PEDIATRIC CEO®
future-proofing independent pediatricians

ACCOUNTING 2.0

FROM REPORTS TO DECISIONS

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Disclosures

- **We are not accountants or attorneys.** The information provided is for educational purposes only and based on our experience working with pediatric practices.
- **Always consult your own legal and accounting professionals** before making decisions related to finances, taxes, or compliance.

Finance is science *and* art.

Roadmap for today

1. Foundations
2. Profit & Loss
3. The Balance Sheet
4. Cash Flow
5. ROI

01

PART ONE

Foundations

PART 1 · FOUNDATIONS

Your financial team

Bookkeeper

Daily data entry, payroll, reconciliation.

Accountant

Files the tax return. Advises on tax liability.

CFO

Tracks cash flow. Plans ahead.

Financial advisor

Manages your personal investments.

Chart of Accounts

The ICD-10 of financial transactions.

- Make it make sense for you.
- Be as organized as possible.
- Put your goals and vision front of mind.
- Tagged by location and clinician provider.
- Tax vs. managerial accounting.

Your decisions are only as good as your data.

COGS vs. OPEX

COGS

Cost of Goods Sold

Costs that exist only because you saw patients. They move up and down with patient volume.

OPEX

Operating Expenses

Costs you would pay even if no one walked in. The cost of being open.

The art: where you draw the line. The test: if patients stopped coming, would the cost stop?

Cash basis vs. accrual basis

CASH BASIS

Recognizes revenue and expenses when money changes hands.

EXAMPLE

Buy $24K of vaccines in December. Cash basis: $24K expense in December.

ACCRUAL BASIS

Recognizes revenue when earned and expenses when incurred.

EXAMPLE

Vaccines purchased in December but given Jan–March: the cost spreads across those three months, matching revenue.

The art: books in cash for simplicity, accrual lens on your dashboard for truth.

PART 1 · FOUNDATIONS

Three ways to read a report

1 Vertically

Each line as a share of the whole.

2 Horizontally

The same line over time.

3 Benchmark

Your numbers against pediatric norms.

Slice every view by location, department, and clinician.

Pediatric expense norms

EXPENSE CATEGORY	COMMON RANGE AS % OF TOTAL REVENUE
Clinicians	20 – 30%
Staff	15 – 30%
Rent	5 – 10%
Vaccines	10 – 25%
EHR / Billing / IT	3 – 10%
Margin	5 – 15%

Read it like vital signs

The more familiar you are with normal, the faster you spot abnormal. These are ranges. Know where you sit, and why.

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PART TWO

Profit & Loss

A simplified profit and loss

Total revenue	**$3,000,000**
– Cost of Goods Sold (COGS)	**$800,000**
= Gross profit	**$2,200,000**
– Operating Expenses (OPEX)	**$1,850,000**
= Net profit	**$350,000**

PART 2 · PROFIT & LOSS

How Chip, Alex, Paul and Dr. Skinner often see it:

Total revenue	**$3,000,000**
– All costs except clinicians	**(~65%) $1,950,000**
– Expected Net Profit	**(~10%) $350,000**
= Money to Pay Clinicians	**(~25%) $750,000**

= Net profit

PART 2 · PROFIT & LOSS

Three levers move profit

Same simple P&L: $3M revenue, $350K net profit. Here's what a 1% move on each lever is worth.

REVENUE ↑

1% lift in revenue

+$30,000 *to profit*

(more visits = more cost too)

COGS ↓

1% cut in COGS

+$8,000 *to profit*

(every dollar drops to profit)

OPERATING ↓

1% cut in operating costs

+$18,500 *to profit*

(every dollar drops to profit)

Cost cuts go straight to profit. Revenue lifts bring costs along. But growing revenue is almost always where to focus.

