



# **Module 1**

**Financial  
Statements:  
Preventative Care of  
the Private Medical  
Clinic**

- A. Introduction to  
Financial Statements**
- B. The Income Statement**
- C. The Balance Sheet**



- **Financial record keeping:** The process of tracking the transactions of a business in monetary terms
- **Financial records:** Any written way of keeping track of money flowing into and out of a business, whether in the form of cash or credit
- **Financial statements:** Documents that provide information on how the business is going financially; they organize the information a business generates into structured formats to help owners plan
- **Income statement:** A historical statement covering a period of time that tells whether a business made a profit or incurred a loss during that period
- **Indirect expenses:** Costs that do not vary closely with the level of sales, roughly the same as fixed costs
- **Liabilities:** What a business owes, the debts that the enterprise has that have not been paid by the date the balance sheet is prepared
- **Net income:** The amount of money that is left after subtracting all expenses from revenues, also known as profit
- **Revenue:** Money received (or to be received) by a business for goods and services rendered during a given period of time

## **A. Introduction to Financial Statements**

Financial statements are used to **organize** and **document** a business's financial information. They are documents that provide information on how the business is doing in regard to utilizing financial resources and its financial commitments. Financial statements organize the information into structured formats so that a business owner easily can review the financial information to make planning decisions.

There are many kinds of financial statements that a business owner can use to organize, document, and analyze. The most common are

- **The Balance Sheet**
- **The Income Statement**
- **The Cash Flow Statement and the Cash Flow Projection**

## B. The Income Statement

**The income statement answers these questions:**

**As the owner of a private medical clinic, do I earn money or lose money?**

**If I earn money, how much?**

**If I lose money, how much?**



The income statement documents a company's revenues and expenses for a given period of time. From this information you are able to determine if the business made a profit or incurred a loss.

The income statement shows a medical clinic's profitability, which reflects the business's performance and how much can be reinvested into the business.

By reading the income statement you can identify the sources of your medical practice's income and expenses to determine its operating performance.

The simple rule for determining profit or loss is the equation

$$\text{Net Income} = \text{Revenues} - \text{Expenses}$$

The income statement lists the following information:

- the amount of total revenues for the period of the income statement
- the amount of total expenses for the period of the income statement
- the net income for the period of the income statement

This information will tell you

- if revenues have increased or decreased over a period of time
- if costs have increased or decreased over a period of time
- if profits have increased or decreased over a period of time

Using this information you can determine

- areas of the business that are over or under budget
- specific items that are causing unexpected or higher than expected expenses
- services or sales that are higher or lower than expected

Many business owners draw an income statement at the end of each month and compare them from period to period. The net result from an income statement for a year feeds into the capital part of the balance sheet.

**Quick review:** Check the appropriate box.

Items	Revenue	Expenses
Salary		
Injection fees		
Test kits purchased		
Amount collected for baby delivery		
Income tax paid		
Three lamps replaced		
Provide tuberculosis medicine		
Rent		



### **Exercise: Construct an Income Statement for the AA Higher Clinic**

The AA Higher Clinic has just hired an accountant. It is the end of the first week and the owner of the clinic asked him to prepare an income statement. After collecting all the ledgers and receipts, the accountant was able to determine the following:

- During the past week, 102 patients visited the clinic. The clinic charges a flat rate of birr 15 for a doctor consultation.
- Money collected for laboratory work totaled birr 2,555, and the clinic charged 4 people a total of birr 290 for x-rays. The amount patients paid for injections totaled birr 2,465.
- Last week the clinic delivered two babies. For each delivery it charged birr 325. Money the clinic collected for ultrasounds totaled birr 122. After adding all of these receipts, the accountant noticed that he had an extra birr 1,350. He entered this amount in “other.”

To determine the expenses, the accountant reviewed the invoices paid for the week:

- Salaries paid during the week amounted to birr 546. Rent for the clinic was birr 3,600 for the week. The administration officer gave him a file that included a taxi receipt for birr 14, a receipt from a store for office supplies totaling birr 42, and a receipt for supplies regularly used in the clinic for birr 917. The file also included a bill that was paid for a local repair person to fix a broken pipe in the clinic that totaled birr 115 and a receipt for food for a small party the clinic held for one of the nurses that totaled birr 97.
- Based on the lab and x-ray expense record the clinic keeps, the accountant determined that it had spent birr 2,722 on these services.

Use this information to create an income statement.





**Exercise: Create an Annual Income statement for Highpoint Clinic**

The accountant for the Highpoint Clinic has pulled together information to create its end-of-year profit and loss statement.

