

# Balancing Act

## The dangers of using your bank account as your pharmacy's accounting system

If you use your bank account as your accounting system, you're jeopardizing your pharmacy business.

Scott Sykes, CPA, of Sykes & Company, PA, an accounting firm focused on independent pharmacies, said a sufficient accounting system is imperative, especially considering the thin margins independent community pharmacies operate on today.

"Your bank account doesn't list how much cash is tied up in your other assets, such as inventory and receivables," he said. "It doesn't tell you what your gross margin is, what your gross revenues are or what your key ratios are."

When you check your bank account balance to see whether or not it increased from last month, you don't get the full picture of your business. You don't know what your margins are, for one.

A bank account is misleading because it's only one piece of a complex puzzle—and one piece doesn't tell you much, Sykes said. "There are a lot of other moving parts, all of which need to be analyzed and taken into consideration together."

### INACCURATE ACCOUNTING

Many pharmacy owners don't understand why using their bank account as their accounting system is a bad idea. "They don't teach accounting or business in pharmacy schools, so not knowing how important fundamental accounting is can lead to this type of system," Sykes said.

But pharmacy owners need to take their accounting seriously. "Pharmacies require management and understanding to optimize performance, and the accounting system allows an owner to be productive and have a full understanding of the performance of that pharmacy."

"Integrity in your accounting process is paramount," he said. "The knowledge and understanding you can gain from knowing the numbers you're receiving are accurate is invaluable."

Pharmacies should use an accrual-based accounting system rather than a cash system. An accrual-based system recognizes income when



earned and recognizes expenses when received. “Most pharmacy sales are third party sales, which are received many days after the prescription is filled or the revenue is earned,” Sykes said. “So, the accrual system gives you a more accurate picture of pharmacy performance.” And, the IRS requires most pharmacies to report on the full accrual accounting system.

Sykes also stressed the dangers of using your bank account as your accounting system if your pharmacy is in growth mode. “First, how will you know you’re growing?” he said. “Second, cash flow is a major component of a growing pharmacy, so you have to be able to analyze all liabilities and assets when looking ahead. A bank account can’t do that.”

### OPERATING ON THIN MARGINS

Because pharmacies today operate on thin margins, it’s vital for pharmacy owners to know what their margin is—and for it to be accurate.

Pharmacies need to know what their margin is before and after the rebate, Sykes said. “Your margin on your tax return or financial statement is only as accurate as your inventory and third party receivable balance.”

And, pharmacies need to understand why their margin is higher or lower than the industry average so they can make improvements.

Better purchasing, revenue diversification, data mining and filling scripts that pay more are all areas that can—and will—increase a pharmacy’s margin, Sykes said. “These areas are what pharmacy owners should be spending a majority of their time on, as it will ultimately have the biggest bang for the buck.”

Sykes said if pharmacy owners don’t understand what their margins are or where they stand, they can’t plan around them. “Not knowing what your margins are can hinder you from taking action to maximize those margins,” he said.

### IMPROVING YOUR ACCOUNTING

For pharmacies with a non-existent accounting system, Sykes recommends finding a CPA and a

model that works for them. “Today’s technology allows you to outsource your accounting to professionals who specialize in your industry,” he said. “Find someone who knows your business and can implement processes to maximize the value of an efficient accounting system.”

Sykes & Company, PA, focuses on accounting specifically for independent community pharmacies, so they know and understand the complexity of the industry. The firm helps pharmacies with every aspect of pharmacy accounting, including tax and business advisory needs. “Being involved in only the pharmacy industry allows our professionals to speak your language and understand your business,” Sykes said.

*Learn more at [sykes-cpa.com](http://sykes-cpa.com).*

## 3 Keys to an Effective Accounting System

These three components make up an effective accounting system. Are you using all three?

- 1. Daily accounting processes**  
These processes include recording point-of-sale (POS) reports, reconciling bank accounts and recording payables.
- 2. Balance sheet**  
The balance sheet lists your bank account balance each month and additional accounts to analyze.
- 3. Profit and loss statement (P&L) and cash flow statement**  
These financial statements go hand-in-hand, and they’re only as accurate as your balance sheet accounts.