

American Dental Association
Technical Report No. 1010

Accounting Performance For Dental Information Systems



**AMERICAN DENTAL ASSOCIATION TECHNICAL REPORT NO. 1010 FOR
ACCOUNTING PERFORMANCE FOR DENTAL INFORMATION SYSTEMS**

The Council on Dental Practice of the American Dental Association has approved American Dental Association Technical Report No. 1010 for Accounting Performance for Dental Information Systems. Working Groups of the ADA Standards Committee on Dental Informatics (SCDI) formulate this and other technical reports and specifications for the application of information technology and other electronic technologies to dentistry's clinical and administrative operations. The ADA SCDI has representation from appropriate interests in the United States in the standardization of information technology and other electronic technologies used in dental practice. The ADA SCDI confirmed approval of ADA Technical Report No. 1010 on May 17, 2002.

The ADA SCDI thanks Scott Trapp, Omaha, NE, as Chairman of Subcommittee 10 on Dental Informatics Architecture and Devices, for leading the development effort.

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FOREWORD

(This foreword does not form a part of American Dental Association Technical Report No. 1010 for Accounting Performance for Dental Information Systems)

In 1992, there was interest in the standardization of clinical information systems related to electronic technology in the dental environment. After evaluating current informatics activities, a Task Group of the ANSI Accredited Standards Committee MD156 (ASC MD156) was created by the ADA to initiate the development of technical reports, guidelines, and standards on electronic technologies used in dental practice. In 1999, the ADA established the ADA Standards Committee on Dental Informatics (SCDI). The ADA SCDI is currently the group that reviews and approves proposed American National Standards (ANSI approved) and technical reports developed by the standards committee's working groups. The ADA became an ANSI accredited standards organization in 2000.

The scope of the ADA SCDI is:

"To promote patient care and oral health through the application of information technology to dentistry's clinical and administrative operations; to develop standards, specifications, technical reports, and guidelines for: components of a computerized dental clinical workstation; electronic technologies used in dental practice; and interoperability standards for different software and hardware products which provide a seamless information exchange throughout all facets of healthcare."

Scott Trapp, Chairman, ADA SCDI Subcommittee 10 on Dental Informatics Architecture and Devices, prepared this technical report at the request of the ADA Standards Committee on Dental Informatics.

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INTRODUCTION

This technical report consists of a Chart of Accounts for Computerized Dental Accounting Systems. This paper is the compilation of work by the volunteers of ADA Informatics Standards Committee Working Group 10.6 of Practice Management Performance for Dental Information Systems. The purpose of this report is to define the basic accounts used for dental accounting in the computer-based environment and propose guidelines for use in standards formation.

The Chart of Accounts for Computerized Dental Accounting Systems was developed to provide dentists with improved information on which to base management decisions and facilitate tax preparation. This chart of accounts is to aid in the dissemination of financial information to both internal and external users. Internally the information gathered in the accounting system is used to improve the dental practice's accounting and financial reports. This will provide the dentist with accounting reports to better gauge the financial health of the practice. The external reporting of the information is used to facilitate benchmarking and performance measures compiled from data collected from various survey information and the required reporting to government agencies for tax purposes.

This chart of accounts was developed to meet the needs of a diverse profession, which has lead to the development of two charts of accounts. The first is to satisfy the needs of the dentist that report on a cash basis and the second is for those, which utilize an accrual basis for their accounting. It is anticipated that each dental practice implementing the Chart of Accounts for Computerized Dental Accounting Systems will choose to use only those accounts relevant to their particular needs, rather than all accounts presented. On the other hand, some practices may instead elect to add accounts not in the chart of accounts listed here.

IMPLEMENTATION GUIDELINES

The dentist will consult with her/his accountant to determine which accounts and what level(s) of detail to use. A simplified chart of the accounts actually being used should be prepared for the bookkeeper that will be making the decisions as to which accounts given revenue or expenditure should be posted to. The chart should have just two columns--one with account numbers and the other with account titles. Postings should be made only to the lowest level sub-accounts, with the basic accounts serving only as summaries of the sub-accounts listed below them.

REASONS FOR DEVELOPMENT OF A STANDARD CHART OF ACCOUNTS

As the healthcare environment become ever more competitive, and margins continue to narrow, dentists face the ever-increasing challenge to make sound management decisions so that their practices remain viable and profitable. Sound management decisions in turn require sound information on which to base them. One primary source of such information is the practice's financial reports, in which the myriad transactions that occur every day can be reduced to the common denominator of money, allowing them to be mathematically manipulated, contrasted and compared. Not only will a dentist manager want to compare current financial results with projected and past results, but with the results of other comparable dental practices.

More than 115,000 dental practices represent businesses with wide variations in size and structure. The accounting requirements vary greatly. Some offices have multiple locations, partners, associates, and cost

centers to account for, many do not. Some dentists have to pay local income taxes, while others do not. Some sponsor retirement plans and offer employees health insurance; while others offer few benefits.