He first summarized the revenue generated during the year:

<b>Revenue</b>	<b>Birr</b>
Doctor consultation fees	102,560
Injection service fees	115,260
Blood pressure measurement fees	4,870
Dressing fees	15,720
Minor surgery fees	10,830
Laboratory exam fees	229,480
Other medical care fees	8,634
Miscellaneous medical service income	90
Other income	0
<b>Total revenue</b>	<b>487,444</b>

Then he gathered the information on expenses. Using a bookkeeping system the clinic had put in place at the beginning of 2007, he determined that the clinic had purchased supplies and medicines specific to patients in the amount of birr 76,230. He also determined that salaries for staff focused on service to patients amounted to birr 175,300.



Complete the income statement for the Highpoint Clinic.

Highpoint Clinic Private Limited Co.	
Income Statement	
For the year ended 31 December 2007	
REVENUE	Dec-07
Medical service income	
Other income	
Total revenue	
COST OF SALES	
Medical and lab supplies	
Direct labor of clinic	
Total cost of sales	
GROSS PROFIT	
GENERAL AND ADMINISTRATIVE EXPENSES	
PRETAX PROFIT	
Profit tax — 30%	
NET INCOME AFTER TAXES	

## C. The Balance Sheet

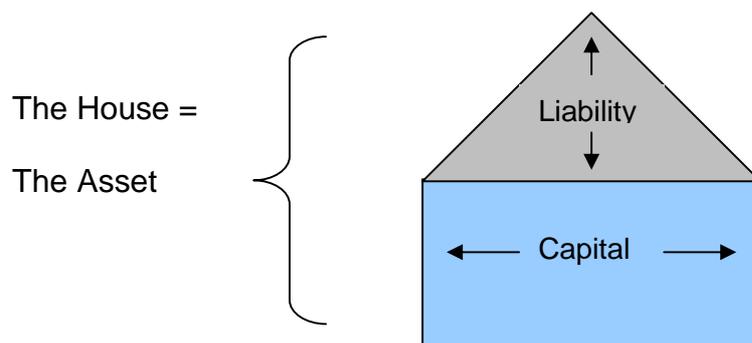
The **balance sheet** presents a summary of everything a business has, owns, and owes at a point in time. It is like a photograph of the financial state of the enterprise **on a particular date**, often the end of the fiscal year. A balance sheet always balances, which means that assets are equal to the sum of liabilities plus equity.

### Balance Sheet Introduction

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

This formula means the business's assets, or the means used to operate the company, are balanced by a company's financial obligations (liabilities) along with the capital brought into the company and its retained earnings.

Take the example of a house:



In accounting terms the house represents the assets (what you have). It is funded partly by your own money, called capital, and partly by loans or other peoples' money (which you will have to pay back), called liabilities. At this point in time you have the house, although in reality you own it only in part—until the time you pay back the people who lent you the money you used to finance it.



The balance sheet is a picture of a business at one point in time, on a specific day.



## Current and Fixed Assets

Assets are what a business has and can be short term (current) or long term (fixed).

### Examples of Assets

**Current assets** = Assets that will be converted into cash in the normal course of business within the next 12 months:

- Cash and bank current accounts: All money available to the business on demand, such as cash and funds on deposit in non-interest bearing accounts
- Interest-bearing deposits: Funds on deposit with a financial institution with a term of less than one year that earn interest income for the business
- Accounts receivable: Amounts owed to a business for services already rendered that a customer is to pay within a short period of time; also advances paid to staff who have not paid back the clinic
- Supplies: Materials that are used and needed in the course of delivering services but that clients do not purchase directly
- Stock: Also called inventory, the value of products that will be sold to customers, assessed at the price for which they were purchased
- Other current assets: Accrued interest (interest that has accumulated in previous periods) and prepaid expenses (for example, rent and insurance)

**Fixed assets** = Long-term tangible property that a firm owns and uses in the production of its income and are not expected to be consumed or converted into cash sooner than at least one year's time. It usually includes equipment, furniture, buildings, and land.

- Equipment and property = Cost – Accumulated depreciation and amortization
- Cost: Market value of the property
- Other: Term deposits

**Total assets = Total current assets + Total fixed assets**



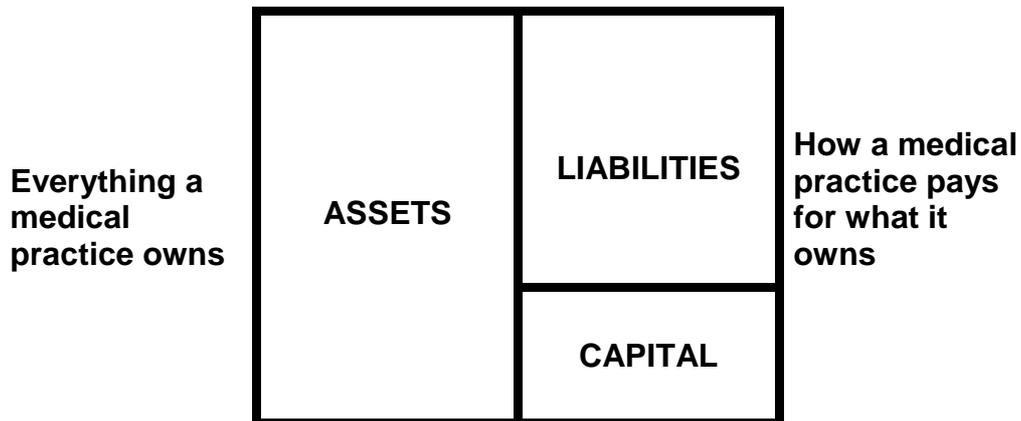
The net result from the income statement flows into the capital section of the balance sheet every year. Capital is therefore the link between the income statement and the balance sheet.

