Learning Outcomes

18.1 Describe traditional bookkeeping systems, including single-entry and double-entry.

18.2 Explain the benefits of performing bookkeeping tasks on the computer.

18.3 List banking tasks in a medical office.

18.4 Describe the logistics of accepting, endorsing, and depositing checks from patients and insurance companies.
Learning Outcomes (cont.)

18.5 Reconcile the office’s bank statements.

18.6 Give several examples of disbursements.

18.7 Record disbursements in a disbursement journal.

18.8 Set up and maintain a petty cash fund.
Learning Outcomes (cont.)

18.9 Create employee payroll information sheets.

18.10 Compute an employee’s gross earnings, total deductions, and net earnings.

18.11 Prepare an employee earnings record and payroll register.

18.12 Set up the practice’s tax liability accounts.
Learning Outcomes (cont.)

18.13 Complete federal, state, and local tax forms.

18.14 Submit employment taxes to government agencies.

18.15 Describe the basic parts of an employment contract.
Introduction

- **Accounting**
  - Administrative competency
  - Responsibilities of medical assistant
    - Bookkeeping
    - Banking
- **Bookkeeping**
  - Systematic record of business transactions
Business Side of a Medical Practice

- **Accuracy**
  - Strive for 100%
  - Records form a chain of information
    - Errors can result in loss of income by
      - Billing a patient twice for same service
      - Omitting bank deposits
      - Making improper payments to suppliers

*A medical practice is a business: income must exceed expenses!*
Business Side: Establishing Procedures

- Maintain procedures in a logical and consistent manner
- Be consistent in the way you handle transactions
- Use check marks as you work to avoid errors
- Write clearly with same type and color of pen
- Double-check your work frequently
- Keep columns of figures straight
Apply Your Knowledge

What can be the result of in errors in billing?

**ANSWER:** Errors can result in loss of income by billing a patient twice for same service, omitting bank deposits, and making improper payments to suppliers.

**Good Answer!**
Bookkeeping Methods

- Computerized – most common

- Manual
  - Single-entry
  - Double-entry
  - Pegboard

- All methods record
  - Income
  - Charges
  - Disbursements
  - Other financial information

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Bookkeeping Methods (cont.)

- Bookkeeping on the computer
  - Performs same tasks as manual method
  - Saves time
  - Performs math calculations
  - Has built-in tax tables
Bookkeeping Methods: 

*Single-Entry System*

- Records used for this system
  - Daily log
  - Patient ledger card
  - Checkbook register
  - Payroll records
  - Petty cash

- Also used with double-entry and pegboard methods
Bookkeeping Methods: 
*Single-Entry System (cont.)*

- **Daily log**
  - Chronological list of charges and payments received
  - *Journalizing* – record
    - Service provided
    - Fee charged
    - Payment received
  - Information from *charge slip*
Patient ledger card

- Patient name, address, insurance information
- Document financial transactions of patient account
- Information from daily log
- Ensure accuracy
  - Total charges and receipts from ledger must equal total charges and receipts in daily log
**Bookkeeping Methods:**

*Single-Entry System (cont.)*

- **Accounts receivable**
  - Shows total owed to the practice
  - Total of items on accounts receivable should equal outstanding balances on patient ledger cards

- **Accounts payable**
  - Amount practice owes vendors
  - Compare with invoices
  - Keep accurate records of accounts paid
Bookkeeping Methods:  
*Single-Entry System (cont.)*

- Record of office disbursements
  - List of payments made
  - Information on record
    - *Payee* – person receiving payment
    - Date
    - Check number
    - Amount paid
    - Type of expense
Bookkeeping Methods:  
*Single-Entry System (cont.)*

- Summary of charges, receipts, and disbursements
  - Comparison of income and expenses
  - Used to determine
    - Profitability
    - Amount charged for services
    - Payments received for services
    - Cost of running the office
    - Breakdown of expenses into categories
Bookkeeping Methods:  
*Double-Entry System*

- Based on

\[ \text{Assets} = \text{Liabilities} + \text{Owner Equity} \]