To come up with a single chart of accounts that includes all accounts required to satisfy the requirements of every dentist's business would produce a large, unwieldy document that contains far more accounts than any individual dentist might use. Such a chart, if too big to be useful, would not likely be used by many offices, thus rendering its development a useless exercise.

Thus the standard chart of accounts, as presented, seeks to strike a balance between excessive complexity and excessive simplicity. It contains all the accounts necessary to enable reporting the practice's results. It contains the accounts necessary to deal with federal and most state and local tax issues. The chart also contains accounts that some dentists will not find useful or applicable and which, in consultation with their accountants, they may decide not to include in their own charts of accounts. As a practice grows, however, some dentists may decide to add accounts from the standard chart of accounts of which they previously felt no need. Other practices may feel the need for accounts not included in this chart. They should feel free to add them within the basic structure presented here.

As with other dental industry standards, compliance with this standard is voluntary. The Standards Committee on Dental Informatics, however, feels that adopting this standard chart of accounts can provide significant benefits to all dentists by making recording and reporting their financial results more comparable with those of their colleagues, thus providing a sounder foundation of information on which to base management decisions.

BASIC STRUCTURE OF THE STANDARD CHART OF ACCOUNTS

The charts are structured hierarchically, with all the accounts listed below and to the right of a given account title adding together to make the total of that given account. Thus, for the cash basis, the totals in detailed sub-accounts 1-1-100 (General Checking Account) through 1-1-300 (Petty Cash), when added together, equal the total in account 1-1000 (Current Assets). Accounts with numbers in brackets such as <1-1-2190> (Accounts Receivable Patients - Allowance for Bad Debt) are contra accounts whose totals are, in essence, subtracted from those of the other accounts in its group.

There are two types of account titles in boxes. The first of these are the basic headings one might find in a set of financial reports. They represent the general structure of the standard chart of accounts and its numbering scheme. These headings are Assets (100000), Liabilities (200000), Owners Equity (300000), Revenues and Gains (400000), Operating Expenses (600000 - 700000), Other Income (800000) and Income Tax (900000).

The second type of account title shown in boxes are the basic accounts, such as Current Assets (110000), Current Liabilities (210000), or Service Revenue (410000). Normally, each of these basic accounts will have a number of sub-accounts under it, either "Standard Sub-Accounts," or Detailed Sub-Accounts." *In such cases, bookkeeping personnel should make postings only to the lowest level sub-accounts, with the basic accounts serving only to summarize the sub-accounts for constructing financial reports.*

In some cases, a practice may see fit not to use sub-accounts under some basic accounts, especially in the expense section. In such cases, postings would be made to the basic account number. For example, a dental practice may not be computerized and not have network charges to belong to America On Line or CompuServe. It may not have a fax machine, and may not wish to break its phone bills down between long

distance and local calls. In such a case, it might well post all its telephone expenses to the basic account 630000 - Telephone and Other Communications.

COMMENTS ON INDIVIDUAL CASH BASIS ACCOUNTS

Balance Sheet Accounts:

Assets (100000)—all those things of value the business owns and has acquired for a price which it will use to generate its sales and revenues, including:

Current Assets (110000)—namely cash or other assets the practice expects to convert into cash or consume during the year following the date of the balance sheet on which their total is shown. They will provide the primary source of funds used to pay off Current Liabilities (see below), which are due within the same time period.

Cash and Cash Equivalents (111000)—lists a number of detailed sub-accounts, which, as noted above, may not be applicable for all dental practices. For example, some dental practices may keep separate checking accounts for payroll costs and for operating costs, as shown by the examples here. Those dental practices that only have a single checking account would have only one detailed sub-account, entitled "Checking Account," for the funds in that account. Use of the other detailed sub-accounts should be viewed similarly.

Accounts Receivable (112000)—for cash basis accounting only, including accounts for loans made by the dental practice.

Inventory (114000)—the inventory in a dental practice, primarily composed of dental instruments. These instruments are further sub-categorized based upon the ADA procedure code groupings.

Prepaid Expenses, Deposits and Other Current Assets (115000)—include:

Deposits (115200)—represent amounts required by such firms as a utility company before they will provide service.

Other (115300)—any other current assets not shown above.

Accounts 150000 through 190000 comprise Long Term Assets, which are not expected to be consumed or converted to cash in the coming year

Land and Building (160000)—includes land and buildings actually owned by the business, improvements made to both as well as "Leasehold Improvements" made by a business to property, which it rents from a different owner.

Furniture, Fixtures and Equipment (170000)—total values of furniture and fixtures and equipment, including equipment involved in the delivery of dental care, such as the dental chair (the computer systems and software used to manage the patient database are held in different accounts because computer hardware and software are depreciated differently).

Accumulated Depreciation (180000)—also broken out for consistency with the breakouts of depreciation expenses under Operating Expenses, which are so broken out for tax purposes.

Other Assets (190000)—includes various intangible assets as well as the cash surrender value of life insurance policies, which the business may own on its key employees.

