

ACCOUNTING PROCEDURES

MANUAL FOR

PROFESSIONAL CLIENTS

ACCOUNTING PROCEDURES MANUAL

TABLE OF CONTENTS

I	Introduction-----	3
II	Recording of Deposits and Disbursements	
	Disbursements Journal -----	5
	Recording Deposits -----	5
	Recording Disbursements-----	6
	Cancellation of Recorded Cheques -----	7
	Sample Disbursements Journal -----	8
	Balancing -----	9
	Bank Reconciliation -----	11
	Column Titles -----	13
	Description of “Expenditure” Categories -----	14
	Items Paid from Personal Funds -----	25
	U.S. And “Other” Foreign Exchange -----	26
	Use of a Credit Card -----	27
III	Recording Fee Charges and Payments	
	Recording Daily Transactions-----	30
	Bad Debt Write-Offs-----	33
	Fee Adjustments -----	34
	Returned Cheques -----	34
	Sample Day Sheet Transactions -----	35
	Daily Balancing Procedures -----	36
	Monthly Balancing Procedures -----	38
	Sample Day Sheet Summary -----	40
IV	OHIP Procedures -----	41
V	Petty Cash Fund -----	43
VI	Payroll and Wages -----	45
	Employee Record Samples -----	49
	Remittance Form Sample -----	50

INTRODUCTION

This manual has been designed to assist you in using your accounting systems in an effective and consistent manner.

We hope that it will answer questions you or your staff has concerning the day to day record keeping and thus make the task less frustrating.

If you have any questions, which are not answered in this manual, please do not hesitate to contact our office.

DISBURSEMENTS JOURNAL

The disbursement journal is used to record all deposits (fees, loan advances, supplier refunds, etc.) and disbursements (cheques, bank charges, loan payments etc.) which take place in the practice bank account. A separate disbursement journal should be kept for each practice bank account where more than one bank account is used in the practice. The disbursement journal should be summarized by month. Each month should **always** be started on a **new** page. The column totals for the month should encompass all entries for the month (i.e. where a particular month's entries appear on two pages, the totals from the first page should be recorded at the bottom of the first page, carried over to the second page and included in the month's grand total).

RECORDING DEPOSITS

Deposits should be recorded as they are made. All deposits should be recorded. Deposits made up of patient fee collections should be posted to a column entitled "fees".

All other deposits (i.e. from personal funds, bank loans, supplier refunds, etc.) Should be clearly marked with an explanation as to source and entered in a column entitled "other deposits".

RECORDING DISBURSEMENTS

Cheques should be recorded in the disbursement journal, in cheque number order, at the same time as they are being written, showing: Payee, Date, Cheque number and Amount.

A one-write system allows this information to be recorded on the cheque and in the disbursement journal simultaneously. Alternatively, using ordinary cheques the disbursements should be entered from the cheque stubs in the cheque number order.

At the same time as the cheque amount is recorded in the “disbursement” column, the same amount should be entered in the appropriate expenditure column or columns at the right of the page. See Page 13 for Category Descriptions.

CANCELLATION OF RECORDED CHEQUES

A cheque which becomes stale-dated (i.e. more than six months old), or is lost by the recipient, or for some other reason is to be canceled, the following is to be done:

1. Enter the amount of the cheque in the disbursements (i.e. Cheque) column as a negative figure (usually indicated by brackets around the amount).
2. The negative cheques should be disbursed to the same column(s) to which the original cheque was posted.
3. The negative figures will be subtracted when determining the totals of the columns in which they are included. If the total for a column is negative then it should also be bracketed.

Never record the cancellation of a cheque as a deposit since no deposit has been made!!

BALANCING

At the end of the month, when the bank statements arrive, do the following:

- A. Check off, in the disbursements book and bank statements those cheques which have cleared the bank, ensuring the amounts recorded are correct. Place a “0” beside any cheques recorded in the disbursements journal which do not appear on the bank statement. Prepare a list of these “Outstanding” cheques which have not cleared (including any listed in the preceding month’s list which did not appear in the current month’s bank statement).