- *Assets* – goods or properties that have a dollar value
- Owner equity – owner’s right to value of assets
- Liabilities – amounts owed by the practice
- Enter transaction on each side of equation
  - Both sides must balance
Bookkeeping Methods: *Pegboard System*

- Each transaction is entered on four different forms at the same time
- Called “one-write” system
- Seldom used since computerization of records
- Uses lightweight board with pegs
  - Daily log sheets
  - Patient ledger card
  - Charge slips
  - Deposit slips
Bookkeeping Methods:  
*Pegboard System*

1. At start of day, put daily log sheet and charge slips/receipts on pegboard

2. When a patient arrives for an appointment, put the patient ledger card on the pegboard
   – Enter date, patient name, and previous balance on charge slip section

3. Remove charge slip and attach the charge slip to patient chart
Bookkeeping Methods:  
*Pegboard System*

4. Before the patient leaves, place ledger card between charge slip and daily log  
   – Enter appropriate information on charge slip

5. Payments made after appointment  
   – Record on ledger and daily log

6. End of day – total and check math in all columns
Apply Your Knowledge

What types of bookkeeping methods might you use in a medical office?

**ANSWER:** You might use these bookkeeping methods in a medical office:

- Single-entry
- Double-entry
- Pegboard
- Electronic
Banking for the Medical Office

- Banking tasks
  - Writing checks
  - Accepting checks
  - Endorsing checks
  - Making deposits
  - Reconciling bank statements

Keep all bank materials secure because they represent the finances of the practice
Banking: *Tasks*

- **Check** – bank draft or order for payment
- **Payer** – person who writes the check
- **Negotiable** – legally transferable from one person to another

To be negotiable a check must:
- Be written, signed, and dated
- Include the amount to be paid
- Be made payable to payee
- Be made payable on demand
- Include the name of the bank that is directed to make payment
Banking: *Tasks (cont.)*

- **Other negotiable papers**
  - *Cashier’s check*
    - Check issued on bank paper and signed by bank representative
  - *Certified check*
    - Payer’s check written and signed by a payer and stamped “certified” by the bank
  - *Money order*
    - Certificate of guaranteed payment
Banking: Tasks (cont.)

- Check codes
  - American Banking Association (ABA) number
    - Appears as a fraction (60-117/310)
    - Geographic area and specific bank
  - Magnetic ink character (MICR) code
    - Numbers and characters at the bottom of check
    - Enables checks to be read, sorted, and recorded
Banking: *Tasks (cont.)*

- Types of checking accounts
  - Personal accounts – private financial matters
  - Business accounts – office expenses
  - Interest-earning account
    - Used to pay special expenses such as taxes and insurance premiums
Banking: Tasks (cont.)

- Accepting checks
  - Check for:
    - Correct date
    - Correct amount
    - Signature
  - Do not accept a third-party check
    - Made out to the patient rather than the practice

- Do not accept a check marked “Payment in Full” unless it actually pays the complete outstanding balance

- Power of attorney
  - Gives legal right to handle financial matters for someone else
Banking: *Tasks (cont.*)*

- **Endorsing checks**
  - Write the name of the doctor or practice on the back
    - Include “For Deposit Only”
    - Add bank account number
  - Use ink or rubber stamp
    - Place endorsement on indicated area on the back
Banking: *Tasks (cont.)*

- **Deposit slip**
  - Post the payment to the patient ledger card
  - Put the check with others to be deposited
  - Fill out a deposit slip
    - Account number is printed on deposit slips in MICR numbers
    - May use computer-printed list of checks; deposit slip is included

![Deposit Ticket Example]
Banking: *Tasks (cont.)*

- Making the deposit
  - Make deposits in person
  - Avoid sending cash through the mail
  - Obtain deposit receipt
  - May have to make deposits daily
Banking: Tasks (cont.)

- Reconciling bank statements
  - **Reconciliation** – Compare the office’s financial records with the bank records to ensure that they are consistent
  - Must be done once a month
  - Be sure all checks written are the same, and all checks deposited match on both records.
Banking: *Electronic Banking*

- **Advantages**
  - Improves productivity
  - Improves cash flow
  - Improves accuracy

- **Basic tasks are the same as traditional banking methods**

- **You are still responsible for recording and depositing checks**

- **Computer password for security of banking records**

- **Computer software will:**
  - Record deposits
  - Pay bills
  - Display checkbook
  - Balance checkbook
Apply Your Knowledge

What are three things that you should include when you endorse a check that you receive from a patient?

