

Setting Up Accounts Payables And Your Chart Of Accounts

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Agenda

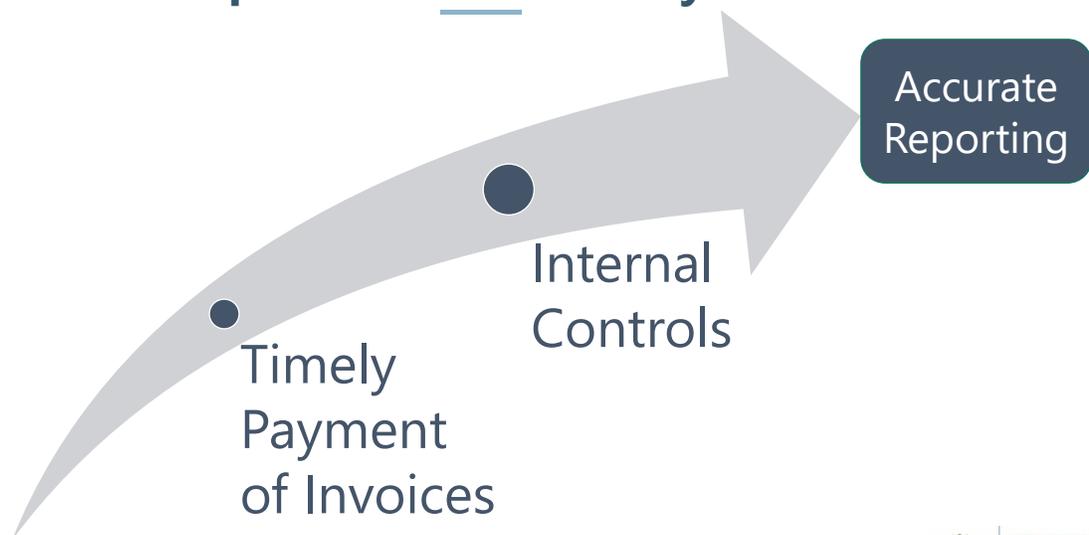
- Purpose of Accounts Payable Process
- Internal Controls
- Workflows
- Top 3 Concerns
- Chart of Accounts

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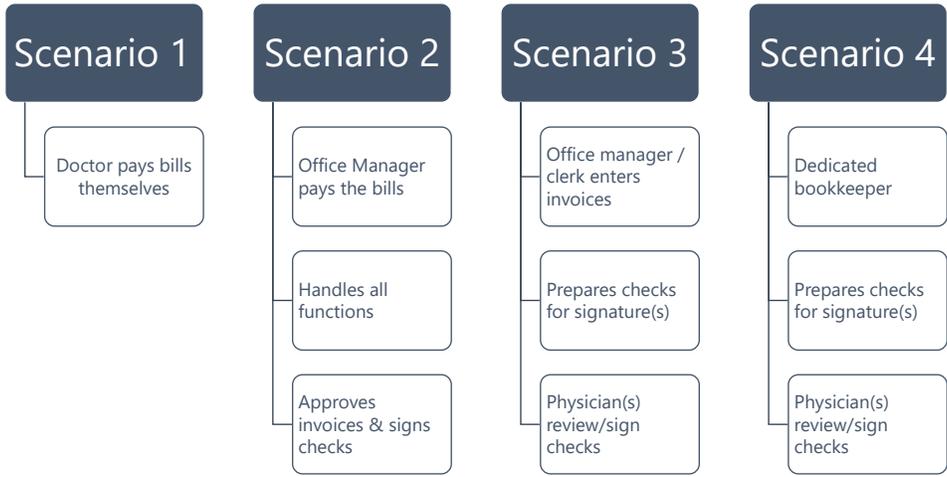
Purpose of Today...

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

Purpose of Accounts Payable



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



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Internal Controls Are Necessary...