If a cheque has been outstanding for more than six months or you wish to cancel a cheque for some other reason, see page 6 for instructions.

- B. Below the cheques you have already recorded, record any other cheques which have cleared the bank but were not previously recorded.
- C. Record loan interest, returned cheques (i.e. NSF’s, postdated, etc.), bank charges and any other bank entries below the cheques listed.
- D. Agree deposits on bank statement with amounts recorded in the deposit column, ensuring all amounts are recorded. List any deposits which are recorded but have not cleared as outstanding deposits.

Once you are sure that all transactions have been recorded in the disbursement journal, add the disbursements column, and the deposits column.

Note: The sum of the expenditure columns' totals should agree to the disbursement column total.
 The total of the fee column and the other deposit column should agree to the total of the deposit column.

BANK RECONCILIATION

A bank reconciliation should be prepared each and every month. Fill in the bank reconciliation from the disbursements journal totals as follows:

Books

Book Balance - Beginning of the month		
	(= Book balance end of previous month)	\$ _____
Plus	- Deposits column total	_____
Less	- Disbursements column total	_____
Equals: Book Balance - End of the month		\$ _____ *
		=====

Bank

Balance per bank statements - End of the Month		\$ _____
Plus	- Outstanding Deposits	_____
Less	- Outstanding Cheques	_____
Equals: Book Balance - End of the Month		\$ _____ *
		=====

- If all transactions have been recorded, the final figure will agree with the balance on the top part of the reconciliation.

IF THE RECONCILIATION DOES NOT BALANCE

- A. Calculate the amount of the difference. Review the bank statement, disbursement sheets and bank reconciliation for this amount.
- B. Recheck the addition of the deposits and disbursements columns.
- C. Recheck the addition of the outstanding cheques and the reconciliation.
- D. Review the bank statements again to be sure that all items appearing on it are recorded properly in the books.
- E. Recheck your list of outstanding cheques making sure to include all outstanding items from the previous reconciliation if they have not been cleared yet.
- F. If all else fails, call your accountant.

ORDER OF YOUR COLUMN TITLES

Bank Deposits
Bank Withdrawals
Fees Collected
Other Deposits
Bank Loan Payments
Drawings
NSF's and Patient Refunds
Lab Fees
Salaries and Benefits
Professional Supplies
Rent
Equipment Lease
Office Supplies and Expense
Bank Charges and Interest
Conventions and Seminars (Continuing Education)
Dues and Fees
Utilities
Insurance
Repairs and Maintenance
Telephone
Accounting
Business Promotion
Associate Fees
Automobile
Business Taxes
Laundry and Uniforms
Equipment
Miscellaneous

Note: If you do not currently use a particular column heading included in the above list, please ignore it. Just use the column headings you normally use but they should appear in your book in the same order as they appear on this list.

DESCRIPTION OF “EXPENDITURE” CATEGORIES

The following descriptions are provided to assist you in determining to which expenditure category a particular disbursement entry should be posted. If you are uncertain as to which expenditure category you should use then post the item to miscellaneous. The following are in alphabetical order.

AUTOMOBILE EXPENSES

All operating expenses for a business automobile:

- Gasoline
- Repairs and maintenance (including oil changes)
- Tires
- Auto Insurance
- License plates or annual sticker fees
- Car washes
- Auto Club memberships

The purchase of an automobile or automobile lease related payments should be posted to miscellaneous.

BANK CHARGES AND INTEREST

All bank charges for interest on practice loan(s), overdraft interest, maintenance charges and service charges.

NOTE: Bank loan payments should be posted to a separate column. In the case where a combined principal and interest payment is made, post the entire payment to the loan category. Loan interest on non-practice loans (i.e. Personal loans, investment loans, etc.) should be posted to drawings.

BANK LOAN

All payments (including payments which combine both principal and interest) on practice bank loans are placed in this column.

Separately identifiable interest payments should go in the bank charges and interest column.

