ACCOUNTING FOR DOCTORS 101

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Thank you for coming tonight!

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Disclaimer

- This presentation is for general educational information only.
- I am not a tax expert or authorised financial planner. GLMS or myself does not assume any responsibility for giving legal or other professional advice and disclaims any liability arising from the use of the information.
- If you require legal, tax or other expert advice you should seek assistance from a professional adviser.
- Thank you!

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TOPICS

- CHOOSE A BUSINESS STRUCTURE
- HOW TO READ AND UNDERSTAND FINANCIAL STATEMENTS
- ACCOUNTING TIPS FOR MEDICAL PRACTICE

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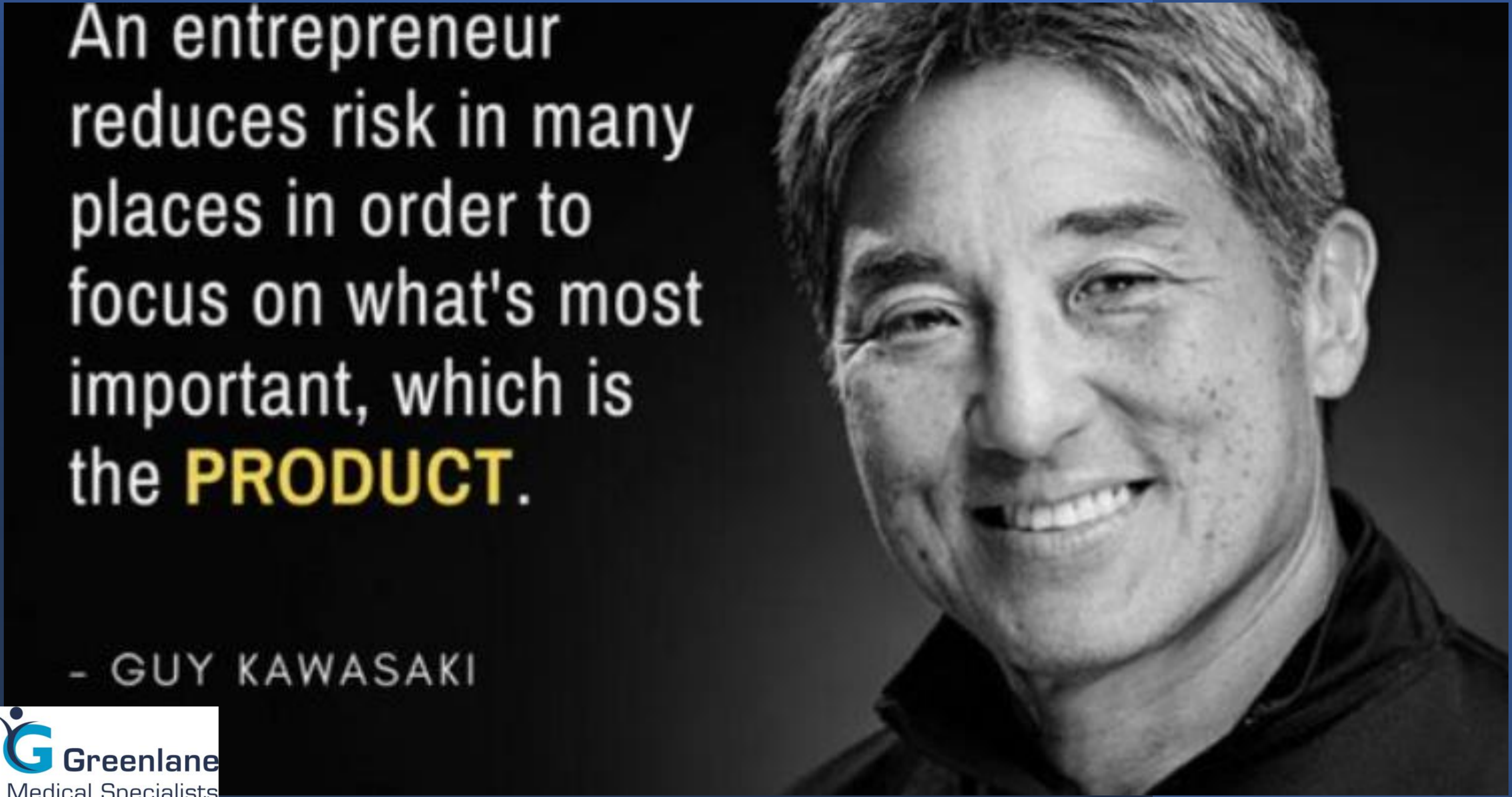