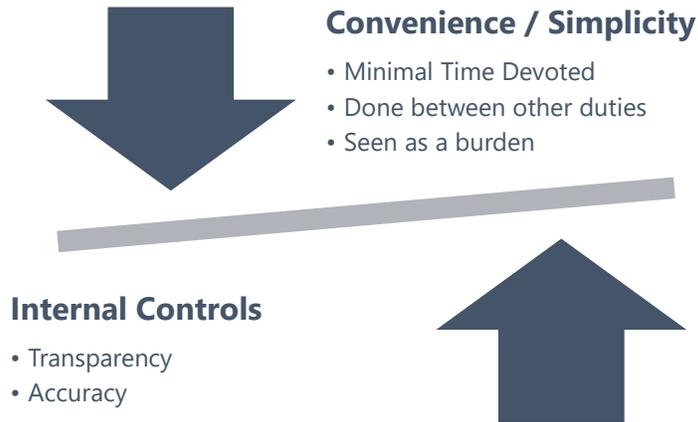


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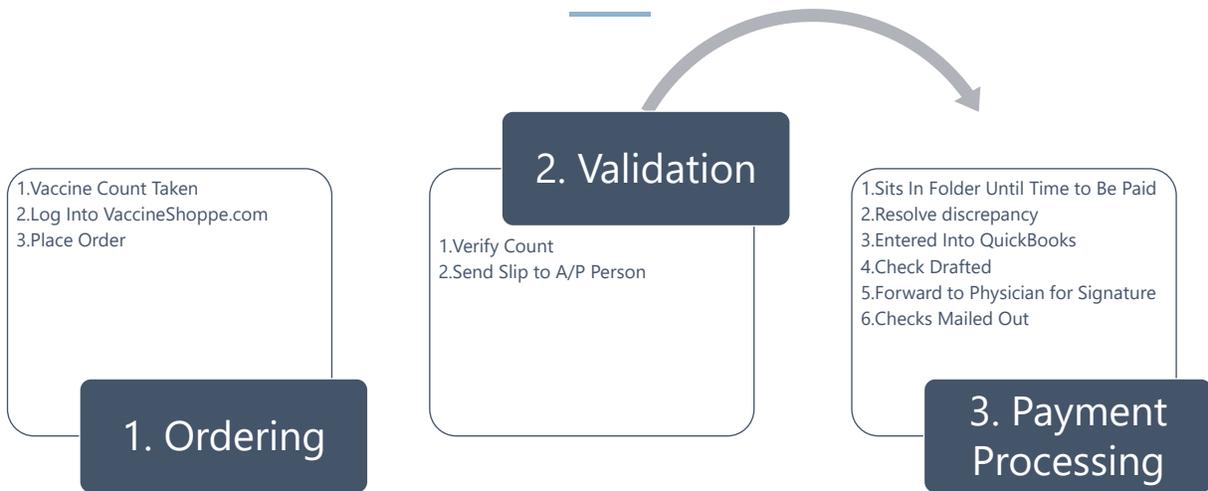
Usual Workflow



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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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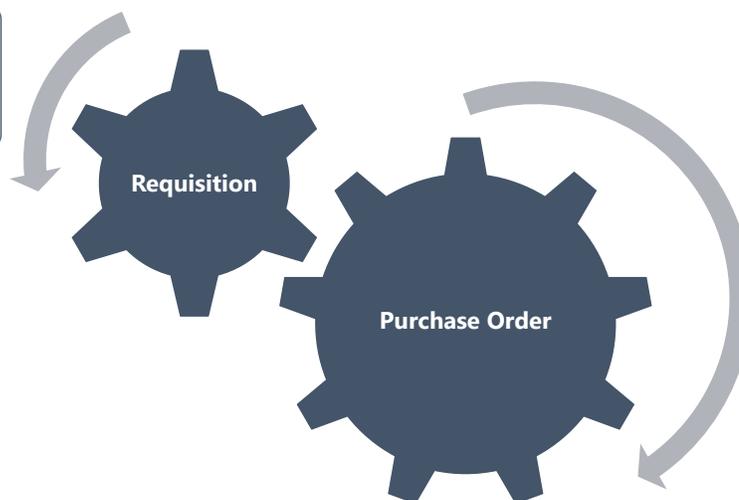


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Requisition vs. Purchase Order (PO)

