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MAIN STREET PHARMACY

The Unaccountable Pharmacy

Using new cloud-based accounting systems is good for business and patients

by Scott Sykes, CPA

With the average pharmacy lacking an efficient and reliable accounting system, it's no surprise that many pharmacists have no grasp of what exactly is taking place within their pharmacy business at any given time. Accounting gets a back seat in far too many independent community pharmacies—even though it is the foundation of all businesses around the world. Today's independent pharmacy owners are up against challenges that include tight gross margins, cash flow issues, high payroll expenses, complex tax and regulatory issues, and many others. Yet the system required for monitoring, controlling, and understanding these items is not used effectively, if at all.

Accounting's Foundation

An accounting system is comprised of two aspects. Aspect one includes the actual system or process of taking daily financial data and efficiently compiling it into an accounting file. It also includes compiling timely and reliable financial data for business and management decisions. The accounting foundation begins here, and this is a necessary step in creating accountability and integrity within your pharmacy.

Aspect two of the system focuses on the accounting advisory team. This team is usually comprised of a bookkeeper and a certified public accountant, (CPA), but can also include a health care attorney and banker. Their goal is to streamline the accounting and tax process, communicate and advise you on what your financial numbers mean, compare you to your peers through industry benchmarks, and provide pivotal resources and knowledge for a growing community pharmacy. (The *NCPA Digest*, sponsored by Cardinal Health, contains financial and benchmarking data for members online.)

The modern accounting system is changing for the better, and this is great news for any pharmacy owner. The bad news is that many accounting firms have not fully adopted these new and innovative methods within the accounting system and thus, the pharmacy and its owner are left behind. How do you know if you're ahead of the curve or falling behind? Let's look at three outdated common scenarios levels of the accounting system within a pharmacy today so you can gauge your current system.

Three Levels of Outdated Accounting

Level one begins with a very minimal accounting system inside the pharmacy. The system incorporates no daily financial data, bank reconciliations, financial statements, or accounting adjustments. The pharmacy owner has no daily understanding of his or her pharmacy aside from looking at the current balance of the bank account (and usually does not know where this stands). The owner has no idea what his or her gross margins are (or should be), and has problems with cash flow as well as making timely payable payments to wholesalers, among others. Time is wasted trying to handle the back office and patient care

gets a back seat. At the end of the year, the pharmacy sends what it has to its accounting firm, which then prepares tax returns based upon weak data and makes adjustments after the fact. This recipe for disaster is unacceptable in the community pharmacy industry today, and change is mandatory if the pharmacy is looking for success.

The second level is having an in-house bookkeeper who has been doing the daily accounting tasks for years. The bookkeeper, usually overpaid based upon the skill sets he or she offer, may have limited knowledge of the accounting software. In addition, they often:

- Do not reconcile daily deposits to daily reports script systems are producing
- Do not compile financial statements periodically
- Do not understand the community pharmacy industry.

The bookkeeper manually pays bills, (or uses a computer as a check writer only), manually prepares sales/use tax if required, and might process payroll. Again, at year-end, the accounting firm receives the accounting file, produces all tax returns after the fact, and provides very limited pharmacy advisory services.

This system is inefficient and costs the pharmacy owner excess payroll and payroll-related expenses, possibly higher taxes, and valuable knowledge of what's going on in their community pharmacy at any given time. Pharmacy owners may think they are getting the accounting attention needed and has the basics intact, but are unaware of the added value an affordable and more comprehensive system provides.

The third level is an in-house bookkeeper who provides bank reconciliations, sales tax preparations, and limited financial statements at select intervals. However,

QUESTIONS TO ASK A PROSPECTIVE CPA

- Do they normally file timely tax returns for their clients?
- How many community pharmacies do they work with currently?
- Are they aware of pharmacy financial benchmarks made available by NCPA?
- Do they understand the industry, and how do they utilize cloud technologies to help them be more efficient and save costs?
- How proactive are they in assisting community pharmacies they work with in regard to meeting the pharmacy owner's needs, wants, and desires with financial, cash flow, and tax issues in advance of year end?
- Do they review the month end script audit logs from the pharmacy and explain what these reports are to the pharmacist?

Source: Sykes & Co., P.A.

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the bookkeeper is still not fully knowledgeable about the community pharmacy accounting industry, does not prepare the tax returns, and incorporates no tax or year-end cash flow planning or pharmacy advisory services into the day-to-day operations. Monthly accounting adjustments are not made, and thus the data from the financial statements is not fully reliable. The bill payment process is manual and the use of the Internet or the cloud as a tool is minimal at best. This system is inefficient, financial data is not fully reliable, and the community pharmacy owner lacks much needed pharmacy advisory services.

Creating a Powerful Accounting System

The ideal system in today's innovative and growing pharmacy is cloud-based and is customized to the needs, wants, and desires of the pharmacy and its owner. The system begins with an in-depth review of all prior financial data, recent tax returns, contracts, script audit logs, and depreciation schedules, to name several. The accounting file is analyzed for integrity and most problems—including gross margins, payroll, cash flow, and balance sheet issues—up to this point are identified. Based upon this extensive review, the pharmacy CPA can determine and communicate the best course of action moving forward. This beginning step provides immediate value.

Once the preliminary review is in place and issues are identified, the ideal system incorporates daily efficient accounting functions to bring real time financial data to the community pharmacy. This real time data is accurately adjusted at month end to produce timely financial statements, which are a vital component towards fixing any issues that arose during the review stage. This data also provides opportunities for in-depth discussions between the specialized pharmacy CPA and the pharmacy owner in a proactive manner.

The daily functions are enhanced with the help of cloud-based products, such as online accounts

payable services, online-hosted accounting software environments, and reputable outsourced payroll providers. All of these options provide maximum efficiencies and allow the pharmacy owner more time up front to take care of patients and grow their pharmacy. This occurs while giving the owner 24-hour access and transparency to all accounting data. In-house bookkeepers should be taught how to work with the new daily system, or outsourced pharmacy accountants handle the daily functions and provide weekly updates to the pharmacy owner.

With an accountable system in place, effective tax planning and financial planning aspects can be utilized to maximize any situation facing the pharmacy and its owner. With thousands of dollars on the line, a specialized pharmacy CPA can discuss several scenarios with the pharmacy owner in a proactive setting. The pharmacy owner can easily see and understand what he or she may be facing come year-end and make adjustments as needed. All of this is possible because of up-to-date and reliable accounting data.

No matter which system you use, the most successful pharmacies are taking full advantage of innovation in their accounting. With affordable comprehensive accounting systems, industry specialized CPAs, cloud-based products, and virtual controllership/CFO services, pharmacists are able to spend more time focusing on their patients and growing their business. This produces exceptional accounting and advisory information within pharmacies and makes the unaccountable pharmacy a thing of the past. **ap**

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