# The Unaccountable Pharmacy: Accounting and Tax Strategies for Retail Pharmacies

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## Disclosure

Ollin Sykes is President of Sykes & Company, P.A. The conflict of interest was resolved by peer review of the slide content.

Scott Sykes is an employee of Sykes & Company. The conflict of interest was resolved by peer review of the slide content.

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## Learning Objectives

- Why quality accounting is important in your pharmacy
- Describe the future of accounting in pharmacy
- Comprehensive review of key balance sheet & profit loss accounts
- Review need to know ratio's and KPI's
- Identify potential tax strategies applicable to pharmacies
- Apply real world examples to tax strategies

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## Accounting is Fundamental to all Businesses

- Foundation
- Health & Efficiencies
- Understanding
- Proactive
- Trends
- Integrity & Structure

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## Typical Accounting Systems of Yesterday

- Thumb drive or file transfers
- In-house inefficiencies and manual processes
- Check writer
- After-the-fact data processing
- Lack of daily POS controls

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## Typical Accounting Systems of Yesterday

- CPA & Advisor industry knowledge limitations
- Accounting is not important
- Bank account is accounting system
- Afraid of change!

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## Accounting System of the Future

- Cloud-based computing
- Daily real-time reporting
- Accounts payable automation in the cloud
- Payroll automation in the cloud
- Proactive approach

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## Accounting System of the Future

- Provides tax planning opportunities
- Advisory services
- Video conferences in real time
- Accounting is seen as an asset, not a burden

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# Balance Sheet

- A snap shot in time
- Extremely important component of financial system
- Integrity in the numbers is paramount
- Generally accrual basis

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# Assets

**ABC Pharmacy Inc.**
**Balance Sheet**
**As of December 31, 2015**

| | Dec 31, 15 |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| **Checking/Savings** | |
| 1031 · Checking Accounts | 409,096.79 |
| **Total Checking/Savings** | 409,096.79 |
| **Other Current Assets** | |
| 1089 · AR Accrued Interest | 286.31 |
| 1095 · AR 3rd Party Insurance | 302,598.25 |
| 1080 · AR House | 15,916.53 |
| 1210 · Inventory | 415,682.15 |
| 1219 · Inventory Postage | 18,956.94 |
| 1152 · AR Shareholder ST | 9,491.36 |
| **Total Other Current Assets** | 762,931.54 |
| **Total Current Assets** | 1,172,028.33 |
| **Fixed Assets** | |
| 2690 · Equipment | 9,066.96 |
| 2800 · Accumulated Depreciation | -9,066.96 |
| **Total Fixed Assets** | 0.00 |
| **Other Assets** | |
| 3651 · Security Deposit | 4,000.00 |
| 1151 · AR Shareholder LT | 29,305.93 |
| 1251 · Loan Fees | 39,557.95 |
| 3690 · Goodwill | 795,087.00 |
| 3650 · Organization Costs | 17,812.03 |
| 2241 · Start-Up Costs | 14,260.81 |
| 3521 · Accumulated Amortization | -39,203.00 |
| **Total Other Assets** | 860,820.72 |
| **TOTAL ASSETS** | 2,032,849.05 |

- Inventory
- Accounts Receivable
- Fixed Assets
- Intangible Assets

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# Liabilities

| | |
|---|---|
| **LIABILITIES & EQUITY** | |
| **Liabilities** | |
| **Current Liabilities** | |
| **Accounts Payable** | |
| **3900 · Accounts Payable** | 285,606.31 |
| **Total Accounts Payable** | 285,606.31 |
| **Credit Cards** | |
| **Credit Card(2) at Capital One** | 15,013.10 |
| **4042 · Credit Card at American Expres** | 32,218.60 |
| **Total Credit Cards** | 47,231.70 |
| **Other Current Liabilities** | |
| **4013 · Due to Intercompany** | 502.76 |
| **4011 · Accrued Interest Payable ST** | 4,556.02 |
| **1330 · FSA Payable** | 276.92 |
| **4070 · Accrued Payroll** | 20,371.29 |
| **4200 · Sales Tax Payable** | 1,021.94 |
| **4602 · NP Shareholder** | 50,000.00 |
| **4490 · Current Portion of L/T Debt** | 107,396.20 |
| **Total Other Current Liabilities** | 184,125.13 |
| **Total Current Liabilities** | 516,963.14 |
| **Long Term Liabilities** | |
| **4010 · Accrued Interest Payable LT** | 10,608.32 |
| **4600 · NP Bank** | 1,368,681.23 |
| **4601 · NP Bank 2** | 240,350.00 |
| **4990 · Less Current Portion L/T Debt** | -107,396.20 |
| **Total Long Term Liabilities** | 1,512,243.35 |
| **Total Liabilities** | 2,029,206.49 |

