



QUARTERLY NEWSLETTER

(Dental Edition)

SUMMER 2002

Budget...Dirty Word or Management Tool



We see and hear it all the time. The cringing. The distrust. The “Ya Right” reaction. These reactions usually follow the phrase “We need to put together a budget”. Once the giggling and laughter subsides, we get down to business.

Often we field phone calls asking questions such as, “Can we afford a family vacation?”, or “We’re thinking of putting up a new sign, do we have the money for it?” Recently, we have been answering the question and then posing a question of our own, “How would you like to be able to answer the vacation question yourself?” The answer inevitably is a resounding YES.

Budgets are sometimes scoffed at because they can be inaccurate and more times than not go unmanaged. But, the reality is when used properly a budget provides a financial map, which significantly reduces the stress unknown cash flow performance can cause.

However, a budget is only effective if it is monitored monthly. The budget outlines from the beginning of the year what your practice will generate in net income and therefore, what you can take home as a draw. It is a very proactive approach to your practice (business), as opposed to waiting until your financial statements are prepared to determine whether you’ve had a good or bad year.

The budgeting process is a dialogue and a four-step process:

1. First, we target (set) a net income objective.
2. Secondly, we use historical data and analyse physical resources to determine growth potential. Knowing how you’ve grown to date, whether you have the people, space and equipment to handle more growth and whether your market has been saturated are factors considered when determining your practice’s growth potential.
3. Next, given your net income objective, our understanding of cost ratios and the anticipated growth trend, we are now ready to prepare a budget. The budget includes two parts...an Income Statement and a Cash Flow Analysis. The Income Statement portion of the budget outlines how the practice is performing financially over a period of time. The Cash Flow Analysis details what is happening to your practice bank account as a result of the practice’s financial performance. This provides two major benefits –
 - a. It keeps you informed of how the practice fares according to plan ,and;

- b. It keeps your banker happy because they know you are watching your cash flow closely.
4. After the budget is finalized we then start to monitor it on a monthly basis and provide summary reports showing how the practice’s “actual” numbers compare to the budgeted numbers. This provides you with a report card outlining how the practice is doing according to the plan. The goal is to modify performance (either by increasing production, when applicable, or decreasing variable expenses, where applicable) so that the targeted net income is not jeopardized and we avoid getting into an over draw position.

The budgeting process enables you to determine at a glance how much money you still have available to spend in any area of your practice (business) including your draw. Since April we have introduced the budgeting process as a management tool to many of our clients and all have had positive results in terms of understanding what is happening with cash flow in their practice.

Our goal is to introduce budgeting to all of our clients by January 2003. If you wish to learn more about the process, please contact Frank or Norma Jean at 1-800-387-7021.

“Just How Are My Taxes Calculated”

As a “self-employed” business owner your tax bill can be a bit of a mystery as compared to one of your employees, or employees of a corporation. As an employee, taxes are calculated with each pay period and remitted to the government. Therefore, employees generally know what their tax bill will amount to.



However, as a “self-employed” individual the government asks you to remit tax installments based on the previous year’s income. This keeps you current if your practice is consistent from year to year. What if your practice grows significantly? How will you know how much to set aside for taxes?

Assuming your only source of income is from the practice your tax bill is calculated based on the practice’s net income. *(This is where the budgeting process comes in handy. You’ll know at the beginning of the year how much we anticipate your tax bill will be so that you can plan accordingly.)*

Let’s take a look at a practice that earns a Net Income of \$200,000. Generally, assuming no personal

deductions are applied against the Net Income, the proprietor of this practice would have to set aside and install roughly \$80,000 for taxes (this is a quick and not exact calculation).

A more important question becomes, what happens to the other \$120,000 of Net Income. In a perfect world, the rest of the Net Income is supposed to cover the owner's take home draw and personal expenses paid through the practice, loan principal payments and any furniture and equipment purchased through the year. Therefore, from simplistic point of view (there are more calculations needed to make a detailed cash flow analysis) a "self-employed" individual's Net Income must cover -

1. His/Her Personal Taxes
2. His/Her Take Home Draw (including personal expenses paid through the practice)
3. Practice Loan Principal Payments
4. Practice Capital Acquisitions (Furniture and Equipment)

In the event a practice's net income cannot cover the four areas described above, then the practice has spent more cash than it has generated. This is usually the reason overdrafts and lines of credit increase significantly, which can lead to negative equity positions.

Therefore, in order to understand your tax position, you must have a solid understanding of what the practice net income is expected to be.

Please contact Frank or Norma Jean at 800-387-7021 to learn more about your specific tax situation.

Key Bench Marks We Watch Closely

A very popular topic of discussion when visiting clients is "how are we doing in relation to the market place?" When first analysing a clients' operational efficiency we key on three major expenses:

- Dental Supplies;
- Laboratory Fees, and;
- Wages.



These are the expenses that can most quickly affect a practice's net income due to their close relationship to production.

