Accounting for General Practitioners

THE IMPORTANCE OF RECORDING FINANCIAL TRANSACTIONS

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Graham has lectured on issues relating to quality health care and cost containment. These have included: the cost effective planning and implementation of occupational health services, managed health care options for South Africa, and the role of the providers in planning cost-efficient care.

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Summary

In the first article in this series, focus was on accounting systems that can be used for decision making to promote a financially healthy practice. This article concentrates on the need to secure and ensure that the financial information that is presented is correct and accurate.

Many doctors believe in fudging, either because they do not wish to face financial reality or because they believe that fudging may have some tax advantages. The problems of fudging and the effect that this has on both the doctor's financial position and the staff are dealt with.

The systems the doctors presently use to record financial transactions are: no system, manual system, cigarette box, two receipt books and computerised systems. The advantages and disadvantages of these systems are briefly discussed and ultimately a proposal is made to acquire a system which is reliable, accurate and easy to operate.

The recording of financial transactions is often the weak link in general practice management, although this can be a critical factor for success and satisfaction in any practice. Bookkeeping is used to record all transactions that can be reduced to a monetary value within a business. Bookkeeping is the process of recording where money came from and where it went to. The books are an integral part of practice management.

Accurate financial data is essential for planning, organising, controlling and evaluating a business. Many of the decisions that have to be made in a business must be based on existing financial data and in turn have financial implications and consequences. These consequences need to be anticipated and considered in any planning. If not factored into the planning and decisions, they could spell financial disaster and ruin for an otherwise successful practice.

The aims and objectives of the bookkeeping system should be to record the transactions as accurately and efficiently as possible. The books are used to generate the financial statements which should be readily available to help with management decisions.

By convention, the double entry bookkeeping system is used to record transactions. A transaction can either generate an income or it can incur a cost for the practice. Every transaction, for example a patient consultation or the purchase of goods, can either be paid for in cash or it may be provided now, to be paid for at a later date (credit transaction).

Cash transactions are recorded in a cash book. Credit transactions are recorded in a journal. These transactions are then "posted" or transferred to the ledger which provides a summary of the main sources of income and expenditure.

Accuracy in Recording Transactions

In the previous article (Vol. 18 No.1, February/March 1997), it was shown how the financial data was used as a management tool to help make informed business decisions to achieve objectives, for example to increase profit. This emphasises the necessity for financial accuracy. Accuracy will inevitably influence the quality of the business decision making.

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Bookkeeping systems
Selecting a bookkeeping system requires careful consideration. It should be comprehensive and easy to operate so that it is able to generate all the relevant financial statements readily whenever they are required.

In the early stages of a business or when a business is experiencing financial difficulty or even when it is expanding, it is necessary to make greater and more regular use of the financial statements. There are many options from which to choose. Essentially, the choice is between a manual and computerised system.

Manual systems are more prone to misuse and inaccuracy than computerised systems. However, computerised systems are not without problems. It is important that the staff who use the computerised system are adequately trained to do the job. A computer system obviously requires basic computer literacy and competence. In addition, computer systems require a backup of all financial transaction data stored on disc or tape just in case the originals get electronically destroyed.

Accountancy
It is important to understand the language of accountancy and to recognise that accounting data is only one tool in the process of efficient practice management.

Accounting uses some terms found in every day English in a very specific manner. There are also some limitations with respect to accounting conventions. This can often be the reason for doctors not fully understanding accounting documents.

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rate recording of financial data. One problem with fudging is that it will detract from good business decision making. Fudging usually involves the blurring of either income or expenditure.

There are many ways to practise fudging within a practice. These include operating two receipt books, separate accounts and back-pocket accounting (no records at all). Besides the legal consequences of tax evasion, there are other detrimental effects on the practice. Not the least of these is the effect on the staff who sometimes also feel entitled to their share of the cash takings.

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Accounting for general practitioners

debit. Conversely if it loses the commodity it is credited. For example, if cash is received from a patient, the cash book is debited while the patient’s account is credited.

The Cash Book
The cash book records the inflow and outflow of cash either on hand or in the bank, to or from the practice. Received cash is debited in the cash book, while cash that is paid out is credited in the cash book.

The Journal
Any transaction that takes place on a non-cash basis, but which has monetary value, is recorded on the day of the transaction in the journal.

The Ledger
The ledger summarises and regroups all the transactions within the practice for a given period of time. The ledger summarises who owes money to the business and to whom the business owes money. The ledger accounts are often referred to as T accounts.

The financial statements which the business generates:
The Trial Balance
At the end of any given period the difference between the debit and credit entries in each ledger account is calculated. These balances are recorded in the trial balance. The trial balance is used to ensure that every transaction has been recorded twice (the double entry bookkeeping system).

The Income Statement
The income statement summarises all the business transactions that have resulted in either an income or an expenditure for the business within a specified time period. The income statement reflects the profit or loss arising from these business transactions as well as the source of such profit or loss.

Use of the Income Statement
Income statements can be used to draw up and evaluate the practice budget. The budget can be used to estimate expenditure for any given period of time, usually one year. The incremental budgeting system takes each item in the income statement and any other additional items that could possibly incur a cost for the practice, and tries to quantify the amount of money that is likely to be spent on them for the coming year.

Budgets are used to make one aware of how much money one is spending on each item and also offer an opportunity to address problem areas. Budgets can also be used to evaluate how efficiently the practice is being financially managed.

The Balance Sheet
The balance sheet is a summary of the assets and liabilities of the business at a particular point in time. The difference between the assets and the liabilities is known as the owner's equity (Equity = Assets - Liabilities).

In the next article in this series, we will discuss how the financial manager makes use of the financial statements in order to calculate the important financial ratios that can be used to establish the profitability and the efficiency of the various business (practice) activities.

References

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