

Setting Up Accounts Payables And Your Chart Of Accounts

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Agenda

- Purpose of Accounts Payable Process
- Internal Controls
- Workflows
- Top 3 Concerns
- Chart of Accounts

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Purpose of Today...

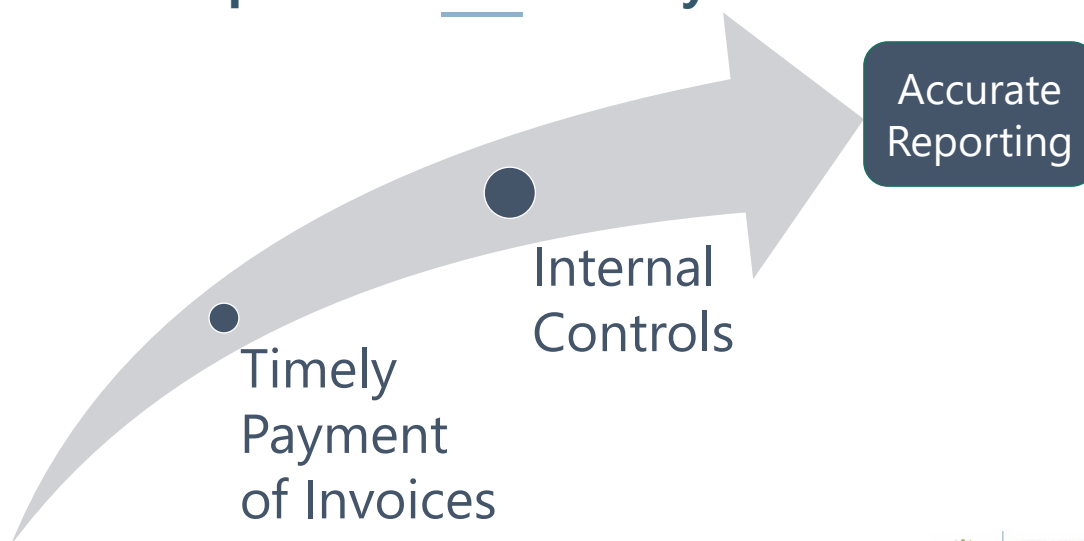
- Today explore what options are out there to help you think about your current processes
 - Every practice is unique
 - Logistical concerns for everyone

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Purpose of Accounts Payable

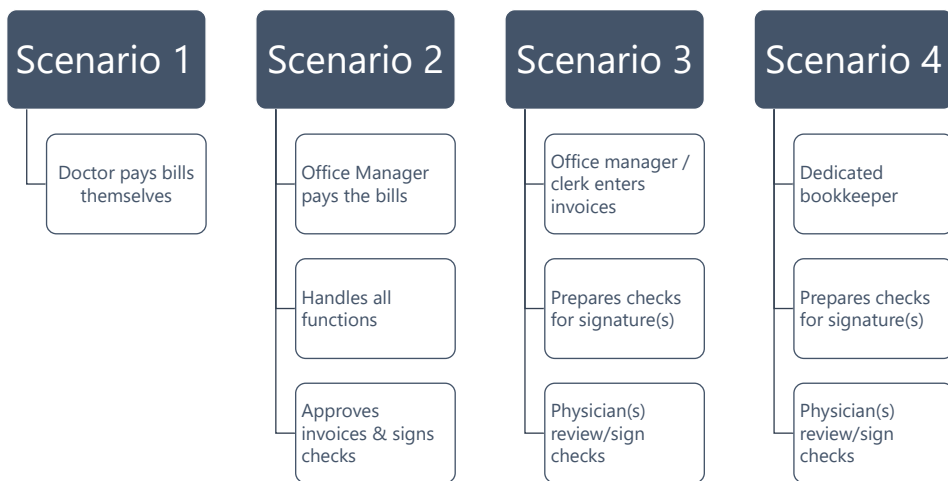


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Who Are You?



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Internal Controls

The Fraud Triangle:

A framework for spotting high-risk fraud situations



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Internal Controls

The Fraud Triangle:

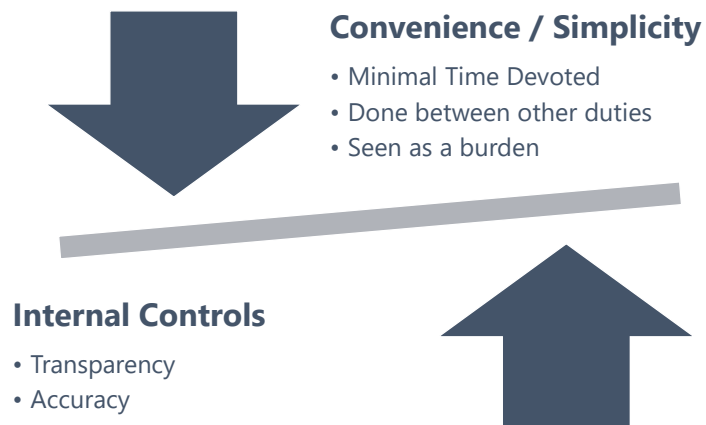
A framework for spotting high-risk fraud situations



Internal Controls Are Necessary...