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Choose a business structure

- Being in business involves risk. The risk that things could go wrong is the price you pay for the potential rewards – profits and other gains. Your business structure is your first tool to contain that risk.
- Potential liabilities can be to disgruntled patients, employees, business partners, lenders, suppliers or IRD.
- **You can be liable for your own or an employee's oversight, an unforeseen commercial problem, or just a failing business.**
- Your business structure can help contain those liabilities without them becoming your personal problem.

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Limited liability companies

- **A limited liability company is the entity of choice to run a business as it limits the owners' personal risk.**
- If the company has a problem, the assets that the company owns are at risk.
- The owner (or shareholder) may lose their funds invested in the company, but their personal assets should not be at risk.
- The company is a separate legal person and carries that risk.
- This limitation on your personal liability can be compromised in various ways such as providing personal guarantees for business loans and leases, and being negligent of your director's duties. However, it is still your first line of defence.

Trust

- ❖Even with your business in a company, you could face personal liabilities either business related or otherwise.
- ❖A trust is probably the best protection for personal assets against such risks.
- ❖If your home and investments are in a trust, they are not owned by you personally, and generally out of reach of creditors.

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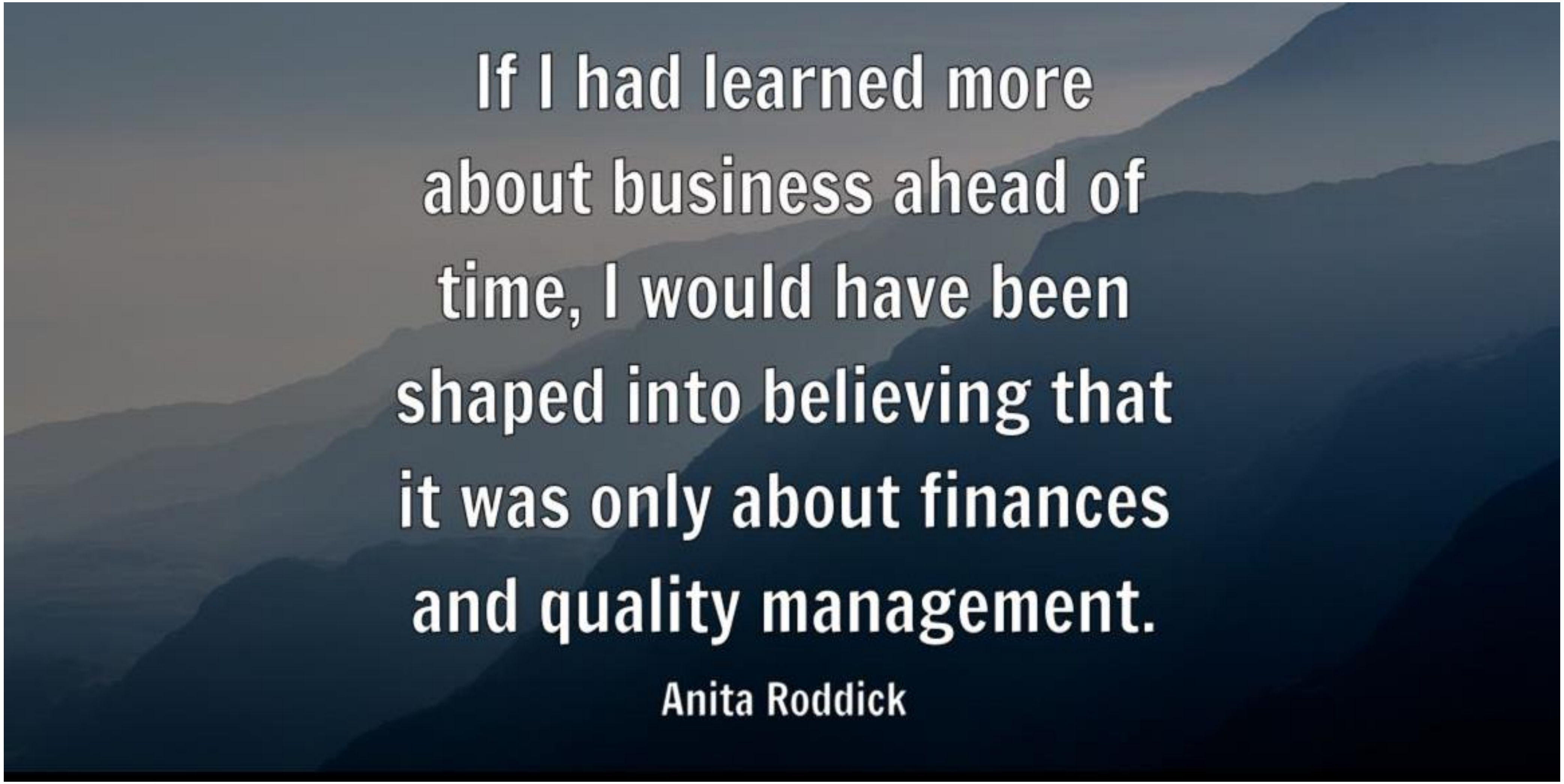