Payments on non-practice loans (even if deductible for income tax purposes such as an investment loan) should be posted to drawings.

CAPITAL ASSET PURCHASES

Any item of office or professional furniture or equipment (including artwork, prints, etc. Costing \$100 or more) purchased (including any professional instruments costing more than \$200) should be posted to equipment.

Payments for computers, monitors, printers, scanners and other computer items, excluding software, costing \$100 or more should be posted to computer hardware.

All costs incidental to the purchase should also be posted to the related capital asset category (i.e. shipping, installation, duty, foreign exchange, sales tax).

A complete description should be made indicating what type of capital asset was purchased.

CONVENTION AND SEMINARS

Registration fees for conventions, seminars, conferences, or other continuing education for the doctor or staff and expenses incurred including transportation, meals, accommodations, etc. Should be posted to this category.

DRAWINGS

It is recommended that **only** business expenses be paid through the business account. Amounts should be transferred to a personal account for paying personal expenses. These transfers and any other expenses, which are not deductible for income tax purposes, should be posted to the drawing column.

This would include payments made for personal insurance (including disability and life insurance), donations to registered charities, the practitioner's own income tax payments or installments, and interest payments on non-practice loans.

DUES AND FEES

Any association, professional license, or membership fees necessary to the maintenance of a professional office for the doctor or any member of his or her staff.

CMPA payments should be posted to insurance.

EQUIPMENT LEASE

All payments to leasing companies or others for leased equipment, etc.

INSURANCE

Payments for malpractice (including CMPA), office overhead (including OMA-POE premiums), office contents, business interruption, and general liability insurance are deductible for income tax purposes and should be posted to the insurance column.

Disability and Life insurance are **not** deductible and should be posted to drawings. Auto insurance should be posted to automobile expense, where automobile expenses are tracked within the practice.

Insurance coverage provided to employees should be posted to salaries and benefits.

Insurance rebates (including OMA-POE refund) and claims should be deposited in the practice bank account and posted to insurance.

LABORATORY FEES

Dental practitioner's fee paid to Dental Laboratories

LAUNDRY AND UNIFORMS

Amounts paid for laundering of linen, uniforms or gowns, for doctor or staff.

New uniforms purchased for doctor or staff.

LEASEHOLD IMPROVEMENTS

This item arises when outfitting a new office or renovating an old one. Any improvements to rented premises of a lasting nature such as carpentry, plumbing, electrical installation, painting, wallpapering, wall to wall carpets, or cabinets or shelves which are not removable generally fall into this category.

MISCELLANEOUS ITEMS

Use this column for expense for expenditures, which do not fall into one of the other categories. Any items posted to this category should include a complete description beside the amount setting out the type of expenditure (i.e. Automobile purchase).

If there is any amount (expenditure or deposit) which you are uncertain as to where it should be posted, post it to miscellaneous with a description.

OFFICE SUPPLIES AND EXPENSE

Those expenses incurred in the operation of the office as opposed to the provision of professional services.

- stationery, account cards, appointments books, envelopes
- other general office supplies (i.e. coffee supplies, etc.)
- petty cash reimbursements
- waiting room subscriptions (professional journals and books should be posted to reference materials)
- Internet service, monthly or annual fees
- staff lunches, staff parties, staff gifts
- collection costs of delinquent accounts
- postage stamps
- courier charges

Suppliers' invoices should be reviewed carefully to ensure that equipment or other "capital" purchases and repairs are not included in the office supplies and expense column.

PROFESSIONAL SUPPLIES

These expenses include disbursements for drugs, medications and other professional supplies, including patient education pamphlets or cassettes, small instruments, etc. Purchases of professional instruments individually costing \$200 or more are considered equipment and should **not** be posted to professional supplies.

Suppliers' invoices should be reviewed carefully to ensure that equipment or other "capital" purchases and repairs are not included in the professional supplies column.

PROMOTION

Payments of any kind which tend to promote the services of the practitioner, such as: service club memberships (Kinsmen, Kiwanis, Lions Club, etc.), office relocation or opening announcements, flowers for patients, donations to unregistered groups, and entertaining bills from all sources (provided it relates to the practice).