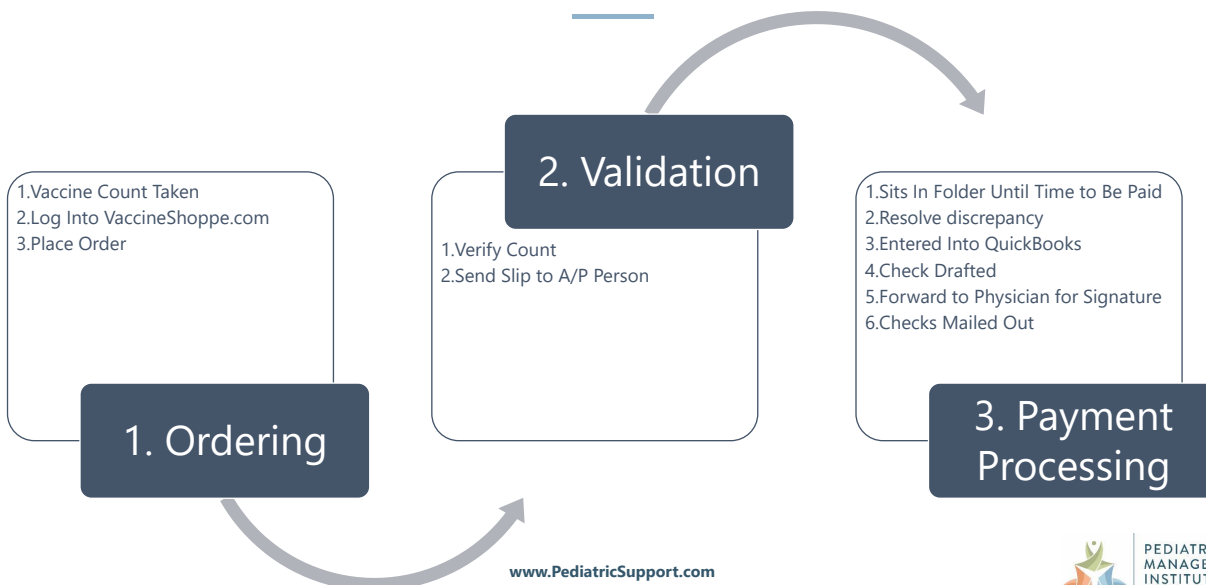


Usual Workflow



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Usual Workflow



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What's Missing!?

- Appropriate Internal Controls Require
 - Requisitions
 - Purchase Orders
 - Levels of Authority
- Expense Authorization
 - Appetite for Risk
 - Weigh past issues with likelihood of problems in the future

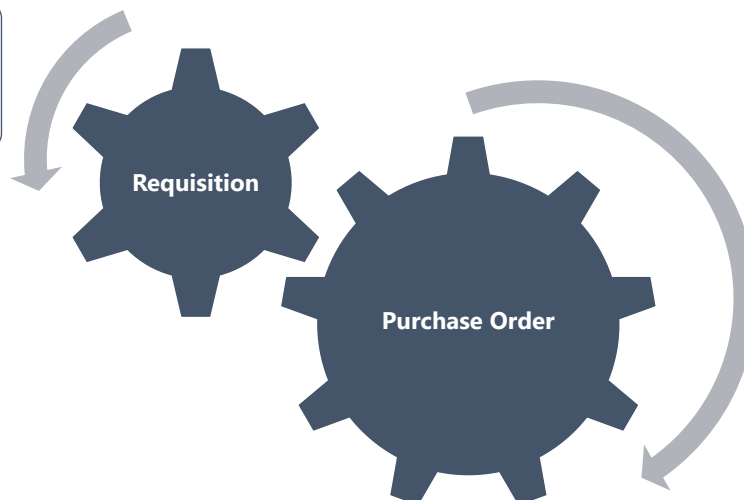
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Requisition vs. Purchase Order (PO)