PART 2 · WORKED EXAMPLE

The expanded P&L

Gross revenue	**$3,000,000**	**100%**
− Vaccines & med supplies	**$450,000**	15%
− Staff payroll	**$750,000**	25%
− Facilities	**$240,000**	8%
− Technology	**$120,000**	4%
− Admin & other	**$290,000**	10%
= Profit pot	**$1,150,000**	**38%**
− Clinician cost	**$800,000**	27%
= Net profit	**$350,000**	**12%**
+ Interest, taxes, D&A	**$100,000**	3%
+ Owner discretionary	**$90,000**	3%
= Effective profit	**$540,000**	**18%**

Three margins to track

Each one answers a different question about the same practice.

PROFIT POT

38%

Profit pot ÷ revenue

Is your overhead in line?

What's left to pay clinicians and retain in the business.

NET PROFIT

12%

Net profit ÷ revenue

What does the practice actually earn?

Your bottom line.

EFFECTIVE PROFIT

18%

Effective profit ÷ revenue

What would a new owner take home?

Net profit plus owner discretionary add-backs.

PART 2 · BUILD-ALONG

Calculate your margins

ENTER YOUR NUMBERS

Revenue

Overhead (COGS + non-provider OpEx)

Clinician compensation

Owner add-backs (interest, taxes, D&A, discretionary)

YOUR MARGINS

Profit pot margin

(Rev − overhead) ÷ rev

Net profit margin

(Profit pot − clinician) ÷ rev

Effective profit margin

(Net profit + add-backs) ÷ rev

03

PART THREE

The Balance Sheet

PART 3 · BALANCE SHEET

A simplified balance sheet

A snapshot of the practice at a single moment.

ASSETS	
Cash	$250,000
A/R	$400,000
Inventory	$280,000
Equipment	$70,000
Total assets	**$1,000,000**

LIABILITIES	$300,000
A/P	$80,000
Loans	$220,000

EQUITY	$700,000
Paid-in capital	$100,000
Retained earnings	$600,000

Assets $1,000,000 = Liabilities $300,000 + Equity $700,000

PART 3 · BALANCE SHEET

Equity

SCENARIO	Δ ASSETS	Δ LIABILITIES	Δ EQUITY
Owner contributes $50K cash	+ $50K	—	**+ $50K**
Owner takes a $20K distribution	– $20K	—	**– $20K**
Practice books $100K profit	+ $100K	—	**+ $100K**
Practice borrows $200K	**+ $200K**	**+ $200K**	**no change**

PART 3 · BALANCE SHEET

Leverage

How dependent are we on debt?

FROM YOUR BALANCE SHEET

LIABILITIES	$300,000
A/P	$80,000
Loans	$220,000

EQUITY	$700,000
Paid-in capital	$100,000
Retained earnings	$600,000

DEBT-TO-EQUITY

Liabilities ÷ equity

$300,000 ÷ $700,000 = **0.43**

✓ *healthy (< 1.0)*

INTEREST COVERAGE

Net profit ÷ interest expense (from your P&L)

$350,000 ÷ $40,000 = **8.7×**

✓ *healthy (> 3×)*

PART 3 · BALANCE SHEET

Liquidity

Can we pay near-term bills?

FROM YOUR BALANCE SHEET

CURRENT ASSETS	$730,000
Cash	$250,000
A/R	$400,000
Inventory	$280,000

CURRENT LIABILITIES	$130,000
A/P	$80,000
Loan payments due	$50,000

CURRENT RATIO

Current assets ÷ current liabilities

$730,000 ÷ $130,000 = **5.6**

✓ *healthy (> 1.5)*

QUICK RATIO

(Current assets − inventory) ÷ current liabilities

$650,000 ÷ $130,000 = **5.0**

✓ *healthy (> 1.0)*

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PART FOUR

Cash Flow

PART 4 · CASH FLOW

Where did the cash come from?

Operating

Cash from running the practice.

Financing

Cash from loans and owners.

Investing

Cash from buying or selling long-term assets.

