

Oh Where, Oh Where Has My Money Gone?

If I received a dollar for every time a dental client said to me, "I made that much money? But I don't have anything in the bank!" I would be able to retire in style! How often have you said the same to your CPA? Many of our clients are convinced that the net income number on their profit and loss statement should equal the cash in their bank. That's where the confusion begins.

Well, let's see if we can de-mystify the cash flow mystery. Let's talk about what cash flow is and why it's important. Then, we'll talk about simple ideas for improving cash flow within your dental practice.



Sue Ureda

So, what is cash flow? First, look at your financial statements and start with the beginning balance in your checking account (see Figure 1). Cash increases for collections put in the bank, loan proceeds, cash received from the sale of equipment, interest or dividend income and contributions made by you, the dentist, to your business. Cash decreases every time you write a check, including principal paid on a loan (to a bank or loan company), repayment of shareholder loans, bank fees, personal draws or distributions, and all those invoices drafted directly out of your account (for instance, payroll).

Let's try an exercise and talk about how loans figure into the equation. If you borrow from your Line of Credit (LOC) to pay your invoices, you are putting money into your bank account from the LOC. This will increase your cash flow. It is not

included in your profit and loss statement and therefore is never treated as revenue to your practice. Likewise, if you repay the LOC, it is a decrease to your cash flow and will not be treated as an expense on your income statement. The same applies to a note payable. For example, you originally borrow from a lender to purchase equipment. We, as your CPAs, set the equipment up in your Balance Sheet (under the assets section) and have a corresponding entry to a "Note Payable" in the liability section. I am sure you have heard us talk about our double entries, sometimes known as debits and credits. As you repay the loan, you are reducing the principal and your checking account balance. However, this outflow of cash is not treated as an expense. On the asset side, we depreciate the equipment. This

does affect the profit and loss statement but does not affect your cash, as it is a non-cash item. We place depreciation on your books and records only as a journal entry.

By understanding Figure 1, you are now an expert on the subject. So let's discuss simple ways to improve your cash flow. Here's one – reduce your personal distributions! Easy, right?

I hear you muttering, I can't reduce my distributions! I need that to live on! Hopefully, the importance of cash flow is becoming much more clear to you. So, let's discuss revenue enhancers.

Improve your patient collections. Is your front office requesting 100 percent of the co-payment from each patient before they leave the office? Train your front desk person to estimate the insurance payments and ask for the additional co-payment due before your patient walks out the door. Your staff will spend less time on collections, and you will increase the cash in your bank account immediately.

In addition, run a Patient Aging report each week and follow-up on the over 30-day accounts. Make notes of who was spoken to and the scheduled payment arrangements. If the payment is not received by the arranged date, follow-up. If it becomes clear to you that you will not be receiving payment, inform the patient that you are sending their information to a collection agency. If you get no response, send it to the agency. Collecting part of the payment is better than collecting none of it.

Next point on improving collections: follow up on your insurance claims each week. Your staff should be running an

Figure 1

A Simple cash flow statement is as follows:

Beginning cash for the month
Increases by:

- Net income from your profit and loss statement (this is when revenue less expenses is a positive amount)
- Depreciation and amortization (which are non-cash items)
- Loan proceeds deposited into your account
- Interest and dividend income

Decreases by:

- Net loss from your profit and loss statement (when expenses are more than revenue, a negative amount)
- Principal repaid on loans
- Owner distributions
- Ending cash for the month

Insurance Aging report every week, following up on all unpaid accounts over 30-days. Notes should be taken with each phone call, including whom they spoke to and the action they said they would take. If payment is not received within two weeks, follow up again. Be persistent! If insurance payment is denied, send a statement to the patient with the amount owed. Make it easier for your patient and include a contact person and phone number for the insurance company.

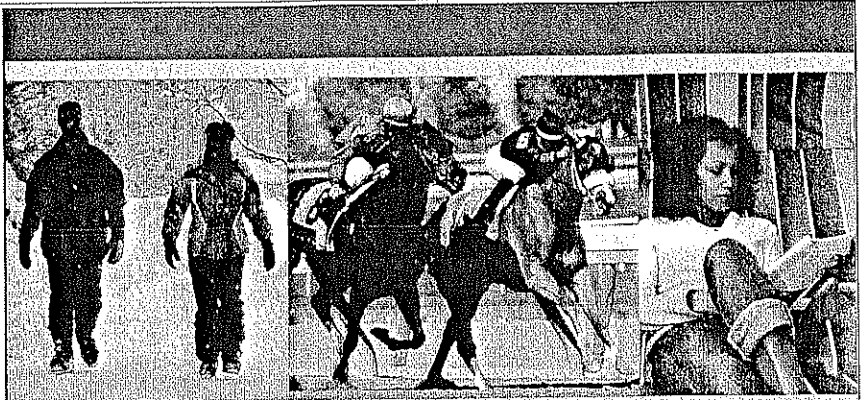
What are some other ideas for revenue enhancement? Are you reviewing your charts to see if there are any other treatments that could be presented to your patients? Is there gold in those charts? One suggestion is to do a comprehensive exam every two years with a full mouth series. It doesn't hurt to bring up a recommended treatment, even if the patient isn't interested in it right then. If you never suggest it, the patient isn't going to ask about it later when the time might be right.

Next, how are your presentation skills? Does your hygienist educate your patients? Is your hygienist using your intraoral cam, or has it become a plant holder? You may want to invest in a continuing education class that provides coaching in presentation skills, or use a dental consultant who can help you improve those skills.

Finally, when I walk into your office, I want it to be light and airy, have nice furniture and be pleasing to the eye. In addition, I want information that I can understand and I want to be able to assess my treatment plan by being shown what is wrong and how it will be treated.

Talk to your accountant about additional ways to add cash to your bank account. Just remember, cash flow should not be a mystery. Used correctly, it is an excellent management tool.

Sue F. Ureda owns half of Coleman & Ureda, P.A. and is a certified public accountant in South Carolina and North Carolina. Her firm specializes in working with dentists (over 115 practices) and is a proud member of the Academy of Dental CPAs. Sue can be reached at: sue@cu-cpa.com or 800-680-4171.

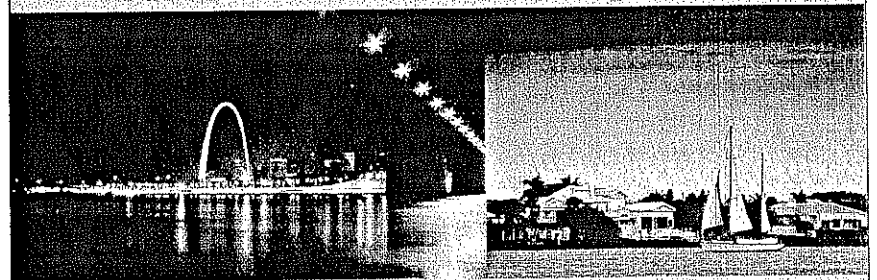


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