

Cash flow management

Barry Rigby explains how practices can monitor and manage cash flow.

Downward pressure on practice income in recent years combined with upward pressure on expenses means it is more important than ever for practices to monitor and manage their cash flow. Good cash flow management will ensure practices have funds available to meet all foreseeable liabilities.

In particular, it is important to be aware that many partners will face a significant increase in their tax bill payable on January 31 next year, even if their income, expenses and tax reliefs remain the same as for last year. This is because the abatement of the Personal Allowance for higher earners could increase their tax liability for 2010/11 by approximately £2,600, meaning that approximately £4k extra will be payable at the end of January.

On the other hand, there is little point in maintaining excessive bank balances within a practice, as the interest earned will be negligible. If the partners take further drawings they might be able to achieve a greater benefit through offset mortgage arrangements.

Many practices, particularly larger practices dealing with bigger figures, already prepare cash flow forecasts. But for practices of any size cash flow forecasts should form part of the essential management information. It is more or less impossible to make sensible business decisions without up-to-date and reliable information on which to base those decisions.

If you do not already prepare a cash flow forecast, why not take some time

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to review your bank statements for the past year and analyse the receipts and payments in to the main headings appearing in your annual accounts, assuming that they are tailored to medical practices?

Alternatively, you may simply wish to use the receipts and payments headings or titles from your accounts software. In either case, we believe it is useful to prepare a spreadsheet showing the opening balance, receipts by category, payments by category, and closing balance on a month by month basis.

Having prepared a spreadsheet along these lines, it will soon become apparent that there will be many regular and consistent items of income and expenditure that can be planned with a fairer degree of certainty. Other items will appear less frequently, perhaps only once or twice a year, and the preparation of a forecast will enable you to ensure that you have funds available to meet commitments (particularly partners' drawings!) as they fall due.

Having done this, the sheet can then be copied to forecast your cash flow for the forthcoming year. The figures for last year will form a useful starting point but you will then need to adjust them based on your up-to-date knowledge of any likely changes in the future.

Bear in mind that any cash flow forecast should always be regarded as a work in progress rather than a finished product. Receipts and payments will rarely be exactly as predicted, and it is therefore important to update the projected figures to the actual figures



● A reliable cash flow forecast will help iron out discrepancies between receipts and payments.

for each month, as well as adjusting forecast figures for the future in the light of any new information available.

Having set up a cash flow forecast, it can then also be an interesting and useful exercise to use the cash flow template to check various 'what if' scenarios. For example, what if any given receipt arrives later than forecast? Would you still have sufficient funds to meet payments as they fall due, or would you need a contingency plan?

Cash flow forecasting is now essential for all practices and, if you do not already prepare forecasts, your practice accountant will be able to assist in setting up a forecast tailored to the circumstances of your own practice. ■

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