- Request for someone to purchase something



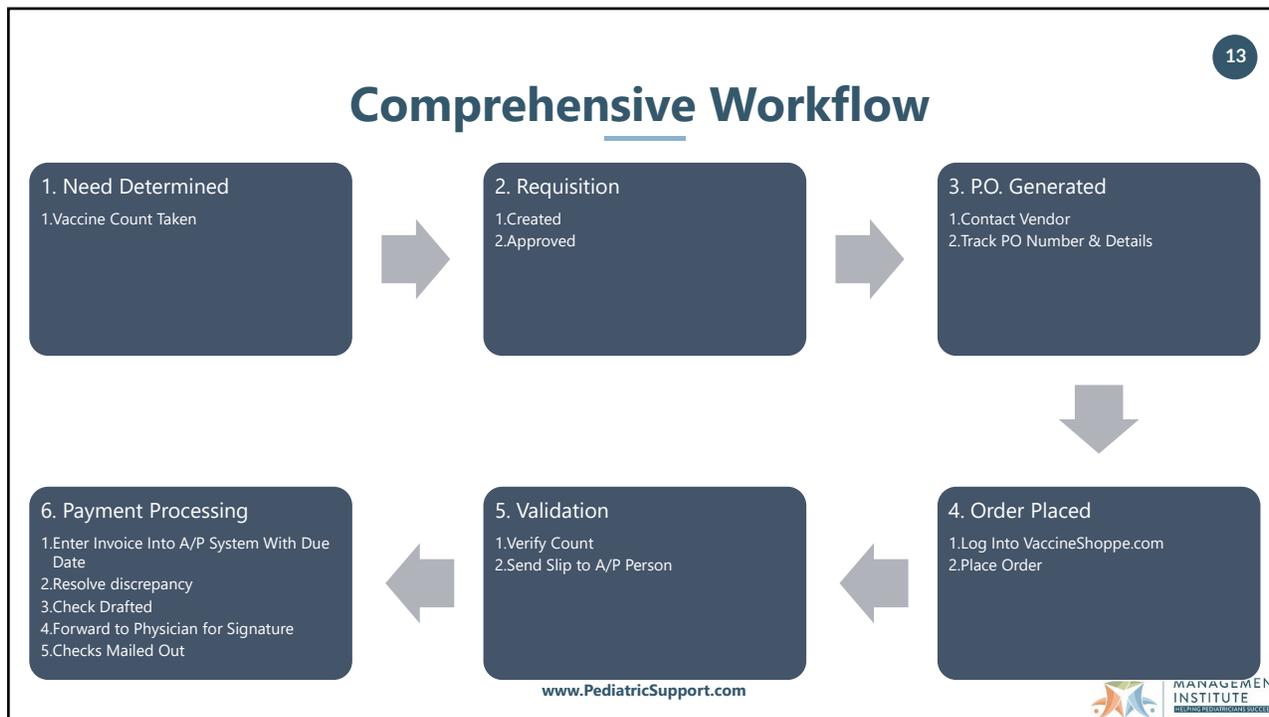
- Formal agreement with vendor
- Avoids duplicate orders
- Avoids surprises
 - Quantity
 - Price
- Track Incoming Orders
- Reduces reactive work

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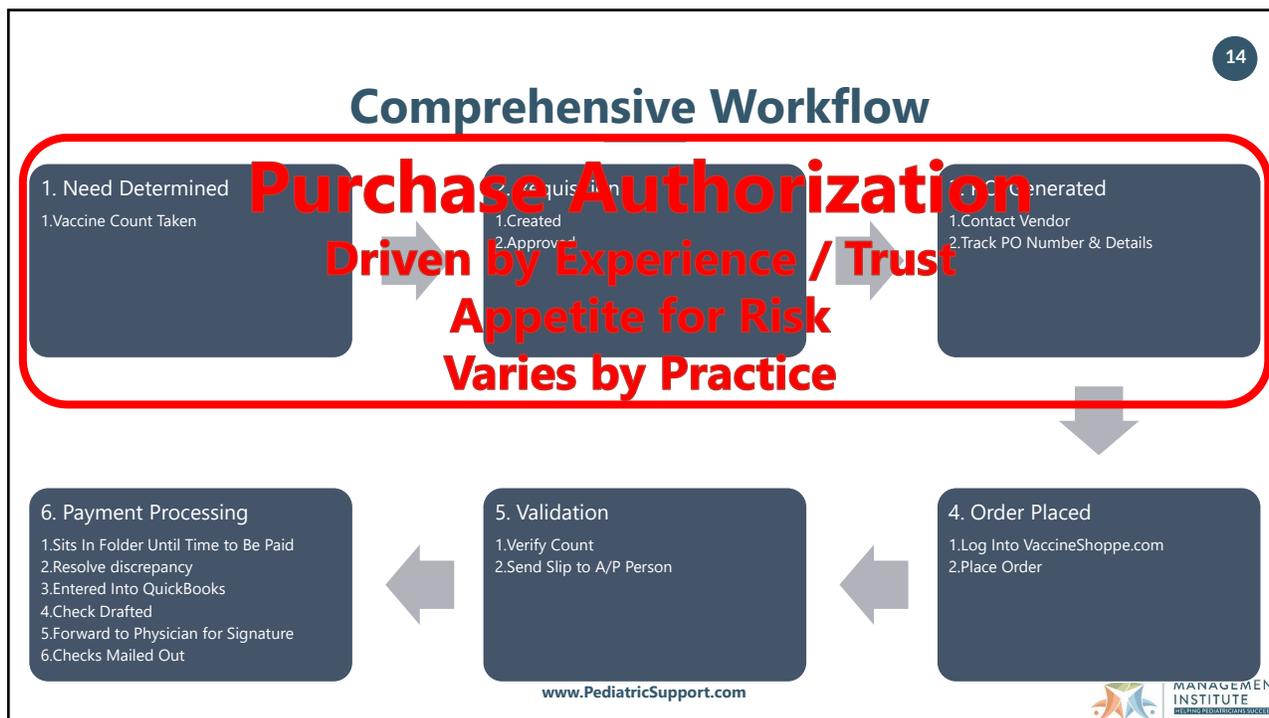