- Request for someone to purchase something

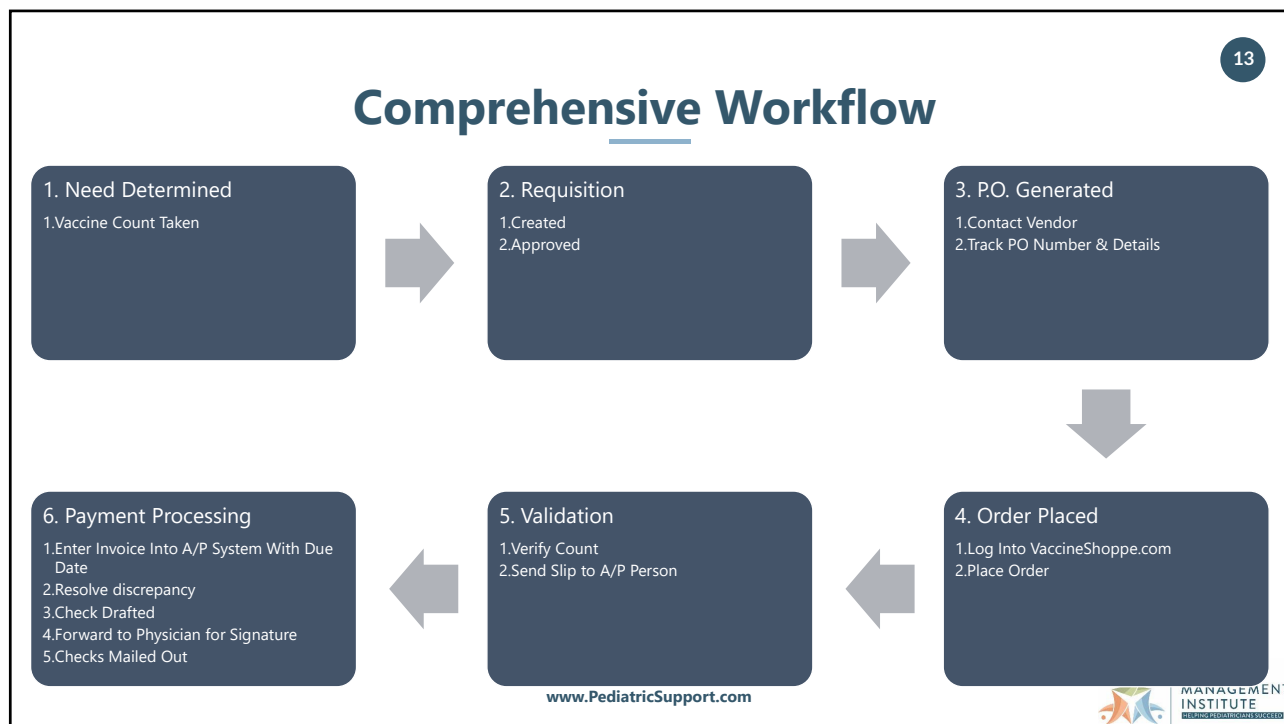


- Formal agreement with vendor
- Avoids duplicate orders
- Avoids surprises
 - Quantity
 - Price
- Track Incoming Orders
- Reduces reactive work

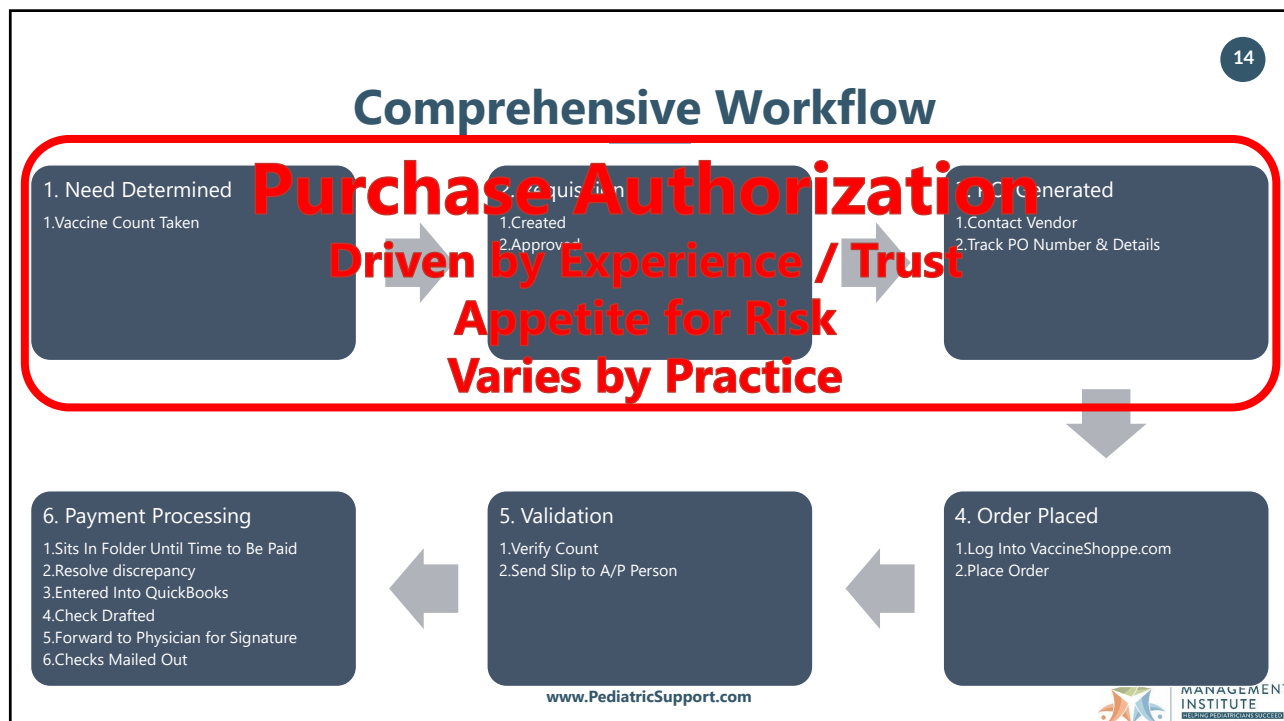
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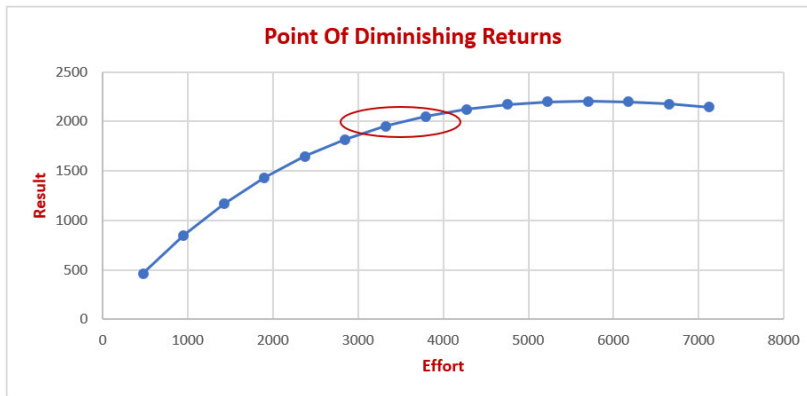


