

COORDINATION OF FINANCIAL RESOURCES

Having reviewed the areas of profitability, cash flow and asset and debt management, we now look at the coordination of these three areas. In order to run a medical practice efficiently, it is imperative that all these aspects are attended to and successfully managed.

The two key elements of effective coordination of financial resources are:

- regular and accurate financial information regarding the current performance of the business



- the assessment of the future financial performance of the business through the review of historical financial reports, and the assessment of the impact of future events on the practice for the accounting period.

Budgeting

Budgeting forms a key element of the financial management process in that it sets pre-determined objectives against which the financial performance of the practice can be measured. A budget relates to a stated period, and is drawn up before this period begins. It is therefore a desired and planned result that the business wishes to achieve.

A budget is normally drawn up for a 1-year period, and is based on the past performance of the business as well as indications of future trends or expectations, and its impact on the practice. A budget is a short-term financial plan, against which ongoing performance can be measured throughout the year.

When compiling a budget, the impact of the following factors on the financial status of the business should be taken into account:

- The effect of changes in the marketplace and external environment. External issues that can affect the practice are usually of a political, economic, social, technological, environmental or legal nature. For example, a change in interest rates, new laws that impact severely on the practice, technological advances that necessitate the purchase of new equipment, etc.
- Inflation forecast.
- Planned changes in the business structure, i.e. staffing, location, services rendered, extensions to the infrastructure, etc.

Key factors for successful budgeting are:

- The budget should reflect the practice's financial objectives for the next year, i.e. net profits, together with projected profits for the year, and it should provide details of all the income and expense items.
- The budget should cover a 12-month period on a month-to-month basis. It should realistically provide for seasonal cycles, and should not merely reflect a projected gross annual income divided into 12 equal incomes per month. Also it should neither overstate income nor understate expenses, and should not show an unrealistically low profit for the sake of conservatism.
- The budget should make provision for contingencies. A rule of thumb is to budget 1% of turnover for contingency expenses. Contingencies include unforeseeable unplanned events, like droughts or epidemics that could influence performance.

- A budget is a dynamic document. It should be updated on a 3-monthly basis so that it can be utilised as a forecast for the remainder of the year.

Financial reporting

Medium to large organisations produce financial accounts on a monthly basis. Smaller businesses often do not have access to the same level of financial expertise in-house, and normally only produce portions of important financial information monthly (customer accounts and cash book reconciliation). All businesses should produce profit and loss statements, cash flow statements and balance sheets on a monthly basis to enable these to calculate ratios and follow trends in the business. It is advisable for small businesses to produce or have these management accounts produced on at least a quarterly basis.

The financial information produced on a regular basis should include:

- the net profits for the year-to-date with details of individual incomes and expenses, as well as the actual incomes and expenses compared with the budgeted income and expenses for the same period
- details of the cash flow movement for the period
- a list of the accounts receivable with details of the ageing of the debtors
- a list of accounts payable
- a key set of financial performance ratios, such as gross profit percentage, overheads as a percentage of sales, net profit before tax as a percentage of total assets, shareholders' funds compared with total assets, current ratio, i.e. current assets/current liabilities, and daily stock, accounts receivable, accounts payable.

The benefits of having regular financial management reports that can be compared with the budget are:

- information which allows for timeous remedial action
- ability to maximise profitability
- ability to assess and adapt to external threats
- knowledge of current income tax liabilities
- ability to determine future cash flow/overdraft requirements
- opportunity to exploit investment opportunities when excess cash is available.

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