Liabilities (200000)—amounts the practice owes to others who have provided funds to the practice with which to acquire assets. They represent the value of the claims of outsiders against the assets of the practice. Liabilities consist of:

Current Liabilities (210000)—amounts the business expects to have to pay its creditors within the twelve-month period following the date of the balance sheet on which their total is shown.

Accrued Expenses (212000)—amounts that have been recorded as expenses for the period being reported on, but which have not yet actually been paid out. They include such items as payroll and taxes.

Current Notes Payable (213000)—consists of short-term loans (due in one year or less) and those amounts of any long-term loans falling due within the next year.

Long-term Liabilities (220000)—amounts the practice owes, generally loans, with a repayment period of more than one year, which are not expected to be repaid within the next twelve months.

Long Term Obligations (221100)—represent most of such long-term loans due others.

Mortgage Note Payable (221200)—on land and buildings the business owns has been broken out from other long-term obligations.

Dental practice business managers should note that there are two accounts, both titled "Current Portion of Long Term Debt": account 213900 under Current Notes Payable, and account 221900, a contra account under Long Term Notes Payable. The same amount is shown in both these accounts, but this usage allows the *full* amount due on any long-term notes to be shown under Long-term Notes Payable rather than showing only that portion due after the end of the current year.

Total Liabilities—the sum of all liabilities, both current and long term, owed by the business to its creditors.

Owner(s) Equity (300000)—represents those funds supplied to the business by its owner(s) with which it has acquired assets, and, therefore, the owner's claim against the assets of the business. Appropriate accounts for the four types of business organization (sole proprietorship, partnership, corporation and subchapter S corporation) are all shown here. The business owner should choose and post to that group appropriate for his/her type of business.

The Equity/Net Worth accounts include not only amounts invested by the owner(s) but also any profits earned (less any dividends or draws against profit) or losses sustained by the business.

Total Liabilities and Owner(s) Equity—represents the claims of all parties against the assets of the business and must equal the total of the assets themselves. Because the claims of owners are subordinate to those of

creditors, any loss sustained by the business decreases the amount in the equity account; thus, the owner's claims, when profits are earned and retained in the business, do just the opposite. These two groups of accounts, asset accounts and liability plus equity accounts, represent the two sides or halves of the financial report called the Statement of Financial Position. Because these two sides must equal or balance each other, the report on which all the above accounts are reported is also called the Balance Sheet.

Income Statement Accounts:

Revenues (400000)—represents the total revenues earned by the practice in the course of its normal operations. For most dental practices, such revenues are earned by the delivery of dental services and related products. The categorization of revenues shown here reflects reporting requirements of 1004, which asks for revenue breakdowns by ADA procedure code. Therefore the total revenues are collapsed up from the individual procedure code to the code group, then to the provider of the service, then to the location, and then, finally, to total into the service revenue.

Interest Revenue (420000)—represents the gain realized from interest on savings accounts or interest from patient accounts.

Discounts On Services (<430000>)—reduces the amount of revenue earned, are shown here as a contra account to the revenue accounts. These accounts may be further cross linked by the type of discount such as PPO discounts.

Operating Expenses (600000-700000)—includes all those expenses incurred in the normal operations of the practice. They are broken out into a number of groupings of related expenses. In the standard chart of accounts, they are ordered not alphabetically but roughly in order of size and importance, with the largest, payroll, listed first.

Payroll Expense (601000)—includes actual wages, benefits such as insurance and retirement benefits, as well as data processing expense for payroll (this expense is most likely to be isolated from other data processing expenses when payroll processing is outsourced to a payroll service).

Occupancy Cost (610000)—includes rent expenses, utility expenses, and other costs such as janitorial services and customer parking subsidies.

Marketing and Promotion (620000)—broken out into:

Marketing (621000)—in the various media

Newsletter (622000)—includes production and distribution costs of a practice's own newsletter

Other Marketing and Promotion (625000)—includes any such expenses not readily classifiable into one of the previous accounts

Telephone and Other Communications (630000)—includes:

Telephone Company Charges (631000)—with separate breakouts possible for local, long distance and fax line charges if the business has a separate long distance carrier and has a dedicated fax line

Network Charges (632000)—includes usage costs for such Internet services as America On Line or CompuServe.

Professional Services (640000)—such as legal, accounting and professional dental laboratory.

Office Supplies (650000)

Data Processing Expense (660000)

Depreciation Expense (670000)—broken out into a number of sub accounts, which are reported in different sections.

Depreciation - Building (671000)

Depreciation - Building Improvements (672000)—consists of depreciation expenses on practice-owned real estate.

Depreciation - Land Improvements (673000)

Depreciation - Leasehold Improvements (6740000)

Depreciation - Furniture, Fixtures (675000)

Depreciation - Equipment (676000)

Travel and Entertainment (680000)—includes sub accounts to separate various levels of tax deductibility based upon purpose.

Insurance (690000)

Bank Expenses (700000)—broken out into:

Credit Card Service Charges (701000)

Bank Service Charges (702000)

Other Service Charges (703000)

Dues and Subscriptions (710000)

Office Expense (720000)

Postage and Shipping Expense (730000)—includes:

Postage Expense (731000)