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# ACCOUNTING FOR PHYSICIANS

*The author points out the need for a good internal control system and makes practical suggestions for its attainment.*

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By heritage and training physicians, whether they are specialists or general practitioners, do not look upon their practices as businesses. Their motives are guided by humanitarian reasons and the fundamentals of business practice are sometimes overlooked in the everyday care of their patients.

The trend among physicians, however, is toward a more careful observation of cash flows and the preparation of budgets. They are also increasingly concerned with business investments which will provide some measure of security for themselves and their families and insure the education of their children and, eventually, retirement income. Physicians are also becoming aware of the increasing expenses of a medical practice.

Physicians may practice as sole proprietors, as partners, or as members of a corporation. Generally, they report on a cash basis and use the calendar year as their taxable year. The general ledger format follows Schedule C of the U.S. Individual Tax Return.

This paper will discuss the four major problem areas in accounting for physicians: control of cash, control of accounts receivable, division of income among owners, and adequate financial planning for the future.

## **Control of Cash**

When examining this first area it is necessary to understand the receipt, acknowledgement and disbursement of cash. In most offices the accountant is often the bookkeeper, receptionist, secretary and office nurse. Proper segregation of receiving and accounting for cash received are usually not possible. It is therefore imperative that a numerically con-

trolled system of cash receipts be in use. Receipts may be in the form of cash paid by patients to the accountant or the physician or checks received by mail. The opportunity for misappropriation of cash receipts is great. Many well-meaning people, especially older people, prefer to pay their bills in cash, creating thereby an excellent opportunity for "lost" funds if a numerically controlled cash receipt system is not employed.

## **Control of Accounts Receivable**

This area may be called the most important one because accounts receivable are the major source of cash for most physicians and because they may be used in the determination of income. Partnership profit allocations and volume of business figures are often based on figures from the accounts receivable.

Some of the points to be considered in setting up and maintaining a workable system of accounting for receivables are:

1. An adequate system of identifying each patient, including the following information:
  - a. full name, first, last and middle initial
  - b. current address and, if visiting, permanent home address
  - c. local telephone number and office telephone number (for emergencies)
  - d. social security number and person responsible for the bill, i.e. parent if a child, local welfare agency, etc.
  - e. type of insurance coverage for this particular illness along with applicable identification numbers, billing forms, etc

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2. Registration of patients as they enter the office, preferably using numerically controlled slips which later become invoices,

3. Provision for the recording of clear, accurate and segregated charges for services performed including

- a. date of service
- b. type of service, i.e. office visit, blood test, etc.
- c. name of the person service is rendered to
- d. proper identification of each service to its prospective insurer.

A good statement of services is the key aid in procuring fast recovery of income either from the patient or the insurance company. A good system can decrease the collection period almost 50% and will serve to keep the past-due receivables to a minimum. Poorly handled receivables can eventually lead to serious cash flow difficulties.

In evaluating the personnel to handle receivables these questions should be asked:

1. Is the billing clerk fully knowledgeable in the preparation of the necessary billing forms? Are the billings getting to their proper destinations by the designated dates? Are the receivables billed at regular intervals? What is the percentage of bills returned due to incorrect addresses? If a bill for one patient is to be divided between two insurers, are both being billed and is proper control kept over cash received from both parties?

2. Are all receipts posted to the proper accounts? Are all missing receipts accounted for in an orderly fashion? Is a control kept over the total receivables?

3. Finally, does the billing clerk understand the nature of aging accounts? And is there a follow-up procedure for all bad debts?

### ***Division of Income Among Owners***

Difficulties in this area can be minimized if the division of income is carefully described in the partnership agreement or the employment contract. Some of the more common methods of income distribution are:

1. Seniority—the oldest and best established members are allowed a greater percentage of income.

2. Productivity—income is distributed on the basis of the dollar amount of services rendered or by the number of patients seen by each member of the group.

3. Straight salary method.

4. Combination method whereby each partner is allotted a salary each month and is also given a percentage of the income after the

salaries have been deducted. This percentage can be calculated by using either of the first two methods.

5. Straight salaries plus dividends if the physicians are practicing as a corporation.

It is equally important that the accounting methods used in determining distributable income are included in the agreement among the owners. Of obvious importance are the method of valuing inventories of drugs and supplies, depreciation policies for furniture and equipment, handling of prepaid and accrued expenses and of receivables and payables, and the basis of estimating bad debts.

### ***Adequate Financial Planning for the Future***

This area has its own special problems. The popular Keough Plan is one method of providing for retirement income for physicians and their employees at a good tax saving. In addition, the accountant can be of great help to the physician by observing several points.

The first is a comparison of business done each month with the corresponding month in previous years. Seasonal fluctuations take place in a physician's practice, but each month's income should be comparable to that of the same month in previous years. A conspicuous deviation should alert the accountant to trouble areas.

Another point to remember is that the amount of receivables for one month affects the estimated cash receipts for subsequent months. For instance, if past experience indicates that 80% of one month's billings are collected within three months and if the January billings amount to \$10,000, then it is reasonable to expect that \$8,000 will be received in cash within the next three months. If only \$4,000 are recorded as received, the accountant should investigate whether this change is due to improper office procedures which are slowing down the collection process or to a misappropriation of funds.

The accountant should also prepare statistics to determine the relative profit contributions of office visits, tests, x-rays, etc. Such an analysis may show that it would be more profitable to employ a technician than to sublet x-rays and laboratory tests to an independent laboratory.

### ***Conclusion***

With the ever-increasing controls placed on physicians by the government and with the growing public concern over rising medical costs, physicians will be called upon to employ accurate financial practices to insure the profitability of their practices and to preserve the quality of the services they render to their patients.