



PRACTICE MANAGEMENT

DEBT AND ASSET MANAGEMENT

In a service business such as a general practice, income is earned from professional fees charged for services rendered. It is also possible to increase income by letting the assets of the practice produce money, while at the same time limiting the liabilities of the practice that can cost the practice interest.

Asset management

Different types of assets are needed in a practice:

- The assets that enable the doctor to perform his/her professional duties, such as medical equipment.
- The supporting administrative infrastructure required to run the practice, e.g. computers, office furniture, etc.
- The accounts receivable book, which is worth the outstanding amounts due by patients (less bad debts).
- Cash in the bank, which is needed to pay for the immediate running expenses of the practice.

Some assets are 'productive assets', for example the medical equipment that generates fees for the practice. Cash in the bank is also a productive asset in so far as it earns interest. 'Unproductive assets' are essential to run the practice effectively but do not 'earn' the practice anything, e.g. the accounts receivable and the office infrastructure.

The following are examples of how to optimise your return on the money 'invested' in your practice:

- Buy equipment that is appropriate to the size of your practice. If only one instrument/machine can be used at a time, don't buy two. The same applies when practices and infrastructure are duplicated at different locations. This may be justified if you have too few patients to see at one location and you want to increase capacity, but make sure that you are earning a profit at both locations and that you keep infrastructure to a minimum.
- Do not overspend on administrative infrastructure, but also do not compromise on efficiency and quality. A minimum requirement would be a computer system that is capable of efficiently administering the accounts receivable of the practice.
- Keep the accounts receivable as low as possible and collect these monies from patients (or medical schemes) sooner, so that they become cash in the bank earning money or paying for overheads, or if you have an overdraft, reducing your overdraft and saving interest paid.
- If you have money in the bank, ensure that you earn interest at the maximum rate possible.

Liability management

There are two types of liabilities, those on which the practice pays interest, and those that carry interest over and above the amount due to the creditor. Generally speaking, a bank overdraft and some hire purchase agreements would be the only forms of interest-bearing debt in a practice. Minimise your bank overdraft by collecting as much as possible of the accounts receivable as quickly as possible.

Non-interest-bearing debt would mainly consist of trading accounts with suppliers such as drug companies, stationery shops, etc. The more (and the longer) you owe these creditors, the lower your bank overdraft or the higher your positive bank balance will be. This means that you should only pay these accounts when they become due, as you will not gain anything by paying them sooner than is necessary.

Relationship between asset and liability management

Assets and liabilities must be managed in a coordinated manner, because changes in the one often effects changes in the other. Movements in assets and liabilities may affect both the practice's profitability and cash flow. For example, when buying new equipment, you may choose to pay for it in cash (negatively affecting your bank balance/overdraft), or by entering into a hire purchase agreement, which in turn carries interest (negatively affecting profitability).

The following rules apply to the management of assets and liabilities:

- Match the financing period of assets with the life of the assets. For example do not enter into a 5-year hire purchase agreement for new computers if the life expectancy of the computers is only 2 years.
- Use the asset as security for its own hire purchase. Do not finance a long-term asset with a bank overdraft, as you might need the overdraft to pay for short-term liabilities instead.
- The purpose of an overdraft is to finance working capital, i.e. accounts receivable, accounts payable, and stock.
- Limit your business to one or at most two banks, instead of scattering it over several institutions. By dealing with one financial institution, more money will pass through the current account on a monthly basis, and when in trouble, it would probably be prepared to assist you based on the historical cash flows of the practice.
- Research and compare banks, evaluate the supportive services they are prepared to offer, then build up a relationship with the institution of your choice.

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