounting record, indecision and confusion would result in your business, as you would not be able to tell how the business is doing. Accounting is necessary because financial statements and management

accounts are drawn up from the accounting statements, which keep managers informed about the progress of their businesses.

This module introduces the student to finance and accounting as subject areas.

Sources and applications of capital in a business

Financial management of a business revolves around the sources of capital (where the money is coming from) and the application of capital (what the money is used for). We usually know the groups of capital suppliers to a business as those who own the equity and debt claims on the company. Those having claims upon a company's cash flows include everyone holding contracts, formal or informal, with the company. These include managers and workers (receiving cash flows as compensation for services), government (receiving cash flows as taxes and fees), suppliers of raw materials and stock (being paid for materials used), and finally, capital suppliers (being paid their capital returns in the forms of interest, principal and dividends).

The three sources of capital are:

- money put into the business by the owner/s, also called owner's funds, owner's equity or share capital
- profits left in the business, also called accumulated profits
- loans obtained from an outside institution, also called borrowings, e.g. from a bank.

In order to operate, the business needs to raise funds from one of these three sources to finance the requirements for conducting the business. This money will be used to:

- Buy office furniture, equipment, vehicles, etc. and all the things you need with which to start a practice (also referred to as fixed assets).
- Provide working capital for:
 - the purchase of pharmaceutical stock, also known as inventory
 - providing the practice with operating costs, including telephone accounts, salaries, stationery, rent and other things that the practice might need in order to operate.
- Make investments.

You can see that there are three main uses or applications of capital, namely fixed assets, working capital and investments.

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