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HOW TO READ & UNDERSTAND FINANCIAL STATEMENTS

A set of financial statements provides a report on the activities of an organisation for the preceding year.

The financial statements usually comprise:

- A Statement of Financial Position (or Balance Sheet)

  i.e., a statement of assets, liabilities and net worth as at the balance date, or the last day of the financial year.

- A Statement of Income (or Profit and Loss Account)

  i.e., a statement of revenues, expenses and net income for the twelve month period up to the annual balance date.

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Statement of Financial Position (or Balance Sheet)

In the Statement of Financial position there are three sections of information, viz:

Assets - What the business owns

Liabilities - What the business owed to outsiders

Equity - The difference between the assets and liabilities, or the net worth of the owners of the business.

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Statement of Financial Position (or Balance Sheet)

The ownership of the assets is made possible by contributions from two sources – the creditors (via liabilities) and the owners (via owners equity or owners investment)

Giving us the accounting equation as:

Assets (total debits) = **L**iabilities + **E**quity (total credits)

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STRUCTURE OF A STATEMENT OF FINANCIAL POSITION

HOW OWNERSHIP IS FINANCED	ASSETS OWNED
CURRENT LIABILITIES • Liabilities to be paid within a year	**CURRENT ASSETS** • Assets to convert to cash within a year • Should be in excess of current liabilities
LONG TERM LIABILITIES	**FIXED ASSETS** • Assets held for a long term
SHAREHOLDERS' EQUITY • Wealth of owners including reserves • And accumulated earnings not distributed • Should be approx. 50% of total assets	

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Elements of Sound Financial Structure for a Business

- Working Capital = CA - CL
  It reflect the short term liquidity of the business.
  A healthy ratio of CA:CL should at least be 3:2.

- Long Term Finance (LTL+E) > Long Term Assets.
  Long Term Asset NOT financed by Short Term Finance.
  Common cause of business failure is to “borrowing short & investing long”

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- Proprietorship Ratio = 50% (Shareholders' Equity/Total Assets)
- If the PR is less than 50%, the biz is committed to higher interest costs on borrowed capital.
- If business prosperity declines, dividend on shares can be set aside but interest on borrowings must be paid.
- The commitment to interest may be beyond the resources of the business or the creditors may become concerned at the stability of the business and withdraw their finance.
- In this circumstances a business is described as "under capitalised". This is also a common cause of business failures.

