

Mastering finance for your practice—without an MBA

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Being a caring, knowledgeable clinician is vital for patient care, but having such skill does not necessarily mean that running a medical practice comes easy—especially if you do not have a basic background in business. Financial fundamentals are rarely taught in residency and, with administrative burdens increasingly placed on physicians in solo and small practices, it isn't surprising that many practitioners feel underprepared.

Fortunately, it doesn't take a master's degree in business administration to conquer these challenges. You just need some understanding of key operating principles.

Accounting basics

It isn't personal; it's only business. Delineate the point at which personal finances stop and business finances begin. Make sure that you have a business checking account and credit card, and run all your business expenses through those accounts—never through your personal accounts. That policy will save you time if your practice is audited and, more important, will help you be efficient by guiding your focus to the right set of numbers by which to manage the practice.

Set up a system to track transactions.

Many businesses use the accounting software QuickBooks; the program can generate sophisticated reports, and many banks can export data to it automatically. But QuickBooks might be more complicated than what you need to get started; a simple spreadsheet program, such as Excel, might suffice. By working through the numbers yourself, you gain a more intimate knowledge of the state of your finances.

Assemble a team of experts to assist you, at least in the beginning, with building a core knowledge base and good habits. Don't think that this absolves you of responsibility, however: Ultimately, you sign off on what your advisors recommend. For example, an accountant can prepare your tax return, but you review and approve it, and a financial advisor might recommend certain investments, but only you can authorize them. You might work with a banker for a business loan or a bookkeeper to help you with your day-to-day record-keeping, but no one can give you the critical thinking you need to maximize your financial success.

The devil is in those details

Delve into your practice's profit/loss statement, or create one if it doesn't exist. Understanding these data is critical for maintaining financial health. Without knowing how much money you are taking in and where it is going, you cannot be confident that your business model is viable.

Revenue is easier to digest because it typically derives from only a few sources: pro-

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Disclosure

Dr. Braslow is the founder of Luminello.com.

Is managing your practice a daunting challenge?

A CURRENT PSYCHIATRY 'Pearl' by Dr. Ken Braslow might hold the answer to your administrative worries.

Submit your practice management question to Associate Editor Patrice Kubik at pkubik@frontlinemed.com.

Dr. Braslow will consider your inquiry for a 'Pearl,' to benefit all readers.

CURRENT PSYCHIATRY cannot provide individualized advice in response to your question.

Determine whether hiring an assistant, or adding an additional one, will increase your bottom line

Table

Where do the dollars go in a psychiatry practice?

Computers, including peripherals
Health insurance
Internet access
Licenses (medical, DEA, business)
Office supplies (paper, water, magazines)
Personal psychotherapy and consultation
Processing fees for banks and credit cards
Professional development (books, journals, conferences)
Rent
Software (one-time purchases, subscriptions)
Taxes and tax-return preparation
Telephone and fax

fessional fees and interest and, perhaps, speaking engagements, consultation to trainees, teaching, and rental income.

Expenses. Getting a grasp of where the money goes is more challenging. Common examples of costs of running a practice include, but aren't limited to, the list in the *Table*.

By doing this basic profit/loss math, you will see how much money should be left over (profit) at the end of the month. To confirm, reconcile your numbers with your monthly business checking account statement; QuickBooks does this semi-automatically, or you can do it by hand. Reconciliation might feel uncomfortable if you are a novice to accounting, but spending a few moments to catch an error now is far less onerous than remedying what began as a small mistake and compounded to a big one over the years.

Other financial reports, such as a balance sheet and a statement of cash flow, are useful for giving you a sense of your practice's long-term financial health. Typically, however,

they are unnecessary during early stages of establishing a practice—and the work they require can be overwhelming.

After you're done with the math

Based on your financial analysis of the practice, you will be able to pay yourself a salary based on the profit (that is, revenue minus expenses). Before you take your salary, however:

- Consider keeping enough in your business checking account to pay next month's bills.
- Remember to adjust your monthly compensation downward by 20% to 50% to withhold for payroll and estimated federal and state taxes.
- Look into tax-advantaged business benefit plans. A retirement account, certain savings plans (eg, flexible spending accounts for dependent care or health care), a commuter plan, and life insurance paid for by the business can make your income go further. Some of these benefits are available only to employees of corporations; crunch the numbers, however, and discuss with your accountant whether the cost of incorporating is worthwhile.
- Determine whether hiring an assistant, or adding an additional one, will increase your bottom line. You incur significant expenses by hiring an employee—salary, payroll taxes, and time spent training, to name a few—but doing so might be worth it if the time that he (she) saves you opens up billable hours for seeing patients.

Good care requires a solid foundation

Caring for people who are suffering, while being financially successful, are not contradictory goals. Although you deal with a person's private, intense feelings when you provide care, you also have an obligation to ensure the financial health of your practice.



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