



How to Complete your Cash Flow Projection

This guide has been prepared to assist in the preparation of your cash flow analysis and should be used in conjunction with our cash flow analysis spreadsheet. Each item that appears on the spreadsheet has been explained within this guide together with handy tips to help you along the way. The end result will be an accurate and relevant projection of your cash flow position over the next 12 months.

CASH FLOW ANALYSIS ITEMS:

CASH INCOMINGS

'**Cash sales**' refers to income from your main business activity which is received at the time of consultation. Your cash sales income will be from patients paying your fees out of their own pocket and from patients covered by MediCare or health insurance who will pay you and then claim back the cost from MediCare or the insurance company. If such a patient needs a course of treatment (more than one appointment), you may decide to charge them after each treatment rather than at the end of the course to improve your cash flow.

You should also include any retail sales of physiotherapy equipment that you make in 'cash sales'.

To prepare your cash flow, you need to estimate how much income you will receive over the next twelve months. To do this you will need to work out how many patients you are likely to treat, how much you will charge them and when you will receive the money.

Setting your Fees:

Setting your fees at the right level is an important part of making sure the practice gets off to a good start, however, this can prove easier said than done. You may already have a core of patients that you have been seeing privately and will have an idea of how much to charge, although, you may find that you will have to increase that rate to cover practice overheads and for you to make a profit.

You may find it useful to research the fees of other private practices operating in your area. You may decide to set a competitive price, charging less to attract more patients. Alternatively, you may feel that you can charge more if you are very experienced or specialised.

'**Cash from debtors**' refers to income you receive from debtors, that is, patients who don't pay at time of consultation but instead receive an invoice from you, usually at the end of the month. After they have been sent an invoice but before they pay, they are referred to as your debtors. When they pay you, the payment is referred to as 'cash from debtors'.

The majority of your debtors are likely to be health insurance companies. Some of your patients will pass you their completed claims form when treatment has finished and you will then have to collect your fees from the insurance company. Once you have invoiced the company but before it has paid you, the company is referred to as your debtor - when they pay, the payment is referred to as 'cash from debtors'. You should contact the health insurance companies you will be dealing with to see how long you will have to wait before receiving payment. If it is typically longer than 30 days, include projected income from insurance companies as 'cash from debtors' (ie in the month after the treatment has been completed). If the delay is less than 30 days, treat such payments as 'cash sales'.

Establish clear **terms of payment** with your debtors so that there is no confusion as to when invoices should be settled. You might, for example, require all accounts to be settled every month, perhaps by a particular day of the month. Alternatively, you might state on your invoice that payment must be made within 30 days of the invoice date.

Consider what steps you will take to recover any overdue amounts and whether interest will be charged on these.

To prepare your cash flow, you need to make an estimate of the amount of income you are likely to invoice each month. Enter this amount in your cash flow statement in the following month as 'cash from debtors' indicating that this is when payment is due to be received.

'Other income' relates to amounts you receive from sources other than your main physiotherapy business that haven't been dealt with anywhere else in the cash flow. Examples of 'other income items' include:

- rent received from sub-leasing your premises
- the selling of physiotherapy equipment to the public, or
- writing articles for a professional journal

To prepare your cash flow, you need to make an estimate of how much you think you will receive every month in 'other sales' and enter this in your cash flow projection. Be careful not to count any income twice - if you've already counted something as 'cash sales'; do not count it again as 'other income'.

'Borrowed funds' relates to the principle amount of money you borrow, eg via a business loan from the bank.

Important Note: Physio Accountant has finance available and offer products that have been especially designed to suit the needs of those involved in the physiotherapy industry. Whether you are looking to finance practice equipment, office equipment, property fit-out or even the purchase of a practice premises we are able to provide the financial solution for your needs with a repayment plan that suits your budget

'Cash injection' relates to the amount of money you intend to put into the business from your private funds, for example, funds sourced from private savings or the sale of a privately owned asset.

'Working capital' relates to the instance where cash incomings are not sufficient to cover set-up costs and cash outgoings. For example, when you first open your Practice you will not be operating at full potential as your practice is becoming known and developing a good reputation. During this period you will still have to cover

expenses such as: wages (and your own living expenses); consumables, such as gels; rent; rates; utilities, such as heat, light and telephone.