Free cash flow = operating cash − capital expenditures

PART 4 · CASH FLOW

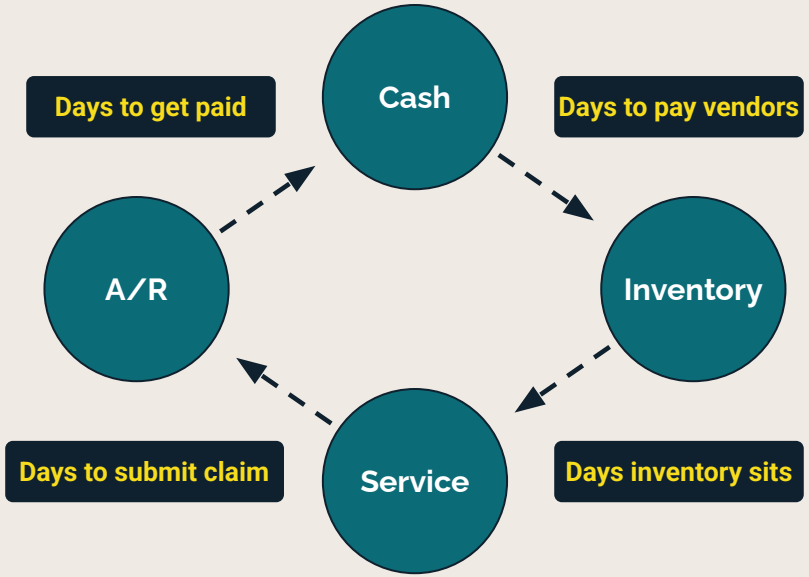
A simplified cash flow statement

Profit is a promise. Cash is the fact. The cash flow statement shows how one becomes the other.

OPERATING ACTIVITIES	
Net profit	$350,000
+ Depreciation (non-cash)	$60,000
− Outstanding claims	($50,000)
− Bills paid	($10,000)
Cash from operations	$350,000
INVESTING ACTIVITIES	
Equipment purchased	($60,000)
Cash from investing	($60,000)
FINANCING ACTIVITIES	
Loan repayment	($40,000)
Owner draws	($20,000)
Cash from financing	($60,000)
NET CHANGE IN CASH	$230,000

PART 4 · CASH FLOW

The cash flow cycle



Shorten the loop and you need less cash to run the practice.

PART 4 · LEVER 1 · A/R

An unpaid claim is a free loan

Until the claim is paid, you have done the work without the cash.

TRACK THESE FOUR

- Days from visit to chart completion
- Days from chart to claim submission
- Days in A/R
- Front-desk copay collection rate

Sign and bill charts fast. Collect at the time of service.

Inventory is frozen cash

Inventory is cash sitting on a shelf.

The trap

$80,000 of vaccine bought “just in case.” That is $80,000 out of operating cash.

The result

If collections slow at the same time, you feel cash-poor while still profitable.

Keep enough to avoid stockouts, but don’t tie up your cash flow unnecessarily.

Use the payment window

Most vendors give 30 to 90 days to pay.

Pay when the invoice is due, not before.

Some vendors accept credit cards. If you pay them by card and clear the statement on time, you stretch the float by another 25 to 50 days.

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PART FIVE

ROI

PART 5 · ROI

Set a hurdle rate

Your hurdle rate is the return a decision has to clear to deserve your capital. It blends what you pay for debt and what your equity should earn.

Source of capital	Share	Cost	Why
Debt (loans)	75%	6%	*Your loan interest rate*
Equity (your money)	25%	10%	*What it would earn elsewhere*

Weighted average: (0.75 × 6%) + (0.25 × 10%) = **7.0%**

YOUR HURDLE RATE

7.0%

Below this and an investment doesn't deserve your capital.

The art: estimating your cost of debt (easy: the loan rate) and your expected equity return (harder).

PART 5 · ROI

Three ways to assess ROI

Each one answers a slightly different question. A good purchase clears all three.

Annual return

Does it beat the hurdle rate?

Annual cash flow ÷ outlay

Passes if above the hurdle rate.

Payback period

How long to get the money back?

Outlay ÷ annual cash flow

Passes if shorter than the asset's life.

Net present value

Does it create real value over time?

Discounted cash flows − outlay

Passes if positive.

