How viable is your dental practice?

The following story of how a dentist narrowly avoided disaster supports NASDAL’s Avoid a Spanner in the Works campaign

A dentist nearly placed herself in financial jeopardy by buying a dental practice which couldn’t deliver the income she needed. Fortunately, she contacted a NASDAL member and here she tells the story of how she averted disaster thanks to a viability forecast!

I was working as an associate in a mainly private practice and was delighted to be given the first refusal, by my principal, to buy it. I passed the practice’s accounts onto my accountant and financial advisor who both agreed that it was an opportunity not to be missed. But throughout, I had a nagging feeling the practice wasn’t going to deliver the predicted annual profit of £140,000. I explained carefully to the advisors I had at that time I could only work three days compared to my boss but this appeared not to matter. In fact, the bank manager was sure the loan would be approved and would meet nearly three quarters of his loan target for the year!

‘I was so excited and contacted a NASDAL solicitor. They were very helpful, but pointed out information that I needed from my accountant in order to proceed with the purchase. I was unable to get in touch with my accountant, so was introduced to an accountant member of NASDAL.

‘From the very beginning the NASDAL accountant was friendly, approachable but most importantly had a wealth of knowledge about dental accounts. They quickly prepared a Practice Acquisition Viability Forecast. This showed that the amount I’d be able to pay myself did not even cover my household bills! I was devastated, but also angry that if I hadn’t had had the NASDAL accountant’s advice I could have proceeded with the purchase and ended up in financial hardship.

‘I would strongly advise any dentist wishing to buy a practice to make sure you get a viability forecast and it is done by an accountant who specialises in this field.’

The NASDAL accountant explained that although figures showed that the annual practice profit was £140,000, this was only the starting point. That figure would come down substantially because the dentist wishing to acquire the practice could only work a three day week.

The more work a practice-owner pays an associate to carry out, the more the practice profits drop. Also, unlike the practice vendor, the buyer would have to make bank loan capital repayments of £35,000 a year out of taxed profits.

‘A detailed financial forecast of income and expenditure was prepared, using the existing practice accounts and NASDAL benchmarking statistics as an additional guide. This revealed the current annual profit of £140,000 was going to be substantially depleted to the point where it simply wasn’t a viable proposition for the prospective buyer. Despite considering a number of alternative ways of reducing costs and increasing income, it just couldn’t be made to work.’

The conclusion: anyone buying a practice should work hand in hand with a specialist dental accountant with experience of preparing dental practice financial forecasts.