Drugs and Supplies - Generally, drugs and supplies should represent between 6-8% of your total revenues. If this expense is any higher than 8%, then the practice is either over-buying or not charging enough for its services.

Conversely, the lower the cost ratio the more efficient the practice is being with its drugs and supplies.

Laboratory Fees - In a general dentistry environment, laboratory fees should be between 6-8% of revenues.

Wages (Support Staff) - Ideally, a practice not including Hygiene wages, should have a wage cost ratio of 18-21%. In order to maintain this kind of ratio the practice must ensure to keep current with the fee guide and continually motivate its staff to be more efficient producers.

A practice with Hygiene wages should have a cost ratio of 27-30%.

Ideal Support Staff cost ratios are based on arms length (non-related) employees.

These bench marks are strictly guidelines. They can differ depending on the types of services you provide and the geographic location of your practice. That is why the more important measurement is how the practice is performing against its budget. The budgetary figures take into consideration the factors specific to your practice.

We'll reprint these bench marks in the next couple of newsletters so that they become second nature to you.

On the Road Again

In an effort to visit our clients on a more frequent basis both Norma Jean and I (Frank) will be sharing this duty going forward. Because I live in the Toronto area I will most often visit clients located South of Highway 9. Given Norma Jean's location, she will be frequenting clients located North of Highway 9.



Those of you who have already had visits and have struck up a working relationship with either one of us will continue to work with that same person. The others can expect a visit from one of us within the next couple of months.

Norma Jean and I will be your first line of contact, but that does not mean you will only be dealing with us, necessarily. All of our team is available to assist you in any way they can. And let's not forget about Carolina. She has become acquainted with each and every one of you thanks to the tax season. She is available for all of your inquiries.

Norma Jean and I look forward to seeing all of you real soon. If you'd like to set up an appointment right away, please don't hesitate to call (800-387-7021).

Our Team is Expanding

In order to ensure you are getting the best advice possible, Business Affairs Ltd. has begun to develop a network of professionals specializing in the most pertinent areas of personal, business and corporate financial and estate planning. We are happy to introduce Bill Sklar, C.A., David Fulford, C.A. and Barry Seltzer, B.A., LLB as members of the Business Affairs team.

Barry has been practicing law for nineteen years specializing in the areas of estate administration and planning, trusts and business succession planning. David has had extensive experience in financing, estate and tax planning, family business succession and auditing. Bill's experience as a Chartered Accountant has spanned over three decades in the areas of domestic and international business, political affairs, and non-profit organizations.

Their years of experience and expertise provide an invaluable asset to Business Affairs and its clients.

We Need Your Input

We will continually endeavour to provide you with the best possible service any team can provide. However, without your feedback, we will only be guessing as to how we are doing. Your feedback (and please be as frank - no pun intended, as possible) is greatly appreciated and allows us to evolve as a service provider.

We have enclosed a Service Questionnaire for your review. Please fill it out and mail it back in the self-addressed stamped envelope. The Questionnaire is completely anonymous and will be used internally only. We thank you for your time.

Around The Water Cooler

Something better give or Marian is going to explode. Other than working on Monthly Management Reports, Marian is anxiously awaiting the birth of her first grand

child (to daughter Cheyenne). So if you're talking to her "Grandma" jokes are completely appropriate.

Welcome back to Lisa, who has been away on maternity leave for the past year. After a couple of months of work, Lisa has confirmed taking care of baby Kyle is much more taxing (pun intended) than preparing budgets.

Monica is in a fabulous mood these days. And though many might think it's because of her love of Monthly Management Reports, we have it on good authority it has to do with the implementation of the new phone system. It has greatly reduced the cramping in her right hand from all the message taking to which she had been accustomed.

Michelle is using all of her "Danielle Boone" skills (her family has camped at five different sites in the last two months) to ensure our new computer system is working as it should. However, we're a little concerned about the hatchet she carries around.

Sherry is diligently working away at financial statements. She's amazing though because she never gets tired. She says she owes it all to her competitive spirit. Sherry plays sports all year round and in the summer plays both softball and floor hockey. She credits her athletic success to emulating the actions of her favourite athlete, a mister Domi (yikes).

Norma Jean, who has been extremely key during this transition, and is looking forward to a visit home with her mom. Come to think of it, given her seniority here, Norma Jean is entitled to roughly 30 weeks of vacation. However, given the trooper that she is she has agreed to take her lap top and cell phone everywhere she goes so that she's always phone call or e-mail away.

Carolina got through the tax season relatively unscathed. By the end of July she began to sound out vowels again. Thankfully, most of her correspondence is with the government (just kidding, Mr. Prime Minister).

What Would You Like to Read About

Your suggestions are always welcome, especially as it pertains to the Newsletter. If there are any topics you wish covered, please let us know by phone (800-387-7021 x27), fax 705-739-7214, attention Frank or e-mail (frank@businessaffairs.ca).