**ANSWER:** When endorsing a check you should put the name of the doctor or practice, “For Deposit Only,” and the bank account number on the back of the check.

**Excellent!**
Managing Accounts Payable

- Three types:
  - Payments for supplies, equipment, and practice-related products and services
  - Payroll (largest portion)
  - Taxes
    - Federal
    - State
    - Local
Accounts Payable: 
Managing Disbursements

- Disbursement – any payment for goods or services

- Principles for managing supplies
  - Order when necessary and in proper amounts
  - Combine orders if possible
  - Follow practice purchasing guidelines
  - Buy from reputable suppliers
  - Purchase the best quality supplies for the amount that insurance companies will reimburse
Accounts Payable: Writing Checks

- Checking account balance must cover the check you will write
- If you make an error when writing a check, write VOID in ink across the front of the check
- Have the doctor sign the check
- Mark invoice with date, check number, and amount paid
  - Copy for office records
Accounts Payable: Writing Checks (cont.)

- Types of checks
  - Standard checks
  - Voucher checks – business checks with stubs attached
  - Limited check – void after a specified period of time, i.e., 90 days
  - Cashier’s check – purchased from a bank and signed by the bank official
Accounts Payable: Writing Checks (cont.)

- Types of checks
  - **Counter check** – allows depositor to withdraw funds from own account only
  - **Traveler’s checks** – purchased to use when traveling instead of carrying large amounts of cash
Accounts Payable: Recording Disbursements

- Give each column a heading
- Record each check in appropriate columns
- Determine expense category of the check
- Record the check amount

**Tracking** expenses
- Watching for changes
- Helps control expenses
Accounts Payable: 
**Managing Petty Cash**

- **Petty cash fund**
  - Cash kept on hand in the office for small purchases
- Usually $50.00
- Write a check to “petty cash”
  - Enter the check in the miscellaneous column of disbursement records
- Create a petty cash voucher when money is removed
  - Keep receipts and record withdrawals on record form
- Replace money once a month to keep amount at $50.00
Accounts Payable:  
Understanding Financial Summaries

- Statement of income and expense
  - Profit and loss statement

- Cash flow statement
  - Money available to cover expenses

- Trial balance
  - Combined expense column total equal to total check amount column
Apply Your Knowledge

Accounts payable includes what types of disbursements?

**ANSWER:** Accounts payable includes disbursement for:

- Offices supplies, equipment, and practice-related products and services
- Payroll
- Taxes

**Very Good!**
Handling Payroll

- Obtaining tax ID numbers
- Creating employee payroll information sheets
- Calculating employees’ earnings
- Subtracting taxes and other deductions
- Writing checks
- Creating employee earnings records
- Preparing a payroll register
- Submitting payroll taxes
Handling Payroll

- Obtaining tax ID number from the IRS
  - Employer identification number (EIN)
  - Form SS-4 Application for EIN
  - May also need state identification number

- Creating employee payroll information sheets
  - Up-to-date information for each employee
    - Identification information
    - Employment Eligibility Verification (Form I-9)
    - Employee’s pay schedule, number of dependents, payroll type and deductions
Handling Payroll:

Payroll Information Sheets

- **Pay schedule**
  - How often employee is paid

- **Number of dependents**
  - People who depend on the employee for financial support
  - Locate this on the employee’s Withholding Allowance Certificate (Form W4)
  - Update W4 annually

- **Payroll type**
  - Hourly
  - Salary
  - Commission

- **Voluntary deductions**
  - Additional federal withholding taxes
  - Contributions to a retirement plan
  - Payments to a health insurance plan
Handling Payroll: *Gross Earnings*

- **Gross earnings** – the total amount of income earned before deductions

- Calculating gross earnings
  - Hourly employee: hourly wage × hours worked
  - Salaried employee: salary amount for the pay period

- Fair Labor Standards Act
  - Limits number of hours employee may work
  - Sets minimum wage
  - Regulates overtime pay
Handling Payroll: *Making Deductions*

- **Tax liability** accounts – used to pay taxes
- Income tax
  - Federal, state and local tax tables
- FICA taxes
  - Half from employer and half from employee
  - Social Security and Medicare reported separately
- Unemployment taxes
  - *Federal Unemployment Tax Act* (FUTA)
    - Not a deduction from employee but based on salaries and paid by employer
  - States calculate differently than federal (SUTA)
Handling Payroll (cont.)

