

# Reading practice accounts

The final article in a three-part series, by **Lesley Tooley**.

The first two articles explained the purpose of practice financial accounts and the layout of the profit and loss account and the allocation of net practice income. This final article explains the balance sheet and the partners' current accounts

## Balance sheet

The balance sheet does exactly what it says, balancing what the practice owns with a statement of how this is allocated to each of the partners. It is a snapshot of the practice assets and liabilities on the last day of the accounting period.

The practice has assets which could include the premises, fixtures and other equipment and stock of drugs. It also has money at the bank and money owed to it at the date of the balance sheet. Deducted from that is money the practice owes for goods or services obtained before the balance sheet date but not paid for until after that date. Any loans are also deducted. This is the 'net assets' figure shown in the top half of the balance sheet, which is then allocated to the partners of the business in the lower half of the balance sheet. In theory, if on the balance sheet date everything was converted into cash at the value shown, each partner would receive the allocation shown in their account.

Note numbers are again given and each note is explained later in the accounts.

## Depreciation

The fixed assets note includes 'depreciation' and you will see this same figure in the profit and loss account. This is an acknowledgement that equipment bought today for, say, £10k may be worth nothing in five years and may have to be replaced.

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● The balance sheet tells you how much the practice is worth at any time.

Therefore each year the value of that equipment is reduced by 20 per cent of its cost. This is transferred as an expense into the profit and loss account.

## Partners' current and capital accounts

This is the second half of the balance sheet and this shows how the value of the business is allocated to each partner. In simplistic terms this is made up of the amount of cumulative undrawn profit allocated to the partner. The closing balance at one year end is carried forward as the opening balance at the start of the next year. The amount of profit allocated to the partner from the 'allocation of net practice income' is then added. Then the amounts the partner has taken as drawings or that have been paid on his or her behalf are deducted to leave the closing balance carried forward to next year.

Quite often you will see a capital account and a current account. The capital account is an acknowledgement that the whole of the balance sheet value cannot be drawn because much

of it is tied up in long-term assets such as equipment or premises. The total of the capital account will equal the total of the fixed assets of the business less any direct loans or mortgages. As the value of the fixed assets changes from year to year a transfer is made from the current account. The current account is then shown separately and the balance here is the available undrawn profit for the doctor to draw down as cashflow permits.

It is usual to try to ensure that the partners' current account balances are kept roughly in line with their profit sharing ratio. ■

**The balance sheet is a snapshot of the practice assets and liabilities on the last day of the accounting period.**

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