- Accounts Payable
- Intercompany Transactions
- Notes Payable
- Current Portion of LT Debt

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# Equity

**ABC Pharmacy Inc.**
**Balance Sheet**
As of December 31, 2015

| | Dec 31, 15 |
|---|---|
| Equity | |
| 5551 · Member Equity - One | 110.00 |
| 5550 · Member Equity - Two | 990.00 |
| 32000 · Retained Earnings | -18,888.88 |
| Net Income | 21,431.44 |
| Total Equity | 3,642.56 |
| TOTAL LIABILITIES & EQUITY | 2,032,849.05 |

- Retained Earnings
- Distributions

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# Profit & Loss Statement

- Summarizes Revenues & Expenses
- Generally shown Monthly or Quarterly
- Income or a loss for the period

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# Expenses & Rebates

**ABC Pharmacy Inc.**
**Profit & Loss**
January through December 2015

| | Jan - Dec 15 | % of Income |
|---|---|---|
| 9420 · Utilities | 23,976.09 | 0.67% |
| 8005 · Wages - Employee | 286,145.83 | 8.03% |
| 8010 · Wages - Shareholder | 117,412.66 | 3.3% |
| Total Expense | 751,836.78 | 21.11% |
| Net Ordinary Income | -110,717.43 | -3.11% |
| Other Income/Expense | | |
| Other Income | | |
| 6290 · Other Income | 1,013.79 | 0.03% |
| 6500 · Miscellaneous Income | 8,698.85 | 0.24% |
| 7310 · Rebate Income | 260,423.67 | 7.31% |
| 9530 · Interest Income | 521.10 | 0.02% |
| Total Other Income | 270,657.41 | 7.6% |
| Other Expense | | |
| 9741 · Non Deductible Expense | 386.25 | 0.01% |
| 9750 · Other Expense | 438.08 | 0.01% |
| Total Other Expense | 824.33 | 0.02% |
| Net Other Income | 269,833.08 | 7.58% |
| Net Income | 159,115.65 | 4.47% |

- Expenses
- Wages
- Rebates
- Net Income

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# Revenues & Cost of Goods

**ABC Pharmacy Inc.**
**Profit & Loss**
January through December 2015

| | Jan - Dec 15 | % of Income |
|---|---|---|
| Ordinary Income/Expense | | |
| Income | | |
| 6000 · Sales | 3,561,774.14 | 100.0% |
| Total Income | 3,561,774.14 | 100.0% |
| Cost of Goods Sold | | |
| 7050 · Cost of Goods Sold | 2,920,654.79 | 82.0% |
| Total COGS | 2,920,654.79 | 82.0% |
| Gross Profit | 641,119.35 | 18.0% |

- Revenues
- Cost of Goods
- Gross Margin

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# Ratio's and KPI's

- Current Ratio
- Quick Ratio
- Equity to Assets
- Payroll as a % Revenue
- Total Expenses as a % of Revenue

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## Tax Strategies
### Fundamental Accounting

- Tax opportunities limited without
- Provides foundation
- Proactive
- Accounting is an asset

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## Tax Strategies
### Retirement Plan Options

- Deferral of tax
- Administrative costs
- SIMPLE IRA Plans
- 401k Safe Harbor/Profit Sharing
- Cash Balance Plans

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## Cash Balance Plan Example

- NI Before Retirement Plan Accrual $500,000
- Cash Balance Retirement Plan Accrual $350,000
- Net Income after Retirement Plan $150,000
- Tax Savings @ 40% $140,000

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## Tax Strategies
### Conservation Easements

- Tax replacement strategy
- Generally a 4-to-1 write-off
- Limited to 50% of Adjusted Gross Income
- Appraisal risk
- Reporting requirements
- Due diligence

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## Tax Strategies
### Domestic Production Activities Deduction

- Compounders are considered manufactures
- Must have employees involved
- Deduction equal to 9% of DPAI or taxable income
- Wage limitations

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## Tax Strategies
### Domestic Production Activities Deduction

- Quality accounting crucial
- Review compounding revenue before digging further

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## Tax Strategies
### Section 179 Depreciation

- Allows write-off of equipment purchases in year one
- Deduction limit 2016 - $500,000
- New and used equipment qualifies
- Must be put in use
- Spending cap on equipment purchases - $2,000,000

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## Section 179 Example

- Net Income before Robot Purchase $200,000
- Robot Purchase $150,000
- Section 179 Depreciation $150,000
- Net Income after Purchase $50,000
- Tax Savings @ 40% $60,000
- After-tax Cost $90,000

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