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Balance Effort With Results...



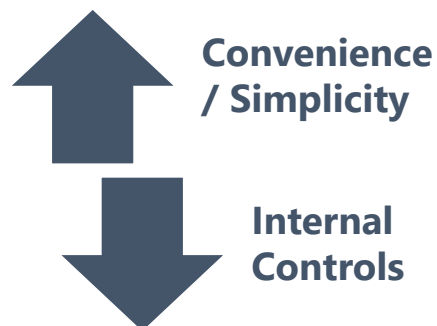
Progressively smaller increase in results as one increases the time/energy addressing an issue.

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Concern #1...Autopayments

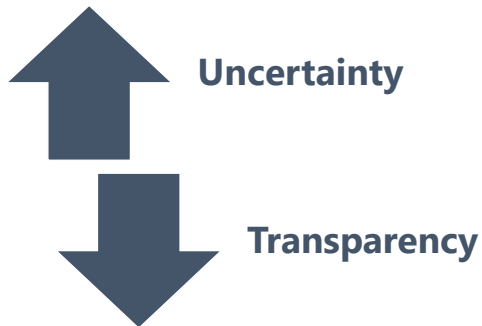
- Credit Cards
- Very convenient but an Internal Control nightmare
- Button it Up....



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Concern #2...Stacking Invoices



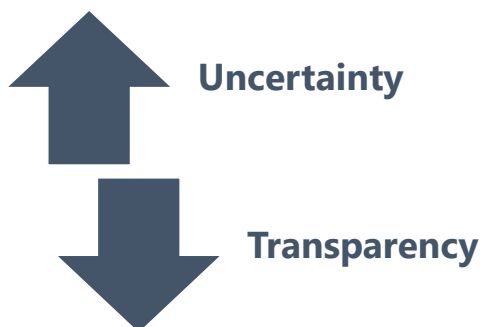
- Pile up invoices in folder
- Enter invoices and pay at the same time

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Concern #2...Stacking Invoices



- Pile up invoices in folder
- Enter invoices and pay at the same time
- Need to enter invoices as they arrive and set due dates
- Provides better understanding of cashflow needs over time

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Concern #3...The Approval Process

SAMPLE CREDIT CARD STATEMENT Account Number

Make check payable to:

My Credit Card
P.O. Box 4567
Anywhere, CA 91111

Return top portion with payment

Reference Number	Posting Date	Description of Transaction	Deb
0077623	0608	ABC Stores Unlimited	108.20
0317556	0608	Autopay Cable Network	58.00
7075051	0610	Let's Go Car Rental	159.72
4871311	0610	Sleep Nice Motel	128.00
5887541	0622	AAA Airlines	109.32
9283742	0630	payment - thank you	

Previous Balance 839.62
Payments 40.00
New Charges 563.24
Finance Charge 17.04

Average Daily Balance 1011.00

JOHN SMITH
123 YOUR STREET
ANYTOWN, USA 12345

March 13, 2018 Date

Pay to the Order of Jane Doe \$ 100.00

One hundred and 00/100 Dollars

LBS Financial

For John Smith

⑆322276855⑆1076 00000000 0⑆

- Person signing the check needs to see all supporting documentation
- Have time to review

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Concern #4...Rates & Timeliness

- You need a good accountant and a better bookkeeper!
- Don't pay accountant rates for bookkeeping services.
- You should have expense report by 5th day of the month...otherwise you are flying blind...for every day that goes by, you may have 100 encounters....
- What is the best use of a dollar???

