



The Big Picture – Bringing Pharmacy Accounting Together to Maximize Opportunities

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Learning Objectives

ACPE # 0130-9999-21-296-L04-P&T

- Explain why fundamental accounting practices are critical to pharmacy financial success;
- Discuss tips and strategies for minimizing taxes & maximizing cash flow and profitability;
- Describe best practices for managing pharmacy inventory and third-party receivables;
- Explain the various forms of debt and how to structure debt to maximize cash flow; and
- Discuss how to read financial statements & identify key pharmacy performance indicators.

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Recap

- Fundamental accounting
- Third-party receivables
- Inventory
- Debt/Liabilities
- All key variables to a complete accounting system

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Balance Sheet

- The Balance Sheet ties into the Profit & Loss Statement!
- $Assets = Liabilities + Equity$
- Assets
 - Cash, AR, Inventory, Fixed Assets
- Liabilities
 - Accounts Payable, Credit Card Payable, Notes Payable, Payroll Payable, Sales Tax Payable
- Equity

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Profit & Loss Statement

- The Balance Sheet ties into the Income Statement!
- $Assets = Liabilities + Equity$
- Assets
 - Cash, AR, Inventory, Fixed Assets
- Liabilities
 - Accounts Payable, Credit Card Payable, Notes Payable, Payroll Payable, Sales Tax Payable
- Equity

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Gross Margin

- #1 Key Performance Indicator
- COGS is your biggest expense
- Informs owner as to how well they buy and manage inventory
- Provides insight into revenue diversification
- Provides insight with behind the bench adjudication

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Gross Margin

- Several variables impact the accuracy of gross margin on your books
- Errors common with margin due to the variables that impact reporting
- Integrity is key; inaccuracies will impact net income

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Gross Margin

- Revenue – Cost of Goods Sold (COGS) = Gross Margin
- Gross Margin / Revenue = Gross Margin %
- Average Gross Margin in 2020/2021 - ~23%
 - Includes rebates and DIR Adj.
 - High performing Rx > 25%

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Gross Margin

- All these accounts impact Gross Margin
 - Accounts Payable
 - Accounts Receivable
 - Inventory
 - DIR Fees
 - Rebates

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Diversified Revenue

- OTC
- Compounding
- LTC
- Functional Medicine
- Point of Care Testing
- Vaccines
- 340b Opportunities

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DIR/GER/BER

- Administrative Performance Fee or Flat Fee Based – Ex. - \$4.00 per claim on every claim
- Percentage Fee or Percentage Based – Ex. – 4% of cost paid on every claim based on performance criteria
- Performance measured periodically and PBM has control over “performance” metrics

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DIR Trends

- DIR Fees continue to trend higher
- In fact, it's the third largest expense to a pharmacy behind COGS and Payroll
- 2020 average was approximately 2.5% of gross revenue
- 2021 average trending higher, may end up 3% plus
- Technology is needed to capture the DIR fee amounts

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DIR Accounting

- Each month DIR data should be gathered from the third-party reconciliation system
- A journal entry is made to gross up revenue and expense DIR
- Net change is zero to the bottom line, but you now have data you can utilize when assessing your pharmacy performance and KPI's
- Do not take your accountant's advice when they say don't worry about booking it; doesn't make a difference to the bottom line

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Reducing DIR

- DIR is reality now; complaining can only get you so far
- Pharmacies have *some* control over their DIR, so act and control what you can
- That little amount of control can make a large difference \$\$\$ since DIR is such a large expense
- Clear correlation between 5-Star Equip ratings or 99% and lowest DIR Fees
- Even pharmacies with 4-Star Equip and/or 90% have significantly higher DIR

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Reducing DIR

- Increase generic dispensing
- Maximize MTM opportunities to the fullest extent; use technology
- Improve patient adherence – packaging
- Expand cash-based revenue sources – vaccinations, POC testing, functional medicine, clinical services, etc.
- Support NCPA and others in the industry working around the clock to bring awareness and fix the system

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Payroll in General

- Administratively burdensome
- Time consuming
- Complex
- Stressful
- Never-ending
- Required reporting to multiple agencies
- As of recent – constantly changing the rules!

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IRS

- IRS Notices are very common regarding payroll matters
- IRS is not flexible when it comes to payroll taxes, penalties and interest
- IRS Notices should be taken seriously and handled timely
- IRS is in shambles currently so issues could drag on for months/years

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Compliance is Key

- Organized record keeping is a must
- Timely payment of payroll taxes required
- Regular reporting requirements quarterly and annually
- No under-the-table payroll
 - Bonuses
 - Gift cards
 - Helping with this or that

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What is a 1099 Contractor?

- 1099 contractors are not employees
- Pharmacists should always be W-2 employees
- Sales reps should be W-2 to avoid legal issues, such as anti-kickback statute
- IRS is strict in this area if audited; when in doubt – W-2

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Benefits

- Various insurance options
- Cafeteria plans
- Flex spending arrangements
- Retirement plans
- Vehicles
- Group-term life insurance
- Dependent care assistance

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Pharmacy Payroll Benchmarks

- Employer payroll taxes - .9% of total revenue
- Gross wages – 10% of total revenue (including owners)
- Gross wages owners – 3% of total revenue

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Outsourcing Payroll

- Cost effective
- Technology enhancements
- Internal controls
- HR resources
- Removes most of the administrative burden including IRS Notices
- Real-time reporting

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Payroll Best Practices for Pharmacy

- Outsource
- Automate and use technology
- Bi-weekly payroll processing
- Streamline into accounting system with automatic downloads (real-time)
- Background checks
- Do not pay under-the-table wages

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Payroll Best Practices for Pharmacy

- Average is around 10.5% for gross wages as a percent of revenue (not including payroll taxes or benefits)
- High performing pharmacies have gross wages $\leq 10\%$ of total revenue
- Above average is a red flag as payroll is your second biggest expense in the pharmacy
- On average, the pharmacy will pay 50% of healthcare costs with employee paying the other half

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Payroll Best Practices for Pharmacy

- Know your hours of operation, i.e., - Are you making money each hour you are open?
- Above average? Are you maximizing your workflow? Often find workflow not optimized with above average payroll
- Focus on training and keeping staff; turnover is costly
- Watch that overtime
- Be creative!

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Tax Planning Basics

- Goal is to minimize tax burden, enhance cash flow and optimize your financial health
- Ideal for pharmacy owners with pass-through pharmacy businesses
- Begins with Fundamental Accounting at the pharmacy level
- A strategic proactive approach rather than reactive – don't wait until after year-end!

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Recap COVID-19

- Added cash flow for pharmacy:
 - PPP
 - EIDL
 - EIDL Grants
 - SBA Debt Relief
 - ERTC
 - HHS/PRF
 - FFCRA COVID Sick Pay Tax Credits
 - COVID Vaccinations

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Biden Administration (Proposals)

- Taxes will be going up:
 - Ordinary income tax rates going up
 - Capital gain tax rates going up
 - Corporate tax rate going up
 - Gifts and death a taxable event
 - Expansion of Self Employment Tax to S Corporations, LLC's etc.
- Retroactive?

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Rx Assessment Service

- Third-party overview of current accounting and tax situation
- Detailed analysis of pharmacy at a point in time
- Feedback on balance sheet, profit and loss and tax returns
- Identify issues, opportunities, concerns, errors and things that are working well
- Pharmacy owner will walk away with a road map of what the issues are, what needs to be corrected, and how to get there
- <https://www.sykes-cpa.com/intake-form/>

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Questions?

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