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Balance Effort With Results...



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

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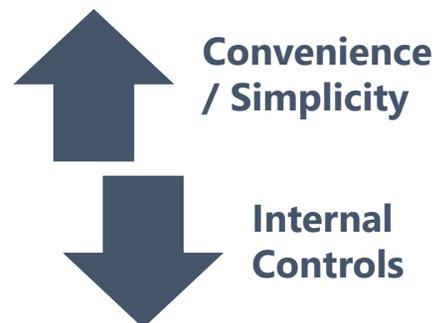


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Concern #1...Autopayments

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



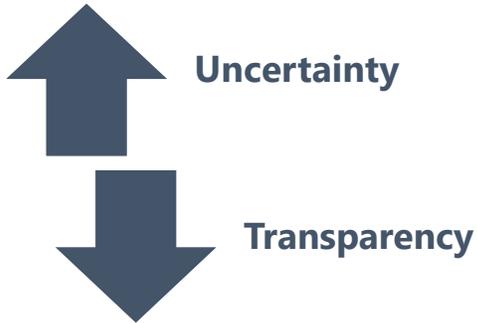
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Concern #2...Stacking Invoices



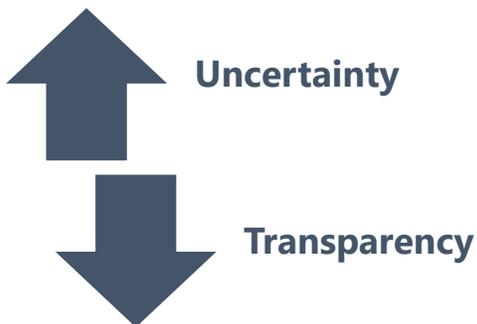
- Pile up invoices in folder
- Enter invoices and pay at the same time

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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 |
| 0317696 | 0608 | Autoglyx Cable Network | 58.00 |
| 7025091 | 0610 | Let's Go Car Rental | 159.72 |
| 4871311 | 0610 | Sheep Nice Motel | 128.00 |
| 5887041 | 0622 | AAA Airlines | 109.32 |
| 9033742 | 0630 | payment - thank you | |

Previous Balance: \$39.62
 - Payments: 40.00
 + New Charges: 563.24
 + Finance Charge: 17.04
 Average Daily Balance: 1011.00

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 FARMERS BRANCH, TX 75234

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

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

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...

Automation Is Key...



- Emailed Bills
- Paper Invoices
- Auto Payments

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Automation Is Key...



Electronic copy
to designated
person

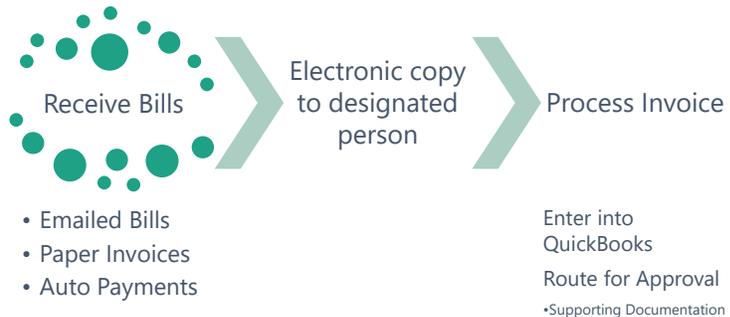
- Emailed Bills
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Automation Is Key...