Accountants are qualified to handle the entire accounting process, while bookkeepers are qualified to handle recording financial transactions. To ensure accuracy, accountants often serve as advisers for bookkeepers and review their work.

Bookkeepers record and classify financial transactions, laying the groundwork for others to analyze the financial data.

PMI Tip: Find a "stay at home" parent who wants to work a few hours per week...

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Automation Is Key...



- Emailed Bills
- Paper Invoices
- Auto Payments

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Automation Is Key...



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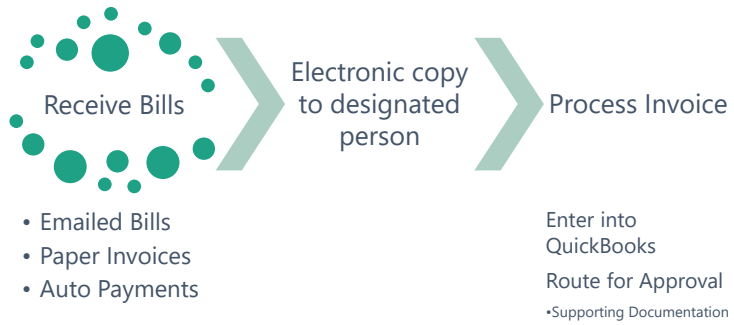
Electronic copy
to designated
person

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Automation Is Key...

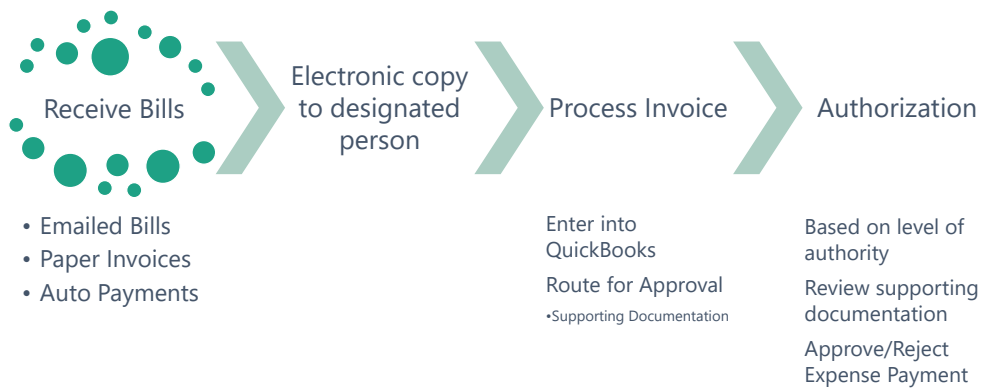


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Automation Is Key...

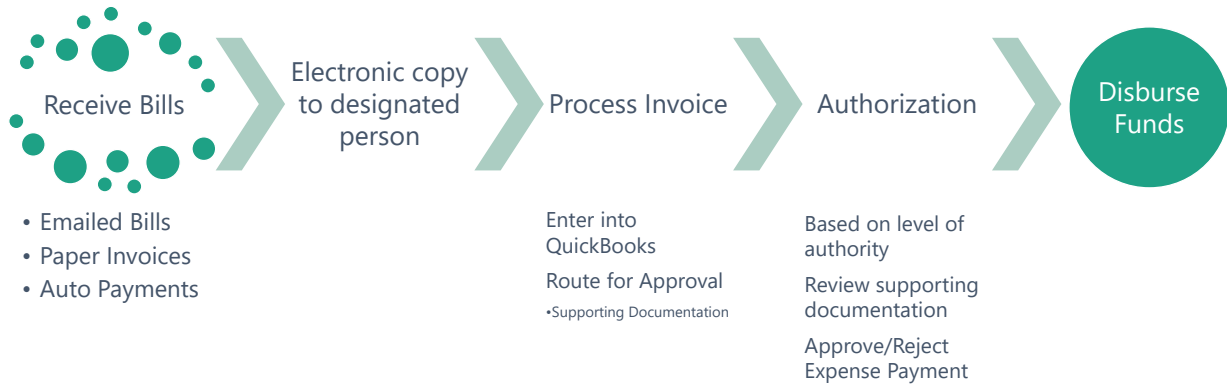


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Automation Is Key...



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Best Practices



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DOUBLE ENTRY BOOKKEEPING

The essential basis of good bookkeeping practices

Debit

Every time you use bookkeeping or accounting software, you are performing double entry bookkeeping and probably didn't notice!

Credit

The everyday activities of a business result in business transactions.

Sales, Purchases, Returns, Loans, Payments, Banking

Business transactions produce documents.

Invoices, Receipts, Checks/Cheques, Dockets, Quotes

The information from the documents is recorded into bookkeeping journals.