If the income during this period does not cover your practice expenses, you will need 'working capital' to tide you over.

To prepare your cash flow, leave this entry blank until you have completed all the other items. This will give you an indication of the shortfall between income and expenditure. If you discover your cash position is low or negative, you should arrange for additional funding, either via private injection of funds or via external lending.

CASH OUTGOINGS

'**Cash purchases**' refers to any payment you make to a supplier at the time when you buy supplies rather than taking an invoice to pay at a later date. Cash purchases only include items that you buy for use in the course of treatments, such as gels, tape and so on. They don't include things like tea and coffee bought for consumption at work, or items such as business stationery.

Remember to keep all the invoices and receipts for cash purchases, even if the amounts are small.

'**Cash to creditors**' refers to payments you make to creditors, that is, suppliers who you don't pay at the time of the purchase but instead you purchase on account. After you have made the purchase and received an invoice but before you pay your account, these suppliers are referred to as creditors. When you pay the supplier, the payment is referred to as 'cash to creditors'.

For convenience it is best to **set up accounts** with your main suppliers. To do this you may be asked to provide bank references. Until the account facility has been granted you will have to pay for your order at the time you place it. Once your account has been set up you will be invoiced at regular intervals and expected to pay within a certain number of days of receiving the invoice.

If you are purchasing items of equipment for the on sale to patients, such as back rolls, joint supports and rehabilitation exercise items, it is important to maintain control over your stock levels. You may decide to keep a small stock of such items on hand or you may decide to order them as patients place orders with you. The latter method will mean that you don't have money tied up in stock and, as many suppliers offer 24 hour delivery, should mean that the patient is not unduly inconvenienced. This will be a personal decision.

To prepare your cash flow, you need to make an estimate of the amount of supplies you are likely to purchase each month. Enter this amount in your cash flow statement in the following month/months (depending on terms of payment) as 'cash to creditors' indicating that this is when payment is due to be made.

'**Wages**' refers to the gross amount of wages paid to your employees, including any amount withheld by you on their behalf under the PAYG system.

Before you can make an estimate of the wages you will pay each month you have to determine how many staff members you will need to employ. This will vary depending on the size and scope of the practice. Your employees may include:

- other physiotherapists
- physiotherapy assistants
- other therapists who can offer treatments that you are not trained to provide

· administration support to answer the phone, make appointments, organise patients files, deal with health insurance companies and so on

Now you need to determine the rate of pay for each staff member. You can find this information by referring to the relevant Modern award which details minimum conditions for employers and employees across Australia, replacing federal and state-based awards on 1st January, 2010. The physiotherapy industry, including support staff, is covered in The Health Professionals and Support Services Award 2010 [MA000027]. Take a look at a copy of this Modern Award, available online at www.fairwork.gov.au, to gain insight into what you can expect to pay your employees.

Don't forget, you could use a combination of full and part-time staff. Part-time work is often attractive to parents with children at school. So take this into consideration when calculating your monthly wage figure.

Important Note: Money that you take from the business to cover your own personal living expenses is known as 'Drawings'. This should not be included in 'wages', it will be dealt with elsewhere in the cash flow.

To prepare your cash flow, you need to determine the number of staff you intend to employ then apply the relevant rate of pay as determined in The Health Professionals and Support Services Award 2010 [MA000027]. Calculate a monthly figure to enter into your cash flow.

'**Superannuation**' refers to the amount of superannuation guarantee that as an employer you are obliged to pay to your employees. This is calculated at 9% of each the eligible employees' base earnings. As a general rule, eligible employees are those who are paid at least \$450 per month. However for more detailed information about employee eligibility you will need to visit www.ato.gov.au

To prepare your cash flow, you need to calculate 9% of your gross wages figure. The superannuation guarantee contribution is payable on a quarterly basis so calculate 9% of gross wages for the three month period ended 31st March, 30th June, 30th September and 31st December and apply the figure to your cash flow in that month.

'**Rent**' refers to the amount of rent you will have to pay for your premises in the month that you will have to pay it.

Helpful hint: If you have not yet decided on a particular premises you could contact a local estate agent who handles commercial property to get an idea of how much the rent is likely to be. You should have already given some consideration to the type and location of the premises that you will require for your practice, so they will be able to give you some guidance as to how much you will have to pay.