Annual membership and initiation fees in recreational clubs are **not** deductible for income tax and should **always** be posted to drawings.

Staff lunches, staff parties, staff gifts and advertising for staff (i.e. help wanted) should be posted to Office Supplies and Expense.

REFERENCE MATERIALS

Professional books or magazines for use by the doctor.

Waiting room subscriptions should be classified as office supplies and expense.

RENT

Regular monthly rent payments plus any common area, escalation or net, net charges.

REPAIRS AND MAINTENANCE

Cleaning supplies, janitorial services, repairs to premises or equipment, annual or periodic maintenance contract payments, computer hardware and software maintenance contract payments etc. Automobile related repairs and maintenance should be posted to automobile expense.

RETURNED CHEQUES AND PATIENT REFUNDS

Returned cheques (i.e. NSF's, postdated, etc.) and refunds to patients should be grouped together.

The bank charges relating to NSF cheques should also be posted to this category.

SALARIES AND BENEFITS

- Net amount of salary cheques
- Monthly cheque to the Receiver General for employee deductions
- Workplace Safety & Insurance Board payments (if applicable)
- Premiums for insurance coverage for employees (Disability, Life, Etc.)
- Other benefits (Dental plan, Etc.)

TELEPHONE

Payments to: -- Bell Canada or other telephone service providers
-- Answering service
-- Paging fees

The purchase of a telephone system should be posted to equipment.

UTILITIES

Amounts paid for heat, electricity or water.

Billings for these items by the landlord should be posted to rent.

ITEMS PAID FROM PERSONAL FUNDS

Purchases of items for the practice from personal funds should be avoided. However, when items are paid personally, a practice cheque should be prepared to reimburse the doctor. The cheque would then be posted to the appropriate category (i.e. Office, promotion, etc.).

A memo should be kept on file with the receipts indicating the details of expenses reimbursed.

The use of a credit card, exclusively used by the doctor for practice purposes and mailed to and paid by the practice each month, can eliminate the need to use personal funds.

U.S. AND OTHER FOREIGN EXCHANGE

It is not unusual to see the purchase of professional equipment or professional supplies from outside Canada.

U.S. or other foreign exchange should be posted to the same category to which the related payment was posted.

Example: If professional supplies are purchased for \$100 U.S., then the \$100 should be posted to the professional supplies category as should the subsequent \$50 exchange charge made by the bank when the cheque is processed.

Never post foreign exchange to the bank charges and interest column.

USE OF A CREDIT CARD

The use of a credit card can eliminate the need to carry practice cheques or make out of pocket payments (at the risk of losing the tax-deductible receipt).

The use of a credit card provides a useful monthly statement, which summarizes all transactions that occurred.

RECOMMENDATIONS

1. Use practice credit card **exclusively** for practice purposes. Avoid making personal purchases with the practice credit card. Obtain a different credit card for home or personal use.
2. Practice address should be credit card mailing address and all practice credit card payments should be made from practice.
3. Monthly credit card statements should be summarized and posted to appropriate expenditure column (see example on next page).

RECORDING CHARGES AND PAYMENTS

The one-write system allows simultaneous recording of transactions on a daily summary sheet, the patient's accounts receivable card, and the patient's receipt as described below. A sample of each type of transaction is shown on page 34.

RECORDING DAILY TRANSACTIONS:

I when service is performed:

A) Enter previous balance from patient's accounts receivable card in the column marked "previous balance".

B) In the "charges" column, record the amount charged for the service performed.

C) Calculate the new balance in the patient's account and enter it in the "balance" column.

II when a payment is received but no service has been performed:

A) Enter the previous balance from patient's account card in the "previous balance" column.

B) Enter the amount paid in the "payment" column.

C) Calculate the new balance in the patient's account and enter it in the "balance" column.

III If payment is received at the time the service is performed, combine steps I and II above on the same line of the day sheet.