General, Cash, Sales, Purchases

Debits On The Left

Balance the books

The values from every business transaction are entered *twice*, once as a **DEBIT** in one account and once as a **CREDIT** in another.

Credits On The Right

Journals describe which ledger account to debit and which ledger account to credit.

Ledger accounts are in the shape of a T:-

Debit	Credit
-------	--------

The data is then taken from the journals and entered to the ledger accounts.

A summary list of ledger accounts is called:-

Chart of Accounts.

There are five main ledger account categories

Assets	Liabilities	Equity
Income	Expenses	

How do you know which account to debit and which to credit?

USE THIS SHEET

Account	Debit (Dr)	Credit (Cr)
---------	------------	-------------

Permanent Accounts

Assets	Increase	Decrease
Liabilities	Decrease	Increase
Equity	Decrease	Increase

Temporary Accounts

Income	Decrease	Increase
Expenses	Increase	Decrease

Debits and credits have the effect of either *increasing* or *decreasing* each account.

Income less Expenses = profit or loss (retained earnings).
The profit or loss is moved to the Equity Account thus clearing the temporary accounts each financial year.
Permanent accounts are not cleared.

Example:

- > Tom purchases a printer for \$150.00 (transaction).
- > He pays with his bank card and is given a cash invoice (source document).
- > The ledger accounts that are affected are the bank account (asset) and the office supplies account (expense).
- > The office supplies is debited which increases the expenses by \$150.

The Accounting Equation helps keep the permanent accounts balanced :

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

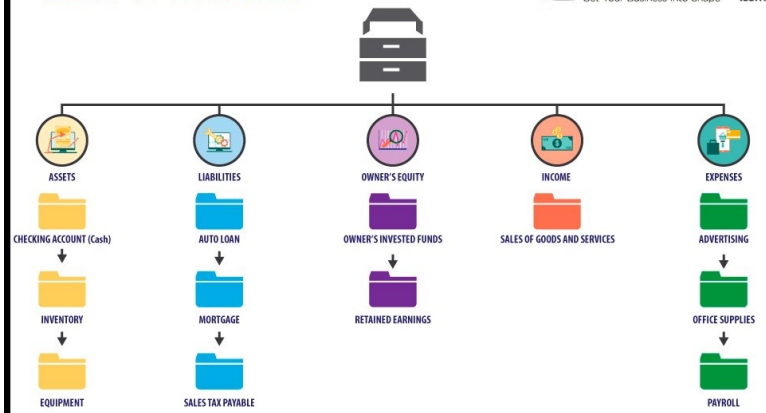
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Chart of Accounts

CHART OF ACCOUNTS

FitSmallBusiness.com
Get Your Business Into Shape



- System to categorized:
 - Assets
 - Liabilities
 - Owner's Equity
 - Income
 - Expenses
- Logical system is key to efficient recording/reporting

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Chart of Accounts...Why so important?

- The chart of accounts is like the framework of shelves and storage bins in a warehouse. Accounts are the specific "bins" that hold accounting transactions. The chart of accounts is simply the organized list of all the bins and shelves.
- Month end financial statements (balance sheet and income statement) simply summarize and group the balances that are in the individual accounts at month end.
- Accordingly, financial statements can be no more detailed or informative than the underlying chart of accounts structure.

<https://www.toptal.com/finance/interim-cfos/chart-of-accounts-structure>

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Chart of Accounts Mindset

1. Should be set up to help you better manage the business (managerial accounting)
2. Currently, too much focus on tax preparation
3. Too much emphasis on Owner vs. Non-Owner Expenses
 - *Many accountant treat employed physicians the same as a receptionist...not practical to monitor the health of your practice.*

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Chart of Accounts Design

Priorities

- Tax Preparation
- Financial Management/Monitoring

Influences

- Practical
- Preferences/Norms
- Objectives For End User

Accountant usually builds the Chart of Accounts from their point of view (Tax Preparation)

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General Chart of Accounts Groupings

1. **Assets:** Cash, Accounts Receivable, Prepaid Expenses, Fixed Assets, Intangibles, etc.
2. **Liabilities:** Accounts Payable, Accrued Expenses, Credit Card Payable, Line of Credit, Loans Payable, etc.
3. **Equity:** Common Stock, Additional Paid In Capital, Retained Earnings, Dividends, Partner Capital Accounts, Distributions, Owners Equity, Owners Draw, etc.
4. **Income:** Practice Receipts, Miscellaneous Income
5. **Expenses:** Operating Costs For Practice, etc.

