It is paradoxical that any business, including a dental practice, may at the same time be very profitable yet short of cash; in other words, in a cash flow crisis. The reason for this essentially rests in a time relationship. Profitability is assessed over a period of time; it is like a video film of your business activities over a fixed period—a month, a quarter, a year. The amount of cash you have in the bank is like a photograph at a particular point in time. So, for the quarter period January 1 to March 31, it is quite conceivable that you may have earned a profit of £20,000 yet on 31st March you may be in overdraft to the tune of £10,000. This in itself may not be serious, but if your overdraft limit is £5,000 then you have a crisis on your hands unless you have the means to bring it back within limits very quickly indeed.

There is a multitude of reasons why you may be short of cash. Let’s list the most important:

1. Unexpected drop in work load
   Every dental practice goes through periods where the volume of available work seems to shrink. Sometimes this is predictable, e.g. at peak holiday periods, but it is when the problem arises unexpectedly that we may literally get caught short.

2. Work done but not yet paid for
   Let us say that you completed a £5000 bridge on March 1st. Accounting protocol necessitates that this is included in the income for that month and that quarter, which will raise your monthly/quarterly profit by £5000. However, if your patient does not pay until 30th April, you will be short at the bank to the tune of £5000 between March 1st and April 30th.

3. A major debtor defaults on payment
   You have done work which has not and never will be paid for. Your patient has gone back to Transbekistan—go look for him. Sack your financial controller and/or take a good look at how you manage your income collection.

4. Failure to take extraordinary events into account
   No, you didn’t expect to break your wrist skiing. But you did, it’s in plaster, you can’t cut crowns, you didn’t save anything for that rainy day, and you’re up the creek without a paddle. Go beg your bank manager to be nice...

5. Rapid expansion plans are implemented
   In order to cope with unexpected growth, you needed to create a new surgery, an office for yourself or an interview room for treatment discussion, it cost 30% above budget. Go beg your bank manager to be nice...

6. Over-stocking
   You couldn’t resist that offer of £5000 worth of material for £3000 if you paid cash—it happens occasionally. What happens regularly is that we do not control our inventory, and cupboards get filled with unused or half-used stock. Check the value of these items and prepare for a shock—it will probably add up to several thousand pounds of non-used materials.

7. You have over-capitalised the business
   Your capital assets (equipment, fixtures and fittings) make your practice worth a lot of money, but this does not translate into hard cash—and it depreciates.

8. Equipment suddenly needs replacement
   Your steriliser, receptionist’s computer, and associate’s handpiece all packed up in a single month. You paid cash to get the discounts. Now deal with the cash flow crisis.

9. Fraud
   While you are cleaning your patient’s teeth, your receptionist is cleaning out your till and your associate is borrowing materials for his new practice. Rigid control systems are essential.

10. Excess money is withdrawn for personal needs
    Because dentists generally do not operate as public companies, they have total freedom to draw as little or as much money from their business accounts as they need for their personal or family requirements e.g. holiday, new lounge suite, school fees.

Common sense may dictate that we behave prudently, but we don’t always behave sensibly.

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