'**Rates & water rates**' refer to the rates you may be subject to pay in relation to your premises.

Helpful hint: Your local council, the estate agent and your local water authority will be able to give you some guidance as to how much these will be.

'**Utilities**' refers to the gas and electricity you will be charged on a quarterly basis for all the gas and electricity you have used in the business.

Helpful hint: Until you have been trading for a few months you will not know

exactly how much energy the business will use. Your energy supplier may be able to give you some guidance based on the size of your premises and the nature of any equipment you will be using, for example, electrotherapy, ultrasound machines. You can adjust the figures once you have been in the premises for a few months.

All the utility companies have become much more competitive and it might be worth shopping around to see which would be the cheapest for your energy needs.

'Telecommunications' refers to the cost of all your telephone needs, including landline and mobile, together with internet usage costs.

Your business will need at least one telephone line so that patients can contact you and so you can contact local GPs, hospitals and suppliers. You may decide that you also need a mobile phone, for example if you decide to offer home visits which would mean being away from the practice.

You may also decide to create a website for your practice, which can be used to provide your contact details, advertise your services, give details of your fees and so on. Many different internet service providers offer internet connections together with email accounts. The features and prices offered will vary from provider to provider so make sure you shop around to find the best deal for the package of services your business requires.

The telephone company will bill you every month or quarter for the calls you have made together with an amount for the line rental, payable in advance for the next quarter. Various packages and discount structures are available to business users, which can help to reduce telecommunications costs. So again, be sure to shop around by contacting several communication networks to get a deal customised to your needs.

'Postage' You are likely to spend a certain amount on a regular basis, but every now and then you might decide to do a promotional mail out, advertising your business to local GPs, hospitals, leisure centres etc. This will increase the amount you spend on postage in that month.

'Printing and stationery' refers to business stationery such as letterheads, invoices and so on. Contact a printing company for an estimate of how much a package of essential business stationery costs. You will probably pay for this in month one or two and then re-order as necessary later in the year.

Important Note: If you have recorded an amount for customised stationery in your start-up estimation, be sure not to include an initial amount here.

'Advertising' refers to the costs involved in implementing the marketing plan you have previously developed. This may include: advertising in the local newspaper or business directory - contact relevant businesses for a quote; printing leaflets to distribute or send out telling GPs and other health professionals about your services and charges – decide how regularly you will conduct these drops then contact a distribution company for a quote on a mailbox drop or calculate postage costs involved.

To prepare your cash flow, calculate the costs involved in implementing your marketing strategies and enter your estimate of the cost in the months in which you will spend the money.

Important Note: If your marketing strategy includes developing a website for your practice and you have included website design costs in your start-up estimation, be sure not to include this amount here. You will however need to consider running costs, such as website hosting.

'Motor vehicle expenses' refers to costs incurred whilst using your motor vehicle for business related travel. You should enter here the cost of any business travel. (Don't include the cost of the vehicle itself - include that under 'Capital expenditure'.) Running costs include:

- the cost of fuel used for business purposes. If you plan to offer home visits within a certain area you should estimate what your total travel will be. If you know the average fuel consumption of your vehicle you can then estimate how much the fuel will cost you
- servicing and repairs
- replacement tyres, exhausts and so on
- road tolls

If the vehicle is used solely for business use then you should allocate all running costs to the practice. If it is your private vehicle which is used occasionally for business then you should only allocate a proportion of the cost to the practice.

'Travel expenses' refers to business related travel expenses incurred, other than by car. This may include: public transport, airfares, hotel expenses. For example, you might travel by train to a residential training course or seminar which involves staying overnight in a hotel.

'Accounting fees' refers to the costs incurred for business services provided by your accountant. Such services may include book-keeping, tax compliance, preparation of annual accounts and tax returns, tax and business advice and so on. Ask your chosen accountant to estimate the likely cost of the accountancy services you require and enter the amount in the month when you expect to pay for them.

'Legal fees' refer to costs incurred by using the services of a solicitor. You may decide to employ a solicitor to assist you with deciding what form your business will take, to draw up a partnership agreement or form a company.

Ask your solicitor to estimate the likely cost of the services you will require and enter this amount in the month you expect to pay the fees.

Important Note: Physio Accountant can provide advice on business structure and can then prepare a binding partnership agreement, set up a company, or trust depending on what structure is best suited to your situation.