*A business largely financed by debt will have high liabilities compared to capital. This relationship may make bankers worry about its ability to pay its debts.*

Strong capital is an essential component in building a business that will survive and grow.

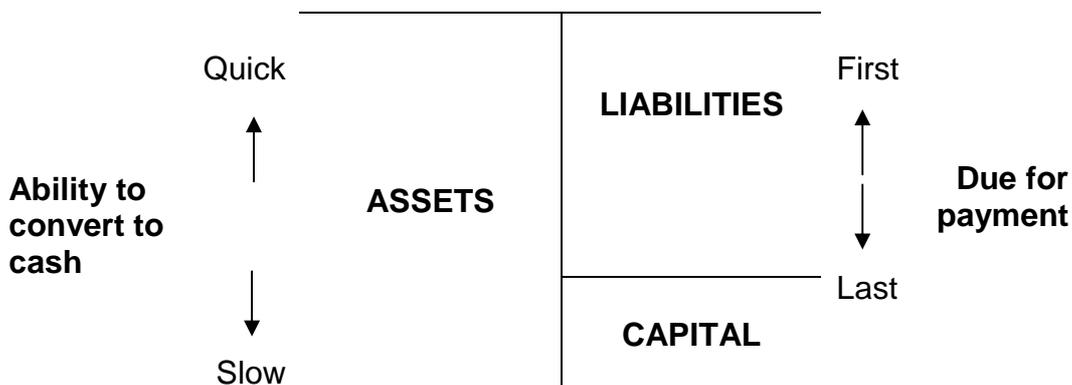
### Completing a Balance Sheet

There are two sides to a balance sheet. On the left side of the balance sheet is everything a medical practice owns. On the right side is how a medical practice pays for everything it owns.



The assets on the left side of the balance sheet are listed in order of how quickly they can be converted into cash.

The liabilities on the right side of the balance sheet are listed in order of how soon they must be paid.



## Standard Balance Sheet Template

<b>CARING CLINIC BALANCE SHEET As of (DATE)</b>		
	ASSETS	
1.	a) Cash on hand	
	b) Cash in bank	
2.	Receivables:	
	a) Accounts	
	b) Notes	
3.	Goods in stock	
<b>4.</b>	<b>Total current assets (1–3)</b>	
5.	Machinery and equipment	
6.	Motor vehicles	
7.	Office furniture	
8.	Buildings	
9.	Other assets	
<b>10.</b>	<b>Total fixed assets (5–9)</b>	
<b>11.</b>	<b>TOTAL ASSETS (4 + 10)</b>	
	LIABILITIES	
12.	Payable	
	a) Accounts	
	b) Notes	
13.	Tax payable	
14.	Bank notes	
15.	Current portion of long-term debt	
16.	Other liabilities	
<b>17.</b>	<b>Total current liabilities (12–17)</b>	
18.	Long-term debt	
19.	Capital and reserve	
<b>20.</b>	<b>Total liabilities and capital (17–19)</b>	

### **Exercise: Dr. Abich's Balance Sheet**

Dr. Abich has been operating his clinic and business for seven years. The following information summarizes what the business looked like at the end the year, December 31, 2006.

1. During the year Dr. Abich purchased an ultrasound machine from a local supplier. As he did not have enough money to purchase the equipment at the time, he worked out a deal with the vendor. Dr. Abich made an initial personal investment of birr 20,000. The vendor is letting him pay the balance as a short-term loan. The outstanding amount is birr 30,000.
2. Dr. Abich has birr 10,000 cash in the bank.
3. A local company that has a credit contract with the clinic owes birr 3,500 for services rendered.
4. Profit tax to be paid is birr 11,700.
5. The clinic needs to pay suppliers a total of birr 14,000 for supplies purchased. The suppliers will be paid on January 15, 2007.
6. The medical clinic has supplies on hand valued at birr 2,500 to be used during the next month.
7. There are a variety of stocks for sale (such as immunizations, products, and other medicines) during the next month amounting to birr 4,200.
8. The total amount of medical equipment the business has is valued at birr 105,000. This figure includes the ultrasound equipment.
9. Net income for the year amounted to birr 39,000.
10. Dr. Abich withdrew birr 10,000 from the business during the year for personal use.
11. Last year the clinic's net profit was birr 20,500.