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An example of a company's Financial Position that complies with the elements of sound financial structure, as follows:

	$m	
Current assets	10.5	
Long term assets	8.4	
	18.9	
		Ratio CA: CL = 3 : 2
Current liabilities	5.9	
Long term liabilities	3.8	Long term finance (13.0) exceeds
Shareholders' equity	9.2	long term assets (8.4)
	18.9	

The proprietorship ratio is 9.2/18.9 = 48.7%

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3 Reasons why Proprietorship Ratio is kept low in practice

- Borrowed money is cheaper than share capital. Interest cost are tax deductible but dividend are not.
- Borrow money is attractive in times of high inflation if the money can be invested in assets with higher returns.
- Lower shareholder’s equity means higher rate of returns on shareholders’ fund.

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A Statement of Income (or Profit and Loss Account)

We will look at two companies Income statements. One is a profitable company and the other is making losses.

1. Tesla Inc. – TSLA
2. Uber

Tesla, Inc. (TSLA) Income Statement

Income statement					
All numbers in thousands					
Breakdown	**TTM**	**30/12/2021**	**30/12/2020**	**30/12/2019**	**30/12/2018**
Total revenue	74,863,000	53,823,000	31,536,000	24,578,000	21,461,268
Cost of revenue	54,940,000	40,217,000	24,906,000	20,509,000	17,419,247
Gross profit	**19,923,000**	**13,606,000**	**6,630,000**	**4,069,000**	**4,042,021**
Gross profit Margin	**27%**	**25%**	**21%**	**17%**	**19%**
Operating expenses					
Research development	3,005,000	2,593,000	1,491,000	1,343,000	1,460,370
Selling general and administrative	4,408,000	4,517,000	3,145,000	2,646,000	2,834,491
Total operating expenses	**7,413,000**	**7,110,000**	**4,636,000**	**3,989,000**	**4,294,861**
Operating income or loss	**12,510,000**	**6,496,000**	**1,994,000**	**80,000**	**-252,840**
Interest expense	229,000	371,000	748,000	685,000	663,071
Total other income/expenses net	-75,000	162,000	-122,000	-104,000	-113,367
Income before tax	**12,371,000**	**6,343,000**	**1,154,000**	**-665,000**	**-1,004,745**
Income before tax margin	**17%**	**12%**	**4%**	**-3%**	**-5%**
Income tax expense	1,148,000	699,000	292,000	110,000	57,837
Income from continuing operations	11,223,000	5,644,000	862,000	-775,000	-1,062,582
Net income	**11,190,000**	**5,519,000**	**690,000**	**-862,000**	**-976,091**
Net income Margin	**15%**	**10%**	**2%**	**-4%**	**-5%**

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Uber Technologies, Inc. (UBER)

Income statement					
All numbers in thousands					
Breakdown	**TTM**	**30/12/2021**	**30/12/2020**	**30/12/2019**	**30/12/2018**
Total revenue	29,048,000	17,455,000	11,139,000	14,147,000	11,270,000
Cost of revenue	17,456,000	9,351,000	5,154,000	7,208,000	5,623,000
Gross profit	**11,592,000**	**8,104,000**	**5,985,000**	**6,939,000**	**5,647,000**
Gross profit Margin	**40%**	**46%**	**54%**	**49%**	**50%**
Operating expenses					
Research development	2,609,000	2,054,000	2,205,000	4,836,000	1,505,000
Selling general and administrative	7,898,000	7,105,000	6,249,000	7,925,000	5,233,000
Total operating expenses	**13,832,000**	**11,938,000**	**10,848,000**	**15,535,000**	**8,680,000**
Operating income or loss	**-2,240,000**	**-3,834,000**	**-4,863,000**	**-8,596,000**	**-3,033,000**
Interest expense	544,000	483,000	458,000	559,000	648,000
Total other income/expenses net	-6,400,000	3,255,000	-1,680,000	488,000	4,889,000
Income before tax	**-9,109,000**	**-1,025,000**	**-6,946,000**	**-8,433,000**	**1,312,000**
Income before tax margin	**-31%**	**-6%**	**-62%**	**-60%**	**12%**
Income tax expense	-194,000	-492,000	-192,000	45,000	283,000
Income from continuing operations	-8,859,000	-570,000	-6,788,000	-8,512,000	987,000
Net income	**-8,844,000**	**-496,000**	**-6,768,000**	**-8,506,000**	**997,000**
Net income Margin	**-30%**	**-3%**	**-61%**	**-60%**	**9%**

