

Setting up Your Dental Practice Accounting System

You've done the hard work. You have a new dental practice idea or you've found an existing dental practice to purchase. Want to help ensure your practice's success? Pay attention to correctly setting up your practice's accounting system. Here's how:

- **Consider business entity.** Choosing the right legal and tax entity for your dental practice is important. Consult us to discuss your options. On the tax side, sole proprietors use a Form 1040 Schedule C to report their activity, while other business entities such as S-Corporations and Partnerships file informational returns and pass-through profits to your individual tax return. C-Corporations require separate tax returns without pass-through of profits onto your personal tax return.
- **Determine if you'll use cash versus accrual basis.** There are different approved methods of accounting. You will need to determine which is best for you. The basic difference lies in when you can book revenue and expense. One method (cash) is based upon when you actually receive or make payment, while the accrual method allows capturing this same information when there is an established obligation. Cash method is almost always the right choice for a dental practice.
- **Separate your books.** If starting a dental practice from scratch, remember to set up separate bank accounts and recordkeeping. *IRS auditors are quick to disallow expenses when your practice expenses are mingled together with personal expenses.* The same is true with credit cards. Use a separate credit card for your practice transactions.
- **Use sub-ledgers.** Well-run dental practices understand the need to organize elements of their practice into accounting categories. These categories often use their own reporting system called sub-ledgers. Common areas are sales, accounts receivable, accounts payable, fixed assets, and inventory. This is also very helpful when comparing your practice performance to dental industry standards.
- **Honor cash flow.** Often success or failure of your dental practice is predicated on whether you have enough cash to pay your bills. Determining your cash needs means understanding the cash situation of your practice. To do this requires a good set of records. This includes recording your current situation on a timely basis and establishing a forecast of cash needs throughout the year.
- **Create a fortress balance sheet.** Banks love a strong balance sheet. If you think your dental practice may need money for expansion, you will want to focus on developing a strong balance sheet that is low in debt and high in liquid assets like cash and accounts receivable. The irony here is that it's easy to borrow money when your records show you don't need it and it's hard to borrow money when you do need the funds.
- **Understand seasonality.** By setting up a good accounting system AND forecasting performance over a twelve-month period, you will understand the true needs of your dental practice.

Remember, by spending time setting up the accounting system that is right for you, you are increasing your dental practice's chance for success.