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Chart of Accounts

- Usually set up by your accountant for tax purposes (GAAP)
- Did not realize the needs of the owner/practice
 - COGS?
 - Readily identify all expenses prior to provider compensation to manage the costs of the practice
 - Vaccine costs for location 1, 2 & 3 (Use Departments)
 - Segmenting income/revenue on statements
 - They just need total income for tax prep
 - You need to see allocations to manage the business

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Accounting vs. Managerial Accounting

Comparison of Managerial Accounting vs. Financial and Tax Accounting

	Managerial Accounting	Financial Accounting
Purpose	Decision making	Communicate financial position to outsiders
Primary Users	Internal managers	External users
Focus/Emphasis	Future-oriented	Past-oriented
Rules	Do not have to follow GAAP; cost vs. benefit	GAAP compliant; CPA audited
Time Span	Ultra current to very long time horizons	Historical monthly, quarterly reports
Behavioral Issues	Designed to influence employee behavior	Indirect effects on employee behavior

Source: Pearson Prentice Hall



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Practice-Friendly Chart Of Accounts

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1. Define practice operating overhead correctly.
2. Organize operating expenses to reflect the nuances of the practice and match budgeting level of detail.
3. Separate location costs with "Classes" or "Departments"
4. Ditto for owner expenses
 - Salary costs for Dr. Smith, Dr. Jones, etc
5. Use accounts numbers, if you aren't already.
6. Maximize the functionality of your accounting software.

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<https://www.toptal.com/finance/interim-cfos/chart-of-accounts-structure>



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Chart of Accounts

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Usually set up by the accountant when practice opened

1. Naming
 - 5000- Staff Wages
2. Ordering
 - 5010- Receptionists
 - 5020- Medical Assistants
 - 5030- Nurses
 - 5040- Billing staff
3. Roll Up
 - Work Location
 - Work Group
 - Work Type

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Chart of Accounts General Groupings

1000	Bank/Clearing Accounts
2100	Credit Card & Clearing Accounts
2200	Payroll Tax Payable
2400	Benefits Payables
2500	Loans
4000	Income/Revenue
5000	Non-Provider Compensation & Benefits
6000	General and Administrative Expenses
7000	Medical Supplies & Services
8000	Non-Owner Provider Compensation & Benefits
9000	Owner Compensation & Benefits

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4000- Income/Revenue

4000 Professional Fees

4010	Insurance ETF
4011	Credit Cards
4012	OTC Deposits
4013	Mail Deposits
4014	EFT Recoupment
4015	Deposit- Unspecified
4016	Incentive Checks (PCMH, Etc)
4017	Capitation Payments (Medicaid)
4018	Capitation Payments (Commercial)
4019	Pharmacy
4020	DME
4900	Other Medical Revenue
4500	Refunds
4510	Patient Refunds
4520	Insurance Refunds

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Prefer to track income by source of revenue than by provider.

You can always report the provider source of payments with billing system. Why do it twice?



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5000- Non-Provider Salary Costs

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5000 Support Staff Compensation and Benefits

5100 Salaries-Support Staff
5110 Salaries-Administration
5120 Salaries-Billing
5130 Salaries-Clinical Support
5140 Salaries- Receptionists
5160 Salaries-Other
5170 Support Staff Deferred Compensation
5180 Support Staff Severance
5190 Support Staff 401K
5195 Support Staff Per Diem
5200 Support Staff Bonuses
5300 Payroll Taxes
5400 Support Staff Benefits
5410 Support Staff Insurance
5411 Support Staff Insurance - Medical
5412 Support Staff Insurance-Dental
5413 Support Staff Insurance-Life
5414 Support Staff Insurance-Disability
5415 Support Staff Insurance-Workers' Compensation
5418 Support Staff Insurance - Vision
5500 Temporary Staff Expenses



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6000- General and Administrative Expenses

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5000 General and Administrative Expenses	6300 Administrative Expenses	6380 Practice Education, Licensure, and Accreditation Expenses	6820 Information Technology Software
6100 Building and Occupancy Expenses	6331 Office Supplies	6381 Licenses	6821 Information Technology Software Purchase
6120 Building and Facilities Rent/Lease	6332 Office Equipment	6382 Books and Subscriptions	6822 Information Technology Software Development
6140 General Maintenance	6333 Office Lease	6383 Educational Materials	6823 Information Technology Software Maintenance
6150 Utilities	6334 Offsite Storage - Office Supplies and Equipment	6390 Other Administrative Supplies and Services	6824 Information Technology Subscriptions
6151 Utilities-Water	6335 Gifts	6391 Bank and Credit Card Processing Fees	6830 Information Technology Supplies
6152 Utilities-Electricity	6340 Purchased Professional Services	6392 Interest Expense	6831 Computer Lines
6153 Utilities-Waste Disposal	6341 Accounting Services	6400 Employee Meals and Meetings	6832 Computer System - EMR Expenses
6155 Other Utilities	6342 Legal Services	6500 Employee Relations	6833 Computer System - non-EMR Expenses
6160 Property Taxes	6345 Consulting Services Fees	6600 Marketing	6834 Computer System - Network Equipment
6170 Housekeeping/Maintenance	6346 Consulting Services Travel	6620 RV Rental	6840 Information Technology Services
6171 Housekeeping/Maintenance-Supplies	6347 Other Professional Services	6650 Charitable Donations	6844 Website
6180 Security	6350 Purchased Services	6700 Insurance	6850 Telephone Services
6190 Other Occupancy Expense	6351 Answering Services	6710 Business and Casualty Insurance	6851 Telephone - Data Lines
6200 Administrative Furniture, Fixtures, and Equipment	6352 Triage Service	6720 Professional Liability Insurance	6852 Telephone - Voice Lines
6300 Administrative Supplies and Services	6353 Biohazardous Waste Removal	6800 Information Technology	6853 Cell Phone Services
6310 Postage, Shipping and Courier Services	6356 Payroll Services	6810 Information Technology Equipment	
6311 Postage Lease	6357 Patient billing services	6815 Information Technology Remote Support	
6320 Printing and Copying	6358 Other General and Administrative Purchased Services		
	6370 Library/Books and Subscriptions		