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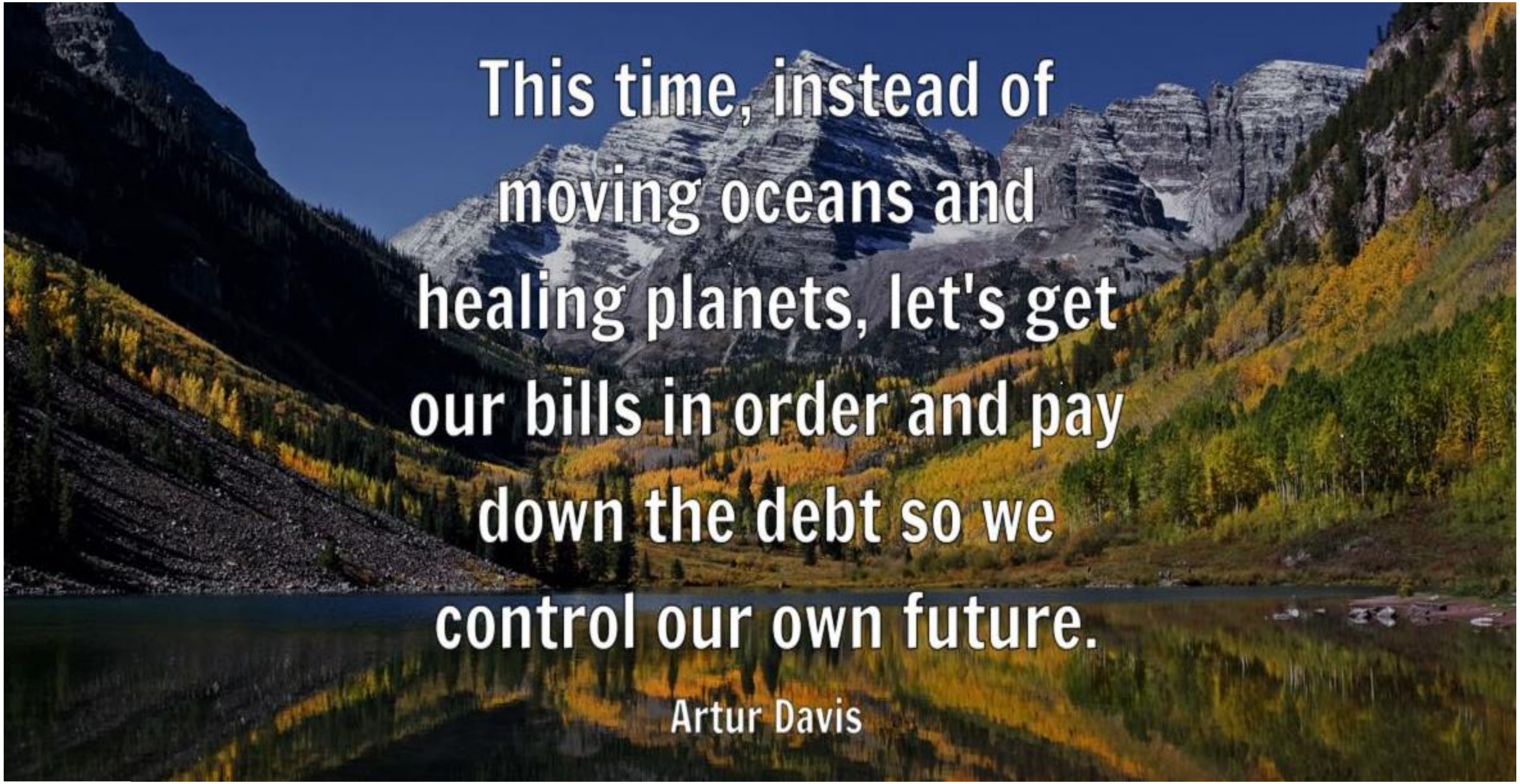

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Accounting Tips for Your Medical Practice

- Your primary focus as a physician is patient care, but it makes dollars and sense to pay special attention to accounting for medical practices. In addition to being a physician, you're also an entrepreneur tasked with running a profitable medical practice.
- This requires keeping accurate financial records and maintaining tax compliance.
- Below are a few healthy accounting tips for medical practices.