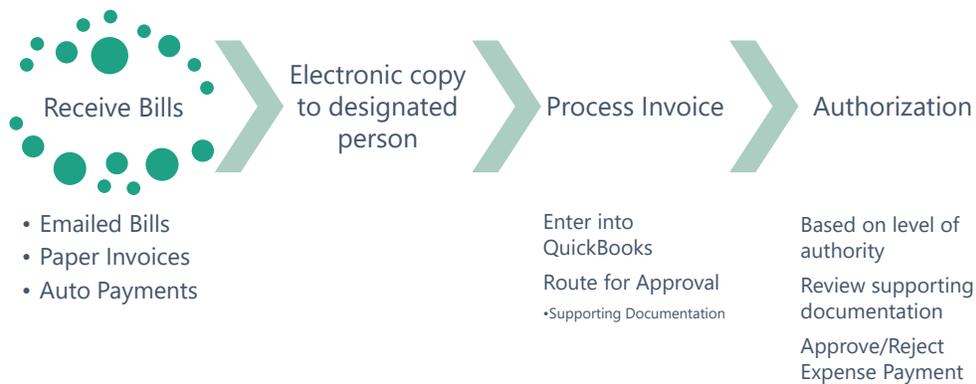


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Automation Is Key...

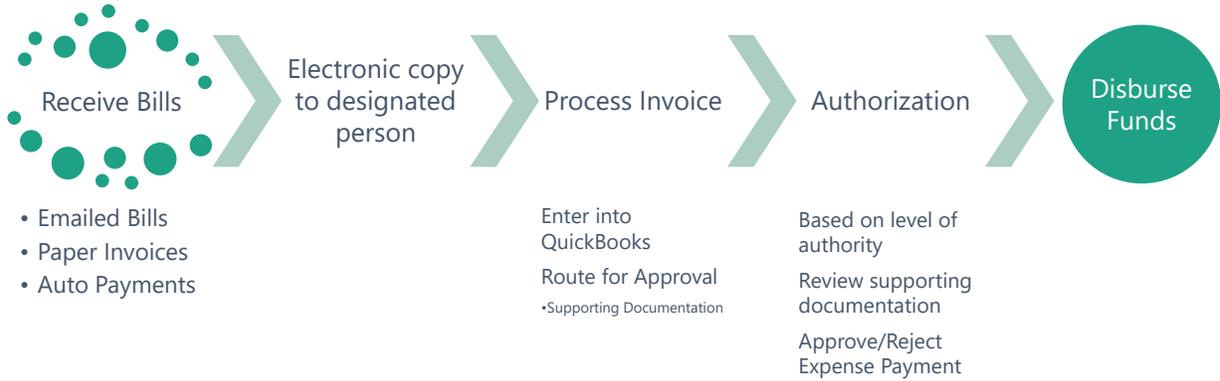


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Automation Is Key...



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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-



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.

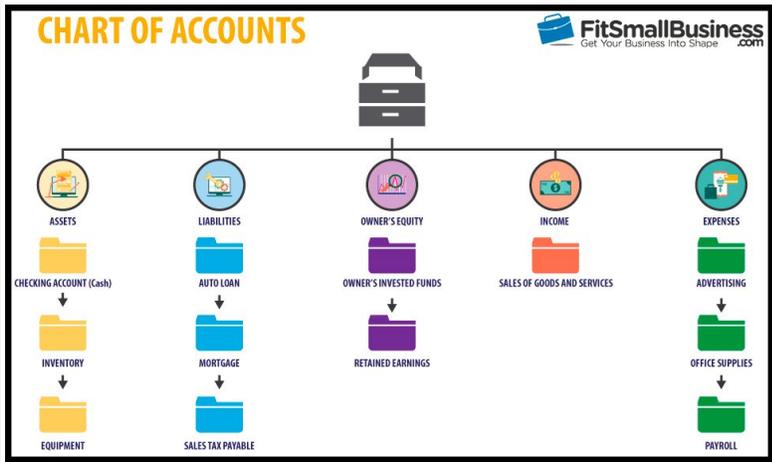
Example:

- > 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 :

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

Chart of Accounts



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

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 | 6330 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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