PART 5 · ROI

Annual return

Annual cash flow ÷ outlay. Passes if above the hurdle rate (7%).

VISION SCREENER

Outlay	**$8,000**
Tests / year	**400**
Revenue / test	**$15**
− Cost / test	**$2**
= Net / test	**$13**
Annual cash flow	**$5,200**

$5,200 ÷ $8,000

= 65%

Above 7% hurdle ✓

TRANSCUTANEOUS BILI METER

Outlay	**$10,000**
Tests / year	**200**
Revenue / test	**$9**
− Cost / test	**$6**
= Net / test	**$3**
Annual cash flow	**$600**

$600 ÷ $10,000

= 6%

Below 7% hurdle ✗

PART 5 · ROI

Payback period

Outlay ÷ annual cash flow. Passes if shorter than the asset's useful life (5 yrs).

VISION SCREENER

Outlay	**$8,000**
Tests / year	**400**
Revenue / test	**$15**
− Cost / test	**$2**
= Net / test	**$13**
Annual cash flow	**$5,200**

$8,000 ÷ $5,200

= 1.5 years

Under its 5-year life ✓

TRANSCUTANEOUS BILI METER

Outlay	**$10,000**
Tests / year	**200**
Revenue / test	**$9**
− Cost / test	**$6**
= Net / test	**$3**
Annual cash flow	**$600**

$10,000 ÷ $600

= 16.7 years

Over its 5-year life ✗

PART 5 · ROI

Net present value

Sum of discounted future cash flows − outlay. Passes if positive. Translates every future dollar back to today's dollars at 7%.

VISION SCREENER — $5,200 / yr

400 tests × $13 net per test · 7% hurdle

YR	CASH	PRESENT VALUE
1	$5,200	**$4,860**
2	$5,200	**$4,542**
3	$5,200	**$4,245**
4	$5,200	**$3,967**
5	$5,200	**$3,707**
Sum		**$21,321**
− Outlay		$8,000
NPV		**+$13,321**

Above zero ✓

TRANSCUTANEOUS BILI METER — $600 / yr

200 tests × $3 net per test · 7% hurdle

YR	CASH	PRESENT VALUE
1	$600	**$561**
2	$600	**$524**
3	$600	**$490**
4	$600	**$458**
5	$600	**$428**
Sum		**$2,461**
− Outlay		$10,000
NPV		**−$7,539**

Below zero ✗

PART 5 · ROI

Two decisions, three tests

A good purchase clears all three. One failure and you should think hard before buying.

	ANNUAL RETURN	PAYBACK PERIOD	NET PRESENT VALUE
VISION SCREENER *$5,200 / yr cash flow*	**65%** ✓ *passes*	**1.5 yrs** ✓ *passes*	**+$13,321** ✓ *passes*
BILI METER *$600 / yr cash flow*	**6%** ✗ *fails*	**16.7 yrs** ✗ *fails*	**−$7,539** ✗ *fails*

All three pass → buy. Even one fails → think again.

PART 5 · BUILD-ALONG

Run a real decision

ENTER YOUR NUMBERS

The purchase you're weighing

Total initial outlay ($)

Net cash flow per year ($)

Useful life (years)

Your hurdle rate (%)

YOUR ANSWER

Payback period (yrs)

Outlay ÷ annual cash flow

Annual return (%)

Annual cash flow ÷ outlay

Beats your hurdle?

Compare return to hurdle

Buy or pass?

All three pass = buy

Use something you're actually weighing.

Financial literacy is a team sport

Staff who understand the numbers make better daily decisions. Teach each role its number.

- **Front desk** → copay collection
- **Clinical lead** → vaccine waste
- **Billing team** → same-day chart closure
- **Managers** → payroll's effect on margin and cash

Share scorecards. Hold a weekly numbers meeting.

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NEXT STEPS

Where to start

- Review your numbers on a set rhythm.
- Calculate your overhead this quarter.
- Set a hurdle rate and hold every investment to it.
- Teach one number to your team this month.

Thank you!