IV Advance Payments

- A) When a patient makes a large deposit against future charges:
- 1) Enter the amount paid as a payment on the patient's card and the day sheet
 - 2) deduct the payment from the previous balance
 - 3) if this new balance is a negative figure, show it as a bracketed amount.
- B) When subsequent services are performed, reduce the credit balance by the amount of the charge. Enter the charge in the same manner as other charges.

V Refunds of Credit Balances

If patient has overpaid and a refund is given, enter the amount of the refund as a charge. This amount added to the previous credit balance will bring the patient's new balance to nil.

VI Other Refunds

- A) If a refund is made to a patient whose ledger shows a \$ nil balance then no entry is required in the day sheets.
- B) If the patient's ledger shows a balance then the refund amount should be recorded as a negative charge.

BAD DEBT WRITE-OFFS

- I When an account is sent to the credit bureau:

A) On the day sheet and accounts receivable card, enter the amount as a bracketed figure in the “charges” column. Deduct this amount from the charges for the day when totaling the day sheet.

B) On the bad debt summary (found on the monthly day sheet summary), enter the date, name, and amount written-off. (See example bad debt memo record sheet, page 39.)

Do **not** include fee adjustments (see next page) in the bad debt summary.

II If money is subsequently collected on an account previously written-off:

A) On the day sheet enter the person’s name, and the amount as both a charge and a payment, leaving a nil balance.

B) On the bad debt recovery summary (found on the monthly day sheet summary) enter the date, the person’s name and the amount recovered.

FEE ADJUSTMENTS

Fee adjustments include discounts for special cases, write-off of portion of fee not covered by insurance, etc.

1. Record as a negative charge.
2. Do not include fee adjustments in the bad debt summary.

RETURNED CHEQUES

1. On the patient's accounts receivable card, and on the day sheet, enter the amount of the returned cheque as a "charge" again to bring his account back to the balance before the cheque was deducted.
2. When cheque is re-deposited or a new cheque given, enter in the same manner as other payments.

DAILY BALANCING PROCEDURES

1. Add up columns marked "charges", payments, balance and previous balance.
2. Use these totals to prove your additions and cross additions for the day as follows:

Total "Previous Balances" for the day
Plus: Total "Charges" for the day
Less: Total "Payments" received that day
Equals: Total ending "Balances" for the day

This calculation is done in the place provided in the bottom left corner of the day sheet, titled “proof of posting”.

3. Now that you are certain the totals are correct, enter the total “charges” and “payments” in the “Accounts Receivable Control” calculation in the centre of the bottom of the day sheet.
4. Bring forward the previous day’s accounts receivable control balance and calculate the new accounts receivable control balance.
5. Enter the total “charges” and “payments” on a monthly summary sheet in the appropriate columns.

Important:

Deposits should be prepared daily to equal the exact total of payments received on the day sheets.

MONTHLY BALANCING PROCEDURES

1. Total the monthly summary sheet (see page 40).
2. Use the following calculation to ensure that additions of the accounts receivable control during the month were accurate:

Account Receivable Control - Beginning of the month
Plus: Total “Charges” for the month
Less: Total “Payments” for the month
Equals: Accounts Receivable Control - End of the month

3. As of the last day of the month, take an adding machine tape of the balances on the individual accounts receivable cards.
4. Compare the accounts receivable control balance for the end of the month with the taped total of the accounts receivable cards.
5. If you are certain that the tape is correct, adjust the control on the day sheet so that your opening balance for the next month will be correct and make a note on the day sheet that you have done so and the amount of the adjustment.
6. Significant discrepancies should be investigated and reduced to an acceptable level prior to adjustment.
7. All adjustments should be reviewed and approved by the doctor.

OHIP PROCEDURES

The OHIP cards are prepared in duplicate for each patient. The first copy is sent to the OHIP office for collection and the second copy is kept for your records. The office copy should be filed alphabetically by month.

When the payment is received from OHIP, the cards for the items paid should be removed from the file and marked as “paid”. Any cards left unpaid at any date will represent the OHIP accounts receivable. At the year-end an accounts receivable tape should be taken of all outstanding cards at that date. We will reduce this amount by any advance received prior to the year-end.