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1. Choose the Best Accounting Software for Medical Practices

One often-overlooked, yet extremely important aspect of accounting for medical practices is your software. We get it - it's tempting to simply use a spreadsheet because it's easy and cheaper in the short run but could be costly and riskier in the long run.

The right accounting software can:

•Eliminate the need for additional effort,

•Offer a unique perspective into the profitability of your business,

•Make tax compliance less of a headache, and

•Allow you to quickly share information via the cloud with your accountant.

My preference is Xero because it’s easy to use and being a cloud-based application it is accessible to your professional team for them to log in to remotely.

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2. Choose the Best Method of Accounting for Medical Practices

In medical practice management, there are two different types of accounting you can use: cash basis accounting and accrual accounting. In most instances, your business administrator, practice manager, or accounting firm will choose the best type of accounting for the medical practice.

Accrual Accounting

- account for expenses the moment you receive bills — instead of when you actually pay it. At the same time, you'll account for receivables when you bill a patient — instead of when your receive payment. This may give a more accurate indication of your practice at any given time.

Cash Basis Accounting

- account for expenses when they are paid, while receivables are accounted for when payment is received. The cash basis method of accounting is the preferred solution for the majority of physician-owned medical practices.

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3. Consider Scheduling Profit and Loss Statement

- Producing a regular Profit & Loss Statement report is a critical part of managing your medical practice.
- Profit & Loss Statement are an enormously effective way to quickly check the overall pulse and financial health of your practice. In addition to validating daily records and recognizing discrepancies that must be resolved, Profit & Loss Statement will provide insight into where money could be invested in the business, profitability, spot inefficient spending, trend analysis, the flow of patients, and much more.

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4a. Make financial plan or Budget (1-3 Years)

A financial plan will highlight whether your medical practice is financially feasible, as well as identifying any financing needs. It will also give you confidence to make necessary investments such as buying equipment and hiring staff, because it will show you where the money will come from.

This is one area you really should get help with to put it together.

Steps include:

- **Revenue.** Your projected revenue is calculated by multiplying your expected number of patients by the fee per patient. Volume will usually start low and grow over the first few years.
- **Direct Costs**. Based on your revenue projections, what are the direct costs of delivering those services. This can include medical supplies and direct contractors if you are not doing all the work yourself.

4b. Make financial plan or Budget

- **Indirect Costs.** What are the indirect costs and overheads of running the business. This can include rent, administration staff wages and professional memberships.
- **Fixed Assets.** What medical equipment and office equipment do you need to manage your practice?
- **Owners' Remuneration.** Factor in the money you will take out of the business for living expenses. This maybe paid out as drawings or wages with tax deducted. Discuss this with your accountant.
- **Tax.** Income tax is a major cost of business. Make sure you understand your commitments how you will pay them. GST also significantly affects cashflow and needs to be factored in.
- **Financing requirements.** Starting and growing a business uses money, even if it is a one-person service business. You will almost certainly need to inject money from your own funds or a third party. Your finance plan will reveal how much you need. You can then choose the best source of funds.

5. Make a tax plan

- Your tax plan is included in your financial plan but deserves separate attention.
- A new business does not have to pay any income tax for up to two years after starting. Many people go out of business at that two-year mark when they suddenly face two years' tax to pay.
- **A tax plan will tell you what percentage of your takings to set aside for income tax and GST so that funds are always available when the due dates arrive.**

6. Partner with a CA Firm

- Accounting for medical practices can be confusing and overwhelming - even to the savviest office manager.
- But when you partner with the experts at a CA firm you'll remove the burden and liability, so you can focus solely on delivering the highest level of service to your patients.