'Insurance' refers to the premiums you are paying for insurance relating to your business. Working in private practice, you may need some or all of the following types of insurance:

- professional liability
- all risks cover for your equipment
- public liability
- employer's liability insurance
- loss of earnings
- premises
- motor insurance (for delivery vehicles)

Premiums may be paid in a lump or they may be paid in instalments. Your broker will be able to advise you of the amounts due - enter them in the months when you will pay them.

Important Note: If you have included lump-sum insurance premiums in your startup estimation, be sure not to include this amount here as you will be covered for a twelve month period so your insurance will not be due for renewal within the twelve-month cash flow projection period. However if you intend to pay via quarterly instalments, be sure to enter these amounts in the months they are payable.

Important Note: Physio Accountant is a registered insurance broker and offers specialised, competitive business insurance policies that can be tailored to the precise requirements of private physiotherapy practices.

'Licences/permits' refers to the costs involved in obtaining permits required to open your practice. For example, if you intend to place a sandwich board on the footpath outside the front of your practice, you first have to obtain a permit from your local council.

'Bank/finance charges & interest' refers to the costs involved in borrowing funds to finance your business, either by way of overdraft or loan. These may include interest payable on any money borrowed and bank fees charged on your business bank account. Interest and charges are normally debited from your bank account every quarter.

If you decide to accept payment by credit card you'll need to open a 'merchant account'. You will have to pay monthly card charges to your merchant account provider.

Helpful hint: Your bank will be able to help you estimate the amounts that will be due.

'Leasing payments' refers to principle and interest payable on hire purchase and lease agreements. Generally the payments are fixed at the beginning of the lease period and do not reflect movements in interest rates, although agreements over longer terms might include a variable rate option. Lease payments are made monthly.

Helpful Hint: Leasing items of equipment rather than purchasing outright can help cash flow by spreading the cost over an agreed period.

Important Note: Physio Accountant can give you access to the finance you need for the equipment you want, including new and used practice equipment, fit-out materials and computer hardware/software.

'General expenses' refers to costs you are likely to incur on different goods and services for your practice. These might include:

- subscription to a trade journal
- annual registration fees
- computer supplies
- flowers, magazines and pictures for the waiting room
- staff amenities
- external contract cleaners

- window cleaner
- repairs and maintenance

Make an estimate of the amount you are likely to spend on general expenses every month and enter this in your cash flow. You may review this figure once your business is up and running. Do not forget to record what you spend on general expenses and keep receipts wherever possible as the amounts may seem inconsequential at the time of purchase but they do add up.

'Other expenses' refers to any payments that the business will make that have not been covered elsewhere in the cash flow. This might be, for example:

- payments due under a maintenance contract for your computer
- the amount spent on staff uniforms

Enter the amounts in the months when you expect to pay them.

'Loan principle payment' refers to principle repayments made on borrowed funds.

'Capital purchases' Now that you have given further thought to exactly how your business will operate, you might like to revisit your estimates of capital costs to make sure that you have identified all of the items you will need and any other capital costs you will incur.

Don't forget to include any expenditure on your premises such as sign writing, or having your logo embroidered onto staff uniforms. Make sure you have thought about the security measures you will put in place - for example, you should install an effective anti-theft system to safeguard expensive equipment, such as ultra-sound machines and computers.

If you are paying cash for all the items you are buying for your business, enter the amounts in the months when you expect to pay for them.

If you decide to buy some items on hire purchase, or with a loan, enter the deposit and the monthly payments in the months in which you will pay them. These payments will be made up of both capital and interest. Enter the capital here and the interest under 'Bank/finance charges and interest' in your cash flow. The agreement will identify the amount of interest payable annually - if you deduct this from the total amount you have to pay each year the balance is the capital.

Don't forget that many items can be bought second-hand considerably cheaper. You could try looking for advertisements in trade journals.

'Owners withdrawals' refers to the amount of money you will take from the business to cover your personal living expenses. (Some people refer to this as their 'wage' but correctly it should be referred to as Drawings.) Base this amount on what you need to cover your personal expenses.

Make a list of all your regular expenditure and then add things that you only spend money on every now and then, such as birthdays and Christmas.

Be realistic with your estimates - don't be tempted to underestimate your living costs just to make your cash flow work!