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7000- Medical Supplies & Services

7000 Medical Supplies and Services

7100 Medical Equipment

7110 Medical Equipment - Repairs and Maintenance

7200 Vaccines and Injectibles

7400 Laboratory Expenses

7420 Laboratory Supplies

7430 Laboratory Services

7500 Linens

7800 Offsite Storage - Medical Records and Supplies

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8000- Provider Expenses

8000 Provider Expenses	
8200 Employed Physician Compensation and Benefits	8300 Non-Physician Provider Compensation and Benefits
8210 Employed Physician Compensation	8310 Non-Physician Provider Compensation
8220 Employed Physician Payroll Taxes	8320 Non-Physician Provider Payroll Taxes
8230 Employed Physician Insurance	8330 Non-Physician Provider Insurance
8231 Employed Physician Insurance - Medical	8331 Non-Physician Provider Insurance - Medical
8232 Employed Physician Insurance - Dental	8332 Non-Physician Provider Insurance - Dental
8233 Employed Physician Insurance - Life	8333 Non-Physician Provider Insurance - Life
8234 Employed Physician Insurance - Disability	8334 Non-Physician Provider Insurance - Disability
8235 Employed Physician Insurance - Vision	8335 Non-Physician Provider Insurance - Vision
8240 Employed Physician 401K	8340 Non-Physician Provider 401K
8250 Employed Physician Professional Development	8350 Non-Physician Provider Professional Development
8260 Employed Physician Bonuses	8360 Non-Physician Provider Bonuses
8280 Employed Physician Other benefits	8380 Non-Physician Provider Other benefits
8290 Employed Physician Retirement Contributions	8390 Non-Physician Provider Retirement Contributions
	8400 Physician Contractor / Locum Tenans Compensation

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9000- Owner Expenses

9000 Owner Expenses

9100 Owner Compensation and Benefits
9110 Owner Compensation
9120 Owner Payroll Taxes
9130 Owner Insurance
9131 Owner Insurance - Medical
9132 Owner Insurance-Dental
9133 Owner Insurance-Life
9134 Owner Insurance-Short Term Disability
9135 Owner Insurance-Long Term Disability
9136 Owner Insurance-Long Term Care
9137 Owner Insurance - Vision
9138 Owner Insurance- Buy/Sell
9140 Owner 401K
9150 Owner Professional Development
9151 Owner Professional Development- Fees
9152 Owner Professional Development- Travel
9160 Owner Bonuses
9161 Owner Auto-Lease
9180 Owner Other benefits
9115 Owner Stipends

Departments & Classes

<u>Departments</u>	<u>Classes</u>
Location 1	Dr. Smith
Location 2	Dr. Jones
Location 3	Dr. XYZ
Location 4	Dr. LMNOP

Accountants Go Bananas

1. Multiple Payroll tax liability accounts
 - Staff
 - Non-owner providers
 - Owners
2. Multiple payroll benefit accounts (Single bucket versus detailed):
 - 401K Payable
 - AD&D Insurance Payable
 - Dental Insurance Payable
 - HSA Payable
 - Life Insurance Payable
 - LTD Insurance Payable
 - Medical Insurance Payable
 - STD Insurance Payable
 - Vision Insurance Payable
 - Splitting Retirement Expenses
 - Staff
 - Non-owner providers
 - Owners

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How Do We Transition?

1. Not easy but worth the effort
2. Accountants will push back!
 - A lot of work (but important)
 - Need to review payroll set up / categories / departments to feed into the accounts payable system
3. Most practices wait until year end to change the CoA structure
 - Could lose year-over-year reporting
- Some practice set up new QuickBooks account and go forward
- Some practices simply rearrange existing GL accounts and add ones missing
- Some practices set up crosswalks or spreadsheets to re-categorize things in a similar fashion
 - Export the General Ledger to Excel and use vlookup command in a template

Best Approach: Get with your accountant to find a way to readily report the cost of practice expense prior to any provider compensation and track all expenses by location & provider.

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