The above description will not apply to doctors utilizing a computerized OHIP system. In such a case the system will likely provide the accounts receivable figure on an ongoing basis.

Optometrists and Chiropractors who bill both OHIP and the patient are using the one-write system for recording charges and payments normally record OHIP payments as a charge and payment at the time of receipt and determine the accounts receivable by the method described above.

PETTY CASH FUND

1. Establish a fund of an appropriate amount (e.g. \$50) to be kept separately in one place.
2. When cash is needed for minor office expenses, remove the cash and replace it with a receipt or a note explaining what the expense is.
3. At all times there should be cash and vouchers totaling the amount of the fund.
4. Periodically, when the amount of cash is getting low, replenish the fund as follows:
 - A) Take a tape of the total of the vouchers in the fund.
 - B) Staple the tape and vouchers together.
 - C) Write a cheque to "Petty Cash" the total amount of the vouchers.
 - D) Cash the cheque and replenish the fund. The fund should now contain the original amount of cash allotted to the fund.
 - E) Write the cheque number on each voucher
 - F) File vouchers in a file called "Petty Cash".

PAYROLL AND WAGES

I Time Records

A record should be kept for each employee showing hours worked. A possible format is shown on page 48.

II Wage Records

Individual records should be kept for each employee, in a book or on cards, showing the following information:

- Gross Pay
- Income Tax Deduction
- CPP Deduction
- EI Deduction
- Net Pay

A sample format is shown at the bottom of page 48.

These records should be totaled at the year-end and cross-balanced for preparation of T4's.

Each payroll record should show:

1. Employee name and address
2. Social Insurance Number
3. Date hired

The dean payroll system (available in any stationary store) is highly recommended.

Vacation pay should be treated the same way as regular pay cheques, i.e.: deductions should be taken and the amounts should be recorded on the individual's pay record.

If the cheque is prepared while the employee is still working, unemployment insurance deductions are required. If the employee has already left, no unemployment insurance is deductible.

Vacation Pay must be 4% of the gross pay received since the employee's last vacation or from date of hiring if no vacations have been taken.

When an employee leaves, a record of employment form must be filled out and filed within five days of the last day the employee worked.

- Current TD1 should be kept on file for each employee.
- Be sure to start a new pay record for each employee each year.
- Rules regarding insurable earnings, unemployment insurance and maximum Canada pension deductions change yearly. Refer to the front of the deduction book for that information. Do not deduct more than the maximum Canada pension for any individual for the year.

Do not deduct unemployment insurance premiums from salary paid to spouse of doctor if the practice is carried on as a sole proprietorship. Income tax and Canada pension should, however, be deducted in the normal manner.

EMPLOYEE TIME RECORD

Name:	Jane Doe			
Date:		Time In	Time out	Hours Worked
September	15	9:00 am	5:00 p.m.	7
	16	9:00 am	5:00 p.m.	7
	17	9:00 am	12:00 noon	3
	18	9:00 am		7
	19	9:00 am	3:00 p.m.	5
September 15 - 19				
Total	85	0	0	29

EMPLOYEE EARNINGS RECORD

Name:	Jane Doe	Address:				
Date Hired:				SIN:		
Date	Rate	Gross Pay	Income Tax	CPP	EI	Net Pay
August 5		150	17.95	2.39	2.25	127.41
August 12		150	17.95	2.39	2.25	127.41
August 19		150	17.95	2.39	2.25	127.41
August 26		150	17.95	2.39	2.25	127.41
August						
Sub Total		600	71.81	9.56	9	509.64

Receiver General Remittance - Due on the 15th of each month for previous month's deductions (see next page for example).

Month of _____ □				
Employee		Tax	CPP	EI
Mrs. Smith		71.8	9.56	--
Miss Janet Brown		71.8	9.56	9
		143.6	19.12	9
			*2.0	* 2.4
Total	0	143.6	38.24	21.6