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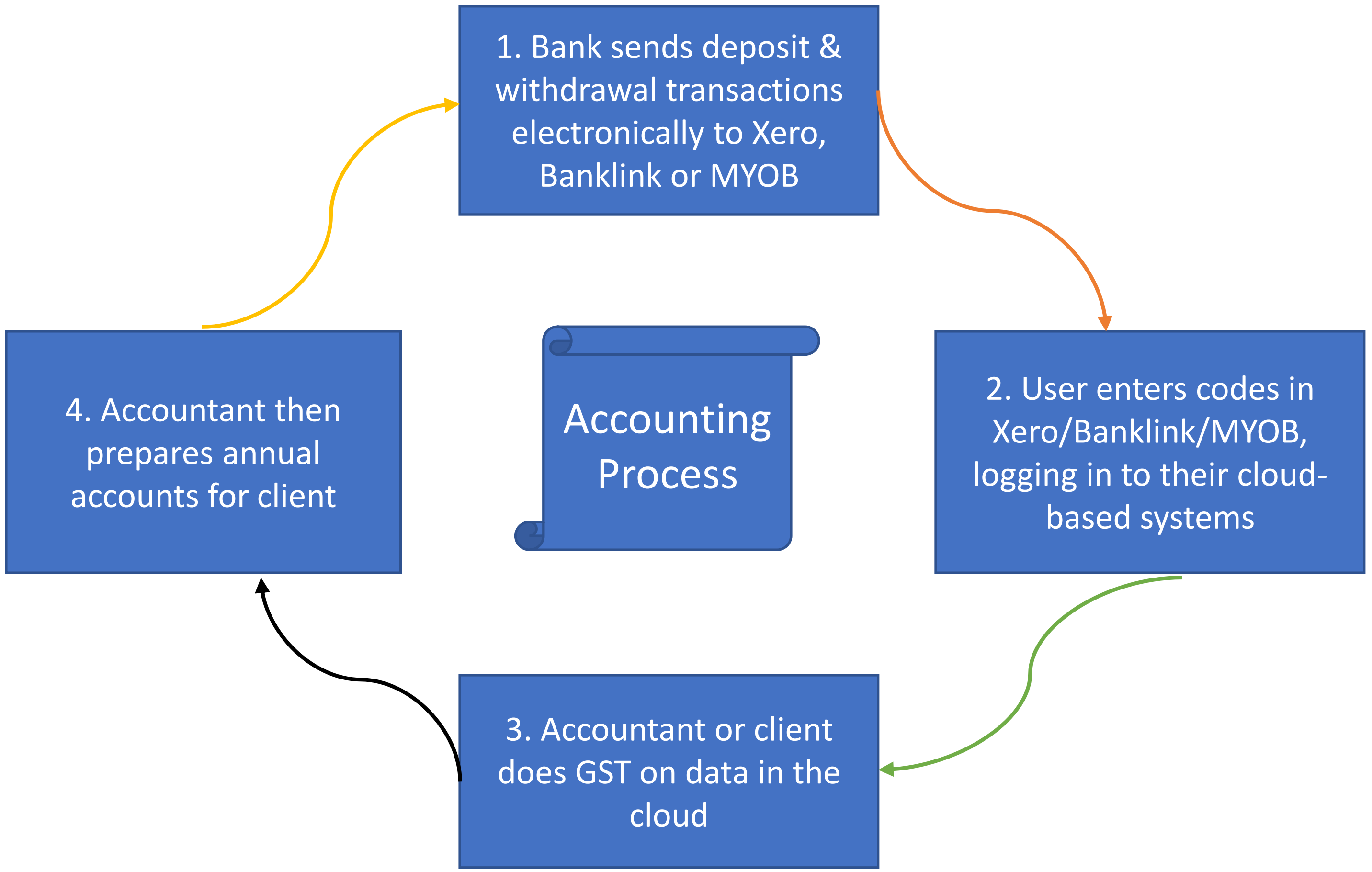
The diagram below illustrate how such system works



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