- Workers’ compensation
  - Insurance against loss of income from work-related injury, disability, or disease

- Calculating *net earnings*
  - Gross earnings – total deductions
Handling Payroll (cont.)

- Preparing paychecks
  - Amount for net earnings
  - Methods
    - Manual
    - Electronic banking
    - Payroll service
  - Check stub to track earnings and deductions
Handling Payroll (cont.)

- Employee earning records
  - Each pay period
    - Gross earnings
    - Individual deductions
    - Net earnings

- Payroll register
  - Summarizes vital information about all employees and their earnings
  - Update at the end of each pay period
Handling Payroll: *Electronically*

- Accounting or payroll software
  - Create, update, and delete employee files
  - Prepare employee paychecks, stubs, and W-2 forms
  - Update and print earning records
  - Update bookkeeping records
    - Payroll ledger
    - General ledger
Apply Your Knowledge

Distinguish between FICA, SUTA, and FUTA.

**ANSWER:** FICA are taxes withheld for Social Security and Medicare. SUTA covers the state unemployment taxes and FUTA is the Federal Unemployment Tax Act.
Calculating and Filing Taxes

- Setting up tax liability accounts
  - Used to hold money withheld from paychecks until it is sent to appropriate government agencies
  - Bank must be authorized by the IRS to accept federal tax deposits

- Understanding federal tax deposit schedules
  - IRS determines deposit schedule
  - Quarterly, monthly, or biweekly
Calculating and Filing Taxes (cont.)

- Submitting federal income and FICA taxes
  - Electronic funds transfer (EFT)
  - Federal Tax Deposit (FTD) coupon (Form 8109) if EFT not used
Calculating and Filing Taxes (cont.)

- **Quarterly return**
  - Provides a more complete accounting to IRS
  - Employer’s Quarterly Federal Tax Return (Form 941)

- Submitting FUTA and SUTA taxes
  - Money for unemployed
Calculating and Filing Taxes (cont.)

- Handling state and local income taxes
  - Use appropriate
    - Forms
    - Procedures
    - Schedules

- Filing wage and tax statements
  - W-2
    - Taxable income for previous year
  - W-3
    - Summarizes all employees’ earnings and federal income and FICA taxes withheld
Apply Your Knowledge

What are the W-2 and the Form 941?

**ANSWER:** The W-2 is the IRS form showing the employee’s total taxable income for the year. The Form 941 is the Employer’s Quarterly Federal Tax Return.
Managing Contracts

- **Employee contract** – a written agreement of employment terms between employer and employee
  - Include names and addresses
  - Considerations (salary, benefits)
  - Starting and ending dates
  - Signatures of both parties
Managing Contracts (cont.)

- Medical assistant contract elements:
  - Description of your duties and your employer’s duties
  - Plans for handling major changes in job duties
  - Salary, bonuses, and other compensation
  - Benefits
  - Grievance procedures
  - Termination procedures
Apply Your Knowledge

What are the elements of an employment contract?

**ANSWER:** An employment contract must include:

- An agreement between two or more competent people to do something legal
- Names and addresses of the people involved
- Considerations
- Starting and ending dates, as well as date(s) the contract was signed
- Signatures of the employer and employee
In Summary

Administrative and accounting duties of a medical assistant require:

An understanding of the proper management of accounts receivable and accounts payable

The ability to use the standard bookkeeping and banking procedures necessary to maintain the business of the office
Indoors or out, no one relaxes in March, that month of wind and taxes, the wind will presently disappear, the taxes last us all the year.

~ Ogden Nash